Bank of Montreal at the Morgan Stanley US Financials, Payments & CRE Conference

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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 2022 and beyond, our strategies or future actions, our targets and commitments (including with respect to net zero emissions), expectations for our financial condition, capital position or share price, the regulatory environment in which we operate, the results of, or outlook for, our operations or for the Canadian, U.S. and international economies, the closing of our proposed acquisition of Bank of the West, including plans for the combined operations of BMO and Bank of the West, the financial, operational and capital impacts of the transaction, and the COVID-19 pandemic, and include statements made by our management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "intend", "estimate", "plan", "goal", "commit", "target", "may", "might", "forecast" and "could" or negative or grammatical variations thereof.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions, or projections will not prove to be accurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The uncertainty created by the COVID-19 pandemic has heightened this risk, given the increased challenge in making assumptions, 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; the severity, duration and spread of the COVID-19 pandemic, and possibly other outbreaks of disease or illness, and its impact on local, national or international economies, as well as its heightening of certain risks that may affect our future results; information, privacy and cyber 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; benchmark interest rate reforms; technological changes and technology resiliency; political conditions, including changes relating to, or affecting, economic or trade matters; climate change and other environmental and social risk; the Canadian housing market and consumer leverage; inflationary pressures; global supply-chain disruptions; changes in monetary, fiscal, or economic policy; changes in laws, including tax legislation and interpretation, or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; weak, volatile or illiquid capital or credit markets; the level of competition in the geographic and business areas in which we operate; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans and to complete proposed acquisitions or dispositions, including obtaining regulatory approvals; critical accounting estimates and the effects of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; the possibility that our proposed acquisition of Bank of the West does not close when expected or at all because required regulatory approvals and other conditions to closing are not received or satisfied on a timely basis or at all or are received subject to adverse conditions or requirements; the anticipated benefits from the proposed acquisition of Bank of the West, such as it creating synergies and operational efficiencies, are not realized; our ability to perform effective fair value management actions and unforeseen consequences arising from such actions; changes to our credit ratings; global capital markets activities; the possible effects on our business of war or terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; 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 more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational non-financial, legal and regulatory, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section of BMO's 2021 Annual Report, and the Risk Management section in BMO's Second Quarter 2022 MD&A, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting shareholders and analysts in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the Economic Developments and Outlook section of BMO's 2021 Annual Report and updated in the Economic Developments and Outlook section in BMO's Second Quarter 2022 MD&A, as well as in the Allowance for Credit Losses section of BMO's 2021 Annual Report and updated in the Allowance for Credit Losses section in BMO's Second Quarter 2022 MD&A. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. Assumptions about Bank of the West's balance sheet, product mix and margins, and interest rate sensitivity were material factors we considered in estimating the fair value and goodwill and intangibles amounts at closing, and assumptions about our integration plan, the efficiency and duration of integration and the alignment of organizational responsibilities were material factors we considered in estimating pre-tax cost synergies.

In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy. Please refer to the Economic Developments and Outlook and Allowance for Credit Losses sections in BMO's Second Quarter 2022 MD&A.

Non-GAAP Measures and Other Financial Measures

Results and measures in both Management's Discussion and Analysis (MD&A) and this document are presented on an IFRS basis. We use the terms IFRS and Generally Accepted Accounting Principles (GAAP) interchangeably. We use a number of financial measures to assess our performance as described herein, including measures and ratios that are presented on a non-GAAP basis. Readers are cautioned that non-GAAP amounts, measures and ratios do not have standardized meanings. 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: efficiency and leverage ratios calculated using revenue presented net of CCPB; revenue and other measures presented on a taxable equivalent basis (teb); pre-provision pre-tax income; amounts presented net of applicable taxes; results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements (i.e. constant currency basis or CCY), adjusted net income, revenues, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio, and other adjusted measures which exclude the impact of certain items such as acquisition and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, restructuring costs and management of fair value changes on the purchase of Bank of the West. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

