BMO Financial Group

# Bank of Montreal at the RBC Canadian Bank CEO Conference

## CORPORATE PARTICIPANTS

**Darryl White**
*CEO*

## CONFERENCE PARTICIPANTS

**Darko Mihelic**

RBC Capital Markets - Analyst

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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.

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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 2024 Annual Management's Discussion and Analysis (MD&A) as at December 4, 2024 for the period ended October 31, 2024 ("2024 Annual MD&A") is incorporated by reference into this document, including the Summary Quarterly Earnings Trend section in the 2024 Annual MD&A. Quantitative reconciliations of non-GAAP and other financial measures to the most directly comparable financial measures in BMO's financial statements for the period ended October 31, 2024, 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 2024 Annual MD&A. For further information regarding the composition of our supplementary financial measures, refer to the Glossary of Financial Terms section of BMO's 2024 Annual MD&A, which is available online at http://www.bmo.com/investorrelations and at www.sedarplus.ca.

**PRESENTATION**

**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay, great. So, let's begin the next session with Darryl White, the CEO of BMO. And before we begin, I just want to remind everyone that Darryl's comments today may include forward-looking statements. Actual results could differ materially from forecasts, projections or conclusions in these statements. Listeners can find additional details in the public filings of BMO Financial Group.

Darryl, thank you for coming again.

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**Darryl White** – *Bank of Montreal – CEO*

Happy New Year. Thanks for hosting.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Always a good time to catch up and discuss maybe some questions we have left over from the fourth quarter, and I have a few. So I'm going to dive right into some specific ones for Bank of Montreal.

I think it's clear 2024 was a challenging year in terms of provisions for credit losses. So I want to start chipping away at some of that and discuss a little bit the outlook. And one of the things that was clear and resonated in the fourth quarter call was that PCLs have sort of peaked at Bank of Montreal. So I think maybe one of the things that I'd love to discuss is how abrupt could the change be in terms of, if they've peaked, could we see significant drops?

And maybe related to that question, when I think of a typical PCL cycle, I think of a rise, a big spike and then a significant decline because of recoveries. And so presumably, you may be building a recovery pool here, or you did in 2024. Maybe you're still building it in Q1. So maybe you can walk us through the expectation. I know you've maintained a high PCL for Q1 and Q2, but maybe you can just walk us through how you see that developing and maybe talk about the potential for recoveries.

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**Darryl White** – *Bank of Montreal – CEO*

Sure. So maybe I'll start by bringing us back to, I think, the key themes that we messaged in Q4. A month has gone by since then, so things can change. So I'll try to give you a little bit of an update relative to that. And then I think the best way to think about it is then, within the business's impaired outlook, performing and prospect for recovery, I think was the last part of your question.

So within that frame, the two key messages that we put out at the end of Q4 were, number one, that we did think that we had reached a high point that would be relevant to both the impaired provision as well as the total provision. A month has gone by. I would say today we stand by that. So we're confident that that was the right call then. And the other key message that our CRO put out was that we thought for the full year 2025, in terms of giving full-year guidance, that we would probably end up somewhere in the same range that we ended up for 2024, which was 47 basis points on the impaired. And, so if you put those two comments together, what you get to is perhaps a similar outcome, but with a very different shape, because through the course of 2024 we started low and we ended up high. And through 2025, what that implies is we think that we start to come down through the year and we maybe end up on average in a similar place, but we get there in a different way.

If I unpack that a little bit for you by line of business, when we look at Capital Markets relative to where we were in the last half of last year, there I think you'll see a pretty significant drop pretty quickly, to get to your speed question. There we had some credits. They were pretty isolated. There was a handful. We had some larger provisions. We think, for the most part, those situations are fully resolved. And, at the same time, we don't see a lot of net new coming into that book. So I think there we'll see a reasonably steep drop, not to zero, but to a low level more quickly.

