

## CORPORATE PARTICIPANTS

**Dave Casper**

*U.S. CEO, BMO Financial Group*

## CONFERENCE CALL PARTICIPANTS

**Darko Mihelic** RBC Capital Markets

### 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, as detailed on slide 37. 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 February 28, 2023 for the fiscal quarter ended January 31, 2023 ("First 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 January 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 First 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 First Quarter 2023 MD&A. The First Quarter 2023 MD&A is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations).

# March 8, 2023 / 1:20PM, Bank of Montreal at the 2023 RBC Capital Markets Global Financial Institutions Conference

## PRESENTATION

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### **Darko Mihelic** – *RBC Capital Markets*

Thank you for joining us, everyone, and it's always a pleasure to have Dave Casper from BMO to join us today. I've known Dave for a long time. We've had some great conversations over the years. Looking forward to this conversation in particular, he's not a CFO as you can all tell, he's here to talk about the U.S. business and great timing given the recent close of an acquisition.

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## QUESTIONS AND ANSWERS

### **Darko Mihelic** – *RBC Capital Markets*

Dave, why don't we just start with a very high-level first impressions kind of question with respect to Bank of the West.

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### **Dave Casper** – *Bank of Montreal – U.S. CEO, BMO Financial Group*

Thanks, Darko. Well, first impressions are very similar. We made the announcement during December of 2021 which seems like decades ago. We closed in February of 2023 and first impressions are very similar to what we thought from the beginning – a good franchise with lots of potential to grow.

The one thing about having it take as long as it did, and it hasn't taken as long as it has or will for others, it still took us 13 months. It gives us a little bit more time to kind of think through all the things we're going to do from the revenue and cost synergy sides.

On the cost synergy, we're in great shape. We said we would do US\$670 million of cost savings. We said we can get those out in the first year from the time we start; we're on board for that and we've got a very good, disciplined plan to do that. On the conversion, which we convert at Labour Day seven months from now, roughly, we're in very good shape there. The good news about that, Darko, is almost all of the systems are going to be BMO systems. Bank of the West had good systems, but we don't need two. It's basically a lift and shift. There's a lot of work to be done to make sure from a client standpoint that it works both on the retail side as well as the commercial and wealth side, but we're in very good shape there.

On the revenues, which we've said early on, we said it could be US\$450 million to US\$550 million, net of some expenses, over the next five years that's where our teams have spent an awful lot of time. We can bifurcate that a little bit. We have people that are working and writing the code. I'm not one of those, but we've got people that are thinking about how we grow these businesses: commercial, capital markets, retail, wealth – all of those businesses have teams in place, Bank of the West and BMO. We call them now BMO Green and BMO Blue because they were green until we merge. They're working through these synergies and there are real synergies. The fact that we're now taking that what we think is a very good U.S. commercial platform and having now the fifth largest economy of the world that we can tap into.

There's excitement there that I haven't seen before. It's the Bank of the West people as well as the BMO people that feel like now we can take to our clients much more than we could have before on the commercial side. Remember, Bank of the West was a good bank, but they were owned by BNP, a good bank, but it was 5% of their net income in the U.S. They weren't investing the way we will. We'll have 45% of our net income now in the U.S. Building out verticals, whether it's our asset-based lending business, our sponsor business, our transportation finance business, or our dealer finance business, taking that to the West Coast is big, but then just the overall diversified commercial market out there, we'll compete with the best banks in the United States. We have a platform that has actually done quite well against those banks and the smaller banks. I feel really excited about that.

Our ability to capture wealth business with our commercial clients has been strong. It has been in the past, same with Capital Markets. And now we'll have technology and health care, which is a bigger space for Bank of the West, frankly, than it was for us, but it's an area that we clearly want to grow in. Dan Barclay's Capital Markets team is already out there trying to grow that.

With our retail business, we go from 500 branches to 1,000 branches. We're probably a little bit more digitally advanced than Bank of the West was, but having those branches, having the digital capabilities we have, Ernie is very excited about that and so is her team. Across all the businesses, I feel really good about the synergies and I'm sure Darryl made this point on our call, but it's definitely worth repeating. As we look out, we get through the cost synergies in the next 12 months. We take the business they have, which was about US\$1 billion of pre-tax, pre-provision income that's their core business, add in the US\$670 million, almost US\$700 million of cost synergies and take the low end of the revenue synergies, which we think will be much higher. By the end of 2025, as we go into fiscal 2026, that's US\$2 billion of pre-tax, pre-provision income. We haven't seen a number of that yet – we haven't seen a dollar of that because we closed February 1.

