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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 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", "forecast" and "could" or negative or grammatical variations thereof.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The uncertainty created by the COVID-19 pandemic has heightened this risk, given the increased challenge in making assumptions, 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 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 its creating synergies and operational efficiencies, are not realized; 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 Third Quarter 2022 MD&A, 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 2021 Annual Report, as updated in the Economic Developments and Outlook section in BMO's Third Quarter 2022 MD&A, as well as in the Allowance for Credit Losses section of BMO's 2021 Annual Report, as updated in the Allowance for Credit Losses section in BMO's Third Quarter 2022 MD&A. 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 Third Quarter 2022 MD&A.

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 well as the performance of our operating businesses, including measures and ratios that are presented on a non-GAAP basis.

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. 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. 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. 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 and leverage ratios calculated using revenue presented net of CCPB; revenue and other measures presented on a taxable equivalent basis (teb); pre-provision pre-tax income; amounts presented net of applicable taxes; adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, and other adjusted measures which exclude the impact of certain items such as acquisition and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, restructuring costs and management of fair value changes on the purchase of Bank of the West. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

Certain information contained in BMO's Third Quarter 2022 Management's Discussion and Analysis dated August 30, 2022, for the period ended July 31, 2022 ("Third Quarter 2022 MD&A") is incorporated by reference into this document, including the Summary Quarterly Earnings Trend section in the Third Quarter 2022 MD&A. Quantitative reconciliations of non-GAAP and other financial measures to the most directly comparable financial measures in BMO's financial statements for the period ended July 31, 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, can be found in the Non-GAAP and Other Financial Measures section of the Third 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 Third Quarter 2022 MD&A. The Third Quarter 2022 MD&A is available on SEDAR at www.sedar.com and BMO's Third Quarter 2022 Report to shareholders is available at bmo.com/investorrelations.

Meny Grauman – MD, Scotiabank Global Banking and Markets, Research Division

Please join me in welcoming Darryl White the CEO of BMO Financial Group.

Darryl White - Bank of Montreal - CEO

Hey, Meny. Good to see you. Thanks for doing this.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

So I thought we'd start with margins. And it is definitely, again, the theme of the quarter, I would say. So far no one's pushed back on that too much. I guess maybe the first place to start when we talk about margins, sitting in your seat, does the almost total focus on margins at this juncture make sense to you? Are investors looking at the right thing? Obviously, margins are important. But is this -- is the spotlight on margins the right thing right now?

Darryl White - Bank of Montreal - CEO

Yes. Look, I think the spotlight on margins is appropriate, I would say, Meny. I think you and others have encouraged investors to focus on margins and you're doing a good job of it. I will say, though, that I think you have to remember when you look at it, the margins are an output, right? I'll talk a little bit about how we manage the business. But the reason I say that margins are an output is because when you go through the management of the business on a day-to-day basis and you have people in the relationship spine of the business, whether it's retail, whether it's commercial, whether it's whatever, it's not like folks are every day trying to maximize their own margin necessarily from a NIM perspective, they're trying to maximize their profitability.

So what you should really look at, I think, what we look at, first and foremost, at least, is the NII production. Because effectively, the margin and the volume, the growth of the business is measured there. By the way, we happen to have the #1 position in the NII production in the quarter and the year-to-date, but that's important because of the way we think about managing the businesses with margins being an important component of that. And it's not the only component. So I think you asked me if it's overbaked in terms of the focus. No, I think it's appropriate. It should have focus, but it has to be considered in the context of how the entire business is managed.

Now when we look at the margin component of that, when we look at how the business is managed, there are the activities that happen, I call it at the micro business level, where you have people who are accountable for running businesses and I'd say years ago, there wasn't necessarily enough margin management expertise in the management of businesses at the micro-unit level. Now it's unbelievably crisp. The incentives are clear. That goes to the choices you make on client selection, how you manage risk, how to get paid for risk, how you get paid for service and how you manage the relationship between your deposits and your loans.

That's not as easy as it sounds. That's what we think is a differentiated skill for us. When people asked us why our margins performed better than average on the way down, we gave that answer. When people are now asking us why our margins are performing better than average on the way up, it's the same answer. And it's not some magic trick that happens because of the way you position yourself in treasury.

