

Bank of Montreal at the 2023 Barclays Global Financial Services Conference

CORPORATE PARTICIPANTS

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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 2023 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 and the financial, operational and capital impacts of the transaction, customer growth and support, sustainable lending and underwriting targets, net zero financed emissions targets, reducing operational greenhouse-gas (GHG) emissions and inclusivity and diversity, 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", "ambition", "aim to", "target", "may", "might", "schedule", "forecast", "outlook", "timeline", "suggest", "seek" and "could" or negative or grammatical variations thereof.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions, projections, targets, commitments, ambitions, plans or goals. 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 their impact on local, national or international economies, as well as their heightening of certain risks that may affect our future results; information, privacy and cybersecurity, 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; exposure to, and the resolution of, significant litigation or regulatory matters, our ability to successfully appeal adverse outcomes of such matters and the timing, determination and recovery of amounts related to such matters; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans, complete proposed acquisitions or dispositions and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and judgments, and the effects of changes 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 acquisitions, including our acquisition of Bank of the West, do 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 proposed acquisitions, including Bank of the West, such as potential synergies and operational efficiencies, are not realized; our ability to manage exposure to capital arising from changes in fair value of assets and liabilities between signing and closing; 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; in respect of sustainability matters, availability of comprehensive and high-quality GHG data, the evolution of our lending portfolios over time, the need for active and continued participation of stakeholders (including enterprises, financial institutions and governmental and non-governmental organizations), the development and deployment of new technologies and industry-specific solutions, international cooperation, the development of regulations internationally, our ability to successfully implement various initiatives under expected time frames, the compliance of various third parties with our policies and procedures and legal requirements and those other factors set out on page 17 of BMO's 2022 Annual Report; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors. In addition, our climate risk analysis and net zero strategy remain under development, and the data underlying our analysis and strategy remain subject to evolution over time, and, as a result, we expect that certain disclosures made in this document are likely to be amended, updated or restated in the future as the quality and completeness of our data and methodologies continue to improve.

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 2022 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 of BMO's 2022 Annual Report, as updated by quarterly reports, as well as in the Allowance for Credit Losses section of BMO's 2022 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 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.

Non-GAAP Measures and Other Financial Measures

Results and measures in this document are presented on a GAAP basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from our audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). References to GAAP mean IFRS. We use a number of financial measures to assess our performance, as well as the performance of our operating segments, including amounts, measures and ratios that are presented on a non-GAAP basis. 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. Adjusted results and measures presented in this document are non-GAAP. Presenting results on both a reported basis and an adjusted basis permits readers to assess the impact of certain items on results for the periods presented, and to better assess results excluding those items that may not be reflective of ongoing business performance. As such, the presentation may facilitate readers' analysis of trends. Except as otherwise noted, management's discussion of changes in reported results in this document applies equally to changes in the corresponding adjusted results.

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

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 operating segments to facilitate comparisons to peers.

Certain information contained in BMO's Management's Discussion and Analysis dated August 29, 2023 for the fiscal quarter ended July 31, 2023 ("Third Quarter 2023 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 July 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 Third Quarter 2023 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 2023 MD&A. The Third Quarter 2023 MD&A is available on SEDAR+ at <http://www.sedarplus.ca> and on our website at www.bmo.com/investorrelations.

PRESENTATION

John Aiken – Barclays Capital – Head of Research, Canada and Senior Analyst

Good afternoon, ladies and gentlemen. We're going to start the session off. Very pleased to have Tayfun Tuzun, CFO of Bank of Montreal. Tayfun, welcome back. We're always pleased to have you.

Tayfun Tuzun – Bank of Montreal – CFO

Thank you. Thanks for having us.

John Aiken – Barclays Capital – Head of Research, Canada and Senior Analyst

I'm going to start the line of questioning with what I presume is taking up a lot of your time recently is the Bank of the West acquisition. Can you give us an update in terms of how the integration is going and I guess highlight how the systems conversion went a couple of weekends ago?

Tayfun Tuzun – Bank of Montreal – CFO

So now that the conversion is behind us, I will tell you that we'll be very happy to give you an update. By all means, we had a very good week at BMO last week. Conversion took place over the Labour Day weekend. By all measures and by accounts, the comb-through of social media, I think we have achieved the best outcome that we could have achieved and could have expected.