That's what we're excited about. We think it could be better than that. We think the revenue synergies are the real positive and that's over the long term. We have a good record of making smart acquisitions at the right time, whether it was M&I in the U.S., our transportation finance business and then growing on it. Probably 60% of our growth in the U.S. has been organic and 40% has been acquisitions that we built on. I think this will be another one like that.

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### **Darko Mihelic** – *RBC Capital Markets*

We're going to dive into it more. How are the early discussions going with the employees? I know you run commercial, which is -- there's a change there, too, by the way, we could touch on that management change, but you've been running it for a long time. Now you've inherited a lot of commercial bankers -- what are the early discussions like; what's the early read there?

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### **Dave Casper** – *Bank of Montreal – U.S. CEO, BMO Financial Group*

It's really positive and by the way, they did not start February 1. They started when we were allowed to talk to them so we kind of gave them a day. We closed on December 20, but before the holidays in 2021, we had an all-hands-on meeting where we spent time with them and obviously, we did our due diligence as well. The attitude is frankly, much better than I thought, and I had high expectations because they have a good culture. But you asked specifically about the commercial teams.

The commercial teams have been there for a long time. I think in a way, maybe they were a little frustrated just because they couldn't get the investment and again, it's not a knock on BNP, but if it's 5% of your business, you're not going to pour a huge amount of money into the U.S. or invest, and we have and so they have that. The

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commercial bankers that we generally have think a lot about who they're working for, but they think about how they can sell to their clients. I mean that's what they're there for, that's what they like to do, and they feel they have a lot more now to offer.

They can compete against any of the Big 4 banks that are there and then a lot of the smaller banks and I think they feel very good, whether it's mid-market M&A, industry specialties that they didn't have before. A focus from our Capital Markets business, which is more mid-market, mid-cap than BNP's would have been, so they could focus on those types of clients, I think they're very excited. We've already had them and, in these few weeks, we've already had successes, clients that have come to us through Bank of the West using our Capital Markets, using our treasury, our swaps, caps, our rates business, that's all incremental revenue, too, because that business sat on the BNP platform, that will be near to us.

So high excitement and that goes across wealth. They didn't really have a capital markets business. That was at BNP. But on retail, as Ernie said in many meetings, the huddles where they get together, they're just generally excited and I can't wait until September. For retail, you can't do much until you've converted, obviously, commercial clients and wealth clients, they can come on board right away.

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**Darko Mihelic** – *RBC Capital Markets*

What's the client feedback so far?

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**Dave Casper** – *Bank of Montreal – U.S. CEO, BMO Financial Group*

Very positive. We were just out there. We just had a big ribbon-cutting out there. As you may or may not have seen, we've now taken over the LAFC. Got the huge signs on the L.A. freeway – that happened one day after we got approval. We were hiding those signs, we couldn't put them up until approval. Clients have been out there. They were there for the ribbon-cutting. Magic Johnson was there. They're excited and the clients obviously have known for a while that this was going to happen, but they see opportunities that I don't think they saw before and they want options. I honestly think this is better than what I thought it would be. -- We have to prove it up but I think those signs are all really positive.

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**Darko Mihelic** – *RBC Capital Markets*

When I think of, in many cases, in acquisitions, the acquired employees look around and they say, "Well, what does BMO offer that I couldn't offer before" and I wanted to dive into a little bit of it. Sometimes it's bigger limits, right, maybe, but oftentimes, it's product capability, one of the products that you were quite happy with or building out with cash management in the U.S. Maybe you can just give us what were some of the product gaps that are now closing and really provide you with the biggest opportunity?

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**Dave Casper** – *Bank of Montreal – U.S. CEO, BMO Financial Group*

Well, let's take a first, of the treasury management system is probably the biggest, and they had a good system. They had actually converted recently and that was something that you worry about too because anytime your commercial client has to change, they have an option to think about other places. Our treasury management system is north-south; a client in Canada or a client in the U.S. uses the exact same system. They consolidate their cash there. It's collected, they disperse and it's the same reporting on both sides so we've been able to invest there already in a much larger scale than Bank of the West ever has.

Within the last 5 months, we did demonstrations of their treasury management system up against the BMO treasury management system and we brought in their experts. The relationship managers knew something, but their treasury management salespeople know exact questions to ask. They were literally overwhelmed. They said, wow, we knew it was good. We didn't expect it was this good. And they had a lot of features that they were going to put on two or three years from now, but just hadn't got along to it.

