BMO Financial Group

Q1 2022 Conference Call

CORPORATE PARTICIPANTS

Christine Viau
Head of Investor Relations

Darryl White
CEO

Tayfun Tuzun
CFO

Pat Cronin
CRO

Dave Casper
CEO, BMO Harris Bank N.A.
and Group Head, N.A. Commercial Banking

Dan Barclay
Group Head, BMO Capital Markets

Ernie Johannson
Group Head, N.A. Personal & Business Banking

Deland Kamanga
Group Head, BMO Wealth Management

CONFERENCE CALL PARTICIPANTS

Doug Young Desjardins Securities Inc.

Ebrahim Poonawala BofA Securities

Gabriel Dechaine National Bank Financial, Inc.

Mario Mendonca TD Securities

Meny Grauman Scotiabank Global Banking

Paul Holden CIBC Capital Markets

Scott Chan Canaccord Genuity Corp.

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", "schedule", "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; 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 First Quarter 2022 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 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 First Quarter 2022 Report to Shareholders, 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 First Quarter 2022 Report to Shareholders. 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 First Quarter 2022 Report to Shareholders.

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 First Quarter 2022 Management's Discussion and Analysis dated March 1, 2022 for the period ended January 31, 2022 ("First 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 January 31, 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 BMO's First 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 First Quarter 2022 MD&A. The First Quarter 2022 MD&A is available on SEDAR at www.sedar.com.

PRESENTATION

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

Thank you, and good morning. We will begin the call today with remarks from Darryl White, BMO's CEO; followed by Tayfun Tuzun, our Chief Financial Officer; and Pat Cronin, our Chief Risk Officer.

Also present to take questions are Ernie Johannson from Canadian P&C; Dave Casper from U.S. P&C; Dan Barclay from BMO Capital Markets; and Deland Kamanga from BMO Wealth Management.

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 an adjusted basis and considers both to be useful in assessing underlying business performance. Darryl and Tayfun will be referring to adjusted results in their remarks unless otherwise noted as reported.

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

Darryl White – *Bank of Montreal – CEO*

Thank you, Christine, and good morning, everyone.

Before I begin, I want to acknowledge the humanitarian crisis taking place in Ukraine. The news of Russia's invasion of Ukraine and war in Europe impacts us all, but particularly the citizens of Ukraine, the citizens of Russia and Ukrainians around the world, including here in Canada. At BMO, we stand with our Ukrainian and Russian employees, customers and members of our community in this time of need.

To help support global aid efforts, BMO has committed $200,000 to the Canadian Red Cross' *Ukrainian Humanitarian Crisis Appeal*, and we are accepting donations on behalf of the Red Cross at BMO branches across Canada.

Turning to our Q1 results. Today, we announced another quarter of very strong performance as we continue to build on our operating momentum to start the year. First quarter adjusted earnings per share of $3.89 were up 27% from last year with pre-provision pre-tax earnings of $3.3 billion, which increased 18%.

Results were driven by strong performance in Canadian and U.S. P&C, including double-digit commercial loan growth on both sides of the border, continued strength in BMO Capital Markets as well as good underlying performance in Wealth Management. Our growth is underpinned by our consistent risk and underwriting practices and continued strong credit quality.

We're executing well on our strategic plan and the targeted investments we're making across our businesses in sales capacity, in marketing and award-winning digital capabilities are contributing to our stronger revenue growth, up 12% this quarter.

Expenses remained well managed, up 2%, excluding higher performance-driven compensation as we're reinvesting the savings from the exit of lower return businesses. At the same time, we delivered strong operating leverage of 4.8% and improved efficiency by 250 basis points over the last year to 53.8%, supporting an ROE approaching 19%. And we remain committed to delivering positive operating leverage for the year.

We continue to strengthen our capital position with a CET1 ratio of 14.1%, which positions us well for continued customer-driven balance sheet growth and the acquisition of the Bank of the West.

Turning to our businesses. In Canadian P&C, investments we've been making in key customer-facing roles, innovative products and enhanced digital experiences positioned us well for the rebound in consumer activity. We're gaining share across core product categories and delivering sustained leading performance with double-digit PPPT growth of 19% this quarter, strong ROE and improved efficiency.

U.S. P&C also had strong results with PPPT up 12%, continued positive operating leverage and ROE of 19.5%.We had strong growth in Commercial Banking on both sides of the border with balances up 10% in Canada and 14% in the U.S., excluding PPP loan paydowns, with almost half of that growth driven by new clients. In the U.S., we continue to grow our national presence, including recently expanded operations in the high-growth Florida market, where our teams provide clients access to BMO's full array of financial services and industry expertise. These expansion markets are now contributing approximately 25% of new client growth.

