Q3 2025 Conference Call

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PRESENTATION

Christine Viau – *Bank of Montreal – Head of Investor Relations*

Thank you. We will begin today's call with remarks from Darryl White, BMO's CEO; followed by Tayfun Tuzun, our Chief Financial Officer; and Piyush Agrawal, our Chief Risk Officer. Also present to answer questions are our group heads: Mat Mehrotra, Canadian Personal & Business Banking; Sharon Haward-Laird, Canadian Commercial Banking; Aron Levine, U.S. Banking; Alan Tannenbaum, BMO Capital Markets; Deland Kamanga, BMO Wealth Management; and Darrel Hackett, BMO U.S. CEO

As our call will end at 8:15am, and to give everyone a chance to participate, please limit your questions to one and re-queue.

As noted on slide 2, forward-looking statements may be made during this call, which involve assumptions that have inherent risks and uncertainties. Actual results could differ materially from these statements. I would also remind listeners that the bank uses non-GAAP financial measures to arrive at adjusted results. Management measures performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance. Darryl and Tayfun will be referring to adjusted results in their remarks unless otherwise noted as reported.

And now, I'll turn the call over to Darryl.

Darryl White – *Bank of Montreal – CEO*

Thank you, Christine, and good morning, everyone.

This morning we announced another quarter of strong earnings growth and progress against our ROE rebuild objective. Third quarter earnings per share increased 22% to $3.23, and net income of $2.4 billion was the second highest quarter on record. Pre-provision pre-tax earnings of $4 billion were up 13% with good contribution from every operating group. Credit was well managed with lower provisions compared with last year and last quarter.

Our CET1 ratio of 13.5% remains strong as we continue to execute share buybacks to return excess capital to our shareholders, with ample flexibility to deploy our balance sheet to support client growth. We continue to invest to drive sustainable growth across our businesses, including our recently announced acquisition of Burgundy Asset Management.

Return on equity improved to 12% for the quarter. Execution against each of our ROE rebuild strategies – U.S. P&C improvement, normalizing PCL, overall operating performance and capital optimization – is driving tangible results.

Year-to-date, revenue growth was 12% and PPPT is up 19% with strong all-bank operating leverage of 4.7%. We've now delivered positive operating leverage for six consecutive quarters, and we expect continued PCL normalization to support ROE going forward.

This remains our number one imperative, and Tayfun will elaborate further.

We achieved these results in what remains an uncertain economic environment. In recent months, some trade-related risks to the North American economy have eased, though the final outcome is unclear and geopolitical challenges persist. Canada's economy is navigating a period of modest growth amid shifting policy and global trade pressures. Most industries remain USMCA compliant, and government programs are beginning to rollout to support the most impacted industries, limiting the negative impact. Despite slower job growth, consumer spending has remained resilient. For the U.S., despite headwinds from higher interest rates and tariffs, strong corporate earnings, a resilient labor market, and continued consumer spending have helped maintain resilience in the U.S. economy and should support growth in 2026.

This quarter we announced important changes to our organizational structure in U.S. banking to accelerate our performance even further. We've brought together our U.S. Personal & Business Banking, Commercial, and Wealth Management businesses under the leadership of Aron Levine. Aron brings three decades of U.S. banking experience and will lead our go-to-market strategy, optimizing the strength and scale of all three businesses to drive greater synergies and superior One Client service.

We've also announced new co-leaders in Canadian P&C, with Mat Mehrotra leading Canadian Personal & Business Banking and Sharon Haward-Laird leading Canadian Commercial Banking as well as North American Integrated Solutions, including Treasury and Payments, Cards, and Customer Connect Centers. These changes reflect both BMO's deep strength in talent development and our ability to attract exceptional leaders.

Turning now to highlights in each of our businesses.

In Canadian Personal Banking, we continue to drive top-tier, high quality customer growth with deep relationships. BMO's chequing account growth is nearly double the industry benchmark, as measured by Argus Advisory, driven by strong acquisition. These results are underpinned by robust digital and branch performance, fueled by the strength of our data and marketing capabilities, and our commitment to real financial progress for our customers.

For example, our market leading Savings Amplifier account has now surpassed $12 billion in deposits, attracting another $2 billion since last quarter. And we recently launched BMO Preferred Program for Investors, designed to help families build and preserve their wealth with reduced fees and personalized financial guidance. This innovative program is attracting good mutual fund flows of $1.4 billion to date, while deepening customer relationships and growing households.

Canadian Commercial Banking had broad-based loan and deposit growth over the last year. We're seeing a pickup in conversations as clients gain greater clarity on the environment and prepare to move forward on their business plans. Client growth remains steady, supported by increased referrals between Commercial, Wealth and Capital Markets, and continued momentum and digital engagement. Our integrated Treasury and Payment Solutions delivered strong performance with fee revenue up 23% year-to-date across our North American platform.