Our teams have done a very good job in identifying where we needed to allocate the resources and where we need to double up on resources and technology, given the intensity of the transfer of the old Bank of the West systems on to ours and in customer service, the focus and allocation of resources on to call centers, et cetera, in combination have resulted in a great outcome, the weekend went very smoothly. You have to realize that there were three mock trials before this one, one full-dress rehearsal in August. So there was a lot of preparation. But at the end, we are very, very happy with the outcome.

We are on one platform now. Moving forward, we've unified the brands. We are no longer Bank of the West or BMO Harris. We are BMO in Canada. We are BMO in the U.S. We have launched a very active brand marketing campaign in California. We will probably keep it at a high level of share of voice in California for a few quarters because, frankly, they don't know BMO in California. And given our history, given the scale that we operate in the U.S., all the safety and soundness issues in U.S. banking, our profile is a very attractive one and we intend to leverage that to its fullest extent. And with the conversion behind us, our teams can now focus on that exactly delivering the outcomes that we shared with you and with our investors when we announced the transaction. And one additional comment that I'll make and I'll be happy to get into the details about our expectations, both on the cost synergies and the revenue synergies.

But one change since the announcement, which was in December of 2021, is the change in the U.S. environment and especially the regulatory environment with the added constraints on capital in the next few years, with the added constraints on liquidity and also the heightened regulatory environment that is moving even Category IV banks onto a more stricter operating platform. We feel that the advantage that we gain by acquiring Bank of the West and operating at a larger scale is even more productive. As you know, we operate at a much higher capital constraint given OSFI's minimum capital requirements of 11.5% starting in November. Our liquidity constraints are at a higher level compared to our U.S. regional peers.

And we already had made the commitment to elevate the regulatory platforms because we're moving from Category IV to Category III. So all of those were already in place even before the U.S. regulators had signaled and announced the intended changes, which we believe are going to put a few constraints on the ability to grow for our U.S. peers. We will not have the same constraints.

Coming back to Bank of the West, the level of excitement about the larger footprint and larger balance sheet, bringing also the power from our parent company, I think, is going to be meaningfully value-creating for our shareholders going forward. So you put that altogether, I think we're right to feel very good about the transaction.

John Aiken – Barclays Capital – Head of Research, Canada and Senior Analyst

We could unpack that probably for an entire session. But – and I'll get into the expense synergy points in a moment. But the scale issue that you bring up is very interesting and not terribly surprising; in terms of the benefit, how important was Bank of the West acquisition for BMO in the U.S. to get that level of scale and then talk about the other ancillary benefits you mentioned in terms of the increased footprint? Talk about what business does the Bank of the West bring to the U.S. table?

Tayfun Tuzun – Bank of Montreal – CFO

So it clearly was a very important transaction for the future of our U.S. franchise. But more importantly, I think the timing of being able to execute this transaction is going to be more instrumental going forward. What we did not want to do was to add more scale to our U.S. franchise before we actually improved the operating performance of our legacy U.S. franchise. As you know, leading into December 2021 when we announced the transaction, the performance metrics of our U.S. franchise have changed very significantly.

When we started operating at 15%, 17%, 18% ROE, we brought the efficiency ratio down to below 50%, so it was the right time for us to add that scale. Adding the scale by itself maybe would not have been as effective as it now will be. But having made that comment, we all know and even before these regulatory changes, the cost pressure has significantly elevated the advantage of scale, whether it's technology, whether it's marketing or other discretionary expenses and the ability to put out a larger sales force into the business; I'd rather be a \$400 billion bank than a \$100 billion bank.

The longevity of the profitability and the outlook for profitability get significantly enhanced with size. And also, again, in the near term, we will operate with this expanded size. We need to show our investors that we can deliver the promised financial outcomes. But we can grow more than this and the scale enables us to do that. Now you have top 4 banks in the U.S. and we are right in that next category with U.S. Bank, PNC Bank, Truist, et cetera. And our ability to compete with them and with banks of smaller size clearly is a lot more enhanced. Let's be honest –although we are talking about our U.S. presence, we operate our businesses North-South. We have a \$1.2 trillion balance sheet that we bring to the U.S. with the strong profitability in Canada. So you put all this together, I think the future is quite bright for BMO in the U.S.