By the way, our 10 basis point increase in the quarter in our margins, very little of that was to do with our hedging performance. The vast, vast, vast majority of it was based on how we manage the business day-to-day. Is it important? For sure, it's important. But pricing is important in any business. Volume is important in any business. You have to look at it in its entirety because you can be really good at one and be really crappy at the other. We like to think we're doing both pretty well.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

And you touched on it. I mean I think -- probably the number one question I get on BMO is when rates were falling, they really held the line on margins and did an amazing job keeping margins relatively stable. And so it's hard for people to understand how you have this upside that we saw in Q3?

Darryl White – Bank of Montreal – CEO

I talked about it a little bit just now. It's in the water. It's in the behaviour of the relationship spine of the businesses. When you look at our total NIM ex trading, we think the performance has been about as good as we see in the industry on the way down and on the way up. And by the way, it's actually performed, I might say, pretty much exactly as we said it would, and we predicted it would in our models. If you look at our disclosure on our rate sensitivity, that's what's playing out.

So it may be surprising to some, but it's actually not surprising to us at least, the way we looked at how we would perform and how we would disclose. I can't speak to how others model versus how they perform. You guys can peck away at that. But this is working pretty much as we anticipated to.

And that's why we were confident in saying that when we look forward into the fourth quarter and into 2023, people ask us, what do you see from here? We say, look at our disclosure on our rate sensitivity and then look at the move in the curve, and that should be what will play out, which will mean there'll be more margin expansion as we go forward. And that's proven out pretty crisply over the last couple of years.

Meny Grauman – MD, Scotiabank Global Banking and Markets, Research Division

And when we talk about margins, there's a focus, obviously, on deposits. And I think it's an area where, for a long time, I think investors spend too much time looking at deposits and now it's definitely front and center and on the Q3 call, your CFO talked about, especially in the U.S., the deposit betas were currently lower than expected. And so I'm just wondering, from your perspective, what's driving that and where do you see that evolving? And how will that translate for you?

Darryl White - Bank of Montreal - CEO

First of all, I would say I don't think you can ever have enough focus on your deposit gathering capability. Because if you're caught short, in an environment which turns quickly – and we're going to have one, we just haven't had it yet, but we're going to have one, whether it's next quarter or next year or the year after, we're going to have

one where the environment is going to turn pretty quickly – and we're going to need to turn on deposit machines faster than we have had to over the last three years, which have been basically almost marginal in terms of the decision-making process.

You have to have the system in place to be able to do that quickly. We have been pleasantly surprised, I would say, at the stickiness of the deposits through the U.S. system. We have seen the betas perform pretty well. At some point, that doesn't carry on forever. But I think what you also might have heard Tayfun say on the quarter is the assets that we have in place, when we start to see the compounding and the compression of that margin on the betas on the deposits, we have a deposit gathering engine in the U.S., which is a digital bank, that we haven't even had to turn on over the last couple of years.

We built it a few years ago. We spent a fortune building it. We gathered deposits in all 50 states digitally. And we have that in our back pocket to turn it on as we go through an environment, which I think we will, sometime in '23, right? I think you and I can agree sometime in '23, we're going to have to figure out how to match faster. And we're ready to do that. Like we're absolutely ready to do that. In fact, we could do it tomorrow morning if we had to. So far, it's been great. We haven't had to. We've benefited from it. When we have the challenge, we're going to react to it really quickly.

Meny Grauman – MD, Scotiabank Global Banking and Markets, Research Division

And turning on that digital deposit machine, that's more a function of marketing or rates or a combination.

Darryl White - Bank of Montreal - CEO

It's both. It's pick your rate, pick your market, go to market. We can do it in all 50 states, and we just push it out.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

One related subject, that's a big picture subject, is just your business mix and the advantages of your business mix, specifically, you're waiting towards commercial lending both in Canada and the U.S. And I'm trying to understand how big an advantage it is. Like when we talk about margins, it seems like that's part of the story here. If I think about regulatory pressure, it seems like it's also an advantage. I'm wondering your perspective on that and if there are other areas you would highlight where you'd say, yes, my business mix actually is providing me a lift just on that alone.

Darryl White - Bank of Montreal - CEO

First of all, I would say, we really, really like our business mix. And we do think it's a big advantage. I wouldn't say, by the way, that it's a big advantage from a regulatory perspective. I think that's marginal, to be honest with you. The argument is more fundamental.