In U.S. P&C, continued momentum and PPPT growth reflects strong positive operating leverage through disciplined expense management and balance sheet optimization. ROE is improving, and the changes to our structure I mentioned earlier will help accelerate our progress going forward. We continue to see good client acquisition in U.S. P&BB in both the Midwest and West markets with over 90% coming from new chequing clients, including 8% year-over-year growth in chequing account acquisitions in our West markets.

In U.S. Commercial Banking, client engagement is strong even as borrowers remain cautious amid policy uncertainty. In our emerging middle markets business, one of our highest return segments, we've deployed enhanced tools for faster, more predictable loan decisioning and deeper client insights, which are driving quality originations. One Client referrals between this segment and Wealth Management are up 27% over last year, and fee income from Treasury and Payments continues to perform strongly.

Our premium Commercial Banking franchise was again recognized by World Finance magazine as the Best Commercial Bank in both Canada and the United States. We were also named the Best Private Bank in Canada for the 15th year in a row, a testament to the exceptional service and strategic expertise our teams deliver.

BMO Wealth Management had a strong quarter with record revenue in Wealth and Asset Management delivered by continued growth in net new assets as we continue to strategically invest in talent and innovative products. The announced acquisition of Burgundy Asset Management will further expand BMO's Wealth Management and financial planning capabilities. Upon closing, we will be adding one of Canada's most respected independent investment managers known for its high caliber team, rigorous investment process, and dedicated service to private clients, institutions, and family offices. We look forward to welcoming Burgundy's teams and clients to BMO.

In BMO Capital Markets, PPPT has consistently been strong this year. The third quarter benefited from strong underwriting and advisory fees as we captured more mandates and executed on pipelines that had been building. We're winning more lead positions as we maintain a consistent focus on building talent and capabilities to support client needs. Trading revenue was strong across products, driven by our ability to respond quickly to evolving market conditions and client demand. In the U.S., we saw good momentum in mid-market investment banking activity and we're well positioned for profitable growth in the markets where we compete.

Across our businesses, we continue to invest and deploy digital and AI capabilities to drive value in our businesses and for our clients, balancing innovation with disciplined risk management. We're seeing tangible value from AI in several areas including decisioning, customer experience, software development, and employee productivity. We recently launched Lumi Assistant, BMO's award-winning AI powered tool that equips frontline teams with real-time simplified access to critical policy and process information to provide advice and guidance to clients. This quarter we also received the 2025 Celent Model Bank Award for payments innovation for five separate digital payments and client experience initiatives.

Our strong performance this quarter is evidence of consistent execution on our plan to rebuild ROE while continuing to manage risk effectively. Investments we've made in the business paired with BMO's award-winning culture, with industry leading employee engagement, are helping to power the progress we make for our clients, colleagues, and the communities we serve.

With that, I will turn it over to Tayfun.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you, Darryl. Good morning and thank you for joining us. My comments will start on slide 8.

Third quarter reported EPS was $3.14 and net income was $2.3 billion. Adjusting items are shown on slide [41]. The remainder of my comments will focus on adjusted results. We delivered strong earnings growth with adjusted EPS of $3.23 up from $2.64 last year, and net income of $2.4 billion, up 21% driven by strong PPPT growth of 13% and lower PCLs. Revenues increased 10% with broad-based growth across all businesses, including strong fee growth in Wealth and Capital Markets, and continued NIM expansion. Expenses grew 7%, and we delivered positive operating leverage of 2.9%. Total PCL decreased $109 million from the prior year with lower impaired and performing provisions. Piyush will speak to this in his remarks.

Moving to slide 9, we are firmly advancing towards our 15% medium term ROE target for BMO and 12% target for U.S. P&C. Over the past three quarters, we have been executing across each of the four key initiatives, which has resulted in 130 basis points of improvement to 11.1% year-to-date. U.S. P&C ROE increased to 7.5% year-to-date, driven by PPPT growth of 6% and positive operating leverage, lower impaired PCLs, and progress on balance sheet optimization initiatives. The overall impaired PCL ratio continued to moderate from the peak Q4 last year, and credit migration continued to improve, supporting ROE going forward. Operating performance has been strong across our businesses, with good PPPT growth in each of the operating groups and positive operating leverage of 4.7% year-to-date.

And lastly, we remain diligent in our capital optimization initiatives as we continue to allocate resources to higher return businesses, including our announced acquisition of Burgundy Asset Management, while returning excess capital to our shareholders. Overall, we are pleased with the progress we are making on increasing our returns and we will continue to provide updates across these key initiatives in future quarters.

Moving to slide 10, average loans grew 2% year-over-year driven by growth in residential mortgages and commercial loans in Canada. U.S. commercial loans declined from last year primarily due to muted loan demand across the industry and declined from last quarter as new originations were offset by reduced exposures in low ROE relationships. Customer deposits were up 3% from last year with good growth in Canadian everyday banking and Commercial operating balances, partly offset by lower term deposits, as well as higher balances in Wealth and Capital Markets. U.S. personal deposits declined due to lower non-core customer deposits.

