BMO Financial Group

Q2 2026 Conference Call

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Caution Regarding Forward–Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States *Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. Forward-looking statements in this document may include, but are not limited to: statements with respect to our objectives and priorities for fiscal 2026 and beyond, including our medium-term objectives; our strategies, ambitions or future actions; our targets and commitments; our plans to drive business value through the use of technology such as artificial intelligence (AI) and enhance related offerings and client experiences; expectations for our financial condition, capital position, the regulatory environment in which we operate, the results of, or outlook for, our operations or the Canadian, U.S. and international economies; customer growth and support, and inclusivity and development; and include statements made by our management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "objective", "anticipate", "project", "intend", "estimate", "plan", "goal", "commit", "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 may change over time, 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 or projections. 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 and changes in foreign exchange and interest rates; political conditions, including changes relating to, or affecting, economic or trade matters, including tariffs, countermeasures and tariff mitigation policies; changes to our credit ratings; cyber and information security, 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; technology resilience, innovation and competition; technological change, including the use of data and AI in our business, including generative AI, the evolution of consumer behaviour, and our ability to gather, analyze and verify data; failure of third parties to comply with their obligations to us; disruptions of global supply chains; environmental and social risk, including climate change; the Canadian housing market and consumer leverage; inflationary pressures; changes in laws, including tax legislation and interpretation, or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, including if the bank were designated a global systemically important bank, and the effect of such changes on funding costs and capital requirements; changes in monetary, fiscal or economic policy; 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; our ability to successfully execute our strategic plans, initiatives and objectives under expected timeframes, or at all, or with the results or outcomes originally expected or anticipated; our ability to successfully complete acquisitions or dispositions and integrate acquisitions, including obtaining regulatory approvals, and realize any anticipated benefits from such plans and transactions; critical accounting estimates and judgments, and the effects of changes in accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; global capital markets activities; the emergence or continuation of widespread health emergencies or pandemics, and their impact on local, national or international economies, as well as their heightening of certain risks that may affect our future results; the possible effects on our business of war or terrorist activities; natural disasters, such as earthquakes or flooding, and disruptions to public infrastructure, such as transportation, communications, power or water supply; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For further information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, liquidity and funding, operational non-financial, legal and regulatory compliance, strategic, environmental and social, and reputation risk in the Enterprise-Wide Risk Management section of BMO's 2025 Annual Report, and the Risk Management section in our Second Quarter 2026 Report to Shareholders, 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 anticipated performance as at and for the periods ended on the dates presented, 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, and for each operating segment under 2026 Areas of Focus and Business Environment and Outlook, of BMO's 2025 Annual Report, as updated in the Economic Developments and Outlook section and Risk Management – Geopolitical Developments section in our Second Quarter 2026 Report to Shareholders, as well as in the Allowance for Credit Losses section of BMO's 2025 Annual Report, as updated in the Allowance for Credit Losses section in our Second Quarter 2026 Report to Shareholders and subsequent quarterly reports to shareholders. Assumptions about the expected closing date of the announced sale of BMO's Transportation and Vendor Finance businesses, the expected financial performance (including balance sheet, income statement and regulatory capital figures), restructuring costs, and assumed accounting treatment were considered in estimating the impact of the transaction on BMO's return on equity and CET1 ratio. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

Non–GAAP Measures and Other Financial Measures

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

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

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

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

Certain information contained in BMO's Management's Discussion and Analysis (MD&A) as at May 27, 2026 for the period ended April 30, 2026 ("Second Quarter 2026 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 April 30, 2026, 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 Second Quarter 2026 MD&A. For further information regarding the composition of our supplementary financial measures, refer to the Glossary of Financial Terms section of the Second Quarter 2026 MD&A, which is available online at www.bmo.com/investorrelations and at www.sedarplus.ca.

Certain comparative figures have been reclassified to conform with the current year's presentation.

PRESENTATION

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

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

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 Rahul will be referring to adjusted results in their remarks unless otherwise noted as reported.

And with that, I will now turn the call over to Darryl.

Darryl White – *Bank of Montreal – CEO*

Thank you, Christine, and good morning, everyone. At our March Investor Day, we laid out a clear execution-focused plan to elevate returns and accelerate growth. Our second quarter results continue to demonstrate meaningful progress and momentum against these commitments. We once again strengthened return on equity and delivered strong EPS growth, driven by our focus on deepening client relationships, innovating to drive business value and optimizing for performance.

Adjusted EPS was $3.67, up 40% from last year with pre-provision pretax earnings of $4.4 billion, up 16% and record net income of $2.7 billion, driven by robust fee revenue across capital markets, Wealth Management and Treasury and Payment Solutions. Operating leverage was strong at 4.1%. Credit remains well managed and in line with our expectations with PCL stable from last quarter. We're well reserved with performing loan coverage at 69 basis points. Our CET1 ratio is strong at 13% and does not include the pro forma impact of the sale of the Transportation and Vendor Finance businesses, which we expect will add 28 basis points. This provides us with ongoing flexibility to support growth and return capital to our shareholders. We bought back 6 million shares this quarter and announced a dividend increase of 5% to $1.71.

At Investor Day, we laid out a clear plan to deliver sustainably higher ROE and earnings growth. This quarter's results reinforce that trajectory. Building on peer-leading performance in 2025, where we had number one ROE and number one EPS growth, we continued that momentum in Q1 and again this quarter, with Q2 ROE up 370 basis points from a year ago to 13.5% and EPS up 40%. Year-to-date, underlying ROE is up 200 basis points and EPS is up 30%. ROTCE strengthened to 17.6%, a measure that underscores the strength of our core franchise and our ability to generate top-tier returns on capital deployed.

Our progress has been driven by core operating performance, the strength of our diversified businesses and our discipline around cost management, risk optimization and capital allocation. In U.S. banking, ROE momentum continues to build up 220 basis points from last year to 9.3%. And with optimization actions now behind us, we delivered a strong sequential loan growth in the quarter. As expected, we believe that we've now reached an inflection point in this business that will drive an acceleration in profitable growth going forward. All of these improvements position us well to achieve and sustain our number one imperative of a 15% ROE as we exit fiscal 2027.