On the other hand, if I look to places where I think credit continues to worsen, there I would point to Canadian retail unsecured. We're seeing continued migration and more insolvencies. And not dramatically, but there I think we'll see some offset to the point that I made on Capital Markets, which was relatively positive. Which brings me to the bigger part of our portfolio, which is the Commercial. And in Commercial, I think both in Canada and the U.S., similar to Capital Markets relative to where we came from in Q4, we're trending positively, meaning lower provisioning outlook for impaired, but there'll be variability in Commercial quarter-to-quarter because it's a big book, lots of credits as we go through the year. So net, relative to what we said in Q4, we stand by our comments in Q4 with that sort of unpacking by line of business and by geography as the sort of incremental help that we can give to investors in terms of what we're seeing in the marketplace. That's on the impaired.

On the performing, I do expect that as long as we continue to see negative migration, that we'll continue to build. And we do continue to see, as I said earlier, a little bit of negative migration in the portfolio. It doesn't mean we're going to continue to see the same level of impairments, but we will continue to build prudently. I don't think we'll build at the level that we did in Q4, which was a pretty significant build. But we'll have some build as we go through the year, and we don't expect to see releases as we go through the year on the performing.

Last part of your question was recoveries. I guess on recoveries, I'd say this, we do not embed a forecast of recoveries in our outlook. We don't embed that expectation because when you take a provision on an impaired loan, you take it based on your best estimate at that moment in time against that credit, as to the probable outcome. And you don't bake into that, well there's some prospect that we might get a recovery. So that's not in the forecast that I gave you, i.e., an expectation of recovery. There may be some, there maybe not, but we don't build it into the forecast.

And remember, just because you take an impaired loan, you don't then ignore the client. You continue to work with them. And there may be a recovery down the road. And sometimes those take three or four or five quarters, and sometimes they take three to five years. But that's the way we think about the prospect of recoveries when we give you guys outlook comments.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

All fair. Thank you. Just the way I think recoveries is in the heat of the moment in Q3, for example, or Q4, your loss given default would be somewhat elevated. And as things get better, you look back and you say, you know what, we were probably a little bit too aggressive on the value of that asset or so on and so forth. So that's why I envision and think about recoveries.

**Darryl White** – *Bank of Montreal – CEO*

Yeah. And I'm not picking on your theory. I'm just specifying that in that moment that you're describing in Q3, we make our best available judgment at the time based on best available information at the time. History will always show somebody could have been more conservative or more aggressive in that moment in time. And, if over time the circumstances are different, then yes, you realize a recovery. But we don't take an impairment on the basis that we expect a recovery.

**Darko Mihelic –** *RBC Capital Markets - Analyst*

Right. So maybe just one last, and this is sort of a bit of a philosophical question for me because I've covered your bank for a long time. And for a long time, the view was always sort of pitched as we are superior on credit quality. But this last cycle, maybe not and maybe not even the prior one, so how important is that to you as the CEO? And does this, do you want to really press on your credit risk folks that this was unacceptable and this needs to change? Or is it so idiosyncratic that really nothing changes?

**Darryl White** – *Bank of Montreal – CEO*

Superior management of credit over time is explicitly stated in our strategic priorities as a key enabler to our strategy. Like that's fundamentally my answer to your question, and I stand by that. And that's a really important tenet to BMO's thesis and to our strategy overall.

When I look at, and we disclosed this, over the course of 34 years, in 29 out of those 34 years we outperformed our peers on credit losses. And not by a bit, by a lot. We have an average of 36 basis points of credit loss against the peer average of 48. And in 29 out of those 34 years, we were better. And so last year was one of the five. And so to kind of just give people some perspective on whether I thought there were some unique circumstances in 2024 that drove that outcome, and we've talked a lot about this with investors as to what drove it, I'm happy to go into if you want to, but I absolutely do believe that they were unique to our particular set of circumstances with a fairly narrow list of credits relative to tens of thousands that performed according to model, according to expectations. And so over the course of time, as we go through this mending period, as I have described it in other forums, I absolutely maintain that superior management of credit over time is a very key component to the Bank of Montreal thesis, and we're working to keep that front and center.