John Aiken – *Barclays Capital – Head of Research, Canada and Senior Analyst*

And then can you talk about the synergies that you're expecting to pull out, where that's coming from on both the revenue and expense side? And if you can talk as much as you can about what you alluded to last quarter in terms of the likelihood of actually being able to meet your targets?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. When we made the announcement about the acquisition, we were very specific and clear about the cost synergies. We said we expect to capture US\$670 million, and we will do so in the first 12 months following the closing date so that we will start year two with the full run rate of those expense synergies. We have kept that commitment and we feel even more strongly today. And also, during the earnings call, we signaled that our work since closing is indicating that cost savings is probably going to exceed that US\$670 million number. So that is a positive development.

In terms of revenue synergies, we had a couple of updates for our investors back in 2022. We mentioned that we expect \$450 million to \$550 million in revenue synergies for Bank of the West in a three-to five-year timeframe. And then we came back actually, I believe, at the end of last year, and we said that even pulling the timing of that back a little bit will translate into a US\$2 billion PPPT on a run-rate basis as we exit 2025.

And what we have seen so far since the closing, the elevated productivity at the old Bank of the West branches, once we started our training programs, established our performance targets and sales practices and also started enhancing their digital tools plus the revenue synergies that started almost day one across our commercial banking and Capital Markets business, committed transactions, whether it's bond issuance, M&A, advisory business or even just transactional, interest rate risk management products, foreign exchange products, et cetera. And also, the conversations and the engagement that the commercial RMs are showing us on the commercial side have really increased our confidence and the commitment that we made to these revenue synergies.

Now admittedly, the current macro environment is weaker than we would have anticipated when we announced the transaction. So we may see a quarter or two delay in achieving these outcomes. But we are still confident that the level of outcome that we anticipate, whether it's measured in PPPT or revenue synergies is real and we intend to get there. We'll get there faster if the environment allows us. But at the moment, I think the more important part is that we are increasingly confident of the revenue synergies in connection with the higher cost synergies, I think the transaction is hitting both financial targets, obviously, supporting our strategic priorities in the U.S.

John Aiken – *Barclays Capital – Head of Research, Canada and Senior Analyst*

When we talk about the macro or the operating environment that you're currently in, can you talk about in terms of deposits, funding, the pressures that we saw in the system earlier in the year, how that's filtering through, what Bank of the West may or may not provide for you that you didn't have previously?

Tayfun Tuzun – *Bank of Montreal – CFO*

I'll answer that question both from the Canadian side of the border as well as the U.S. side. The Canadian side from a balance sheet perspective has been a lot more predictable, a lot more stable. Deposits have been growing in Canada, loans have been growing in Canada since basically the end of Covid. I think, in general, Canada, very successfully avoided the turmoil that we experienced – the system experienced in the U.S. On the U.S. side, immediately following the initial stages of the turmoil in early March, we have seen actually positive inflows into our U.S. business. We've seen some weakness towards the end of April into early May that may have also coincided with the tax season, hard to tell exactly what the cause was. Since the early part of May, it's been a lot more stable. Our end-of-period comps are a lot more favourable, and now that we are operating on one platform, our projection and our guidance for deposit is growing going forward, and I suspect that it will be both in our personal business as well as commercial business.

We think the combination of having doubled our branch count and also supporting a larger branch count with a highly effective national deposit platform gives us, I think, a competitive advantage and we will fully leverage that. On the commercial side, we have a very advanced treasury management platform that operates North-South. Bank of the West clients have converted to that platform. It gives them extended capabilities and I think it enhances our ability to attract new customers. We are quite optimistic from a deposit perspective, although price competition continues to be very fierce. It's not a balance issue.

On the loan side, there is a difference between Canada and the U.S. In Canada, we have continued to experience loan growth, more so on the personal side, both mortgages and cards have been growing in Canada, but also commercial loans have grown at a more modest level, but on a quarter-over-quarter basis, we have been on a growth mode.

In the U.S., it's been more challenging to grow loans; loan demand overall has come down in the U.S. over the past couple of quarters and I suspect that may continue to be the case for a few more quarters until we get a bit more clarity around the Fed rate decisions, the inflation outlook, although, in general, the level of optimism regarding a soft landing is growing. I think our clients will need a few more tangible clarifications before they firmly invest in their business, and our business will reflect that. But overall, I think we feel that our business is positioned well even for this environment. We look forward to, again, going into 2024 both in Canada and the U.S., addressing our clients' needs.

