Bank of Montreal at the National Bank Financial 23rd Annual Canadian Financial Services Conference

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational non-financial, legal and regulatory, strategic, environmental and social, and reputation risk in the Enterprise-Wide Risk Management section of BMO's 2024 Annual Management's Discussion and Analysis ("2024 Annual MD&A"), 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 2024 Annual MD&A, as well as in the Allowance for Credit Losses section of BMO's 2024 Annual MD&A, 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. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

Non–GAAP Measures and Other Financial Measures

Results and measures in this document are presented on a generally accepted accounting principles (GAAP) basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from our audited annual consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board. References to GAAP mean IFRS. We use a number of financial measures to assess our performance, as well as the performance of our operating segments, including amounts, measures and ratios that are presented on a non-GAAP basis, as described below. We believe that these non-GAAP amounts, measures and ratios, read together with our GAAP results, provide readers with a better understanding of how management assesses results.

Management considers both reported and adjusted results and measures to be useful in assessing underlying ongoing business performance. Adjusted results and measures remove certain specified items from revenue, non-interest expense, provision for credit losses and income taxes, as detailed on page 39. Adjusted results and measures presented in this document are non-GAAP. Presenting results on both a reported basis and an adjusted basis permits readers to assess the impact of certain items on results for the periods presented, and to better assess results excluding those items that may not be reflective of ongoing business performance. As such, the presentation may facilitate readers' analysis of trends. Except as otherwise noted, management's discussion of changes in reported results in this document applies equally to changes in the corresponding adjusted results.

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

Examples of non-GAAP amounts, measures or ratios include: pre-provision pre-tax income, tangible common equity, amounts presented net of applicable taxes, adjusted net income, revenues, non-interest expenses, provision for credit losses, earnings per share, return on equity, return on tangible common equity, and adjusted efficiency, leverage and PCL ratios, growth rates and other measures calculated using adjusted results, which exclude the impact of certain items such as acquisition and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, management of fair value changes on the purchase of Bank of the West, and initial provision for credit losses on Bank of the West purchased loan portfolio. BMO provides supplemental information on combined operating segments to facilitate comparisons to peers.

Certain information contained in BMO's Management's Discussion and Analysis dated February 25, 2025, for the quarter ended January 31, 2025 ("First Quarter 2025 MD&A") is incorporated by reference into this document, including the Summary Quarterly Earnings Trend section in the First Quarter 2025 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 January 31, 2025, 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 First Quarter 2025 MD&A. Further information regarding the composition of our non–GAAP and other financial measures is provided in the Glossary of Financial Terms section of the First Quarter 2025 MD&A. The First Quarter 2025 MD&A is available on the Canadian Securities Administrators' website at www.sedarplus.ca and BMO's website at www.bmo.com/investorrelations.

PRESENTATION

Gabriel Dechaine – *National Bank Financial - Analyst*

All right. I think this is our last presentation before lunch and Nadim Hirji, Group Head of Commercial Banking at BMO, welcome to the stage.

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

Thank you.

Gabriel Dechaine – *National Bank Financial - Analyst*

I look forward to a more focused discussion on commercial banking, of course. So, where do we start off here? I guess, the obvious place is the outlook. And BMO, along with other banks, at least Q4 of last year and maybe a little bit in Q1 as well, are talking about the outlook for loan growth and back half is looking more optimistic. Is that still the case today?

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

So when we said the back half, we looked on both sides of the border to start. In the US, we've been facing pretty muted loan growth and it's been, on an average, I think most of our peers have been anywhere between minus 1% and plus 1%, basically. And we've been sort of flattish the entire year. So the loan growth dynamics in the US have been very different than Canada.

With the new government coming in, and talking to customers, sentiment was positive, sentiment was pro-business, less regulation, less taxes. And so, client sentiment would have made us believe that the latter half of the year in the US will show signs of momentum and an increasing loan growth. And I would say that today, when I talk to customers, there is still optimism in the U.S. as to where the economy will go. Having said that, the uncertainty that we're all talking about is creating churn around inflationary pressures, higher for longer rates with the Fed, which is causing that optimism to become a bit more of cautious optimism. And so I would say, Gabriel, that in the latter half of the year, I still believe that in the U.S. we'll see positive loan growth. The magnitude of that positive, I think, has probably come down than what we had thought two months ago.