Each of our businesses delivered strong results this quarter. In Canadian P&C, we continue to execute our deposit-led client growth strategy with core operating deposits up 7% in retail and 8% in commercial year-over-year. Canadian Commercial Banking saw strong customer acquisition across segments. New client growth was up 18% compared with last year, with particular strength in our mid-market segment supporting stronger loan growth, up 2% from last year and last quarter. Treasury and Payment Solutions continues to anchor our client relationships with fees up 12%.

In Canadian Personal and Business Banking, we're translating deposit strength to deepen investment relationships. Our teams delivered record mutual fund sales this quarter, up 49% over last year, including continued strength in our Preferred Program for investors.

In U.S. banking, we're executing against our multi-pronged profitable growth levers. In Q2, we delivered record PPPT of $924 million as our client focus and optimization efforts continue to lay the path to accelerated growth and elevated returns. Leveraging our top-tier commercial platform, unified US banking model and differentiated treasury and capital markets capabilities, we delivered sequential quarterly commercial loan growth in the U.S. banking segment of 4% point-to-point, and grew TPS and advisory fees. Core retail operating deposits grew by 4%, and we're making progress on our de novo strategy, where over the next six months, we expect to open an average of one financial centre per month in Southern California. Together with our ongoing renovations and digital enhancements, these centres are designed to build deeper relationships, bringing together a full suite of personal business and wealth advice and products to meet our clients' financial needs.

Wealth Management delivered record earnings, up 39% on strong markets and increased client assets. AUM was up 30% with continued strength in ETF market share and higher mutual fund sales reflecting strong fund performance. This past weekend, in the Globe and Mail's best ETFs for 2026 ranking, BMO was firmly among the leaders with 20 funds recognized for providing investors with differentiated value, performance and ease of investing, underscoring the breadth and the strength of our ETF lineup.

Capital Markets showed sustained momentum with PPPT of $900 million driven by equities trading and underwriting and advisory fees. We continued building strength in our market-leading franchises, including a number one ranking in ECM and the top position in investment banking share of wallet in Canada as well as growing M&A activity in the U.S. Our world-leading Metals and Mining business led the way with multiple transactions this quarter.

As we outlined at our Investor Day, we're anchoring our performance on three clear enterprise priorities. First, growing and deepening client relationships, grounded in one client advice that leverages the strength of our commercial bank. That approach continues to drive tangible benefits in Q2, contributing to higher fee income and client primacy. In Canada, we had solid momentum in referral activity between Commercial and Capital Markets and a 74% increase in referral revenue between Commercial and Wealth. And we continue to extend our leading treasury and payments business, including adding over 2,500 new business banking accounts across Canada and the U.S. year-to-date.

Second, we're driving innovation for business value through digital first AI-powered solutions and actively advancing new use cases focused on relationship-led intelligence, applying AI insights to proactively identify and solve client needs. Our announcement this quarter to introduce 24/7 tokenized cash capabilities in partnership with the CME Group and Google Cloud reflects the growing importance of digital finance to our clients, an area where we're well positioned to lead. We further advanced

our AI strategy through the launch of the BMO Institute for Artificial Intelligence and Quantum dedicated to the responsible application governance and oversight of AI at scale reflecting our commitment to innovating, developing and integrating technologies that will shape the future of financial services. We're consistently recognized for innovation leadership, including ranking first in EMARKETER's 2026 Canada Mobile Banking features benchmark for the third consecutive year.

The third priority, optimizing performance. As you'll hear from Rahul, we remain disciplined in optimizing performance through expense management and efficiency improvements. And we're also allocating capital to the highest return opportunities and continuing to strengthen the balance sheet, ensuring the flexibility to support growth and capital return to shareholders.

Earlier this month, we announced the sale of our Transportation and Vendor Finance businesses, a transaction that is accretive to both capital ratios and ROE. Through our 19.9% equity investment, we'll benefit from ongoing income participation in a more capital efficient way while allocating resources to core markets with deeper client relationship opportunities. With the closing of this transaction and the previously announced branch sale in the fourth quarter of this year, we've effectively and successfully completed the balance sheet optimization program in the U.S. banking segment over the course of the last 6 quarters.

These deliberate actions have strengthened ROE and set the foundation to capture growth in our core U.S. markets, where the economic environment remains resilient with GDP growth expected to be 2.1% in 2026. The outlook for the Canadian economy remains mixed with modest near-term growth in GDP expected amid inflation and employment challenges in certain segments. In the medium term, the combination of greater clarity on USMCA and the impact of infrastructure investments have the potential to drive a stronger growth outlook for both Canada and the United States.

Our business clients consistently tell us that improving Canadian regulatory competitiveness is essential to unleashing Canadian growth and unlocking Canada's potential. Recent federal measures such as setting firm deadlines for project reviews and approvals within 1 year, streamlining consultations, establishing special economic zones and trade corridors nationally and simplifying regulatory reporting are positive, and they're a good start. Businesses operate across multiple jurisdictions and meaningful growth will depend on a coordinated approach and alignment across governments to drive a more competitive environment for business investments in Canada.

In closing, Q2 is another step forward in delivering what we committed to at our Investor Day, stronger returns, faster earnings growth and a more resilient franchise. We're executing with discipline. The strategy is working, and I remain confident in our ability to continue building long-term value for our shareholders.

With that, I will turn it over to Rahul.

Rahul Nalgirkar – *Bank of Montreal – CFO*

Thank you, Darryl. Good morning, everyone. My comments will start on slide 9. The bank delivered strong operating performance this quarter with continued progress towards our 15% ROE target driven by execution of BMO specific levers we outlined at the Investor Day. Second quarter reported EPS was $3.53 and net income was $2.6 billion. Adjusting items are on slide 45, and the remainder of my comments will focus on adjusted results.