Now the other side of that, too, there's something we get. We now have access to BNP's European treasury management so we would still use our system or we would tap into theirs and that's good for the Bank of the West customers – they keep it. But it's great for our clients. Canada and the U.S. now we have that to sell. On the other hand, BNP has a huge number of international clients that would have maybe used Bank of the West in the California. Now we can sell and get that revenue for us for Canada and for the U.S. for European clients that have businesses in the United States and Canada because we have so many clients. So our clients, our businesses will be able to do -- we'll make revenue for the BNP client that comes over here and now they can access our systems. So it works both ways.

Other product gaps – I mean we have a huge asset-based lending business. They were always frustrated at Bank of the West because if somebody was a commercial client that moved to asset-based lending, they didn't have it. We're the fifth largest asset-based lender in North America. They now have that.

Equipment finance – We have a much bigger equipment finance business, which is a big business to have, and it's important to have that, particularly as clients are thinking about capital expenditures so lots of products that they didn't have before that they would lose to some of the big banks.

Last one, it's turned out to be much more -- I knew it would be big, but they have been, and they've already had, our middle market M&A teams out talking to their clients. They never had that before. If they were going to call BNP, they were not going to be interested in a \$200 million enterprise value company. We've got that. We have interest in that. We grow that. That's a big business for us. It just continues to grow and we connect that with our commercial clients.

You hit it on the head, the commercial banker wants to be able to tell his client, hey, this is going to be good for you. And when she goes out to the market and she talks to her clients, she tells a pretty good story and we're educating them as we speak.

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**Darko Mihelic** – *RBC Capital Markets*

That's a good overview. Very appreciative. Now just turning back to the cost synergies real quick. So we've got the Labour Day conversion, not much happens on that front retail-wise until we can get past that.

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**Dave Casper** – *Bank of Montreal – U.S. CEO, BMO Financial Group*

A lot happens that weekend.

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**Darko Mihelic** – RBC Capital Markets

Yes, for sure. Absolutely. And predominantly going to BMO systems. So one of the things that we did notice is that there's a slight uptick to the cost for integration built in. Was that based on -- just because you squeeze the timeline a little bit because of the late -- or what was?

**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

No. I think it was just, when we reported it, because it was kind of coming together as we pulled together. So we went from US\$1.3 billion to US\$1.5 billion; other banks have had kind of similar increases as they get into it. It wasn't anything material. Everything costs a little bit more as it turns out from December 2021 and obviously, those are one-time costs. But -- and that includes signs and it includes everything we do, including -- and this is something you talked about before, and I didn't really touch on, is retention. We wanted to make sure that our bankers would stay. So there's a little extra in there for retention and you want to make sure that they stay, which is money well spent.

The cost -- you want to talk about the cost side as well, though, the US\$670 million. We feel really good about that. The US\$670 million is roughly 35% of their costs in 2021. It's a lot of overhead, it's systems, it's getting out of systems that we don't need any more, it's suppliers. And it's mid-level overhead of people as well. That's tricky because you want to make sure that you don't save the US\$670 million, but then it shows up somewhere else. And I've seen that before.

**Darko Mihelic** – RBC Capital Markets

So have I. There's a lot of fungibility.

**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

And I mean that's why Darryl and Tayfun and myself have been very clear, this is the number. We have a very good tracking system. Everyone knows what their targets are. They know whether it's real estate because there'll be savings just in real estate. We're not closing any branches, but we don't need as much office space as they had before. But it's that, it's dealing with suppliers, it's people, but everybody knows exactly, it's down to the line of business who's got what. And I'm very confident about the revenue synergies. They take a little bit longer to get there. We'll have those US\$670 million synergies out by this time next year. So when you look at all of fiscal 2024, you'll have 95% of it out.

**Darko Mihelic** – RBC Capital Markets

I'm going to have to change my model. I think I had 100% in my model.

**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

No, it's 100% that's out, but for all of 2024, you only see 94% of it because we're not going to get until February. But it will be February 2, that run rate will be 100% or Tayfun will have my throat and I'll have somebody's. So that part I'm not worried about, I'm really not, and I don't think -- it's not going to show up somewhere else. We've got the guardrails to make sure that doesn't happen.

**Darko Mihelic** – RBC Capital Markets

Well, I kind of like the pre-tax pre-provision numbers as well.

**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

US\$2 billion. Did I say US\$2 billion?

**Darko Mihelic** – RBC Capital Markets

So that's very helpful. One of the things I wanted to talk about was the high growth rates that we've seen in commercial lending out in the U.S. for quite some time. And now should we expect some sort of a pause here as you're kind of working, because you've got a new run rate. You brought in US\$60 billion of loans so does that necessitate a bit of a pause in the run rate of growth?