I'm happy to talk about our commercial. We think our commercial franchise is a premium franchise. We think we've been successful at investing in it over decades. We didn't just turn it on yesterday. And 90% of that franchise is based on lead or sole relationships. Canada-U.S. equally sized, 90% is lead or sole relationships. If you think about the benefit of that, you think about its implications, it's hard to quantify sometimes, but on margins, for example, on growth, on differentiated growth.

And then you go to the way the business works in Canada, the way it works in the U.S. It's completely integrated from a management spine perspective, but the market positioning is totally different. #2 market positioning in Canada, smaller market share in U.S., but way bigger than most of the competitors that we have in the U.S. So you're getting 85% of the growth coming from the U.S. at accretive returns to the total bank.

Remember, five years ago, we would have this conversation and say, I'll give you more growth in the U.S., but it's going to come with a trade-off, which is going to be diluting the returns in Canada. Not anymore, we've got the same ROE in both countries. The commercial franchise and the capital markets franchise, by the way, have been key contributors to that outcome. And therefore, when we continue to dial the growth in the U.S., we will give outsized growth probably relative to some of our peers, but not at a dilutive return. At a higher-than-acceptable return. We're producing above 15% ROEs in those businesses.

Now I want to say this though. Lots of folks come to me and say, you're an interesting conversation because we see the wholesale commercial overweight and that's an advantage to your business mix. I do think it is. But I will also say, we have a bit of a story that is, I would say, under undersold, if I could put it that way, in terms of how that commercial franchise fits in terms of the performance of the retail bank.

We haven't had a lot of conversations about the retail bank at BMO in terms of its performance. And the reason I say I think it's a little bit of an untold story is because it fits into that commercial narrative perfectly. Dave and Ernie run those businesses, north-south. And when you look at the retail bank performance in Canada and you look at our overall company operating leverage outperformance, PPPT outperformance, the retail bank in Canada is a huge contributor to that. Sometimes it's an afterthought in many of the conversations I have with folks, and that's why I'm raising it here.

Seven out of the last nine quarters, we have had the #1 revenue growth in Retail Banking in Canada. Where are we getting it? We're taking share. Where are we taking share? Cards, mutual funds, proprietary mortgages, amortizing HELOCs, demand deposits across the board. And so that's happening while we're spending at a rate that's higher than our competitors and giving more operating leverage than our competitors, which is the formula you want. It's not about cost-cutting.

We're actually out-spending our competitors. We're taking share in retail. It allows us to fuel that flywheel of commercial banking success and the premium franchise that we have. This is really important. This is the story that I think BMO doesn't quite get enough credit for. We don't advertise it as well as perhaps we should, but it's really important to the story of the mix question that you're asking me in terms of how we run the whole bank.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

That's a very good point in terms of the place of the retail business. One area, if I think about business mix, so I'm thinking of positives. One area where it seems like -- and I say potential negative is credit. And obviously, you remember the days before your September 2020 Investor Day, where I think you allayed a lot of those fears.

But there was a big focus from investors about the credit impact of the credit losses that would be driven from your commercial book, and that was under the microscope more than banks, which had a different kind of business mix.

So I guess it seems like you addressed that very well at the Investor Day, but we're post-pandemic here staring down a potential recession. Those fears are back, and investors are consistently asking, will the credit picture here be an issue?

And so I want to get your perspective on the credit side of that commercial business mix and how you see that evolving in this in this world of uncertainty right now.

Darryl White - *Bank of Montreal - CEO*

No question, it's a world of uncertainty, and it's a fair question. For those of you who are newer to the banking sector, the little history lesson here is, having built a premium franchise in commercial banking, which is overweight our bank relative to others, the narrative comes up from time to time that says, well, gee, when things get tough, doesn't that mean you're going to have more credit exposure and you're going to have higher risk exposure than others?

And I say to those people, that's an interesting narrative, and it's completely unfounded in any fact or historical experience, full stop. Look at the data. We've got 30 years of data in our investor presentation. In 26 of the 30 years, we've outperformed the average of our peers on credit, good markets, bad markets, that's what we do.

You took me back a minute ago, Meny, to the summer and the fall of 2020, which was the last time this little conversation spiked, and I said it's a myth. You guys can believe it if you want, but it's not going to happen. And now we've gone through 2 years. Asked, answered. We've actually had lower impaired credit in our commercial business than any of our peers and at the total bank than any of our peers. Full stop. That's the data. That's the history. And so those who want to kind of take shots and say, well, why will this time be the same? Why won't it be different? I said, well, why will it be different?