EPS was $3.67 up 40% from last year on record PPPT of $4.4 billion and lower PCL. We delivered ROE of 13.5%, up 370 basis points ROTCE of 17.6%, up 480 basis points, ROA of 73 basis points, and PPPT growth of 16%, with improvement primarily driven by core operating performance.

Revenue increased 10% or 12% on a constant currency basis with broad-based revenue momentum across all our businesses, including continued strong fee growth in Capital Markets and Wealth Management and NIM expansion in both the P&C businesses. Expenses increased 6% and we delivered strong positive operating leverage of 4.1%. Total PCL decreased to $739 million with lower impaired and performing provisions. Piyush will speak to this in his remarks.

Moving to slide 10. Excluding the impact of a weaker U.S. dollar this quarter, average loans were up 1% and average deposits were flat year-over-year. This quarter, commercial loans grew sequentially in both U.S. and Canada with as at balances up 4% and up 2%, respectively, from broad-based growth across segments and geographies. Consumer lending balances were down sequentially, primarily in Canada, driven by declines in cards and muted mortgage growth, reflecting slower housing activity. Average deposit balances were flat year-over-year, excluding the impact of the weaker U.S. dollar and were down 1% sequentially. We continue to see good growth in core personal and commercial operating deposits which was offset by our deliberate actions to reduce term deposits in Canada and US to improve the deposit mix and the seasonal outflows in the second quarter.

Turning to slide 11. NII ex Markets was up 4% year-over-year or 5% on a constant currency basis, driven primarily by continued margin expansion in Canadian P&C and U.S. Banking as well as higher NII in Corporate Services. NIM ex Markets was 229 basis points up 12 basis points year-over-year, reflecting continued deposit margin expansion from higher ladder reinvestment rates and strategic actions to improve the deposit mix. NIM ex-Markets declined 4 basis points sequentially, driven primarily by higher levels of low-yielding liquid assets in corporate aligned with prudent liquidity management practices. These higher levels contributed to sequential NIM pressure but are largely neutral to ROE.

The core operating segment NIM ex-Markets was stable sequentially reflecting continued deposit margin expansion offset by balance sheet mix. In Canadian P&C, NIM was down 2 basis points sequentially with higher deposit margins, offset by lower margins and product mix changes, including lower revolving card balances. In U.S. banking, NIM increased 3 basis points sequentially, driven by higher deposit and loan margins, partially offset by changes in mix as loans grew faster than deposits. Our guiding principle is to manage NIM for stability through the cycle. There are several factors which impact our margins every quarter. In the near term, we expect bank NIM to be relatively stable with continued tailwinds from ladder reinvestments and deposit initiatives, offset by balance sheet mix and higher liquidity levels.

Moving to non-interest revenue on slide 12, NIR increased 20% year-over-year or 24% excluding trading, with strong growth in Wealth Management fees, higher advisory and equity underwriting fees and TPS fees. This reflects the strength of our One Client strategy in deepening relationships and driving higher fee penetration across all our businesses. We benefited from one-time items this quarter, including elevated Canadian P&C card revenue as well as the prior year loss on sale of the U.S. non-relationship card portfolio.

Turning to slide 13. Expenses grew 6% and were up 3% excluding FX and higher performance-based compensation. Expenses were well managed and cost optimization continues to fund investments in talent and technology to drive growth and deliver positive operating leverage. Our efficiency ratio improved to 54.4% with positive operating leverage of 4.1%. We are on track to execute the previously announced efficiency program, which will generate approximately $250 million in annualized savings, half of which is expected to be realized this year. We maintain our outlook for the full year of mid-single-digit core expense growth and deliver positive operating leverage for the remainder of the year.

Turning to slide 14. Our CET1 ratio remains strong at 13% and is at the higher end of our target range of 12.5% to 13%. Internal capital generation continues to strengthen adding 30 basis points this quarter. We continue to return capital to the shareholders, repurchasing 6 million shares during the quarter and had moderate growth in source

currency RWA. Our capital strength and disciplined capital allocation is foundational to our operating model. The recently announced sale of Transportation and Vendor Finance businesses is expected to add approximately 28 basis points to the CET1 ratio in the fourth quarter, enhance our liquidity and will be accretive to the ROE by about 30 basis points as we allocate capital to support profitable organic growth.

Moving to the operating segments and starting on slide 15. Canadian P&C net income was up 15%, reflecting solid PPPT growth of 5% and lower performing PCL. Revenue was up 5% from higher NII on margin expansion and loan growth and strong growth in NIR driven by higher commercial TPS fees, mutual fund distribution fees and elevated card revenues, partially offset by a reduction in certain retail deposit fees effective this quarter. Expense growth of 5% reflected continued growth investments offset by cost optimization efforts.

Turning to U.S. Banking on slide 16, which speaks to U.S. dollar performance. Net income was up 30% year-over-year. We saw continued improvement in profitability with ROE expanding 220 basis points year-over-year to 9.3%, supported by strong core operating performance including record PPPT of $924 million, up 9%, and lower-performing PCL. Revenue was up 5% on higher NII from margin expansion partially offset by lower average balances, reflecting optimization initiatives. NIR grew 16% or 7% excluding one-time impacts last year, reflecting success of One Client initiatives with higher TPS, M&A and wealth management fees. Expense growth of 2% reflected continued investments in talent and technology, net of cost optimization efforts. With the expected closing of the announced sales of our Transportation and Vendor Finance portfolios, and 138 branches in the fourth quarter, our balance sheet optimization efforts will be effectively behind us. The business is well positioned to drive profitable growth in priority markets and deliver higher returns through its stronger operating model.

Moving to slide 17. Wealth Management net income was up 39% from last year. Strong performance was driven by record Wealth and Asset Management revenue, up 21%, reflecting market appreciation, continued growth in net sales and strong balance sheet growth. Insurance revenue was up 27% on higher investment results. Expenses were up 15%, driven by higher employee-related expenses, including higher revenue-based costs.