In Canada, we are actually experiencing strong loan growth over the course of the year. For BMO, we were up in commercial just over 7% year-over-year. Pipelines were strong, interest rates coming down, consumer confidence going up, inflationary pressures coming down. So all signs would have showed that we would continue to see momentum in the high-single digits as we move through the rest of 2025. But of course, over the last 45 days, 60 days, that has definitely changed. When we look at customer sentiment in Canada on the commercial side, doesn't mean execution of deals is not happening, but the volume has definitely slowed down. Many customers are pausing to get some more certainty before they make commitments on M&A transactions or new investments. Working capital, everybody is holding very tight. Liquidity is good for many of our clients. We're not seeing, you know during COVID, we saw revolvers getting utilized and drawn down. That's not happening right now. So this is different than the COVID phenomenon, for sure. But definitely, the sentiment is very cautious in Canada right now. I still think, though, that we will have positive loan growth in the back half of the year in Canada. I do not think, though, that we're going to have loan growth in high-single-digits in Canada in the back half of the year, until we get more certainty.

Gabriel Dechaine – *National Bank Financial - Analyst*

But in the U.S., you could possibly see the high-single-digits?

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

I don't see high-single digits in the U.S.

Gabriel Dechaine – *National Bank Financial - Analyst*

Okay. On neither side, okay.

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

Yeah.

Gabriel Dechaine – *National Bank Financial - Analyst*

I guess, the theme that's come up a lot more with a positive underlying tone, albeit a longer term one, is the Canadian economy could be, you know, animal spirits could be revived because of what Trump's done and given us a bit more motivation to build our economy with more resiliency. Is that, I guess, a far-off driver of loan growth for Canada and for BMO?

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

I think it's a fair one actually. I think this has been a wake-up call in some ways for some of the economy and some of our customers. And so I am hearing customers talk about how do we get more, I don't want to call it protectionist, but how do we get more manufacturing? How do we get more productivity? Which is a nice to talk about right, because productivity in Canada is something that frankly has been lagging.

And so the wake-up call I don't think is a bad thing. I think that we can get more productive in Canada. I think that it can lead to more loan growth and more opportunities in Canada. It's a shot in the arm, but it's not an overnight. This will take years that we see impacts, in terms of impacting our loan growth, before we would see it. But yes, I do see it impacting it over the long term.

Gabriel Dechaine – *National Bank Financial - Analyst*

Now I can't talk about commercial lending at BMO without bringing up the credit experience over the past year and a half. I guess, it's an interesting comparison to prior years, going back five, six, seven years maybe, where BMO was growing the commercial loan book in the U.S. at 10%, 15% and then it got a lot of attention. But ultimately, there was - the fear around that growth being too high didn't really manifest itself in any credit issues. I guess, 2021, 2022, where if you look at loan growth in that period, it's more like 5%, 6%, but then we got the credit issues. So my question is, you have made adjustments to the origination strategy. Could we still see very high loan growth like we did in prior years, maybe not 15%, but teens with better credit performance?

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

Yeah, I do think we can. I mean, the challenges that we faced in majority of fiscal 2024, as you said, if you look at the themes that we had, they were around the 2021 era, plus or minus. They were cash flow based loans for the most part, enterprise value or enterprise lending type deals with larger hold positions than perhaps we normally would have taken. And a confluence of events happened over the last five, four years where higher interest rates made the leverage levels hard to maintain in terms of debt servicing and at the same time, many of these companies were facing issues around consumer preference changes post-COVID, creating lessening demand of their product or service. So you had a combination or a confluence of events that happened at the same time. We had larger exposures, as I mentioned, and it just kind of came together during the course of the year.

We have made some changes, as you mentioned, to our underwriting policies, not our risk appetite, but to some of the underwriting policy. The diligence processes, larger deals with cash flow base, especially newer customers, needs to have higher signing authority and things like that, and more proactive risk management as well. But I do think you can have loan growth that's disciplined, and we've shown that in the past. As you know, we've had a very stellar record on our loan losses in both Canada and the U.S. and a stellar record of loan growth in Canada and the U.S. So I do think it can happen. We have seen it happen. But I agree with you that I don't think I would look at it as a 12%, 15% loan growth. But can you get mid- to high-mid single digits? Yeah, absolutely.

Gabriel Dechaine – *National Bank Financial - Analyst*

And then, I guess, you're still confident that Q4 was the peak for formations, loan losses. I mean, there was some improvement in Q1, but still, we're through the, I guess, the eye of the storm. Is that the right analogy?