**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay. So the other thing from the Q4 call that really piqued my attention, and there was a little bit of question on this in the call as well, but I wanted to go back to the, there was a visual in your earnings presentation on sort of your ROE improvement and the path to ROE improvement and the steps involved to reach them. Maybe you can talk a little bit about, there’s that big bucket in the U.S. which is part PCL, but I really want to dive into not the PCL part, but the other improvement that's expected out of the U.S. business. How you get there, and one of the things that you left kind of open, and it was the timing of the improvement. So I wonder if you can just unpack that a little bit for us today.

**Darryl White** – *Bank of Montreal – CEO*

Yeah, I can do that. So for those who didn't see it, in the fourth quarter, what Darko was referring to, is we put a new visual in our investor presentation, which was very deliberate and intentional. And what you should take from that is it's top priority. So this is my first point, is this is the number one priority in our system right now is what we call the ROE rebuild. There's 500 basis points of improvement in that, which, when we get it done, is a truckload of value creation over the course of time. I'll get to your timing point in just a moment.

There were four blocks to that rebuild. We had a visual. We didn't put numbers to them. But if you stare at it closely enough, you can see that the size of the blocks are a little bit different. You can get your ruler out. That's deliberate. And they were the U.S. segment itself, as you pointed out, inclusive of credit normalization in the U.S. segment. I'll come back to that. They were the operating leverage that we drive at the total bank level. They were the normalization of credit other than in the U.S. segment at the total bank level, meaning Canada mostly. And then the last bit was capital optimization. So one, two, three, four.

And if I just bring you back to the U.S. segment, there you have credit normalization. I've just talked about this. That applies in very large part to the U.S., but also in other businesses as well for us. There is more to it, as you just pointed out in the U.S. segment improvement than credit normalization. Remember, at Bank of the West we achieved, in fact we overachieved, our cost synergies. But we’re just getting on our horse on the revenue synergies. The environment flattened out on us for the last year and a half. The environment is better, and we are executing better against that environment both in the Retail businesses and in the Wholesale businesses. We’re starting to see net new customer growth, both Retail and Commercial. That’s been true for the last six months. I expect that to be true as we go forward. And we’re seeing more interconnected businesses on our One Client agenda in the United States than we ever have before, against a more constructive backdrop. We put in the window $450 million to $550 million of revenue synergies for that acquisition. We're getting going on that. We're now on track, and we think we're going to be able to deliver that over the course of the timing that I'll get back to on, your timing question. And we've got positive operating leverage expectations in the rest of our U.S. businesses as well. There's a lot of accountability. There's a lot of measurement. There's a lot of systematic work that will drive that outcome.

We don't need, by the way, let me make one last comment on the U.S. before I get to the rest of the ROE. We don't need our U.S. bank to get to 15% ROE for our total bank to get to 15% ROE. I need the U.S. bank to get to 12% to 13%. If I get the U.S. to 12% to 13%, I get the total bank to 15%. We're going to hold ourselves accountable over the course of a longer period of time in the U.S. to get to 15%. We're designing plans to do that. But when I get to 12% to 13%, assuming I get right everything else we're doing in Canada, we also get the total bank to 15% or above. That's the way the plan works.

The PCL normalization in the rest of the bank is very simple. That assumes we don't get back down to 10 or 15 or 20 or some unusually low number as we had years ago. But we get it back down into the mid-30s, which has been our long-term average that I talked about before. We've got positive operating leverage expectations of all of our businesses. And I'll remind people here, it kind of got a little bit lost, I admit, in the credit story last year for us, but we've been very diligent over time about delivering operating leverage. The only year we've missed it in recent memory was, in fact, back in 2023 when everybody missed it. Last year, we drove positive operating leverage despite everything else that was going on in the bank. This year I expect to as well. Early days in the new year, but the early signs are good that we'll be able to deliver on that as well.

And then the last bit is that capital optimization, which is the trickiest bit. We've done this before. If you go back to, I remember sitting here with you in 2019 when we said we've got capital optimization plays in place. We recycled capital out of low returning, not right to win markets. We put it into places where we thought we could

win. We had balance sheet velocity moving very quickly into the COVID period, and then we ended up with an ROE for two years running that was above 15%. So I know that we've got the blueprint to do this, and I know that we can do it again. That's the hardest bit.