Turning to slide 11, on an ex-trading basis, net interest income was up 9% from the prior year with good growth in all operating groups, supported by continued margin expansion. NIM ex-trading was up 16 basis points year-over-year and up 2 basis points sequentially. In Canadian P&C, NIM increased 1 basis points, reflecting higher deposit margins, partially offset by loan growth exceeding deposit growth. U.S. P&C NIM was flat as higher deposit margins, including the benefit from deposit optimization activity, was offset by the impact of lower deposit balances and loan margins.

We anticipate continued margin stability at the all-bank level in the fourth quarter based on the current market expectations and supported by our disciplined deposit management and asset mix improvements.

Turning to slide 12, non-interest revenue was up 3% from the prior year and up 11% excluding trading, driven by strong Wealth Management, and underwriting and advisory fees in Capital Markets, as well as continued deposit fee growth in our Treasury and Payment solutions business. We also benefited from a gain on the sale of a non-strategic portfolio of insurance contracts during the current quarter.

Moving to slide 13. Expenses were up 7% from the prior year driven by higher employee-related costs, and 4% excluding performance-based compensation. Our consistent approach to managing expenses in line with revenue growth has delivered consistent positive operating leverage and efficiency improvements. And while we anticipate a typical fourth quarter sequential uptick in expenses, our ongoing commitment to positive operating leverage remains intact.

Turning to slide 14, our CET1 ratio of 13.5% remained unchanged from last quarter reflecting good internal capital generation, offset by share repurchases and moderate growth in source currency RWA. We completed 6 million share repurchases during the quarter and 15.7 million shares to date as of August. Given the strength of our capital position, we announced our intention to initiate a new normal course issuer bid in September, pending regulatory approval, for up to an additional 30 million shares.

Moving to the operating groups and starting on slide 15.

Canadian P&C net income was down 5% year-over-year as good PPPT growth of 6% was more than offset by an increase in PCLs. Revenue of $3.1 billion was up 6% driven by higher net interest income, reflecting balanced growth in loans and deposits and higher margins, partially offset by lower non-interest revenue. Expense growth of 7% reflected higher technology and employee-related costs.

Moving to U.S. P&C on slide 16. My comments here will speak to the U.S. dollar performance. Net income increased by 42% with strong PPPT growth of 10%, positive operating leverage of 5% and lower PCLs. Revenue growth was driven by higher deposit margins, more than offsetting lower deposit and loan balances, and higher deposit fee revenue in both Personal and Commercial Banking. Expenses were lower compared with the prior year as lower technology and advertising spend was partially offset by higher employee-related costs.

Following the change to our U.S. organizational structure, beginning in the fourth quarter, we will be combining the financial results from U.S. Wealth Management with our U.S. Personal & Commercial business.

Moving to slide 17. BMO Wealth Management net income was up 21% from last year driven by strong revenue in Wealth and Asset Management, up 11% from higher markets, continued growth in net sales and higher loans and deposits. Insurance revenue increased due to the gain on sale mentioned earlier. Expense growth of 8% was driven by employee-related expenses, including higher revenue-based costs.

Moving to slide 18. BMO Capital Market's net income was up 12% driven by PPPT growth of 3% and lower PCLs. Revenue was up 7%, reflecting good performance in Global Markets driven by increases in debt and equity issuances, and higher trading revenue. Growth in Investment and Corporate Banking revenue was primarily due to higher underwriting and advisory fees as we saw good improvement in client activity during the quarter. Expenses were up 9%, mainly driven by higher employee-related expenses. Capital Markets performance continues to align with the guidance that we gave at the beginning of the year as a moderation in trading activity has been offset by stronger underwriting and advisory fees reflecting the strength of our diversified businesses.

Turning now to slide 19. Corporate Services net loss was $123 million reflecting higher revenue in the current quarter, partially offset by higher retained expenses. We expect a moderately higher corporate loss next quarter.

In closing, we are pleased with the progress we delivered this past quarter. Revenue growth and expense management, along with further improvement in our credit performance all continue to progress in line with the path toward our targets. The underlying fundamentals remain strong, and although the results will not always be linear, we remain firmly on track to deliver against our medium-term guidance.

As we end the year, we continue to focus on allocating resources to initiatives that will drive sustainable earnings growth while maintaining positive operating leverage. Collectively, the progress we have made so far and the future steps that we plan to execute, gives us confidence in our ability to achieve our targets.

I will now turn it over to Piyush.

Piyush Agrawal – *Bank of Montreal – CRO*

Thank you, Tayfun, and good morning everyone. Our credit performance this quarter was in line with expectations. Key credit metrics continue to normalize with slower migration rates and lower formations to watch list.

Starting on slide 21, this quarter's total provision for credit losses was $797 million or 47 basis points. Impaired provisions of $773 million or 45 basis points were relatively stable compared to prior quarter.