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

Yeah, that's fair. I do believe that, we saw Q1 come down, it was fairly stable, I would say, in Canada, but we saw a decreasing amount in the U.S. We've gone through the portfolio that we've talked about on the earnings call. We've been very diligent in going through the portfolio to understand the themes of what happened. Do we have other stuff in the portfolio that mimic those themes, and if we do, are we watching them properly, doing diligence on it, putting the impairments on where we think appropriate. We still have migration obviously into watchlist and impaired. I mean, there's still migration, but the pace of the migration has definitely come back a bit.

GIL formations, of course, we had a large watchlist formation over the last three or four quarters from last year. So you do see some of that going into GIL. But what we are seeing going into GIL today is a little bit different than what we saw in the last four quarters. Obligations are not too high a hold, less cash flow based and more collateralized obligations where we feel comfortable that we would not be taking the level of PCLs that we did in fiscal 2024.

So with what we've put into the impaired basket, with what we've got in the watchlist that we can see, yeah, we stand behind what we've talked about in our earnings call that we will see the PCL numbers moderating as we go through the year, getting to more normalized levels as we head into fiscal 2026, I'm saying that barring tariffs and how that plays out.

Gabriel Dechaine – *National Bank Financial - Analyst*

Bringing it back to Canada and bringing it back to the growth question, I mean, I don't know if you can give a perspective on line utilization rates. One of the previous speakers said they're normal, but I guess, it's just new lines aren't being asked for. Is there an illustration there about how there is maybe some pent-up credit demand just waiting for the right moment?

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

And we saw it in our book, we've seen on the Canadian side utilization rates of our revolvers up slightly year-over-year, maybe just slightly under 1%, but they're still at fairly low levels compared to pre-pandemic. And in the U.S., utilization levels have been flat to down for the most part, and some of that is the demand side of it, but some of it is the companies have actually become much better at working capital management. And the supply chain issues that folks faced have kind of subsided and gone away. The need to hold large inventory levels has gone away. And so the ability to downsize your inventory, create more working capital, has created good liquidity on the balance sheet and basically has affected us on both sides, where even deposits were being used to pay down the lines. Higher cost of credit, more expensive, so we pay down the lines with our deposits. Better working capital management, we pay down the lines, right? So we saw it on both ends and I don't see that changing in the near term.

Gabriel Dechaine – *National Bank Financial - Analyst*

Okay. Now, this is more directed to the U.S., but feel free to throw in the Canadian business as part of the discussion. But there's an ROE trajectory that the bank, or target anyway, that the bank has and there are several components of achieving that. One of them is balance sheet optimization. So maybe explain a bit more what you mean by that. Simplistically, it's okay, we get rid of these – some loans and we try to replace it, but there must be more to it than that. And it seems to be more of a U.S. discussion, but if there's anything in Canada that'd be great as well.

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

Yeah. I mean, that doesn't mean we don't optimize in Canada obviously, but you're right, the ROE is more of a U.S. equation. And if you want to go specific to balance sheet optimization, it's the entire balance sheet, not just the loan side of it. And so, if you look at our U.S. funding mix on the deposit side, we have a higher cost of funding than many of our peers do, which affects our ability to get to a 15% ROE. So part of optimization is looking at the deposit mix that we have. We need more retail deposits in the U.S. than we have today. And so, a focus of our retail network is going to be to increase our customer acquisition numbers, our checking and savings, the day-to-day operating deposits in order to help fund the commercial bank, because in the U.S., the commercial bank is the largest part of the U.S. segment.

Secondly, within commercial, we do have a good chunk of deposits, but if you peel it back, there is a segment of the deposits which have low liquidity value. There are high dollar deposits with very low margins attached to them. That's affecting our ROE. So we're surgically looking at our balance sheet going by customer and where we have deposits like that, where they're transactional, non-relationship, no other ancillary services attached to it, we're removing those deposits as they mature and replacing them with more core operating deposits.

And so, how do you replace them with core operating? It's not a flick of a switch, obviously, but we have tactical ways of doing it. One, our scorecards for our account managers in how they get incented, look at liquidity value of deposits, look at operating deposits as we go forward into fiscal 2026, so that they're incented more and more to focus in on those deposits. And you also have to look at the segments that we play in within our businesses. So one of the segments that we are focusing in on in the U.S., we term it emerging middle market, which effectively is clients with sales, call it, $50 million and lower, loan to the $1 million to $10 million range. These are great accounts. These are accounts that are high ROE, low PCL, operating deposit sticky, and one bank clients and we get to refer them to our retailer wealth franchise as well to create those One Client opportunities.