Turning to slide 18. Capital Markets net income was up 46% year-over-year, driven by record PPPT of $900 million, up 31% and lower PCL. Revenue was up 19%. Global Markets revenue increased 15%, driven by higher equities trading revenue partially offset by lower interest rate trading. Investment and corporate banking revenue increased 26%, driven by strong advisory and equity underwriting fees. Expenses were up 11%, mainly driven by higher performance-based compensation.

Turning to slide 19. Corporate Services net loss of $86 million improved sequentially as prior quarter was impacted by severance charges and seasonally high expenses. We expect net losses to trend moderately higher for remainder of the year and the full year to be in the similar range as the past 2 years.

In summary, the results this quarter demonstrate our continued progress to enhance profitability and accelerate growth. We delivered record net income and PPPT, continued ROE expansion driven by core operating performance and maintain strong operating discipline and balance sheet strength. These results demonstrate consistent execution across our BMO specific levers and positions us well to continue to improve the returns and achieve our ROE target.

And with that, I will now turn it over to Piyush.

Piyush Agrawal – *Bank of Montreal – CRO*

Thank you, Rahul, and good morning, everyone. The North American economy has remained resilient even with the ongoing trade policy uncertainty over the past year. And more recently, the emergence of conflict in the Middle East has introduced additional risks to the global economy including higher oil prices and renewed inflation concerns. Against this backdrop, we remain focused on disciplined and proactive risk management, supported by ongoing portfolio reviews, early client engagement and maintaining balance sheet resilience and strong reserve coverage.

The credit performance this quarter was in line with our expectations and reflective of the current environment. As shown on slide 21, total provision for credit losses was stable quarter-over-quarter at $739 million or 45 basis points with impaired provisions declining modestly to $734 million.

By operating segment, Canadian Personal and Commercial impaired losses were $477 million, down $20 million from the prior quarter driven by lower losses in the commercial portfolio. In the consumer book, as we have been highlighting, there continues to be pressure and delinquency rates have been in an upward trend, reflecting elevated insolvencies and rising unemployment, particularly in certain regions, including parts of the GTA. This has translated into higher provisions in the unsecured portfolio. Importantly, the rest of the portfolio continues to benefit, including underwriting and solid loan-to-value ratios, providing meaningful protection. We remain vigilant given ongoing macro uncertainty and continue to actively manage the portfolio.

In U.S. Banking, losses were $237 million, up $35 million from the prior quarter, driven largely by lower recoveries in U.S. Commercial Banking. Capital Markets impaired losses declined to $15 million.

Turning to slide 22. Our performing allowance position remains a key strength. We started the quarter with a robust performing coverage of 69 basis points. The $5 million performing provision this quarter was primarily driven by the impact of model changes which were previously captured through expert judgment. The net impact of this was largely offset by positive migration and lower portfolio balances. The bank remains well reserved with $4.7 billion of performing allowance.

On slide 23, gross impaired loans were $6.9 billion or 101 basis points, stable quarter-over-quarter. Formations were $1.4 billion, modestly down from the prior quarter. Our portfolio continues to benefit from strong diversification. Total loans of $685 billion are well distributed across sectors, products and geography. At our Investor Day, I provided some comments on our exposure to private credit. This portfolio remains small and well collateralized just under $6 billion or less than 1% of our total portfolio. We are selective who we partner with in this business, and we underwrite a large part of these loans and have good visibility in the quality of this portfolio, which continues to have a strong credit profile. Overall, we continue to see an improving trend in our wholesale portfolio with net positive migration again this quarter. Over the last year, watch list loans have decreased 20% and impaired formations are down 30%.

Looking ahead, given the geopolitical landscape, we anticipate a softer economic environment and renewed inflationary pressure from higher energy prices. At the same time, expansionary fiscal policies and AI investment present important support for economic growth as we progress through the rest of the year. With this backdrop, we expect impaired provisions to remain in line with our previous guidance of mid-40s basis points range over the next couple of quarters.

The bank is well positioned to manage these risks given the diversification of our portfolio, our risk management capabilities, underscored by a strong risk culture. We remain disciplined, and we continue to support our clients with our strong balance sheet and liquidity levels.

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

John Aiken – *Jefferies – Analyst*

Your commentary about the domestic consumer softening. Are we expecting this to carry on through the second part of the year? I understand your guidance is not talking about consumer specifically, but it's the entire portfolio. But are we expecting to see some ongoing deterioration in terms of Canadian households? And do you have any expectation as to when that may begin to moderate.

Piyush Agrawal – *Bank of Montreal – CRO*

Thanks, John. I would say the benefit of the diversification is you're seeing the improvement in our wholesale. And so just to give that probably one liner, we were at about 60 basis points, improving to 50, 40 and now down in the 30s, which is offset by some of the weakness you're seeing in the macros, especially in Canada. So within that, we expect delinquencies to continue to go up. But again, the unsecured book, we've taken a lot of de-risking actions. Those are bearing fruit, but you will continue to see some rise in delinquencies. But the point is that unsecured book is very small for us. On the secured side, we actually have very low LTVs, well around 60%, and the portfolio continues to benefit from higher FICOs. So I don't see any change in our guidance as it relates to secured mortgages. There is some pressure building. But I think that's transitory.

We are working with our consumers in the secured book to help them get over a temporary phase. And what I'll tell you is from our experience, 9 out of 10 delinquent borrowers are self-correcting. And the place where we do take action, we're seeing a very high recovery rate north of 98%, 99%. But our goal really is to help our consumers. And so there's an early reach program, we have multiple tools, but we want to see our consumers in their homes, and we are working with them to find them good handy solutions to come out of the delinquency stage.

Matthew Lee – *Canaccord – Analyst*

So the transportation and vendor finance transaction was pretty consistent with kind of the broader effort to improve U.S. ROE. As you look across the U.S. business today, do you still see additional opportunities to refine that portfolio, maybe acquisitions, distributions, balance sheet repositioning? Or do you feel like the business mix will largely be where you'd like it to be once this transportation sale closes?