Within the hardest bit of that last bar, the easiest bit is the share repurchase program that we announced, which we expect to get our approvals here sometime towards the end of the quarter, and you should expect us to be in market on that. And then the rest of that, which is probably sort of the last bit of the improvement, is on that capital recycling and pressure testing and reallocating capital to places that we can get done. And we already have plays in motion to get there.

Now, the timing is important, last point, when we all talk about medium-term objectives and goals, as we put out in these conversations, we talk about three to five years. And, so, on the one hand, I think I've got something pretty unique at BMO relative to most right now, which is 500 basis points of ROE value creation, which we're very confident that we can deliver. On the other hand, it's not immediate. It's not overnight. On the three to five years, assuming there isn't a major dislocation in the markets or the economy, our goal is to get there on the earlier end of that range.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

And what could get in the way to get you to five years? What would be the biggest risk here?

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**Darryl White** – *Bank of Montreal – CEO*

I think a market dislocation that would cause revenue ambitions to flatten.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay.

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**Darryl White** – *Bank of Montreal – CEO*

By the way, when I say that, we don't have extraordinary revenue growth expectations in our plan. We don't need to grow our revenues by 10% annually or anything crazy like that in order to get to what I've described to you. But if we return to an environment where there is no loan growth, for example, for a couple of years, as we experienced in Commercial U.S. last year and for a part of the year before, that would push it out further.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

So 500 basis points within three years feels like it could be lumpy because PCLs are a big component of that, right? And so we could see big improvement year two, let's say. Is that a fair?

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**Darryl White** – *Bank of Montreal – CEO*

Yeah. Look...

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

This is the last year of elevated PCLs, I would say.

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**Darryl White** – *Bank of Montreal – CEO*

Look, over the course of, if you imagine quarter after quarter after quarter for three years, is it going to be exactly steady, with the same amount, with a positive increase, no, of course not. That's not the way the world works. There could be things that could throw it off. But if you draw a line through it, I think that's exactly what you should expect on average, which is a gradual build. It doesn't happen overnight, but the plans are in place and we're confident over that time period.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay. And on the Bank of the West synergies, you talked about the $450 million to $550 million, and you just started on that and you're working towards it. And you mentioned something in there, you're now seeing customer growth in the franchise. Have you done any benchmarking against peers? And can you give us an idea of...?

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**Darryl White** – *Bank of Montreal – CEO*

So if you look at acquisitions done well in U.S. banking, you tend to see attrition rates out of the gate for the first year, because people are uncertain or there's a conversion or they get attracted between the period of announcement and closing by an alternate provider, in the sort of 10% to 20% range, which is what you would normally put in your model. We bottomed at 10%, which is really good. I think JPMorgan has advertised that they retained 90% of the First Republic customer base, just as an interesting point-to-point benchmark. But on average, when you look at it, we sort of retained about 90% of the client base, which was good.

And as of about the middle of last year, you saw that trough and you started to see the build. And both Commercial and in Retail, we went into net new acquisition mode. And it builds slowly and it builds over time. The brand awareness in California year-over-year for us is up 20%. It's very material, if you spend any time in those markets. I think we're a little hard to miss, both digitally and physically in the marketplace. And the client sell and the density is becoming more interesting every day, so we're gaining. The market flattened out on us, but while the market was flattening out on us, we were investing in that outcome. So now, if we see some more constructive tailwinds in the market, we're there in a more prominent way than we were before in order to take advantage of that, both digitally and physically.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

And one of the other things, and sorry to harp on this, I'll get off this topic soon I promise, but you mentioned, look, in the capital side, the NCIB is easy. I get it. That's easy. We can all model that. Let's talk about the tough part in capital and allocating capital correctly. Can you maybe give us, just grab a few ideas here on what you can do in the capital allocation?

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**Darryl White** – *Bank of Montreal – CEO*

Sure. I referenced earlier because, I can't help it, if we go back to 2019 and we said to you that we've got a toolkit and we're going to operationalize it, it involves both inorganic and organic opportunities. We always think about those things as growth, but in fact, they happen every day as we talk about capital recycling. So if you look at us then, we recycled capital out of our EMEA business in Europe, which we sold, out of our non-Canadian energy business, out of our reinsurance business, out of our private bank in Singapore and Hong Kong, and we put them into places where we thought we could drive better returns, and we did. And our peak return was 18% in the first quarter of 2022.