Certain information contained in BMO's Second Quarter 2022 Management's Discussion and Analysis dated May 25, 2022 for the period ended April 30, 2022 ("Second Quarter 2022 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, 2022, 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, as well as the effects of changes in exchange rates on BMO's U.S. segment reported and adjusted results, can be found in the Non-GAAP and Other Financial Measures section of the Second Quarter 2022 MD&A. Further information regarding the composition of our non-GAAP and other financial measures is provided in the Glossary of Financial Terms section of the Second Quarter 2022 MD&A. The Second Quarter 2022 MD&A is available on SEDAR at www.sedar.com.

June 13, 2022 / 2:30PM, Bank of Montreal at Morgan Stanley US Financials, Payments & CRE Conference

PRESENTATION

Ryan Kenny -*Equity AnalystEquity Analyst, Morgan Stanley*

For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to Morgan Stanley sales representative. We are pleased to have with us Tayfun Tuzun, Chief Financial Officer of BMO. Tayfun will kick us off with a presentation, and then we'll turn to Q&A. Tayfun, over to you.

Tayfun Tuzun - *Bank of Montreal - CFO*

Thank you, Ryan, for hosting us today. As noted on Slide 2, forward-looking statements may be made during this presentation, 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 and considers both reported and adjusted results to be useful in assessing underlying business performance.

So with that to BMO and our strategy and sort of the global economy and how it impacts Canada and how it impacts BMO. BMO Financial Group is a highly diversified financial services provider. We are Canada's first bank and over 200 years old. We are the eighth largest bank in North America by assets, and we have a long history in the United States with presence since 1818. Our strategy is anchored in our purpose, reflecting our commitments to drive a thriving economy, a sustainable future and an inclusive society.

Both the Canadian economy and BMO today are well positioned to deal with these issues that we are seeing in the global economy. Canadian demographics are supportive of growth with strong immigration that is driving the fastest population growth in the G7. In the current environment, I expect Canada will benefit from deglobalization trends and shift in supply chains, given strength in commodities, agriculture and energy and its contiguous geography to the U.S.

In this environment, BMO is positioned to continue to perform well as our strategy is designed to deliver sustained performance through the cycle, supported by our long-standing track record of superior risk management. We have a well-diversified business mix with proven strength in commercial banking and are a top-5 lender in North America with an integrated cross-border approach to serving clients. We have made sustained investments for growth that are paying off, and we are well positioned to benefit from rising interest rates.

Our diversified business mix across Personal and Commercial banking, Wealth Management and Capital Markets has enabled us to deliver solid, well-balanced results, and we operate each of our businesses on an integrated North American scale, enhancing our scale advantage and leveraging capabilities across markets on both sides of the border. BMO's commercial banking business is a leader in North America and works in strong collaboration with our U.S. wealth business with almost 30% of U.S. commercial clients having a wealth relationship.

We've expanded the scope of this business in the U.S. on a national basis with local presence and expertise serving 14 industry verticals, opening 6 new offices in key growth markets since 2019. Our Commercial Banking and Capital Markets teams are accelerating efforts to successfully partner to deliver world-class Capital Markets services for our mid-market commercial clients. Our U.S. operating segment continues to be a key area of growth.

The U.S. contribution to the bank's earnings has grown from 15% to 36% in the last 10 years. 60% of our growth has been organic, supplemented by highly successful acquisitions. The addition of M&I in 2011 doubled our footprint, which was further augmented by the addition of GE Transportation Finance in 2015. And our more recent addition of KGS meaningfully enhanced our U.S. Capital Markets business. With our announced acquisition of Bank of the West, we solidify our position as a leading North American bank, meaningfully increasing our scale and accelerating the growth potential for our high-performing U.S. franchise.