We manage the business the same way, same underwriting standards, same risk appetite. Client selection is huge when you have a business that's 90% sole or lead. Client selection is huge. People miss this, and they should understand that better. We should do a better job of explaining it.

And when you put it all together, will there be impaired losses? Yes, sure. At some point, there will be. But I'll tell you, right now, we're sort of looking around trying to find them. They're not there. Will we have a PCL rate that will come up from where it is today? Well, for sure, when it's close to zero, everything comes up. But it is not going to be an outsized problem at the Bank of Montreal. Full stop. No question in my mind. I've said it before.

There's nothing new in what I've just said. Nothing new.

Meny Grauman - *MD, Scotiabank Global Banking and Markets, Research Division*

But it's very clear. Sorry for bringing up bad memories, but I had to. And a related question, just in terms of -- these are questions that come up very often from investors. And this is kind of a line of question where it's a good thing that could potentially turn into a bad thing. When we look at commercial loan growth across the spectrum right now, both north-south, but particularly in Canada, we see fantastic numbers, like numbers that we haven't historically seen before.

BMO is enjoying that growth. And so the question becomes how sustainable is that commercial loan growth. That's kind of in the mid-teens. For some banks, it's over 20% year-over-year. And what's driving that? Some investors think these inventories being built that are never going to be sold? What's the story here? And where is it going?

Darryl White - *Bank of Montreal - CEO*

We do see a bit of a different picture, Meny, in the U.S. versus Canada. While our business in commercial is equally sized, U.S. and Canada, we have different market positions, right? So our growth in the U.S. is, in fact, faster than it is in Canada. But there, it's a story of taking share, mostly from competitors that we think we can give a differentiated offering, convince the customer that we're better for them. We've added 2,100 customers, by the way, over the last year. We're adding capacity to that commercial franchise. Not just balance sheet, relationships, real customers.

In Canada, we're sort of maintaining share. Like if you look at the data, we haven't been trying to dial-up and crank it up and try and take share in Canada. We have a pretty important share already in Canada, and we're going to protect that. But we don't feel like we need to reach in places that are not safe to reach into.

And I think your meta question then was, can this growth carry on in a lasting way? I don't think it can. I mean at some point -- I don't know when that day is, I have to admit to you guys, I've been wrong about this so far -- I keep thinking that there will be a day where the commercial borrower writ large will be saying, I've got to figure out how to pull back because the fancy talkers on stages like this talk about recessions and all the rest of it. And the reason they haven't is when you meet with them, and I meet with lots of them, they'll say to you, look, the demand for my product or service is still very high. I've been able to pass along most of the price increases. And as long as that's true, I want to keep producing and I want to keep growing my business.

Now one day, my prediction is the CFO of that business owner is going to walk into the office and say here's the problem boss: The input costs, your labour costs, your energy costs, your debt servicing costs are all increasing at the same time. And while it's great that we've got revenues that are interesting, we've got no more margin. And so we're going to have to pull back. But that hasn't happened yet.

It continues to be the case that they're happy to say we still have a reasonable margin left and we're going to produce for our customers. And we don't apologize for the success of our commercial customers. They're doing a great job, and we're there, we go as they go. And we will continue to go as they go.

If I'm a betting man, at some point, as the environment softens into 2023, you've got to see a pullback in that. To where, I don't know. I'm not going to give you a projection on the number. But we're not there yet. It's still a pretty robust environment. And the credit quality, in the meantime, of the new marginal credit that gets put on the books, is very good. And in fact, it's positive credit migration relative to the legacy book, when you put it on.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

I want to switch gears and talk about Bank of the West. I think it's useful in this environment, maybe just briefly, to refresh the audience on why you bought Bank of the West, what Bank of the West will give you, and what you give Bank of the West?

Darryl White - Bank of Montreal - CEO

Nobody has asked me the question that way before. Just to make it clear for people, we haven't bought it yet because it's not approved and closed. But we did make an announcement on the 20th of December last year that that was our intent and we had secured an agreement to do that, and we're very excited about that today, as we were then.