That playbook, we haven't lost it. It's right there, and we're using it and we're sort of drumming that back up with a lot more rigor right now. So you can imagine plays like that. We're a lot more concentrated today in North America, so some of those further afield plays are not available to us. But even within North America, you can run that play all day long and you can double click all the way down to the client level given the technology and the data analytics that we have today that we didn't then, that you can then recycle capital more quickly on everyday client activity. You've got 50,000 or so loans in a Commercial business. You've got loans that are maturing every single day. You can get automation down to the point where you can, six months ahead of time, know exactly what's going to renew and what's not. That wasn't available to us or anybody else five or six years ago. You can do that pretty quickly and with high velocity organically.

And you can run all of the other plays to say, if I do an overlay, your banks that are coming up on the stage day in Canada, they're all everything to everybody and every geography and every corner of this country. In the U.S., that doesn't need to be the case. You can do an analytic to say, in markets where we go to market with only one of our product lines, it might be Commercial here, it might be Retail there, it might be Wealth there, does that actually make any sense? Does that drive higher returns over time? The probability when you do the assessment is no. So what if we actually shifted some - this is not a big deal, Darko, but just to give you an example - shifted some of those sort of stranded assets into places we can densify, like in California, and continue to build that. And I think about what happened in Harris Bank in 1984, we went in, we were one of many scrapping around all the street corners. And then you fast forward a couple of decades later and we're the number two bank in the region, second only to JP, and that was done through a period of densification with all businesses going to market together, branding, awareness, technology, talent. We're doing that in California now. So we've got the blueprint to run these capital allocation plays in a more integrated, coordinated way, which is kind of that last, I'll call it, 50 basis points, 60 basis points of the 500 basis points.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay. And that's very good colour. I appreciate that because I was thinking more along the lines of RV portfolio sale or the Indirect Auto. I was thinking more along those lines.

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**Darryl White** – *Bank of Montreal – CEO*

That's part of it. Those were choices that we made that we thought we could redeploy that capital availability into things like that. I gave you other examples today.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Right. It just sounded more granular to me, what you were just talking about.

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**Darryl White** – *Bank of Montreal – CEO*

Yes. It's all of the above. All of the above.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay, great. How did you arrive at 15%?

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**Darryl White** – *Bank of Montreal – CEO*

Look, as I said earlier, we've been there before. We know peers are there. If you run a model that says you have management target of 12.5% on CET1, you have 55% efficiency and you have mid 30s on credit, your model will drive something in the 15% range. I only say that not because that's the answer, but you test yourself and say, are those reasonable inputs to drive that output, 12.5%, 55%, mid 30s? I think absolutely they are. So it anchors us to this being a reasonable commitment over a reasonable period of time.

That's a math formula. That's a model. What really matters is that we've got the systems and the people and the mechanisms and the accountability in play right now as we speak to start driving those outcomes. And if you talk to anybody in our company, anywhere we go, people will say this is the top priority of the company and we're executing against it with specific plans.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

So your bank is somewhat different from others in the sense that you operate kind of North-South. And, so, therefore, in my opinion, I would think that you're acutely aware of this tariff situation and all of the political uncertainty. So maybe you can touch on what it is that your clients are telling you.

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**Darryl White** – *Bank of Montreal – CEO*

So it's really interesting, Darko. If we went back a year ago, I think I said some version of, when I use my uncertainty index, our clients in the U.S., there's a lot of uncertainty right? When are rates going to start to come down? Who's going to be the President? Who's going to control Congress? What is fiscal and regulatory policy going to look like? Look, you can say what you want about the outcome, but most of that uncertainty has been taken away. So when I talk to our clients in the U.S. right now and they say, look, in a world where I make decisions on capital deployment, expanding my capital plan, my CapEx, my M&A, my confidence, I use certainty versus uncertainty as an input into that. There's a lot less uncertainty in the United States today than there was a year ago. Set aside the drama, there's clearly a pro-growth agenda that people are signing up for. So I think that's a net positive. It will take time for the latency effect to get through the system on that, but I think it's net positive compared to where I was a year ago.