Darryl White – *Bank of Montreal – CEO*

Matt, it's Darryl. Thanks for the question. Look, when we began the program around optimization 6 quarters ago, this is really the time at which we thought the program, if I could put it that way, would be complete. And it's also the shape of the portfolio that we expected by the time we complete. So, the portfolio today is where we like it. It's focused on full consumer relationships. It's focused on regional scale and density, where we have a right to win and where we compete. So, I think the way you should think about it is that the optimization program is effectively complete.

We've improved the ROE, we've improved the efficiency. We've built capital and we've got capital, therefore, to invest principally organically I will reemphasize, in the markets where we can continue that multiproduct and multipronged fully vented relationship with the clients that we've been talking to you about. So, nothing new in my answer. I'm just reconfirming to you that this is where we thought we would get to. And we're at a really good place now to accelerate the growth in the portfolio from where it is now.

Matthew Lee – *Canaccord – Analyst*

Okay. Great. And then a quick one for Alan. You had previously framed Capital Markets at around $750 million in quarterly PTPP as a run rate to the cycle. As you look at the business today, do you think that framework still remains appropriate? Or are there aspects of the franchise and earnings profile that are proving maybe more durable than originally contemplated?

Alan Tannenbaum – *Bank of Montreal – Group Head, Capital Markets*

Thanks, Matt. I appreciate the question. And reflects, obviously, that we feel good about the broad-based performance in our business this quarter, which really is a reflection of some of the investments that we've been talking about. If you reflect back to our Investor Day, broadening out our product capabilities, the asset classes that we are transacting and is really reflected in this type of performance. So feel great about all of those elements.

And as we look forward, we see pipelines are very strong in those businesses where it's visible, the M&A business, the ECM business. However, as you know, these businesses are subject to market conditions. And as long as markets remain constructive, we see clients that are prepared, willing and anxious to transact. So, feel good about that forward look. However, we are seeing some modest moderation in activity levels. And as we think forward, what we are focused on is delivering above our trend line -- historical trend line performance. So, what that means for a specific number, I'll leave to you, but we feel good about the forward look.

Gabriel Dechaine – *National Bank – Analyst*

A couple of NIM type questions. The outlook, you're saying stable. And that's a word people use a lot, but I just want to assess a few trends here. The U.S., we've got loan growth, sounds like it's accelerating, which is great to see. But I'm just wondering how that outlook changes given maybe loan growth continuing to outpace deposit growth. And then at the treasury level, you've taken some actions, it looks like more lower-yielding assets, some mix change and maybe more wholesale funding from the sounds of it, well, at least temporarily. Are these factors going to outweigh the tailwind, which is namely the reinvestment yields that are higher, rates that are higher?

Rahul Nalgirkar – *Bank of Montreal – CFO*

Gabe, thanks for the question. This is Rahul. So let me take the second part first, and then I'll go to the first one. The higher corporate low-yielding liquid assets was just a function, as I mentioned in my prepared remarks about prudent liquidity management. We've got a few variables going on, as you are aware, we've got two pending dispositions in the next few quarters. We've got some upcoming debt maturities and obviously, the uncertainties from the geopolitical situation linger around there. So we've been navigating with caution as we manage these variables. And in the next few quarters, we do expect these levels to remain higher as we pass through this. So

that's part of the impact. Now I think one thing important to note there is while it might have pressured NIM sequentially, they are largely immaterial for the ROE standpoint. So that's one noting.

The second part, as you asked the question on the outlook. Look, we think the margins will be relatively stable as we look ahead. We still have tailwinds from the ladder reinvestments for a couple of more quarters. We have a lot of effort going on across all the businesses to improve our mix, and that will be a tailwind. Now, as loan growth in both the countries picks up, there would be some mix. And obviously, these higher liquidity levels for the next few quarters would be there. So, when you add it all together, I think we expect a relatively stable NIM, now it might bump around here and there in every quarter.

Gabriel Dechaine – *National Bank – Analyst*

So that loan growth in the U.S. and in Canada, but I'm focusing more on the US, it should soak up some of that excess liquidity at the moment. And then just a follow-up on the U.S., it sounds more bullish in the outlook. Is it wrong to conclude that an acceleration of C&I loan growth will absorb that not just the excess liquidity, but that excess capital generated from the Transportation Finance division such that, that 30 basis points of ROE expansion could be within the next year?

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

It's Aron. Let me jump in on that one. So look, first of all, really pleased with the second quarter, important about the loan growth as it was broad-based, right? So we had growth across commercial real estate, asset-based lending, diversified industries as well as across geographies. So, we're seeing the benefits of the bankers we brought in across the country, especially on the west coast. And what you're seeing is that strength of the commercial bank that we've talked about really coming through as that optimization program has kind of winded up.

So, we feel very good about the outlook for the rest of the year, really pointing towards what we've said in the past, which is delivering that mid-single-digit loan growth for the rest of the year. So far in May, we're seeing the continued momentum. Pipelines are strong. So, we'll just continue to sort of drive this as we have and continue on the path we're on.

Ebrahim Poonawala – *BofA Securities – Analyst*

Just on this margin and ROE question, maybe Darryl, Aron, and Rahul for all of you or one of you, I guess. But as we think about incremental growth, when you think about Canada, super competitive, all the banks are going after the same sort of set of clients, immigration is slower, U.S. super competitive on deposit pricing, we're already seeing that in terms of promotions over the last few months.

I get that there's some excess liquidity that you can absorb in the U.S. that should help the margin. But as we look out over the next 12 months, just talk to us in terms of how to think about the dynamics. Is the incremental growth a sub-15% ROE business that's coming on? Like how do you think about that? And is it different in Canada versus U.S. that as growth comes up, that on a relative basis should be a headwind to NIM and ROE and then maybe you make up for that by just overall efficiency?