The Bank of the West is a well-performing bank with a competitive position in leading U.S. markets, complementary to our own, including the highly attractive California market. As announced in December and upon pending approval, BMO will have a top 5 position in 24 U.S. markets with strong share and growth opportunities in key MSAs. We will be doubling our footprint and taking our combined customer base to 3.8 million, while bringing the U.S. contribution to the bank's earnings to 44% on a pro forma basis.

We shared our cost synergy targets and announcement of the transaction. And since then, we have been working to identify revenue synergy opportunities across our businesses. The opportunities identified reflect leveraging BMO strengths in a larger, very attractive footprint. Based on our initial expectations, we expect to achieve PPPT synergy opportunities in the range of $450 to $550 million over the next 3 to 5 years, with approximately 60% driven by our commercial and Capital Markets and 40% by our Personal and Wealth businesses.

We are on track against the assumptions announced in December including capital generation and expense synergies, and we look forward to closing the transaction by calendar year-end, and our teams are making good progress in preparing for a successful integration.

In 2021 and the first half of fiscal '22, we took significant steps to achieve our ambition to be a high-performing, digitally enabled, future-ready bank, and we delivered very strong financial performance. We led our competitors in efficiency improvements and delivered revenue growth almost double the peer average in fiscal '21, while we continue to invest for future growth. With targeted actions to improve our long-term profitability, our efficiency ratio has declined 720 basis points since 2018 to 54.7% year-to-date. And ROE improved 260 basis points to 17.2% year-to-date.

Overall, our interest rate risk management approach has worked very well, protecting our NIM in the low-rate environment. Now we are well positioned for the rising rate environment. A 100 basis point rate shock is expected to benefit net interest income by $635 million over the next 12 months. Although still early in the rate cycle, to date, our deposit pricing and stability has tracked in line with or better than our model assumptions.

Our 30-year historical average loss rates remain well below our peers'. It's underpinned by a strong risk culture and consistent risk appetite with a well-diversified commercial portfolio that is 85% secure and the majority of which has a sole or lead customer relationship. We are in a strong position for any normalization in credit conditions.We have consistently demonstrated our core strength of taking and managing risk responsibly and profitably through economic cycles, and this has enabled us to continue to drive consistent shareholder returns. Those returns have included returning capital to our shareholders. We hold the record for the longest running dividend payout of any company in Canada at 193 years. We continue to strengthen our capital, including executing the planned equity issuance in advance of the announced acquisition of Bank of the West and are well positioned to support both the acquisition and client-driven balance sheet growth.

As we continue to grow the bank, we are focused on our purpose-driven commitments to a thriving economy, sustainable future and inclusive society. We are committed to a sustainable future, including the investments that will be needed to shift to cleaner energy production, including leading key financing activities and leveraging our climate institute and energy transition teams to be our clients' lead partner in achieving their energy transition goals and our collective ambition for a net zero world.

We are consistently recognized for our industry leadership, including being one of only five Canadian companies and two North American banks included in the Dow Jones Sustainability World Index. Investments in our North American growth strategy, climate transition and digital investments position us well to capture growth opportunities as we support our customers in navigating the changing environment. As the eighth largest bank and a top 5 commercial lender in North America, we are uniquely positioned to advise our clients on both sides of the border as the trend to deglobalization accelerates.

As supply chains shift, North American businesses are investing, automating and building back inventories. We are already seeing these forces at work with double-digit commercial loan growth in both Canada and the U.S. this quarter. We are further benefiting from ongoing investments to expand our commercial presence, add talent and extend product and digital capabilities that are attracting new clients and strengthening existing relationships. In summary, we have a proven dynamic, purpose-driven strategy for growth that is underpinned by superior risk management and are well positioned to deliver sustained performance in any environment. And then with that, I will turn it over to Ryan for Q&A.

QUESTIONS AND ANSWERS

Ryan Kenny - *Equity Analyst, Morgan Stanley*

So Tayfun, you mentioned the Bank of the West acquisition, doubling your footprint in the U.S. Once that's complete, do you feel like BMO is rightsized in terms of your U.S. presence?