Looking at the operating group results, Canadian Personal and Commercial Banking impaired losses were $489 million, up $13 million from prior quarter. This was driven by higher losses in the Canadian unsecured retail portfolios, reflective of unemployment and insolvency trends in Canada. We continue to take proactive measures to manage losses within these portfolios, including early engagement with customers.

In U.S. Personal and Commercial Banking, impaired losses were $240 million, down $7 million by lower losses in the U.S. Commercial Businesses. Capital Markets impaired losses were $33 million, up $5 million from prior quarter.

Turning to page 22, the performing provision on credit losses was a build of $24 million. While the macroeconomic outlook has become more positive vis a vis the environment after last quarter's tariff announcement, uncertainty remains around the impacts from trade policies as well as fiscal policy developments. Moreover, we continue to watch unemployment trends in Canada. All of these factors were considered in our performing allowance assessment for the quarter. With this $24 million build, our performing allowance stands at $4.7 billion and coverage is strong at 70 basis points over performing loans.

Turning to slide 23, impaired formations of $1.8 billion were stable relative to prior quarter. Gross impaired loans increased 3 basis points, driven by higher impaired loans in Canadian Commercial Banking.

Our impaired provisions have been trending down this year, in-line with our expectations. At the same time, we remain cautious as the full impact from the current tariff announcements have yet to flow through the economy and the policy environment remains evolving. We are actively managing risks through disciplined portfolio management and direct client engagement. We also expect monetary policy to be supportive. Against this backdrop, our prior guidance of high 40 basis points remains unchanged. The bank is adequately provisioned and has strong capital and liquidity levels to manage current and emerging risks.

I will now turn the call back to the operator for the Q&A portion of the call.

Gabriel Dechaine – *National Bank Financial – Analyst*

Just want to ask about the U.S. loan and revenue growth outlook. There's quite a few moving pieces in there. I know earlier in the year the outlook was for a strong second half, but obviously a lot has changed in the macro environment. I'm just wondering what the updated view on loan growth would be?

And, if you can layer into that answer, the impact of I'll call it, de-banking, whatever you want to call it, because it sounds like there's some lending or client exposures that you're exiting because they don't meet your ROE targets. There was a story in the press last week that you're maybe looking to sell the Transportation Finance business. I don't think you want to comment specifically on that one, but maybe generally?

Darryl White – *Bank of Montreal – CEO*

Gabe, it's Darryl. Thanks for the question. I'll give it a start and I might kick it over to Aron on his maiden voyage here to give us some perspectives as he's had a few weeks to look into these questions. When you think about loan growth for us, I don't have to remind you this, but in general in the United States, we're talking more about wholesale loan growth than we are consumer loan growth.

And when I step back from it, I'm actually quite comfortable with where we are, and I'll explain to you why I say that. This has been, as you know, for a very long time, for decades, one of our best businesses and one of our more competitive businesses across the U.S., our Commercial business and our wholesale Capital Markets business, and we've been at this for decades. And so, I've always considered this a power alley and I'm going to consider it a power alley for us as we go forward as well.

At the present moment, I think what we're seeing is a combination of some macro factors that you referred to. But specifically for us, I see this as a really interesting and positive short-term reset. We're looking at managing our PCLs down. We're looking at optimizing through some low-return assets on the balance sheet.

I would say in the meantime, it's interesting that utilizations are down a little bit. But originations are actually up underneath the cover. So that's good news and a good sign as we think about going forward. And as I go forward, I've said this to you before, my expectation for this business as we benefit from this reset that we've got right now gets really exciting because if the market grows, and we do expect it to grow as we go through the back half of this year and particularly into next year, you should watch us grow at market or better in terms of our asset growth.

But Aron, why don't you jump in here on your observations?

Aron Levine – *Bank of Montreal – Group Head & President, U.S. Banking*

Okay. Thanks, Darryl. Well, first, let me say I'm just extremely excited by what I found here in the first month. I spent opening month mostly listening to clients and teammates and it's really reaffirmed two things that I felt before I came here: One, BMO has a terrific Commercial Business, a lot of talented bankers, great industry expertise.

But I'm particularly excited about the strength that BMO has in relationships across the entire spectrum of businesses: Business Banking, Commercial, Corporate. As well as our Wealth Advisors have a great deal of relationships. So, when you think about the significant opportunity that gives us to not only grow on the Commercial asset side but also the Personal loan and deposit side, that's a great foundation to work off of.

I'd also point out that when you combine the scale of the Personal Business not only the strength that we have in the Mid-West, but now the scale that we've acquired on the West Coast and the ability to serve clients across the entire Wealth spectrum, mass affluent, high net-worth, ultra-high net-worth, there is a huge opportunity for us to expand with our roughly 4 million clients, especially in the mass affluent segment.