Darryl White – *Bank of Montreal – CEO*

You tagged both of us, Ebrahim. So maybe we'll tag team on the way through your question. I'm going to start with the strategic imperative. And then, Rahul, if you got anything further to add on the NIM and the margin positioning you should.

So look, as you know well, we are competing heavily in both markets. Both markets are competitive with different dynamics around them, as you point out, Ebrahim, in the commercial business, in particular, where we've got very strong market shares in Canada, we've got loan growth in the quarter of around 2%, which I think is an important marker because it's higher than where it's been, but we're also being very selective in where we choose our growth, and we're being selective around full client relationships and higher returns. So, are we putting on business that's sub 15% return? The answer is absolutely not. We're very clear on net new business being well above that hurdle.

And then in the U.S., we've got clear market share opportunities given the strength of the franchise, which we didn't invent in the last few quarters. It's been there for decades. But now we've very significantly repositioned it with a variety of efforts that really started in 2023 with the addition of the Bank of the West, 6 quarters of optimization that we've come to the end of, and we've added the capacity that Aron talked about earlier. So there, we're able to compete with a pretty disparate market in terms of how we grow the business.

But again, what we have in common is we're very selective about that growth. We're able to be in a position where we can have higher-quality business come on the books relative to we think some of our competitors, and we're going to continue to do that to drive it single-digit outcome that Aron talked about earlier. Rahul, would you add anything?

Rahul Nalgirkar – *Bank of Montreal – CFO*

Yes. The only thing I would add to that, Ebrahim, is I do appreciate the fact that, yes, in this rate environment, deposits would be slightly under pressure, but we also acknowledge the fact that there are a lot of deliberate initiatives going across both the countries across all the businesses to grow core operating sticky deposits in both the businesses. So, while the environmental headwinds will be there, we are very much focused on the tailwinds what we can control.

And the ladder reinvestments also have some room left for a couple of quarters to go. So as you put it all together, yes, NIM expansion, I said, relatively stable relative to what we have seen in the past. But in that context, to add to Darryl's point, our fees also grew year-over-year 20%. And I think that's how we look at this package as we kind of look at outperformance returns through the cycle.

Ebrahim Poonawala – *BofA Securities – Analyst*

That's helpful. And I guess just a separate question on the U.S. the back half of the year is supposed to be sort of the pickup in momentum on lending as you're done with the optimization. Obviously, there's concern that the higher rates, some of this war-related uncertainty in the Middle East conflict could sort of derail domestic

CapEx in the U.S. and the momentum. When you think about sort of your client conversations, has that changed for the worse over the last 30 to 60 days? Like how would you sum up just overall loan demand and growth outlook in the U.S. looking out back half into next year?

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

Ebrahim, it's Aron. Thanks. No. In fact, our March and April we've seen momentum growing. That's been what drove that quarter-over-quarter. It's really picked up over the last 60 days. Our clients are active, certainly cautious and certainly taking into account the macro environment, but again, given that it's been broad-based, we're seeing growth across all of our different segments and across different diverse industries, across geographies. That diversity of gives me comfort as we can continue to drive and we're seeing pipeline and strength here in the first couple of weeks of the third quarter. And so I feel comfortable that we're on the path that we've set for ourselves again around that mid-single-digit growth for the year.

Doug Young – *Desjardins Capital Markets – Analyst*

Most of my questions have been asked and answered, but I've got just a few quick ones. So I think, Rahul, you talked about strategic actions to improve deposit mix and benefit NIMs. I think that's been mentioned a few times. Can you just remind us like what some of those are and if they're different between Canada and the U.S.?

Rahul Nalgirkar – *Bank of Montreal – CFO*

Yes. Why don't we start with Canada and then we can go to the U.S. to talk about some of those initiatives?

Mat Mehrotra – *Bank of Montreal* **–** *Group Head, Canadian Personal & Business Banking*

Doug, it's Mat speaking. Just for the overall Canadian P&C business, we have had very strong operating deposit growth. That's been a consistent feature of our franchise in the retail business that's driven by very strong net client growth on a relative basis. In our commercial business, very strong TPS performance and again, also a strong client growth that has given us the optionality to optimize our deposit mix, which has been favourable and a tailwind to NIM, and we see those underlying trends continuing.

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

On the U.S. side, again, as you heard Darryl mentioned, our core deposits are up 4%. I'm really pleased with seeing the work we've done on the mass affluent segment, which is very important. It's up 20% year-over-year coming out of our financial centre channel. So the work we're doing, bringing the business together, especially our consumer business and our wealth business, there's a lot of opportunity working with corporate clients and commercial clients on helping drive core operating accounts. So, a combination of sources that are available to us that we can better penetrate. But between mass affluent and the other work, we're already starting to see some results of that effort.

Doug Young – *Desjardins Capital Markets – Analyst*

And Rahul when we roll that up, is there any way to quantify the benefit that you would have seen in the quarter from these actions? And what level of benefit you could see like quantitatively over the next year?

Rahul Nalgirkar – *Bank of Montreal – CFO*

Quarter-over-quarter, I would mention though our average deposits declined as a function of both seasonality and our deliberate actions on the term and CD side. But underlying that was well north of $2 billion increase in deposits on these core side. So, while what we are looking at is trading off volume for quality and spread here, and that's what we see saw in these core deposits.

Doug Young – *Desjardins Capital Markets – Analyst*

I'll leave that there. And then just elevated card revenues in Canada, what drove that, and can you quantify it?

Mat Mehrotra – *Bank of Montreal* **–** *Group Head, Canadian Personal & Business Banking*

Doug, it's Mat speaking again. We did see above-trend card fees. As you know, we're always managing the volume-driven costs in this business, and we did see an improvement in that. The improvement was reflected in a bit of outsized performance this quarter, but will deliver sustainable gains to a lesser degree in future quarters. But it was basically just the management of our volume-driven costs, and we're seeing the benefit of that.