**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

No, I would not say pause, definitely would not say pause. And are you talking specifically about the U.S.?

**Darko Mihelic** – RBC Capital Markets

Specific about the U.S.

**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

No, our U.S. teams continue to work very hard on new client acquisition. One of the offsets of, with everybody having higher capital standards, we focus very much on ROE and it turns out we wouldn't bring in, especially today, anything that wasn't accretive to our ROE and as long as we're doing that, we know we have the capital to do that. Put Bank of the West aside, I'll come back to them in a minute. As long as we are still, and I think we do a good job of this, peeling out anything that turns out not to be a good ROE and those would be generally clients that maybe we've taken on that we thought we were going to get something and didn't. For 90% of our clients in the U.S. and the same in Canada, we're either their sole bank or the lead so if you turn out to be the lead bank, or you're not and if you're in that 10% and you don't have a chance of getting there because when you have that, you get more of the treasury management, more in the wealth, more of the capital markets, you know that story -- we'll peel those off. So that gives us a little room at the bottom end. Let something go, but there's no pause. There will be, and I think we've said put Bank of the West aside again, there will be a slowdown in terms of our growth. I think we had earlier said high-single digits. Now, I kind of feel it's more mid to high.

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Then when you add the Bank of the West, they have a good client base. We want to make sure, particularly because of the revenue opportunities that we see that we have plenty of capital for the good opportunities there and that doesn't mean taking 25% more in a deal where we're not going to be the lead or the sole. It means going after a lot of their prospective clients where we have much better opportunity than they would or we would have on our own. But now we go out there, the fourth largest commercial bank in North America, as Bank of the West was seventh largest in California, we talk about what we can do and now all of a sudden, they have a very credible story to tell. Their bankers and some of ours, as we had some people out there, and we'll have more going out and trying to grow that franchise, we don't want to give up any growth opportunities on the West Coast. If we had to slow down in Texas for a little while, I'd do that in a minute. We want to make sure we don't grow beyond our capital base, but we've got plenty of capital for the good opportunities. We really do.

So I don't like that word pause but I definitely want to be disciplined as we have. I mean, we've had a really good growth in the U.S. over a long period of time. And any analyst that's followed us would be -- would not be doing their job if they didn't say, well, wait a minute, all that growth, -- you must be taking on a lot of risk, and I think we have proven that we've done a really good job on the client acquisition. We haven't had growth spurt and then a huge PCL so that's the same way with Bank of the West, they have a very good credit culture, I think, as similar as we do.

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**Darko Mihelic** – RBC Capital Markets

So I don't want to get into too much of a modeling exercise with you on Bank of the West being slammed together with your bank.

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**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

Slammed?

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**Darko Mihelic** – RBC Capital Markets

Gently combined. One of the things that you look at -- we're seeing margins have been expanding; net interest margins have been expanding. Bank of the West comes with a different margin, higher than overall BMO Group, but lower than your segment of the business. Can you talk a little bit about what's behind that and sort of how should we think about the margin going forward?

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**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

Yes. Well, I think you've hit the main point is it's accretive to BMO, which we don't get too worried about the individual business units on the NIM so it's accretive to BMO, I think by 10 basis points as Tayfun has said this year so that's good. Their NIM is actually, as you said, lower than the P&C U.S. NIM, which is our personal and commercial business but it's lower by 20 to 25 basis points; maybe a little bit more, but it's still strong and it's positive. Ours is probably higher, a little bit.

We have a little bit more commercial in the U.S. P&C business. We're probably 75%/25% commercial. They would be more in terms of loans. In the U.S. P&C, they would be 60%/40%. I think the commercial business tends to be a little bit higher NIM. Also, in their retail business, which is bigger than ours, they would have more fixed rates because they're doing one of their businesses that they have which we don't have which is RV and marine financing, so they finance when somebody shows up at an RV and marine dealer; Bank of the West would be among the top three lenders in that space and they've been in it a long time. Those are fixed rate loans. Right now, they might not have the same margins -- makes sense. So that would be -- I don't think there's anything fundamental about how they run their commercial and retail business. It's probably more of a mix. They just have a little bit more cash.

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**Darko Mihelic** – RBC Capital Markets

I guess, yes, where I was going with it is I kind of understood and have had great discussions with you and Tayfun about the NIM progression. And what I don't know is what the NIM progression should look like on the Bank of West?

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**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

Well, I don't see the gap between what they have now and what the U.S. P&C has is necessarily changing much other than maybe the mix. I don't think from a competitive standpoint, if that's you're trying to model out what it looks like going forward.