When you think about bringing together three lines of business, which is certainly a key mandate for me, and deliver the full enterprise, and that of course includes our great Treasury Management platform, our Global Markets, our Investment Banking capabilities, the opportunity for us to win and grow, and as you see, all the things Darryl talked about with ROE optimization working its way through, real opportunity to have the momentum start to come through our results. So, very excited with the first month here and the team is doing a great job in working together to drive us forward.

Gabriel Dechaine – *National Bank Financial – Analyst*

Just a quick one. You're moving the U.S. wealth business into the segment, makes sense geographically of course. Does that mean we're looking at C$60 million of earnings and your 12% ROE target for the business will increase?

Aron Levine – *Bank of Montreal – Group Head & President, U.S. Banking*

Yes. I think the key when you think about moving the wealth business it's this connectivity that is so critical. The wealth business will benefit greatly from the connection to both the Personal and the Commercial businesses; bringing the leaders together to make sure that we're serving clients and can deliver across all of the different needs of the enterprise. That's a really powerful combination.

Tayfun Tuzun – *Bank of Montreal – CFO*

Gabe, we're not adjusting the 12% target. The 12% target remains because it's rather a small contribution.

Matthew Lee - *Canaccord Genuity - Analyst*

Maybe on U.S. credit, just a bit of a surprise to see a recovery of performing this quarter. I know you had a sizable build last year, but does the release indicate a more positive view on the U.S. economy? And maybe should we expect to see more performing releases if the economy proves resilient?

Piyush Agrawal – *Bank of Montreal– CRO*

Yes, Matt. Thanks for the question; It's Piyush. I would say there's a couple of factors that we've always considered when we go through our performing process. And again, it differs because of the two different geographies.

What you're really seeing in the release in the U.S. performing is a couple of factors. One, the macroeconomic forecast for U.S. has become better. Canada is improving, but the tariff uncertainty is still holding things back in Canada a bit. The U.S. economy, as you see, has been doing better. So, the macroeconomic outlook is a big driver coupled with the speed of ratings migration.

The portfolio quality continues to stabilize at a faster rate. And you're seeing that also in our overall impaired performance in the U.S., it's improved much more year-over-year in the U.S.. So, it's just a combination of these factors that are driving the performance – performing provision release in the U.S., offset by the build you're seeing in Canada.

Matthew Lee - *Canaccord Genuity - Analyst*

As a quick follow-up, given the current economic outlook, do you think we've hit peak impaired PCLs in the U.S. yet?

Piyush Agrawal – *Bank of Montreal– CRO*

I would say, given everything you've seen over the last three or four quarters, the answer is yes. Things have significantly improved. We've been managing our portfolios pretty tightly so we have a good control and a handle on what's on our watch list and what's in our impaired. So, I feel reasonably confident about that.

At the end of the day, the hardest part is to give you a sense of the macroeconomic assumptions as we go forward. There will be quarter-to-quarter variability. We've talked about this in these calls, one or two files can move things because of the nature of our portfolio. Generally speaking, I would give you the confidence that we have passed our high point or the peak in the U.S..

Ebrahim Poonawala – *BofA Securities – Analyst*

I wanted to follow up on the Canada macro. Maybe Darryl or Piyush; Darryl, you mentioned client conversations, Canadian P&C also picking up. Things seem to be on the improving trajectory. Would love to get your feedback around – yes, there's tariff uncertainty, but as you look forward, are you more optimistic where growth and credit outlook within Canada is headed?

I ask this because there is an ongoing debate around whether the economy is still stuck in some version of a recession relative to how bank stocks are priced. So I would love to get your perspective on where you think directionally, we are headed? And then, can the administration in Canada increase the speed of that improvement if, in fact, you believe things are getting better?

Darryl White – *Bank of Montreal – CEO*

Yes. Thanks, Ebrahim, for the question, it's Darryl. Look, I think where we are is we're sort of in the middle innings of this, weaving through a very modest growth environment. I mean, at the end of the day, in the back half of the year, if we're in the zone of 1%, 1.5% growth, I wouldn't be surprised. As we look around the economy right now, you're seeing a combination of factors where you've got impacted households, impacted industries who will do what you would naturally do when there's uncertainty, which is hit some pause buttons.

You've also got the fact that, as I mentioned in my prepared remarks, the vast majority of industries are USMCA compliant and are moving right along. So in this period, I'll call it, pre the USMCA renewal window, the economy is sort of moving at a pace that you'd expect. It's neither robust nor does it feel recessionary in Canada, and you've got some segments that will naturally slow down when that happens.

As we look forward into 2026, if I could paraphrase the back end of your question. I think it will depend greatly on both the macro and the trade file and on particular initiatives that I think you're referring to. And we've definitely got a positive narrative in terms of pro-growth and pro-economy policy today that I think is a welcome improvement from what we had seen in the past. At the same time there, we need to see actions behind words. And as we get closer to those, if I could put those two factors together, you could get yourself into a more optimistic place for 2026.