Tayfun Tuzun - *Bank of Montreal - CFO*

Well, clearly, for the next few years, we will focus on integrating Bank of the West to our existing organization. We have a lot of work ahead of us converting their systems, converting all of their businesses into our business platforms. And then beyond that, obviously, trying to hit the same level of performance levels that we've come used to hitting at BMO within the new Bank of the West franchise. That takes us to about a 45% income contribution from our U.S. segment. We're not saying that is sort of a cap for us in terms of the split between Canada and the U.S.

But before we do anything in addition to Bank of the West, we have to prove to our shareholders that the promises, the commitments that we've made regarding the transaction are realized. We can capture the cost synergies, we can add the revenue synergies. And then beyond that, I think expanding to the West Coast potentially opens other areas, but it's too early at this point to predict how will that play out. But we will continue to pursue growth in the U.S. And now we have this important step with Bank of the West.

And depending on how that plays out and what other opportunities may exist in the sector, we may see potential opportunities beyond Bank of the West. But at this point, we have just Bank of the West to focus on.

Ryan Kenny -*Equity AnalystEquity Analyst, Morgan Stanley*

And a lot of the U.S. banks are seeing some regulatory headwinds, closing, pending acquisitions, we're seeing it in a variety of banks in our coverage. Are you seeing anything there? And is the timeline of the acquisition closing, progressing as expected?

Tayfun Tuzun - *Bank of Montreal - CFO*

I think pretty much everything is going according to our expectations. When we announced the transaction in December, we predicted that we will be able to close the transaction in our first quarter of fiscal year '23, most likely before the calendar year ends this year. And everything that we see, the process itself would indicate that we're still within that expectation. And there's nothing that we know of or that we've heard that alters our expectation.

Ryan Kenny - *Equity Analyst Equity Analyst, Morgan Stanley*

Shifting a little bit to NII and balance sheet. So the Fed just started doing QT, the Bank of Canada is doing QT. What are you seeing in terms of deposit balances? And how should we think about how much runoff you would expect?

Tayfun Tuzun - *Bank of Montreal - CFO*

Look, I think this QT in size with respect to Fed's own actions is about 3x as big as the last one. And as such, I think it's reasonable to expect that we will see a more visible impact on liquidity in the system. What we see today, Canada is stable. We really have seen relatively flat balances quarter-over-quarter in deposits in Canada. There has been more of a sort of a low-level outflow in the U.S. Pretty much everything is within our modeled expectations. My perspective is that as QT becomes a more full-fledged exercise, you will probably see an accelerating level of deposit outflows in the U.S., but that should be expected.

Nobody was expecting to hold on to the excess deposits that we've been able to build on our balance sheet. What is more interesting, I think, in my mind, is how that plays out with respect to deposit pricing. And there's going to be an increasing gap between loan growth and deposit growth. And as such, in addition to focusing on the outflows themselves, it will be interesting to see how deposit betas behave and how pricing changes. I suspect that this cycle will be a little bit different than the last cycle because we didn't necessarily have the significant uplift in loan growth in the last cycle, which may put a bit more pressure deposits in this cycle.

Ryan Kenny -*Equity AnalystEquity Analyst, Morgan Stanley*

And the Bank of Canada has been, it seems, a little bit more front-footed than the Fed with rate hikes. It seems like Bank of Canada is maybe a month or two ahead of the Fed in terms of the pace of rate hikes. Are you seeing yet any difference in deposit competition, deposit betas in the Canadian geography versus the U.S.?

Tayfun Tuzun - *Bank of Montreal - CFO*

Yes. Canada is definitely more stable compared to the U.S. The U.S. has a more dynamic deposit picture. And it's a function of the competitive landscape. And so we expect a dynamic outcome in the U.S. compared to Canada. But I think loan growth in Canada is as strong as it is in the U.S. And potentially could have a longer tail given the fact that I think some of the world's problems today, whether it's energy or commodities or agriculture, actually play to the strength of the Canadian economy.