What was the thesis? Just to remind people, we said when we look at our business composition writ large, and particularly our U.S. bank, and I had this point of view several years ago that if somebody said to me you can find a way to get an acquisition done in the U.S. with a private seller, to be negotiated on reasonable terms where you're going to take your U.S. bank to over \$400 billion in assets, and be in that tier of super-regional banks, and have all the market power that comes with it. And by the way, if you could arrange it such that the business mix was something like 60/40 commercial/retail, which reflects a little bit our own, and if it were in some contiguous markets and then some markets where you don't have a huge presence in, like California, but you have some. And you were able to advertise 10% accretion with confidence levels that you'll beat that in time to your shareholders, would you do it? I'd do it all day long. And you happen to be in an environment which I think will be unique in banking history that we are at elevated capital levels because of the restrictions on Covid. And so all of those stars aligned.

That was why we did it when we did it. It was at the top of our list of potential partners for a very long time. We talk to everybody. We talk to everything that moves everything that hasn't. And this is at the top of our list. And we were able to get it done. And that's why we were interested in them.

What do we bring to them, I think, was the flip side of your question. I think this is actually quite interesting. Now we've had the chance with the benefit of eight months of getting to know all of their people. Like we're several levels deep. Amazing culture, very similar to our own, highly capable bankers, great customer set, high market positions in certain segments – look at RV/marine, look at agriculture, look at some of the technology plays they've got in California. Such a synergistic cultural opportunity for us.

And I would say, at the same time, they have managed their business very well given what they've got. If you imagine the difference between a very good owner who is sitting across the ocean without a commercial-retail integrated play other than this, it's a bit of an island, right? It's a bit of an orphan. And that's not to disparage how they've done it. They've done the best they can with what they've got.

Our model is totally different. We step in day one, we integrate. What do we bring to them? Our people, our technology, our brand, our history, our data systems, our ability to go to market together, better together. So we bring half of an equation that they really haven't had because the other half of their equation was a half a world away. Whereas we're just on the other side of the Mason-Dixon line. And so we'll put that together and we'll drive, I think, a really premium franchise in North America.

And I've got to tell you, they're very excited about it. I'm meeting with some of them later today. They're really pumped about getting going on this. We just have to wait until the day we get regulatory approvals and then we can.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

I want to talk about U.S. capital markets. So I find it interesting, you announced a significant P&C acquisition in the U.S. around a similar time frame as a peer. They just announced a U.S. capital markets acquisition. So I'm wondering if, I'm saying this tongue-in-cheek, but is there an M&A angle in your U.S. capital markets business? Or are you adamant that this is an organic strategy?

Darryl White - Bank of Montreal - CEO

First of all, we don't chase anybody. Second of all, if you look at our history in U.S. capital markets, it's actually been both. And by the way, that's been the history of the growth of our U.S. businesses writ large.

We have a page in one of our presentations, if you guys haven't seen it. People ask me all the time, well, I guess you've just built your U.S. business by buying things and adding them up. That's been 40% of the growth. 60% of the growth has been organic. Probably similar if I boil it down to Capital Markets. So we've had great organic growth. We've had teams that have been built over time. I would put some of our teams as the best-in-class in Wall Street. Full stop. And we've been able to add acquisitions.

An example would be several years ago when we bought the KGS business. Folks who were running that KGS business, by the way, have risen to run our Global Markets businesses. So we've got great talent that we've brought along with some of these acquisitions. We bought Clearpool in the electronic trading space. We've then been able to help them. They've been able to help us broaden the offerings through other asset classes, now set them up in Europe. So I think we've been able to find a healthy mix, Meny, between acquisition growth as well as growth by organic and team lifts and all the rest of it in the U.S., and I think the teams have done a fantastic job.

What does the future portend? It's too early to tell, but right now, we're pretty clearly in execution mode as we work through the various things that we're doing. I don't have anything imminent to talk about. But if you were to give me a five-to-ten-year horizon, I would say more of the same. Why? Because it's working, it's working really well.

The story of our U.S. profitability, measured by ROE, measured by efficiency ratio, being the same as our Canadian is true in Capital Markets as it is in commercial. And 50% of our people are in the U.S. in Capital Markets. So this is an important business for us. I'm glad you asked the question. But it's not like we sit there and say, okay, is it either or a growth by acquisition strategy or organic. It's both, and it depends on circumstances at the time.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

And I wanted to just give you a chance to talk a little bit about the levered finance business in the U.S., the underwriting books saw some markdowns. You addressed it on the call, but I thought it would be a good chance here to just approach it from the perspective of what gives you confidence that this was just more of a temporary dip in the road rather than something more systemic? Just wanted to check in to see if everything from your perspective, worked as it should have. Is there any need to adjust the strategy when it comes to the levered finance business.