We have a very, very low market share in the U.S. of that segment. We have a pretty good market share in Canada and we have a good middle market business in Canada, but in the U.S., it has not been a focus. And so we are refocusing on increasing that. We're drawing in new talent. We're actually installing new technology in order to be best-in-class. So once we're done by the end of this year, within that business, you need volume, you need velocity, you need simplicity. That's what you need to earn the right to win that business. And so, by the end of this year, we will have technology that will give us the ability to adjudicate in two days and fund in seven days and of course, best-in-class.

And secondly, in our treasury side, we've launched what we call Online Business Banking lite, the lite meaning it's our normal portal for online business banking, which is cross-border, by the way, but it's a lighter version. It's mobile ready, it's simplistic, it's cheaper, and it's designed for that particular segment and differentiates us from the competition. And we're also putting in bundled pricing in our treasury and payment services. So making it again, less complicated, more easy and simplistic for our clients in that segment to deal with us. And putting all that together, that will also increase our proportion of the core sticky, cheaper operating deposits to help the funding mix.

Gabriel Dechaine – *National Bank Financial - Analyst*

So these are the mid-market business, the operating deposit. As far as the retail component for deposits, do you have capabilities there or is that going to require substantial investment?

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

No, we've got the capabilities, but it will require two things. It will require investment in terms of increasing our retail network presence, which we will do, especially in our new core markets on the West Coast, especially in California. And so we will look at putting more investment there and doubling down. But it's also about productivity within those branches that we've got with the Bank of the West acquisition. Productivity meaning gearing ratios, revenue per FTE, sales per FTE in those branches. If we look at our statistics and data, we have significant value contribution that we can achieve, if we can get those branches to operate the same level as the rest of our U.S. branches that we have in the Midwest, Chicago, Illinois and Wisconsin, there's a gap in how those branches operate. So if we can just take the formula that we have and apply it into the branches that we now have in the new west markets, that increases our retail.

Gabriel Dechaine – *National Bank Financial - Analyst*

What is the revenue per FTE gap?

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

I don't know it offhand, Gabe.

Gabriel Dechaine – *National Bank Financial - Analyst*

And I guess, I'm segueing into the Bank of the West discussion because I did detect a bit more optimism on the revenue synergy side in some of the recent comments. I mean, it's been a tumultuous few years globally. Where do things stand now with regards to delivering those revenue synergies? And how are we going to actually see them? Because it's hard to evaluate them as an outsider. You just look at the total U.S. segment and you see a revenue line, but I can't really tell how much of that's coming from your business as usual versus, oh, they've been successful in delivering revenue synergies?

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

Yeah So in terms of how is it coming along, you're right, since we had the acquisition, the couple of years have been tough, right? The muted loan environment, the deposit mix shift at Silicon Valley Bank coming down and it all kind of happened at the same time. So timing could have been better. But that was then, this is now. What I would say today is, technology conversion is done. Branding, if you've been to California recently, BMO is significantly in the marketplace all over. So it's become a household name. With that, we've been able to attract really good talent into the business as well. So we've changed leadership. We have, in fact, a new Head of U.S. Commercial Banking that's based in L.A. Tony came in from JP Morgan and he had just started last week. And so I feel comfortable that we've installed the talent base that we need for the growth.

If I look at what indicators would tell me that the growth is coming, there's a few. One is new client acquisition. And so if I look at new client acquisition in the Western markets over the last quarter, it actually matches, if not exceeds many of our core markets in the U.S. now, in terms of new client acquisition. If I also look at the businesses that we've put in, the investments that we put in, we put ABL capability, stuff that we do all day long in other markets, now we have the ability in California. So ABL capabilities, equipment finance capabilities. We've put in a media finance team in the L.A. market that we have in Toronto, right now that does very well. So these are all investments that we're making that create product and service capabilities that Bank of the West never had.

BMO Capital Partners, which is our merchant bank, gives us the ability to do equity investments and sub-debt investments. We're launching that now into not just the Bank of the West markets, but the entire U.S. market. This is a significant differentiator for us in how we attract business. So, when I look at all of this, I feel comfortable that so long as we have a constructive economy in the U.S. that is positive momentum, we are in a good spot to accelerate the revenue synergies in Bank of the West.