Now as such if the Canadian economy has a different trajectory compared to the U.S. economy, maybe a bit of a longer tail then with stronger loan growth, you probably are going to see a different deposit picture in the Canadian banking system than you see in the U.S.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

But it's more dynamic in the U.S. meaning higher deposit beta.

Tayfun Tuzun - *Bank of Montreal - CFO*

Correct. More - sort of moving deposit betas in the U.S. where I believe that there is going to be a more stable deposit beta picture in Canada.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

Got it. So you also mentioned, one of your slides talked about the digital bank strategy in the United States and that you offer savings accounts in all 50 states digitally. So can you talk a little bit about the deposit gathering strategy there? And how big of an opportunity it is?

Tayfun Tuzun - *Bank of Montreal - CFO*

Yes. So as you know, our footprints at BMO without Bank of the West is more concentrated in the Midwest. So 2, 3 years ago, we invested heavily to build a national digital deposit platform. So we have the ability to originate deposits in all 50 states in the U.S., which actually interestingly enough gives us a distinct advantage in utilizing Bank of the West's footprint together with BMO's existing footprint. And although they have a very concentrated deposit presence in California, they operate in many of the states between where we are today and California, but more on a thin branch environment.

And I think that our current digital platform gives us a unique ability to cover a large portion of the U.S. with existing branches and with an overlay of this digital deposit gathering. Look, I view that in banking, yes, we go through cycles, and we just are coming out of one where nobody wanted deposits because there was excess liquidity. But in my mind, the core value in banking lies in deposits, and I feel very good about this additional new source that we have going into this cycle that we did not have before because we have outpaced our competitors, especially in the commercial loan growth in the U.S. We have done it year after year in the past 5, 6, 7 years. And so we need a good solid core deposit support. And the existence of this new platform is going to be very helpful.

This is similar actually to Canada where we have a very successful digital platform in our personal banking business. We generate more digital revenues than any other bank in Canada. So north of the border, south of the border we have this digital-first approach that works well to generate revenues as well as to support the balance sheet with core deposit growth.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

And on the loan side, you mentioned earlier that some of the trends in terms of demand for energy and agriculture is supportive for Canadian lending, and you are a huge commercial lender. So maybe you could just talk a little bit about commercial loan demand that you're seeing? And then does the shift to net zero and what's going on in the world right now, how big of an opportunity is that in terms of lending for you?

Tayfun Tuzun - *Bank of Montreal - CFO*

I will come back to that because that is a very significant growth opportunity over the next three to five years for us. We've made that a priority. In terms of - more generically, loan growth, we are the #2 commercial lender in Canada. And as such, we do come across a significant portion of the economy. We have clients in a well-diversified set of sectors. And for the past 3, 4 quarters, we have seen a very healthy level of growth in commercial, both sides of the border I should say and it has been quite diversified. My expectation is, again, going back to my view that the Canadian economy will do relatively well in the current environment. There is going to be probably in the foreseeable future, very healthy support for loan growth in commercial.

We are estimating that we will have high single-digit loan growth year-over-year on both sides of the border. With respect to the climate risk, our commitment to net zero, with all the efforts that we have in place whether it's in our Capital Markets through the formation of our energy transition group, our climate institute, and just a broader commitment at the top of the company to a sustainable future, we have made some big commitments.

In 2019, we made, I think, a $300 billion commitment to fund energy transition. We are already through $170 billion of that. This was established for 2025 as a target. So we are ahead of that. We are looking at other opportunities to engage with our clients. As you know, Canadian economy is an energy-rich economy. And a couple of years ago, we actually stepped back from the U.S. energy business. So our focus currently is solely in Canada and some of the capabilities that we have and the broader company-level commitments are going to serve us well.