John Aiken – *Barclays Capital – Head of Research, Canada and Senior Analyst*

Can you expand a little bit more on the online deposit gathering system that you're implementing in the U.S. and whether or not it's actually been fully enacted because I think the last time that I heard it wasn't completely rolled out.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. Last time I was here actually, I touched upon that a little bit. The time was not right. So, we invested in that platform pre-COVID. As you know, we have a very, very strong commercial business in the U.S. that tends to outperform our peers in loan growth. And given the fact that at that time, before we acquired Bank of the West, we had a smaller personal business. We wanted to enhance our deposit-generating capabilities with an advanced national deposit platform. The platform was put in place. It became a bit dormant during COVID because nobody needed to activate a national platform.

But as we came out of COVID towards the end of last year, way before the deposit turmoil started in the U.S., we started getting ready to turn on that engine basically which is a national, both term and transactional, deposit-generating platform. We have the ability to reach out nationally to clients without having to reprice our own base. It continues now and it's in place. It's activated. It enables us not only to go on a national basis purely digitally, but it enables us now to test this thin branch business model in personal banking because when we acquired Bank of the West, we basically expanded our branch network from the Midwest all the way to California.

Bank of the West's retail branch network is a lot more intensive in California. There's a thin distribution of branches in States in between. Now bringing this deposit platform, digital platform and covering a thin branch network is a very good business model for us to test in real and we're quite optimistic that combining the ability for our clients to use both the branch network – you go to the branch as you need to but take full advantage of our digital capabilities will give us a competitive advantage.

John Aiken – *Barclays Capital – Head of Research, Canada and Senior Analyst*

Before I throw it open to the audience for their questions, I wanted to ask you about U.S. retail banking versus Canadian retail banking because you as an American coming from the U.S. system, dropped into the Canadian system, you've got a unique perspective in terms of the differences. Can you speak about the universal banking model in Canada and whether or not you think U.S. banking can move a little bit more towards what's happening in Canada?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. Very different business models resulting in different performance metrics. In Canada, for those investors who are here who are more U.S.-oriented, the branch still is the main outfit where we conduct business, whether it's sales, service, less service these days as digital banking has clearly improved all geographies.

When the customer comes to the branch, you still connect with the customer across different products. Mortgage continues to be an anchor product in Canada, unlike the U.S. where we lost that a decade ago. When the customer on a proprietary basis, acquires a mortgage at a branch, now you have basically that full relationship open; credit cards, HELOCs, personal lines, mutual funds, ETFs, insurance. So the lineup of products and services now that you offer to the client and their willingness to actively engage with the bank to acquire these products is significantly different than what my experience has been in the U.S.

We have given up on mortgage being the anchor product a while ago in the U.S. The credit card business is a lot more concentrated in the U.S. and we have the big three or four credit card originators capturing a large portion of that market. Investment products tend to be very clumsy. You're connecting to the private banking, but it's not a direct linkage. We have a lot of opportunities to cross-sell between private banking and retail banking, but the lineup of products is not quite the same: insurance and ETFs and mutual funds.

So deposits are really the main drivers. When you talk about client acquisition in the U.S., you go to checking accounts. That's the anchor product. Well, in Canada, that's a more enhanced experience. Our goal is we carry the experience from Canada into the U.S., although the picture may not quite enable you to penetrate that relationship as widely and as deeply as you can in Canada. We have a set of digital capabilities and the deep experience that we bring back from Canada to be able to connect with our retail client base.

We also, although not necessarily in the same manner, we have a lot of focus on connecting the Wealth business with Private Banking business, have a premier bank position that bridges that gap and addresses that mass affluent segment. And again, I mean, I don't want to every time go to Bank of the West, but the new Bank of the West platform enhances our capability to do that as well.

John Aiken – *Barclays Capital – Head of Research, Canada and Senior Analyst*

Well, I'm going to ask if there's any questions from the audience. This is your chance to ask about Canadian housing because I'm massively long Canadian housing myself, and I don't want to hear any bad news about it. Well, on credit risk, BMO strategically has over-indexed itself on commercial. And as you alluded to earlier, you've been very successful being able to grow that book of business as well as the acquisitions you've taken on. How do you feel about the outlook for credit and commercial? And then the flip side to that is you talked about lower growth expectations, lending in the U.S. on the commercial side. How long do you think it would take to revert back to being a strong driver of growth?