Ebrahim Poonawala – *BofA Securities – Analyst*

Got it. And if I could follow up, maybe for Aron. So one, congratulations on the new role. But just talk to us, looking at the slide 9, Aron, you mentioned strong foundation, great customer relationships. As we think about the U.S. P&C ROE at 8.7% headed towards 12% plus, it seems like the credit leverage is more or less baked in when we look at Q3 numbers.

Just talk to us what you think in terms of identifying areas where you see the biggest bridge to get that ROE improved. One, how quickly do you think it can be achieved? And does it require tech investments, hiring of personnel to get there?

Aron Levine – *Bank of Montreal – Group Head & President, U.S. Banking*

Yes. Thanks, Ebrahim. I appreciate it and thanks for the nice comment. Look, as you heard, we are doing a lot of the great work around the ROE and efficiency. The key next piece of the puzzle is how we deliver sustainable, profitable loan and deposit growth.

I think there's several things that we are already doing, and in process, that we can build upon. First, this idea of a unified business organization; it does allow us to accelerate the delivery of the full enterprise to clients, right? You can see that in early results in the NIR, Commercial treasury services, Capital Markets activity and that ongoing pickup of how we deepen with existing clients and drive more of the enterprise to each one is a critical component.

Second, you do have to invest in the business for sure. We have technology investments that we'll be making; obviously investing in our branch footprint through renovations and new centers. As I talked about, and probably critically important, investing in talent. Not only have we brought in some terrific leaders from the outside, but a lot of internal promotions of top talent and we're seeing some of those benefits already come through on Wealth new asset growth and growth in pipeline. As always, it's a combination of all those things.

You have to invest in the business. And you've got to really drive out the opportunity to leverage what we're great at, the scale we have, the North American capabilities, our really strong Treasury and Capital Markets platforms. All of those things is what makes me feel very optimistic for our ability to show growth here and that will come through as the ROE optimization work starts to pull itself through.

John Aiken – *Jefferies – Analyst*

Piyush, in terms of the formations that we saw in the quarter, commercial real estate on this side of the border had a bit of an uptick. Was this one credit? Or were there several in part of the portfolio?

Piyush Agrawal – *Bank of Montreal – CRO*

John, yes, there is some new formations in commercial real estate, as you've seen on the Canadian side. I'll just step back, the portfolio generally has performed very well, in fact, better than our expectations. But we've been watching it closely for the last few years. Some of the files were in the watch list so that we were tracking those. But you're right, it's one idiosyncratic file that's one developer that moved into the impaired formation.

It's actually a combination of projects that we've lent to within the developer where you see this impaired formation increase. But these will get resolved as we have in the past. While we've also taken some impaired provision, we're also seeing some positive news happen in several of those projects as we go through the appraisals and the resolution.

John Aiken – *Jefferies – Analyst*

And the projects, are they spread across the country? Or is there a regional concentration?

Piyush Agrawal – *Bank of Montreal – CRO*

No, it's diversified. It's a developer that had some challenges. So, it's multiple projects. Some are doing very well and some needed some resolution. So it's a combination of the diversity of those projects.

Doug Young – *Desjardins Securities – Analyst*

Maybe bigger picture, going back to just some of the prepared remarks. Darryl, you mentioned in yours, credit improving, helping driving EPS growth. And then Tayfun, you talked about credit migration and the benefits that should have moving forward on ROEs. And so what I'm trying to go with this is, are you signaling basically that PCL's peak this quarter is the new high level and that we should be thinking about PCLs improving from Q3 levels over the coming year? Just trying to get a sense of that and thinking about the evolution of the impaired and the performing over that period.

Darryl White – *Bank of Montreal – CEO*

It's Darryl. I'll give you a macro thought on your question, and I'll ask Piyush to come in on the PCLs particularly. Look, if you go back to page 4 of the presentation, the opening construct that I was trying to get us all in was that there are a number of factors that are contributing to the increased performance. When you go through the levers that we identified for the ROE rebuild, and I've spoken to shareholders a lot about them since the fourth quarter of last year when we called it out, we've made progress on each of them.

You've seen the PPPT growth in our U.S. businesses. You've seen the normalization of credit from 66 basis points at the high down to 45 today on the impaired side. You have seen some capital optimization decisions that are starting to bear some fruit. Of course, you've seen the total bank operating leverage, which sits at 4.7% year-to-date.

So it's the formula that's driving the outcome to get us to 12% today, and that gives us the confidence, and I'd say probably increased confidence, that we'll get to the target that we identified for you at the total bank level at the 15% as we continue to push on this journey. PCLs are one input into that formula, not the only one.

Did you want to comment on the PCL side?

Piyush Agrawal – *Bank of Montreal – CRO*

Doug, it's Piyush. I would say, when you look back at where we were three quarters ago, we've made tremendous progress overall across all of our portfolios to get to our 45 basis points and we're very pleased. This is tremendous progress on our turnaround from our '24 story to where we are.