Look, I mean, there's trillions of dollars needed to help globally the energy sector to transition into this net zero world and we are a big player in that. And I feel actually very good about the opportunities in the future that will be in place for us.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

And what about mortgages. Can you give us some color on what you're seeing in the Canadian mortgage market?

Tayfun Tuzun - *Bank of Montreal - CFO*

Yes. That's always a question. It's been a question about Canada, the housing industry has remained very healthy. Obviously, last couple of years an extraordinary movement in housing prices has gotten a lot of attention. But look, there are differences between Canada and the U.S. Immigration is a huge factor. I think the government this year has a commitment to 241,000 target level immigrants. And then it's a growing level. And they have the same commitment over the next three or four years.

And that creates a differentiating factor for Canada. Canada has the highest population growth among G7 nations. There are some built in impediments to close the supply and demand gap in Canada. There are some land restrictions. And so there are a number of factors in Canada that don't exist, that provide a very healthy level of support for housing. In addition to that, I think the current low unemployment levels have helped the post-COVID environment. And the preference is that people have chosen with respect to where they live and how they live, over the last two years has provided an incredible amount of support.

But now we are seeing double-digit declines in housing sales. We are seeing a much more moderate pricing picture as we look ahead. But at the same time, banks have positioned themselves very well. At BMO -- our current LTV portfolio, our LTV exposure is about 51%, 52%. So you have this one huge cushion that will help you if there is a significant downturn in housing prices. There are some important factors in the way we underwrite mortgages. For uninsured mortgages, our LTV level is 70% at the highest. And then when we underwrite the borrower, we underwrite them to a mortgage rate that is 200 basis points above their mortgage coupon. So we have a good sense as to the resilience of the household cash flows. And plus, BMO's loan underwriting approach is in our variable rate loans, when rates change, when rates move up, the payment does not change. The borrower still has the same payment. And the amortization schedule changes. So the borrower has time to adjust to a higher payment when that mortgage refinances.

So overall, I think the way it will play out -- it will probably slow down mortgage growth in the industry, but it's not a risk exposure for the system. And at BMO, given our focus on risk management and the amount of time that we spent in stress testing portfolio currently as well as stress testing the borrower at origination gives us a significant comfort level that we'll do just fine.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

And in terms of credit quality of your loan book across all loan asset classes, are you seeing any signs of normalization or deterioration?

Tayfun Tuzun - *Bank of Montreal - CFO*

Nothing yet. When you look at the current metrics, the picture is still very benign. Our credit migration this past quarter actually was positive. We also have built some predictive models to help us not only just focusing on current credit metrics, but what's behind the curtain with respect to the health of the cash flows whether it's at the household level or the corporate levels. So there's nothing that tells us today that the picture is going to change significantly in the near term.

But at the same time, sitting here, looking at sort of the economic forecasts, higher interest rates, higher inflation, we do believe that the credit picture will normalize. Our Chief Credit Officer, Pat Cronin has been predicting a normalization in the next two quarters for the last four quarters. So he keeps pushing it out. And I think that's pretty much the same picture everywhere. But I think we're probably closer to that today. We're thinking maybe in the end of the year, this year or early into '23.

But even within our world, normalization is a relative term, we're still in the high teens, low 20 basis points for impaired provisions. So we obviously are coming off very, very low levels. And that looks like a significant change, maybe even doubling where we are today. But in the whole scheme of things, compared to historical levels, these are still very benign numbers. And on top of it, we have the luxury of relying on our historical performance in terms of credit, both on the consumer side as well as the commercial side. So again, we have a level of comfort with the risk profile. But we do expect normalization here.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

Yes, pushing out the normalization…

Tayfun Tuzun - *Bank of Montreal - CFO*

Pushing out normalization so every quarter we can revisit this topic.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

So turning a little bit towards fee income. So your U.S. Capital Markets business seems to be doing pretty well. Could you give us some color on your strategy there?