Tayfun Tuzun – *Bank of Montreal – CFO*

So I mean our commercial focus has always been there. We have not necessarily -- it's not a near-term phenomenon. We've always been more commercially focused. And we have a long history of credit performance. We have data in our disclosures going back 30-plus years. And we have outperformed our peers in terms of credit experience in that commercial book.

There are a lot of questions coming into COVID, whether COVID would change that picture, understand the COVID process worked differently than initially

anticipated. But regardless, I think we are good commercial bankers with deep credit underwriting experience and an approach to the business in a very diversified manner. I'm quite optimistic that our future performance in commercial will match our past performance in maintaining a level of credit that outperforms our peers.

As we look at it, our Chief Risk Officer, Piyush Agrawal at the call said my expectation is the normalization that we are seeing today will continue into the next number of quarters. We have defined a normalized level of impaired provisions somewhere between low 20s and mid-20s basis points. So that's actually compared to my previous experience in U.S. regional banking, it's a great level of credit performance.

We're not -- look, I mean, I think on either side of the border, we are not seeing significantly outsized or red flag performance in any industry. Commercial real estate clearly captured a majority of the attention. We have spent a significant amount of time on commercial. We have about \$67 billion in commercial real estate, \$11 billion came from Bank of the West and the portfolio is divided 51% in Canada, 49% in U.S.

The largest asset class is multifamily, and I think 70% of that is in Canada. And as you know, the demographics in Canada and population growth continues to support multifamily. So it's a relatively healthy asset class. The second asset class is industrial that also continues to do well. The third one is office. We have about a little over \$7 billion in office. And I think about 65%, 70% of that is in the U.S. but we have re-underwritten every loan above \$10 million. We have a pretty granular portfolio. We actually disclosed the top five cities, and there were no big concentrations there. And also at Bank of the West, yes, we have taken on more of a California exposure there. But remember, we have double suspenders there because we took a credit mark and we established a Day Two provision. Overall, we feel things are going to normalize. But I think the range is going to be still within our historical performance ranges, and we should not see any outsized credit underperformance.

In terms of when loan growth turns in the U.S., I mean, I think if the more optimistic outlook about a soft landing comes true, if inflation is effectively under control, such that the Fed can declare an end to this rate cycle, those are clarifications that will help our customers make longer-term decisions. And also a more muted inflation outlook should take some pressure off of consumer balance sheets. Relative to that now, you have a US\$90+ oil price. We have to be cognizant of that, oil prices tend to keep headline inflation numbers in the forefront. My hope is that core inflation will continue to show signs of stabilization such that, again, the Fed declares an end and then we can move on to the next part of that cycle, which should help loan growth eventually.

John Aiken – Barclays Capital – Head of Research, Canada and Senior Analyst

But I do note about high oil prices limits the number of questions you have on your energy portfolio.

Tayfun Tuzun – Bank of Montreal – CFO

That is correct. Yes. We are not complaining about our energy portfolio. It's been actually a very good performer.

John Aiken – Barclays Capital – Head of Research, Canada and Senior Analyst

So Tayfun, I wanted to talk about the restructuring items that you took last quarter, not in the vein of what this is going to be for savings going forward or even the fact that restructuring charge but the philosophy behind the restructuring charge and not flagging it as non-core, which, again, investors can treat it however they want. But I think this is a change in the Canadian banking industry and notably from what BMO has actually done in the past. Can you talk about your rationale for this and is this a change in philosophy or am I just making a mountain out of a molehill?

Tayfun Tuzun – Bank of Montreal – CFO

I don't know if I would necessarily describe it as a change in our philosophy. But we've been very transparent about the circumstances that led to this decision. At the very end of last year, as we looked ahead to 2023 and assessed revenue growth prospects, we saw a more muted revenue outlook compared to 2022 and 2021. In 2021 and 2022, we significantly expanded our sales force. We accelerated some of the technology investments, which led to a higher expense growth, but we also had higher revenue growth, which enabled us to achieve positive operating leverage. When we basically put a pause on that expansion at the end of November and December last year, revenue growth has declined faster than we anticipated.