Darryl White - Bank of Montreal - CEO

I think that the record on this question was read out pretty well on the call a couple of weeks ago. So people are really interested in it. I would refer you to that. I will say here that from my perch, I am very pleased with the performance of that business. I think if you look at how that business has performed over time, it has been a very important fee contributor, works within risk appetite, delivers returns that are above the average return of the rest of the business. Yes, it takes a little bit more risk, but it delivers more return.

I think you referred to the particular quarter, we and just about all of Wall Street who are active players in this business, took some marks. Gosh, are we ever comfortable with where we are, is what I would say. We took some marks. Our marks were narrowly defined in the sense that they were 3 transactions and all 3 of those transactions were underwritten pre-Ukraine invasion and the terms and conditions and transactions that have been underwritten since reflect the market since. And so there's no surprise to me. I think you said something like are you surprised? Absolutely no surprise. In fact, when you look at the distribution of probable outcomes, this is absolutely within a probable outcome and we're already starting to see some recoveries in the position that we took.

And then the last point I would make is, an interesting thing to look at is the ratio of the fees you make in any business relative to the losses in stress environments. And when I look at this particular business, and I look at the fees that we've made year-to-date relative to the marks that we've taken year-to-date, the ratio is tremendous. It's like 2.5x. That's a question you might ask of others who are in the business.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

You referenced sort of the unique structure of your P&C businesses, north-south with Dave and Ernie running both Canada and the U.S. And the question is, is this structure just a label? Or is it something more fundamental within the organization? So I wanted to get your thoughts on that. It's a very unique structure. And so just wondering what the benefits of that are as you see them? What are the benefits for the overall organization?

Darryl White - Bank of Montreal - CEO

So it's very much fundamental and not just a label. So while Dave and Ernie have overall accountability for our P&C businesses, North and South, when you then look at how do you run a premium franchise commercial business and a really high-performing retail business, if you happen to have an asset base that is in the commercial business equally sized between U.S. and Canada, and in retail now really growing in the U.S. with the Bank of the West addition, we'll have almost as many branches, in fact, as many branches in the U.S. as we have in Canada.

To be able to say you're going to set up your leadership spine with a thin, not a thick border, is really, is really smart from our perspective. So what does that mean? If you look at sectors and commercial, you have people who were doing auto in the U.S., you have people doing auto in Canada, they're under a similar leadership spine. They share best practices. They share risk underwriting. They share client selection. Ditto on retail. So you might have some things that are tailored differently regionally for sure, you should. But where you can get synergies on the cross-border, look to brand, look to technology, look at some of the systems that we built in the U.S. and brought to Canada, look at the Business Banking Xpress that we built in Canada that we bring to the U.S.

The fact that we've run it on a north-south basis, I think, is fundamental to the choice that we've made, is differentiated relative to our competition, and it delivers at the end of the day, a better client experience.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

From your perspective, how would you grade the connectivity? I know it's kind of a work in progress, but are you at the point where it's almost as connected as it can be? Or do you think that there's still areas where that north-south connectivity can get a lot better?

Darryl White - Bank of Montreal - CEO

Oh, no, we're not at end of job. I guess I would say we're always finding new opportunities. When we built, we think the first among peers, seamless transaction payment systems that goes cross-border. That was an example of a place where we woke up a few years ago and said, why isn't this this way? It will cost us some money. We have to do it together. We'll get to some point more connectivity on technology. So there's more opportunity there from a client experience point of view.

And so no, no, we're not at end-of-game. I think we've got the rails set up, and we've got the chassis of the car exactly set up, but we haven't put all the pieces together on it. So I think there'll be more to come.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

And then maybe more fundamentally on the same subject. Talk about being North America's eighth largest bank. What does that mean from a fundamental point of view? Do you really think about scale from a North American perspective? You think about having scale in the U.S., having scale in Canada and not really having those synergies in between. And so does it mean anything to be sort of that size across North America?