Tayfun Tuzun - *Bank of Montreal - CFO*

Yes. Look, I mean, a couple of years ago, we had made some very key acquisitions, KGS and Clearpool have been 2 of those acquisitions that we have now fully integrated into BMO Capital Markets. KGS has expanded our capabilities in asset-based structuring, and we are now in the CMBS business. We are expanding our U.S.

rates business. And we are also actually investing to expand our U.S. prime business. And it has been a very successful effort on our end, which enabled us also to add more talent into the company.

We have a very meaningful presence. Obviously, in Canada, we are already a market leader. And now we're matching that with significant growth opportunities in the U.S. And we will continue to support the business. Obviously, this is a cyclical business and some parts of it are more cyclical than others. We're seeing that in the ECM and DCM businesses today. But regardless, we have a full-term commitment.

As large as we are -- currently, we are the #5 commercial lender in North America, which gives us significant partnership opportunities between our Commercial business and our Capital Markets business. And we look forward to actually an even more enhanced fee income picture going forward with Bank of the West, capturing, for example, the exposure to the technology sector in California through the Bank of the West acquisition, connecting them with our Capital Markets business and building a brand out in California will be a very positive factor for the Capital Markets business.

And we will look to enhance the business with tuck-in acquisitions where we can find the opportunities. So we're quite optimistic that Capital Markets will continue to play a big role in the broader BMO strategy.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

What about wealth management? There's been a lot about formation and geographies like California. Is there an opportunity to take more share in the U.S.?

Tayfun Tuzun - *Bank of Montreal - CFO*

Yes, the timing actually has worked very well because some of you may know that we sold our EMEA Asset Management business last year, which was a very timely transaction and the purpose was to concentrate in North America. And we're doing that both in Canada and the U.S. And as you suggested, Bank of the West now opens a new door. We have a very successful partnership at BMO today in the U.S. between Wealth and Commercial. I think we probably have one of the highest penetration ratios in the industry between Wealth and Commercial. And our goal is to replicate that in California, given sort of that market and the profile of that market for growth in wealth.

Again, that's part of our overall revenue synergy range that we put out a couple of weeks ago during our earnings call. And I do believe we have actually better opportunities than we even laid out. Once we see the customer data once we get to meet their clients, I think there is more there in California. So -- and with, again, some infrastructure investments and presenting ourselves as one platform for our Wealth clients, we will probably enhance the current performance even more so than what we have at BMO.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

Great. So we have time for one more question. So why don't we hit on expenses. So one of your medium-term objective is operating leverage of greater than 2%. How do you think about the right levels to operate at, balancing efficiency with the need to invest for growth?

Tayfun Tuzun - *Bank of Montreal - CFO*

Look, we have a firm commitment to positive operating leverage. And currently, our efficiency ratio is above the industry average in Canada. And as long as that's the case, we will hold that commitment very firm. And so far, we have had 8 quarters of positive operating leverage in a row. We're not committing to having positive operating leverage every quarter. But I do believe that our focus on managing our expenses in line with revenues is very firm. We continue to invest in the company.

Over the past 3, 4 quarters, the level of investments that we've made back into the company, whether it's in sales force expansion or in technology has been higher than any other period at BMO. And we have seen the results. Revenue growth has been very, very strong. But now obviously, given the change in the tone, given the change in the environment, we are reassessing the pace of some of those investments, both in sales force expansion as well as in technology and we will abide by our commitment to positive operating leverage. And we also have to take into account the current inflationary environment, especially on compensation inflation, but we're still maintaining the same focus.

Ryan Kenny - *Equity Analyst, Morgan Stanley*

Great. So with that, we're out of time. Thank you so much, Tayfun, for joining us.

Tayfun Tuzun - *Bank of Montreal - CFO*

Thanks, Ryan. Thanks for inviting us.