And we have an outstanding commitment to positive operating leverage, which then when we came to the spring, and we sort of hinted at this in our second quarter earnings call that we were looking at some discrete actions. When we came to the third quarter and as we assessed the next four to six quarters, we felt uncomfortable having operated in a negative operating leverage environment for two quarters in a row. We had to make a change, and it just happened to be in line with the revenue outlook. And therefore, we took the action when we needed to take the action, and we believe it was the right thing to do.

In terms of the form of how we disclosed this, look, we own it. We are very transparent about it. This is part of our core – the way we run our business. It's dynamic expense management. We didn't see a reason why we should adjust for it because our groups own it, our functions own it, and we just wanted to be transparent because ultimately, the savings that are associated with this charge is also going to flow through the income statement for each group and function. So we felt like this was the right decision. I'm not sure if this is necessarily a change in the philosophy of it, but I think the way we run the company today with full transparency with our investors, we thought this was the right thing to do.

John Aiken – Barclays Capital – Head of Research, Canada and Senior Analyst

And then we tie the benefits of this and the expected benefits of the Bank of the West, can you talk about your degree of confidence in terms of being able to generate positive operating leverage moving forward?

Tayfun Tuzun – *Bank of Montreal – CFO*

I'm very confident that we will generate positive operating leverage next year. And we have been very transparent about the impact of Bank of the West, but we are also not shying away from establishing an expense discipline at what I would call - this distinction is disappearing quite fast - but the old legacy BMO. So we are making that commitment because we have to make sure we still have a long-term efficiency ratio target to get to mid-50s. We need revenue to help for that.

But I think as we look forward to 2024, the ability to contain the efficiency ratio is very important to us. And I think we have shown even this quarter, our numbers were actually -- we had negative operating leverage, but it was a better negative operating impact leverage picture compared to our peers. We'll get through the fourth quarter, there's some post conversion expenses that are going through, but you'll get to that run rate in early part of 2024, and then we'll be able to show you the progress that we make fairly clearly. But in terms of the positive operating leverage for the year, I feel very confident about that.

John Aiken – *Barclays Capital – Head of Research, Canada and Senior Analyst*

We have a time for one last question. This is your last chance.

Question from the Audience

It's really more about the consumer, right? Because I assume that it is the -- their discretionary spending that will be affected first. And so what are your views on your consumer book and sort of it's relationship to rates. And as we sort of move forward into 2024, where do you see like a real make breakpoint?

Tayfun Tuzun – *Bank of Montreal – CFO*

I assume the question is more on the Canadian consumer, right? Okay. So look, the rate impact in Canada is very clearly coming through mortgage payments and the mortgage stress is real, although timing of it for BMO is later out to 2025 and 2026. But overall, the way I describe the stress on consumer is less about bank credit because I believe that banks are well-protected because there is very low default risk with high FICO scores and LTVs around 55%, 56%, leave a lot of room for banks.

This is more of a consumer health within the macro picture question. And as such, it is real that especially in cities like Vancouver and Toronto, the rate impact on household balances is putting stress. But we have fairly detailed financial analysis that looks across the portfolio of our mortgage borrowers, monitors the unsecured credit that our mortgage borrowers have with us, credit cards.

We're not seeing a distinction in the credit behaviour of those borrowers who may be experiencing more rate pressure through their mortgage. So credit card performance is actually, I think if I'm not mistaken, to a tad better than mortgage borrowers. What also appears to be the case more systemically in Canada is that unlike a little bit in the U.S., the Canadian consumer, especially at the upper end of the income distribution is still preserving a decent amount of assets. They may have moved some of those assets into more liquid investments because rates have made it more attractive, bank deposits have become more attractive but there is still a reasonable amount of cushion left on the balance sheet. And I believe some of that movement into liquid assets is really in preparation for potentially a higher mortgage payment down the road, whether it's a higher payment or a down payment that is maybe a bit higher than they originally intended.

So from now, it appears that the consumer is able to support herself. And if the employment picture continues to be healthy and there is continued cash flows in attachment to a relatively healthy portfolio, we should see a stable picture.

But I'm not disputing that there is stress in the system because a larger and larger portion of cash flows income goes towards mortgage payments. That's the reason why I highlight the impact of oil price and headline inflation because although we focus on core inflation numbers from a monetary perspective, from a growth perspective, we need to keep that headline inflation still in check.

John Aiken – *Barclays Capital – Head of Research, Canada and Senior Analyst*

Thanks as always, Tayfun. Great conversation.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you.