Mario Mendonca – *TD Securities – Analyst*

I have two questions, both on credit. One from a short-term perspective, one a little longer term. First, Piyush, if you could look at your slide 28, we've talked about this before. The move in credit card PCLs is big. It's a big move here. What I'm trying to understand now is, are your credit card customers the same as your personal loan customers and the same as your residential mortgage customers? Or would I be right in suggesting that your residential mortgage customers have much higher credit scores than your credit card customers that there isn't that much overlap. And the reason I ask the question is, I worry that the spike in credit card PCLs could be the canary in the coal mine for everything else. So help me understand that.

Piyush Agrawal – *Bank of Montreal – CRO*

Thanks, Mario. So if I look at this, I think none of this should be a surprise. I mean we've been talking about this for a few quarters, and we've been signaling the weakness that you're seeing in macro Canada, plus you just saw the print on the insolvencies, it's at an all-time high. So, both the insolvency as well as some of this weakness is what you see play out in the unsecured segment.

Mat and I have talked at these calls about our segment, which skews a little bit more mass, and the work to change that over time takes a few quarters. We are beginning to see the benefits. Our overall loss amounts are flattening. What you see is the rate change and the rate change is a multitude of factors, especially the denominator impact because our overall book in that segment is shrinking.

We are replacing it with more value segment, more premium, but those are slow build-outs, especially in an economy where, like I said, the unemployment is high and new to Canada has slowed down quite a bit. So, I'm not worried about the spillover impact from the unsecured cards piece to the secured side, given the value of the collateral and some of the primacy that people have around the mortgages. I don't know, Mat, if you want to add something?

Mat Mehrotra – *Bank of Montreal – Group Head, Canadian Personal & Business Banking*

The only thing I would add is that the underlying credit quality of these books is very different. They're very different businesses. The pressure that you're noting in the card portfolio, consistent with my prior comments, it does reflect the mix of our book and broader macroeconomic conditions. Piyush did mention the performance that we're seeing in our premium growth, which has been positive. We're up 8% year-over-year in that area, reflecting partnerships with Porter and growth within our existing franchise. But we don't expect spillover to use your language, the underwriting standards in the businesses are very different.

Mario Mendonca – *TD Securities – Analyst*

I want to flip over to a different, more long-term question on credit. It's my observation that credit cycles, and I'm not even sure if this is a credit cycle, it's hard to tell, to be honest. Credit cycles for our Canadian banks over the last, let's say, 25, 30 years, the amplitude of the credit cycle seems to get lower and lower each time something plays out. What I'm struggling to understand is, is this because our banks -- the loan mix has changed, our banks have become more disciplined in their lending, capital standards require it, or is it simply because we haven't had a cycle. We haven't really had a recession. And the moment we have a recession, the banks will just reveal themselves to be exactly what they've always been, credit cycle, cyclical plays, which is in the past, why they've traded at low multiples. And the reason I'm asking this question is I'm honestly trying to figure out what is the market doing in taking bank multiples to where they are? Are we essentially saying banks aren't cyclical anymore, they don't have credit cycles. So, anybody with a long memory sitting at that table today, maybe help me think this through.

Piyush Agrawal – *Bank of Montreal – CRO*

I'll just answer briefly, Mario. All of us have long memories. We've been around lots of cycles. When I look at what we are seeing right now, from a risk return perspective, it is yet a very profitable portfolio. The point we are looking at right now is that the unemployment rate has crept up, inflation is hurting and rates haven't gone down to where they were 4 or 5 years ago. So all of those are playing in the consumer psyche. I think the impact of the fiscal policy rollouts haven't fully come in. All of these will benefit.

To me, it's a little bit transitory. You can see what's happening in the Middle East. I think there are puts and takes in the larger Canadian economy. And from a credit cycle, we may not be in a recession, but we are treating the softness as one in terms of helping our customers and derisking wherever we can. So, I don't see this as a stress scenario. To me, we're managing very well through this, and we've taken early action. And what's really important is the benefit of the diversification of the portfolio, especially in retail, wholesale, U.S., Canada, all of those are helpful puts and takes into my overall guidance. And I don't see that change. In fact, I'm still standing by what I said at Investor Day, that by the end of '27, you should see us get down to our mid-30s.

Mario Mendonca – *TD Securities – Analyst*

But are banks different today than they were 15 or 20 years ago? Do they not have the same amplitude of credit losses and cycles they had in the past -- that's what I'm trying to figure out.

Darryl White – *Bank of Montreal – CEO*

Well, it's Darryl, Mario. I think banks are different than they were. I can't tell you exactly over the course of the next 15 years how credit cycles will play out. You ask a reasonable question there. But I do think when you look at the quality of the portfolios, the quality of the underwriting standards, the use of technology to guide outcomes and predict where we can help clients sooner than we would have, to use your time frames, 10 or 15 years ago, and the sophistication around which all of that is managed, speaking for our bank, it is a different approach, it's different underwriting, and that should provide over the course of time, like-for-like, better outcomes, and that's what we're seeing.

Paul Holden – *CIBC World Markets – Analyst*

I'll ask a couple of quick ones. So just going back to Aron, you made it very clear that the improvement in U.S. commercial loan growth is broad based, including geography. I just want to drill down on that for a moment, particularly on California, just given the importance of that region in terms of the growth plan, and I understand it's very, early in that strategy, but just want to get any colour on sort of the growth in California specifically.

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

Yes. I think we -- Tony has done a terrific job, and we've really built out a very strong team, as we've talked about, really starting with Investor Day. Bringing in not only talent from the outside in leadership positions, but a significant number of new bankers throughout the state, but also the development of talent from within and the growth there of strong sort of legacy BMO bankers that have always performed well.

So what you're seeing is this combination of the new talent, the new leadership, combined with the strength that BMO has in industry expertise, local delivery. The partnership with Capital Markets, continues to really grow and strengthen, and that's been a tremendous part of our success that we're seeing. You hear us talk a lot about our partnership with treasury and the TPS business and the growth we're seeing there. So, I think just the execution of working with clients broadly and really leaning into where we're strong, in terms of our industry expertise and local delivery, is all what's supporting that growth.