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**Darko Mihelic** – RBC Capital Markets

Thinking about the trajectory of NIM, will it expand? Which NIM will expand more?

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**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

That's a good question. I honestly don't know. I don't see any reason why they wouldn't kind of move in the same direction pretty much -- we had a great NIM expansion in the U.S. P&C year-over-year. It's slowing down and I think as Tayfun has signaled we're not going to get another year like we did last year and it's become more competitive but I don't see that there's one business or the other and to be honest with you, we're combining these now. So we're going to run everything the same way. We're not going to have different pricing structures for what was Bank of the West and BMO. There might be geographic differences, but we're running it as one business and we're doing that as we speak. Does that help?

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**Darko Mihelic** – RBC Capital Markets

It does. And then one thing I wanted to touch on was, I mean, one of the things at this conference that has been topical has been deposit betas and the change there and in some instances, they pointed to cash management because of the movement in rates. Can you speak to that? And is there a lot of pressure that you see coming from?

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**Dave Casper** – Bank of Montreal – U.S. CEO, BMO Financial Group

Yes. Well, there's certainly more now and in the U.S. specifically, as I think Tayfun has probably said during in the last 18 months, we had more liquidity than we ever had and after the pandemic, it stayed, and it stayed a lot longer than we thought. There wasn't a huge pressure to jump in and be the most competitive bank for a long

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period of time. That obviously is changing now, betas are moving both commercial and retail at a decent pace. An advantage we have, or anybody that has a good stable deposit base, which we have in the U.S., and we will inherit or have inherited with Bank of the West, is you don't have to hit the last dollar. We've got a really good, stable base. I expect though the betas will continue to go up. I think it looks like rates are going to continue to go up as well. So that will, for a while, help us.

I don't see in the near term any big declines, which could cause things to move the other way. So big declines in terms of what the Fed does. So I think we're still in a good spot, not growing at nearly the pace it was, but also not giving up that margin that we have today. I don't see that going down.

The last thing I will say, which kind of goes back to the treasury management on the commercial side, when you are the sole or you're lead bank, these clients, they have to lead the business with you because the money is flowing into the bank every day. That doesn't mean we're going to keep every dollar of excess that they have, but it gives us more opportunity to be reasonably competitive, but not the last dollar because we are their concentration bank. So again, you can't take advantage of anybody, but you don't always get that core stable deposit base that some banks have, and some don't have as well, and that definitely helps us.

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**Darko Mihelic** – *RBC Capital Markets*

I'm going to pause here and look out to the audience to see if there's anybody here who has a question before I move on to one of our favourite topics which is credit quality. What do you see? I mean, we're obviously seeing some level of formations but nobody is seeing any trends, but we have constant concerns over commercial real estate, what are you seeing on the ground?

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**Dave Casper** – *Bank of Montreal – U.S. CEO, BMO Financial Group*

Well, I think that will be the area, and I'm talking not necessarily BMO at this point, but industry-wide, large exposures in commercial real estate tend to be problematic, particularly in office and now in retail. The good news for us is that we're not over-exposed at all in office, I joke our two biggest office exposures in the U.S. are the two big buildings that we are the main tenant in. So I don't feel too bad about that. I think we'll be good.

But the problem with office, and it's happening in Chicago, it's happening in San Francisco, it's happening anywhere, certainly in New York, these Class B buildings, they will slowly leave. The tenants will slowly leave, they won't need as much space, but they'll take better space in the Class A buildings. So we feel good about our office exposure. We feel good about our overall real estate exposure. I think that's going to be an issue, but I don't really see it as a big issue for us.

The rest of the markets you worry about -- any company that's highly sensitive to interest rates you worry about. That's not a big concern right now because most of the underwriting that takes place, certainly at our bank underwrites at a much higher -- including real estate, a much higher rate level than what we would have had two or three years ago. You know it's going to go up at some point. It's just like the recession. You know it's going to come, but you plan for it.

But I don't think we're in a space, and last point on this, we've done over 30 years, if you look at the numbers, our PCLs for BMO versus the Canadian banks are materially better and I actually don't think that's because we take less risk. I think we just take it in areas where we feel really comfortable that we know it and understand it. But that's factual over a long period of time. We have a really strong PCL record, and that's largely because of client acquisition, I think, over the long term.

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**Darko Mihelic** – *RBC Capital Markets*

As always, Dave, thank you very much for joining me today.

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**Dave Casper** – *Bank of Montreal – U.S. CEO, BMO Financial Group*

Thank you.