The way I think about PCLs is two pieces. First, is the improvement in credit performance in line with what we expected when we provided guidance at the end of last year using the then consensus economic outlook? And the answer is yes. Our projections in our credit performance and fundamentals are intact. And that's what you see in the metrics as you're seeing in this third quarter performance.

But the second piece, also important, is what's the incremental impact from the revised macroeconomic outlook and the tariff environment? And here, I would say, while we have an excellent handle on the portfolio, externally, there are puts and takes whether it's trade policies and goods not covered by the USMCA or the timing of implementation of our federal funding programs or even changes in interest rates. All of this has an impact on the business investment both in Canada and the U.S., more importantly, business sentiment. And then ultimately, on the macroeconomic variables, most importantly, unemployment; unemployment in Canada is still high at between 6.8% and 7%.

It's going to take a while for that to show up in some of these metrics. As they go down, there's a three to six month lag to show up in our overall PCL metrics. Net-net, when I sum it all up, it'll be plus-minus where we are in the current environment, but I'll give you better guidance as we go through the next quarter with hopefully more certainty and more resolution in the next three months.

Doug Young – *Desjardins Securities – Analyst*

One follow-up. You seem, and you can tell me if this is right, you seem more confident in the U.S. versus Canada. Is that a fair interpretation?

Piyush Agrawal – *Bank of Montreal – CRO*

I'm confident about the quality of our books in both North and South. It's the economic uncertainty that just needs a little bit more resolution, especially for Canada.

Paul Holden – *CIBC World Markets – Analyst*

I want to talk about the operating leverage a bit. Obviously, a very good result as you've highlighted year-to-date positive 4.7%. Wondering how we should think about that going forward? I know your medium-term objective is roughly 2 points a year. So you're running ahead of objective this year. Does that mean any of the forward benefit or opportunity has been pulled forward? Or can we still expect 2 points a year in future periods?

Tayfun Tuzun – *Bank of Montreal – CFO*

Paul, it's Tayfun. No, there is really no pull forward relative to our expectations, and we continue to watch revenue trends. We continue to adjust our expenses accordingly to achieve that positive operating leverage. Our commitment is very firm to continuing to operate with positive operating leverage. We would like our efficiency ratio to come down further from where it is today. So as such, our plans remain intact, and we aim to achieve positive operating leverage as we look ahead towards that 15% ROE target.

Paul Holden – *CIBC World Markets – Analyst*

Piyush, you've made a number of interesting comments. One that particularly caught me was when you're talking about the U.S. business and the speed of credit migration and improvement there has been better than expected. We've spent a lot of time talking about the macro factors. Maybe you can talk a little bit about that speed and to what extent that's related to specific actions taken by BMO or maybe the specific lending credits? And if that's really just U.S. or if we're also seeing improvements in other geographies as well because of BMO specific factors?

Piyush Agrawal – *Bank of Montreal – CRO*

Thanks, Paul. So broadly speaking, we said on these calls and meetings, our risk appetite has always been strong, our risk culture has always been strong. We've made tweaks around some of the underwriting and the hold sizes and more approvals. And those are beginning to show results as we've gone through our portfolios. The U.S. is just benefiting again from a better environment at the moment than Canada is.

The other piece that you're seeing in our Q3 results is weakness in retail and that's more pronounced in Canada where we have a bigger portfolio. So the losses overall in Canada is a reflection of the unemployment trend and the insolvency trends. On the wholesale side, the ratings migration, Canada is right now catching up to the economic environment; I think it gets better from here. But overall, it's the negative migration that we were seeing has been slowing down, and that's a positive as we go forward.

Mario Mendonca – *TD Securities – Analyst*

Piyush, you referred to uncertainty a fair bit. But as I listened to Darryl go through his opening remarks and in response to the questions, I think you've highlighted USMCA and I think your own economist estimates that the effective tariff rate of goods from Canada and the U.S. is only 5.5%, talked about government spend support, monetary policy. There's a lot of things that would suggest less uncertainty.

So Piyush or Darryl, when you do talk about uncertainty, what are you really referring to here? Are you referring to the renegotiation of USMCA in 2026? Are you talking about the housing market? Or is there something else I'm not picking up on?

Darryl White – *Bank of Montreal – CEO*

I don't think the forensic leads you to any particular item, Mario, that you're not picking up on. I've talked about this before, early this year, my uncertainty meter was very high. And today, it's less high; it doesn't mean there's no uncertainty. There's still uncertainty, but there's just a little less of it. And arguably, in some pockets, a lot less of it. If you go back to the beginning of this year, we didn't have much of a handle on the direction of U.S. policy. We've got a better one today. We didn't know what our government was going to look like in Canada. We didn't know which party it was going to be let alone who the leader might be of the Liberal party and the policy that would flow from it. And we didn't have a great sense on how client behavior was going to follow policy decisions in either place.