On the other hand, in Canada, I think we have more uncertainty. We've now got a lot of the rate cuts behind us. How much more can we go, we don't know. We'll see as we go through this year, probably a little bit more. And we've got our situation politically where we have uncertainty around who the leader of the incumbent Liberal Party will be and who the Prime Minister is going to be. And we'll probably have an election in a few months to sort that out. But in the meantime, you've got a client base who says, boy, that's a heck of a lot of uncertainty because I don't know what the policy outlook is going to be in the planning horizon, which is 6, 12, 9, 18 months. So what do people do when they're uncertain, they wait. And so that waiting that was occurring in the U.S. a year ago, I'm starting to see some release, and that waiting that is a natural consequence of uncertainty is starting, I think, to set in a little bit in Canada.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

And so with that, with a relatively less uncertain world for the U.S., there's also a view that there's going to be a little bit of, let's call it, rollback of Basel III in the U.S., or at least less of a regulatory touch. Maybe some more M&A? If everything works out as we think it will, your ROE will be improving. Can you talk about your inorganic opportunities in the U.S. and whether you see something potentially developing in the next year or two?

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**Darryl White** – *Bank of Montreal – CEO*

Yeah. I guess I would say not much changed, like we don't run our ROE or our M&A cycle against the ebbs and flows of the regulatory regime because you have to run your bank over decades, not over four-year cycles. And we certainly don't run the bank according to media cycles either. But net positive, I would say from that perspective, I think there's an expectation that the capital bars will be lower than you would have thought a year ago. Basel III endgame doesn't look like it's got much of a chance.

And the place I would say on regulatory burden, I think it's pretty simple when some people say, well, there'll be less regulatory burdens, so you guys will take advantage of that and have lower, we're not going to have lower costs. We're going to commit to an over time build of a compliance-technology-regulatory apparatus that works for the size and the complexity of our bank. And if there is a lower regulatory standard for some short period of time, so be it. But we're not going to lower our bar because of some other bar. We're going to commit to the fully built-out programs that we've built out for a long time.

On M&A, which I think is part of your question, look, over the course of a long period of time in the United States, 60% of our growth has been organic, 40% has been episodic M&A. This is going to be boring to you because I say it all the time and I say it again, if the conditions are right, we would get there. But in the meantime, I did say on the fourth quarter call, our priority is organic. Our priority is our ROE rebuild. A big part of that is in the U.S. We're investing to do that. Our technology investments are increasing. Our compliance and infrastructure investments are increasing, and our talent investment is really increasing.

This is kind of a different way to think about M&A, right? If you look at it, we have retooled in the U.S. Our new Head of Wealth Management joined us from an extraordinarily successful career at a really good franchise. We've got a new Head of Commercial Banking joining us from one of the GSIBs. Both of them are going to be based in California and have national mandates for us. We've got a new Head of Data and Analytics who's an extraordinary talent who has joined us. So we're investing in that way. You might have seen we've brought some Wealth teams over from other banks in the United States in the meantime. So I'm not going to say no, we won't touch the kind of big M&A over the next couple of years because you never know what might come your way, but it's not our priority. Our priority is in the category of that organic build that we're talking about right now.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay. And I'm going to take a few questions from the audience. And this one's been upvoted, and it's actually right in line with what we're just talking about but thought about differently. So could reduced U.S. bank regulation give the U.S. domestic banks a competitive advantage over foreign-owned banks? And do you see that being a possibility for your bank being Canadian owned and subject to higher capital requirements?

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**Darryl White** – *Bank of Montreal – CEO*

I don't think about it so much as domestic versus foreign because I think that the regime applies regardless. And that applies, the way the regulatory regime works in the United States, is effectively scaled to the size and risk of your bank, not to your ownership regime itself. So there I don't really make a distinction between foreign and domestic. I think there will be some advantage to maybe some of the much, much smaller banks that had the prospect of water lines that were increasing to them on regulatory burden and/or capital levels that they weren't going to be able to supply. And, therefore, maybe there'll be some more competition from them. But they're in categories that are - they're good banks. They do a really good job in their communities, and they serve their clients well. But they're not that disruptive to us.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

But I'm thinking of even other things, like, for example, I mean, look, the Canadian regulator requires certain requirements of you. So for example, globally, I mean, even you've got FRTB that maybe it's not being implemented in Europe. And maybe certain aspects of Basel III won't be, but you're subjecting yourself to that higher burden. And so from that angle, is it not possible that you're in a less competitive state?