Paul Holden – *CIBC World Markets – Analyst*

Okay. So if I take away from that answer, so the growth in California is kind of on par or similar to the rest of the U.S.

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

Yes. I think in the last 60 days, we've seen actually a little of an acceleration in the West relative to other parts of the country. Again, all of the things I just talked about are actually driving a little bit of -- again, coming off a little bit of a lower base, we're starting to see a little more acceleration of success on the West Coast. Again, leveraging the acquisition we made and the client relationships that we had on the West Coast and just doing a really good job of now providing a broad relationship across Banking, Capital Markets and Treasury.

Paul Holden – *CIBC World Markets – Analyst*

That's perfect. And then quickly turning to Commercial loan growth in Canada, also a bit of a pickup quarter-over-quarter there, and it seems like you're not the only bank that's seen that so far. So just wondering what's driving the growth in Canada and particularly against the context of what looks like a fairly lackluster economy.

Sharon Haward-Laird – *Bank of Montreal – Group Head, Canadian Commercial Banking and North American Integrated Solutions*

It's Sharon. Thanks for the question. Yes, this was a bit of an inflection point for us in terms of loan growth with the first sequential loan growth of 2% that we've seen for a while. And I would describe it as broad-based across industries, geographies, nothing in particular, slightly higher utilization, but mostly just good client growth. And as Darryl mentioned, we've seen strong client acquisition. And so, although our pipelines are at historic levels, as soon as the uncertainty clears, I think we'll see even stronger growth.

Paul Holden – *CIBC World Markets – Analyst*

Okay. So, at 2%, you think is a sustainable type growth rate in the near term and then even accelerating from there?

Sharon Haward-Laird – *Bank of Montreal – Group Head, Canadian Commercial Banking and North American Integrated Solutions*

Yes. I think we'll continue to see sequential quarter-over-quarter loan growth. And as I said at Investor Day, kind of low-single digits, if caution remains, and it could be higher than that if we get some tailwinds from the macro.

Mike Rizvanovic – *Scotiabank GB&M – Analyst*

Want to go back to Aron on the U.S. business. We've obviously seen a pretty good pickup on the C&I side industry-wide, and you sound relatively bullish on the outlook, but can you sort of delineate for us how much of that is just market-driven versus some of the things that you're changing in the business and can you potentially maybe outgrow peers if there is a bit of a pullback, can BMO stand out because of the primacy initiatives that you're pushing through right now?

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

Yes, thanks. It's certainly -- you get the benefit of both. As the economy is strong in the U.S., that is obviously helpful in terms of the activity levels that our clients are pursuing and we benefit from that. We benefit a little bit from utilization growth, which is helpful there. But what I'd say is, what we are seeing is the strength of the commercial franchise. Again, the fact that we now have this West Coast base through the acquisition and then the new leadership and talent coming in and really being able to work with clients. We're really starting to see the good first step in the second quarter. As we talked about, pipelines have been building and we are starting to see strength that would better come through as the optimization kind of program ended.

So, I think we can continue to deliver, as we stated, that mid-single digit, but most importantly, very profitable and sustainable growth, which is really important. But I think equally important, we've got to keep in mind to loan growth, is the fees side of things and our ability to drive non-interest revenue, the growth in Capital Markets that we're seeing across FX and M&A and continued progress on the treasury side, again, 2% year-over-year improvement on penetration. And there's huge upside for us within our own client base, as we've talked about, at 58% penetration, we want to get to 70%, 75%. So, there's a long way to go there, but the team is executing and working well on that front.

Mike Rizvanovic – *Scotiabank GB&M – Analyst*

I might have missed it earlier, there was a comment about the pace of branch openings. I think it had been in reference to California. Was that one per month?

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

Yes, exactly. So one per month in Southern California, and then that will be the rest of this year. We're excited. Lot of centres in San Diego, in L.A., great locations. Again, a design that is focused on delivering for mass affluent clients, really delivering banking, lending and investments, which is a key to the way we think about the financial centre channel going forward.

Mike Rizvanovic – *Scotiabank GB&M – Analyst*

So one per month, but that's part of the 150 -- was it 150 not over a five-year period? The pace seems a bit slower. Does it accelerate maybe in year two and beyond?

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

It does. Yes, you're absolutely correct, it is 150. Right now, we think we'll get to about 27 to 29 new centress next year. So, you'll see that pace significantly increase next year and then as the years go on. Some of the ones that might have opened in the fourth quarter this year will open in the first quarter, and that's just timing. So we'll have a bigger number for '27.

Mike Rizvanovic – *Scotiabank GB&M – Analyst*

Okay. And then just quickly, apologies for the multiple questions. But just on the Personal and Business Banking side, that book has been a bit stagnant the last, 6 or 7 quarters. And I know it's less of a focus for you, Aron, but anything to add there in terms of the slight underperformance versus the industry.

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

Yes. Well, I wouldn't say it's less of a focus. It's obviously given my background, it's really an important part of our business and one that I'm excited about the ultimate opportunity. The team is executing well, the first step we've worked hard on repositioning through an optimization program of reducing the higher rate deposits and focusing on core operating deposits, both on the consumer and the business banking side.

And so that is just given the scale and really focusing on every day improving the client experience and just delivering sustainable growth over time. So, the team -- we're working hard. I'm seeing improvements, I mentioned earlier. Mass affluent segment, up 20% of assets from our financial center channel. That's one indication. We have others, and so we'll work through it and seeing progress.

Darryl White – *Bank of Montreal – CEO*

Thank you, operator, and thanks, everybody, for your questions this morning. I'd just reiterate that our second quarter results continued to demonstrate the disciplined execution on the plan that we outlined for you in March at our Investor Day. We've shown you today that we've made meaningful progress against those commitments and we have strong momentum towards our goal of elevating returns and accelerating growth.

And with that, I will look forward to speaking with all of you again in August.