And I'd add to it a rate environment. And while that's always difficult to call, there seems to be a reasonable consensus around the direction of rates, both in Canada and the U.S. When I add it all up, it doesn't mean that all the uncertainty has gone away. We still have geopolitics; We still have the trade file that you referred to, which I think is a very important one for both countries. It's just that the meter has gone down, and therefore, the confidence in the outlook today is one that's just a little easier to call than it was six months ago.

Mario Mendonca – *TD Securities – Analyst*

Okay. Slightly different question. Back in 2024 when PCLs were elevated, especially in the U.S., one of the questions that came up was would this result in weaker loan growth in the U.S.? And I certainly didn't get the impression then that that's what we'd expect. And so now we're seeing this optimization. What I'm trying to figure out now is, is this a response to the PCLs? Or is this just an ROE optimization story? Or does it really matter?

Darryl White – *Bank of Montreal – CEO*

Sorry, you finish up. Sorry, I cut you off, go ahead.

Mario Mendonca – *TD Securities – Analyst*

Well, what I was getting at is, if it's a PCLs issue then these tend to have a lasting effect. If it's PCLs and you have to change your risk outlook or your risk culture, your underwriting process, these tend to last a lot longer. I'm trying to figure out which one this is, or does it matter in your mind?

Darryl White – *Bank of Montreal – CEO*

When I rudely started to cut you off, what I was going to say is it's very much the latter. It's very much the ROE optimization journey and it includes all the inputs that we've talked about. I also mentioned that if you scratch underneath the surface, we're seeing good net originations against some intentional exits that are rolling off.

As I think about the quarter that is ahead and then the four quarters that go into '26, we get to that leveling stage at some point where we're comfortable with the baseline, and I would see us at that point, resuming what we've been really good at for decades. And this is the challenge for Aron and the teams: to make sure that we flex that muscle when the market is there and it's constructive. And if it is, you should expect us to be at the market. We're not going to let a market get away from us in a business that we're really good at.

Mario Mendonca – *TD Securities – Analyst*

But potentially 2026 because the U.S. banks, the regionals, the money centres are all putting up pretty strong growth. So, the market is there.

Darryl White – *Bank of Montreal – CEO*

I agree with that. And maybe I'm splitting hairs to say '26, it could be in the fourth quarter of '25 we're in right now. We're already part of the way through it. But as you kind of think about – we don't think about days, we think about quarters and years. As I think about the next few quarters, if we're growing at market, that would be a good outcome. And if we're growing a little bit above market, that would be consistent with our historical performance.

Shalabh Garg – *Veritas – Analyst*

Impaired credit performance is improving, and delinquency levels seem stable. Can you provide some colour on the changes in asset quality that drove the credit RWA higher? And also, on what helped the decline in the asset size piece?

Piyush Agrawal – *Bank of Montreal – CRO*

The credit RWA is a function of multiple things. One, you've got some asset growth in some areas, asset declines and some of those can change the RWA. I think that came down a little bit. You also had the portfolio, as it every quarter shortens that helps you. And then you've got credit migration. And we still have some negative credit migration, except it's less than what we've had in the past. So the migration – the negative migration increases the source RWA as well. So credit RWA grew a little bit, primarily due to the migration. In building those are models and everything else that happens, which is customary and annual processes.

Shalabh Garg – *Veritas – Analyst*

Is there a specific sector where this was reflected more? I'm guessing unsecured within the Canadian portfolio could be one. Just if you can provide some colour on this?

Piyush Agrawal – *Bank of Montreal – CRO*

No, we look at everything. I mean there are some industries that are beginning to have positive credit migration, some that are negative. I can't call out a sector that is very different or a source of some large credit movement within the overall portfolio.

Darryl White – *Bank of Montreal – CEO*

Thank you for your questions this morning, everyone. I would just summarize by saying we're delivering the momentum against the ROE strategies that we talked about earlier this year. We're doing it with consistent focus on effective risk management, the digital transformation and our client-centric innovation. We're going to continue to do that and build the bank of the future with profitable and sustainable growth.

Before ending, I'd like to acknowledge the contributions of Nadim Hirji and Ernie Johannson. Since joining BMO in 2003, Nadim has been a champion for our commercial clients. Now in his role as Vice Chair, BMO Commercial Banking, Nadim will continue to support the growth that we talked about today of the Commercial Banking franchise across North America, with a focus on optimizing growth, risk, and return.

Ernie will be retiring early next year after leading BMO's North American business – Personal & Business Banking group since 2020. Over those five years under her leadership, Canadian P&BB consistently delivered top-tier revenue growth and increased its market share through industry-leading digital sales, stronger branch performance, and adding over $90 billion in deposits while improving our Canadian P&C efficiency ratio by 580 basis points.

She also led the expansion of our U.S. Retail business, including overseeing our highly successful conversion at Bank of the West. Both of these businesses are stronger today and well positioned for accelerated growth going forward. Ernie, thank you for your tremendous contribution that you've made to BMO.

Thank you all again, and we look forward to talking to you in December.