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**Darryl White** – *Bank of Montreal – CEO*

The only way it would be true would be if we were materially more expensive to operate and/or our capital levels were held to a materially different standard than everybody else. We'll see whether that's the case. I think you've got our friend Peter coming up here shortly. You can ask him that question. I think he's been, I will say my interpretation of this has been, deliberate to acknowledge a level playing field and competitive environment when they set capital and regulatory standards in Canada. I encourage them to continue to do that. I think that's important. But this isn't something that I spend a lot of time losing sleep over in our U.S. business because I think to operate at a high standard from a compliance and risk perspective should be table stakes to a healthy, well-run bank in any event. And we don't accordion this. This isn't a trading, not like running a trading business. You don't take advantage of a market environment because there's different regulatory standard for a couple of years and then move it again. You build it to last over time. And that's our play regardless of the environment.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

And one more question from the floor been upvoted here. In light of recent departures of major U.S. banks from global climate alliances like the Net-Zero Banking Alliance, how do you see it evolving in Canada?

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**Darryl White** – *Bank of Montreal – CEO*

NZBA, so this is in flux. Folks will make decisions as to what is the right approach and the right mechanism for their market and their regime. And you've seen what some of the Americans have said about that. We haven't made any decision that's any different from the one that we stand by, that which is we are a member of the alliance, at least we are today.

The most important point, though, is regardless of, I think the mechanism you choose, is whether or not you have a commitment to climate transition overall, and that's unwavering. We absolutely have a commitment to climate transition. We also have a commitment, particularly here in Canada, to our legacy energy customers completely. And we will not abandon that. And we talk about the 'and' all the time. What mechanism you choose to join or bodies that you choose to align with to enforce that, that's just a pathway. The ultimate goal is unchanged.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay, great. So we've come up to the portion of the chat where I hand over the floor and ask you for your key messages for investors for 2025.

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**Darryl White** – *Bank of Montreal – CEO*

Look, as I go into the sort of calendar 2025 on the macro level and then a comment on the BMO agenda. On the macro level, I said this on our Q4 call, I come in net positive. I say net positive because we all recognize that there are some crosscurrents. We talked earlier about tariffs. We could have geopolitical events that could push some headwinds our way. But on the other hand, we have more certainty, particularly in the U.S. We've got a strong economy in the U.S. We've got a known direction of travel on monetary policy and we've got a pro-growth agenda in the United States.

At the end of the day, in Canada, it could be quite interesting as well because despite the fact that we've got to get through this bridge period, when we have an election, I predict that we're going to have two candidates for the first time in a long time who are going to be arguing pro-growth agendas, which is good, which is good for Canada. We got to get through a period of volatility here before we get there. So net, I am positive on the macro.

Within the BMO agenda, I also think we've got good momentum. I look at the balance sheet and the capital. We've never had a better balance sheet and capital and liquidity position than we have today. That allows us to execute on customer growth, customer imperatives, as well as shareholder returns. We've got very deliberate plans in place to drive the ROE outcomes that I've talked about earlier, first and foremost. We've made the point that we think we did hit the high point on our PCLs, which is really important,, and the momentum in the businesses as we drive to our commitment on positive operating leverage and, at the same time, coming through that high point on the PCLs is encouraging.

It will take time. I've been clear with people that it will take time. But the direction of travel, as I look at it coming into 2025, both that macro backdrop as well as our execution plans, it's simple, there's no confusion around it in our place, and we're committed to it. So I feel net positive.

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**Darko Mihelic –** *RBC Capital Markets - Analyst*

Okay. On that, thank you very much for your time.

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**Darryl White** – *Bank of Montreal – CEO*

Thank you.

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