Darryl White - Bank of Montreal - CEO

You picked up the label eighth largest North American bank. That's just a fact. I think that's just the assets. I think that's just a ranking by assets. I think what's more relevant is the North American part than the eight, frankly, if you look at the composition of it. I just talked about how we run the business. We're not aware of anybody who runs the business that we do in every one of their business lines, north-south. We think that's an advantage.

And the scale point, I mean, I think all of your guests here have lots of scale in Canada. I think that's proven and we all compete very well in Canada. Where the scale makes a difference, and I'd say, a very important difference, is in the U.S. when you've got 5,000 banks and you look at the tiering of the banks, you've got four that are very large G-SIBs, you've got three that are super-regionals. And then you've basically got us and then you've got everybody else. So thousands and thousands of banks were kind of scrapping around and trying to get things done, and most of them do a pretty good job. But it's challenging when you're small, and when you have a scale advantage in the U.S. relative to that industry structure, that's where opportunity presents.

So I would focus on scale advantage in the U.S. relative to those players, yes, for sure. When you roll it all together and you have a North American play, that matters as well because of the way we run the business, not because we're seventh or eighth or ninth but because of the way we run the business.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

I wanted to take the last few minutes to just talk about an important subject. We call it ESG, but really, it is more just about the environmental transition that all economies, all developed economies are going through right now, Canada, U.S., and ask you what the business opportunity is for BMO? What the revenue opportunity, in particular, is from this energy transition? And how are you taking advantage of that?

Darryl White - Bank of Montreal - CEO

It's a good question. It's so hard because it's one of these rare moments in the evolution of industries where you know it's big but you're not sure how big and how fast. But you sure know that you've got to be there, and you've got to be there early, and you've got to be investing. So those don't happen very often. That's where we are right now.

If you look at the road to 1.5 degrees, and if you look within a range, the transition economy probably requires somewhere in the neighborhood of \$1 trillion, maybe a little less, annually, in order to get there. Where is that going to come from? That's the big meta question, right? Where is that going to come from? What we know is that as a financial intermediary and an adviser, when we chose to say our net zero ambition was to be our clients' lead partner in their journey to net zero. That was a very important choice that mobilizes and catalyzes the organization around it. And that's kind of my way of saying in the spine of the organization, we think the opportunity is real, real, real.

Nobody is able to say yet how quickly it comes and how fast you go. We do think there's first-mover advantage. We underwrote the world's first nuclear bond. We underwrote the world's second nuclear bond. We've got lots and lots of green firsts. We've set up a Climate Institute a couple of years ago. We didn't just wake up to this yesterday. And so there we've got real-time research data analytics that are fueling all of the strategies that we put in place. And we think we're thought leaders in the space. We really do. Like when we disclosed our Scope 3 ambitions. That's because we were ready to do that. Well-run companies when you have the data when you're ready, you disclose it. And so we think we've got a lot going for us, which is great. But I will also say the unanswered question is how big and how fast? I do believe, ultimately, this is maybe one of the single largest net new revenue streams to our industry that we'll talk about in your and my career, Meny, and we intend to be leaders in it, and we're on our way. We think we're well positioned.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

As we run out of time, I'm just wondering if there's any key messages that you want to leave investors with as we wrap up. Anything in particular that you wanted to highlight?

Darryl White - Bank of Montreal - CEO

We've covered a lot of ground. So I would just summarize by saying, we're very proud of our team's operating performance over the last couple of years. We've shown that we can deliver peer-leading operating leverage and PPPT growth. We've demonstrated that our business model is functioning very well, and it's a high-performing model. It's not just a highly engaged model.

That makes it very timely for us to be able to do something that I think is also differentiated in terms of the decision we have made on capital deployment and the acquisition that should come on board as we go through our 2023 fiscal, which adds to our earnings materially in 2024 and beyond.

And underneath all that, the credit culture that I talked about earlier and the 30-year track record of delivering above-peer average PCL results should continue. Even if the rates move upwards, we're going to continue to outperform there as well.

So when you model all that into a likely P&L outcome, I feel very, very, very good about the momentum that we have going into any environment. We've set up our model to operate and outperform in any environment, whether it's a boomer or whether it's a softer one, we feel really confident in our prospects.

Meny Grauman - MD, Scotiabank Global Banking and Markets, Research Division

With that, I want to really thank you so much. It's been a great discussion. And yes, thanks for being here, Darryl.

Darryl White - Bank of Montreal - CEO

Thanks for hosting, Meny.