Gabriel Dechaine – *National Bank Financial - Analyst*

I guess, that's answering another question I have in a way, that, to play devil's advocate, California, which is the bulk of Bank of the West business, has growth challenges given demographic shifts. And maybe the business environment isn't as friendly. Maybe the revenue synergies aren't as appealing or whatever. But it sounds more like you're just adding capabilities that Bank of the West didn't have. And you get a favourable base effect, if you will. Is that really the...

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

Well, there's two things there. One is customer acquisition, which I think that we're putting in the right people, the number of people and the talent that we need to get the new customer acquisition. Keeping in mind we have a very, very low market share in California. It's a very low market share. There is a significant opportunity to grow. And the second thing is the existing customer base at Bank of the West already had and penetrating their existing customer base because the TPS capabilities that we've now got with BMO in California were not there with Bank of the West. The wealth capabilities were not there. The capital markets capabilities were not there. So these are all low-hanging fruit revenue synergies just by cross-selling the existing customers, let alone the new customers.

When you look at the market you mentioned, California, is it still appealing? Is it still the right place to be? There's no doubt there's been some migration out of the California market into other areas, like whether it's Nashville or Texas or Florida. And there has been some of that. But we cannot forget that the California market is the fifth largest economy in the world. We can't forget that California has a population base of Canada and twice its GDP. And if you look at some of the data, it's still projected to be number one in terms of new companies being formed. And if you look at the data in terms of the migration of people generally, it's been 35 and younger household income of $75,000 migrating out, 60 and over migrating in with income of $150,000 or more. So you get a population base shift, I guess, would be true. But when you think about our wealth opportunities and deposit opportunities, you're actually getting a shift that is favourable within the market. Although I don't disagree with the net migration comment.

Gabriel Dechaine – *National Bank Financial - Analyst*

You brought up BMO Capital Partners. That's the...

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

Merchant bank.

Gabriel Dechaine – *National Bank Financial - Analyst*

Yeah, the merchant bank. So that's the, we call it, the private equity business, I guess, you're lending, but you're also co-investing. Is that the business?

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

Yeah. So I wouldn't call it just private equity business, but there is a portion of that. So, it's a $1.5 billion fund. It's all the bank's money, so there's no LP, it's all the bank's money. It's housed within the commercial bank and we do a few things within it. So we do sub-debt into companies that we bank, it's an added layer of debt and we get paid for the return for that added layer of debt that helps the company grow or perhaps acquire or do M&A.

The second part of it is that it gives the ability for us to actually invest into our portfolio company. So if there's a company that we really like and they've got a good growth trajectory or they have an M&A opportunity, there's only so much senior debt they can get and there's only so much equity the founder that can put in, if we like the story, we can invest alongside them on a minority basis.

And this has given us over the years a few tactical advantages. One, the client becomes very sticky. Number two, if things work out, you get some decent equity gains out of it at good returns. And number three, it creates in the long term wealth and capital markets' M&A opportunities for us. So it's a great win-win-win. And then on the private equity side, there's a portion of the business where we invest equity into private equity. So we'll invest into private equity funds themselves and/or with our private equity funds, we will invest alongside their portfolio investments. Again, it creates sticky revenue, hopefully, upside on a risk return basis. And because we're partnering, when that private equity firm five years down the road decides to exit the business, we earn a decent shot at getting the M&A opportunity or the IPO opportunity.

Gabriel Dechaine – *National Bank Financial - Analyst*

Got it. And then just to wrap, private credit, how is that affecting, well, is there an opportunity there? I mean, I just think of it as displacing banks out of...

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

Well, they're not going away. I think they're here to stay. I look at it as an opportunity - I mean, they have taken some share - some banks in the U.S. have already started doing this in a meaningful way, but we are looking at creating originate and distribute strategies where we partner with private credit. We become the distribution channel and we have the ability to underwrite transactions, lay-off risk to the private credit partner within the risk appetite and be able to still have a portion of the deal and be the face to the client, maintain the relationship and earn all the fee revenue. So I think there's opportunities to partner.

Gabriel Dechaine – *National Bank Financial - Analyst*

So instead of a syndicated deal with other banks it's same type of loan, but different partner?

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

Or you could syndicate, and you could do both.

Gabriel Dechaine – *National Bank Financial - Analyst*

Okay. Anyway, that's been a very educational discussion.

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

Thank you.

Gabriel Dechaine – *National Bank Financial - Analyst*

Appreciate you coming to Montreal.

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

Thank you for having me.