BMO Wealth Management is key to our growth strategy, and we continue to have good underlying performance in Traditional Wealth. This quarter, we completed the sale of our EMEA and U.S. asset management businesses and are well underway in repositioning Wealth to grow in North America, investing in advisers and private bankers delivering best-in-class client experience. As a result of our innovation and relentless client focus, we've been leading the Canadian ETF industry in net new sales for the past 11 years with an expanded suite of award-winning products.

BMO Capital Markets had record PPPT of over $900 million, up 30% from a strong quarter last year, demonstrating the diversification and strength of our North American platform. We continue to benefit from investments to reposition our business, including enhanced operational efficiency and

risk management, and we're now operating at a run rate well above where we were two years ago. We continue to accelerate our growth, taking the top spot in Canadian ECM in 2021 and in Q1 and in M&A this quarter as well.

Performance across our businesses is supported by the execution of our Digital First strategy, where consistent investments are driving loyalty, growth and efficiency. We're continuously modernizing technology, building advanced capabilities and leveraging data and analytics to enhance the customer and employee experience.

One great example that brings this to life is *BMO Business Express*, our industry-leading business onboarding platform, which has exceeded $2 billion in authorizations, supporting over 33,000 businesses with rapid access to capital. In addition to reducing the onboarding process from days to minutes, a single system architecture supports the business customers on both sides of the U.S. and Canada border. Personalized digital services like these, drive above-market growth with business banking balances up 15% and create efficiency, freeing up valuable time for our colleagues to provide one-on-one financial advice.

We're also making significant process on our cloud modernization journey to enhance scalability and security while driving innovation and efficiency. For example, we recently migrated our Transportation Finance business to the AWS cloud, leading to annual cost savings of US$10 million and enabling profound changes in how our business operates, competes and creates value for our customers.

Turning to our U.S. segment. We've been executing against our proven strategy to steadily deliver growth and grow our presence both organically and by building on key acquisitions. Performance remains strong, contributing 39% of the bank's total earnings with an efficiency ratio of 53.9% and a return on equity of over 18% in the quarter, both right in line with the overall bank.

The announced Bank of the West acquisition will meaningfully increase our scale and growth potential of our already high-performing U.S. segment when it closes. As we laid out in December, Bank of the West is a well-run, well-performing bank with a competitive position in leading U.S. markets complementary to our own, including a highly attractive California market. Their businesses are also highly complementary, 60% commercial and 40% retail, and we see significant opportunities to grow together.

Integration planning is well underway, and we remain highly confident in achieving the identified cost synergies we talked to you about last quarter. We continue to expect the acquisition to close by the end of calendar 2022 and look forward to welcoming the Bank of the West employees and customers to BMO.

Our purpose-driven strategy is achieving strong financial performance that enabled the bank to invest in improving the well-being of our employees, customers and communities. This quarter, we launched 'Business Within Reach', the BMO for Black Entrepreneurs lending program, committing $100 million in loans to help black-led businesses start up, scale up and grow. And later today, we'll be announcing new expanded support for women entrepreneurs.

Recently, we became the first Canadian company to announce that we will join Breakthrough Energy Catalyst, whose mandate to accelerate clean technologies and climate solutions critical to getting the world to net zero carbon emissions strongly aligns with BMO's commitment to mobilizing capital for a sustainable future.

Next week, we'll be publishing our annual sustainability reporting, which will include the 2021 BMO climate report. In recognition of our leadership, we were named to Corporate Knights' 2022 Global 100 Most Sustainable Corporations in the World, ranked as the most sustainable bank in North America for the third year in a row.

Looking forward, while the current environment clearly poses a number of macro risks and uncertainties, high levels of household savings and demand is supportive of continued good GDP growth in Canada and the United States. Our clients have proven their resilience throughout the pandemic, and we continue to support them in navigating challenges, including supply chain disruptions and higher inflation. With our diversified and advantaged business mix and our strong operating momentum, we are very well positioned to perform in any environment.

I'll now turn it over to Tayfun.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you, Darryl. Good morning and thank you for joining us.

My comments will start on Slide 12. First quarter reported EPS was $4.43 and net income was $2.9 billion. On an adjusted basis, EPS was $3.89, and net income was $2.6 billion, up from $2.0 billion last year, driven by record revenue of $7.1 billion, up 12%. Expenses increased 7%, impacted by higher performance-based compensation in line with strong revenue growth.

The divestiture of our asset management business in EMEA and the U.S. this quarter and our private banking business in Hong Kong and Singapore last year reduced total bank revenue by approximately 2.5% and expenses by 4% with a nominal impact on net income.

We have now delivered double-digit PPPT growth for five quarters in a row with particularly strong performance in our P&C and Capital Markets businesses.

Credit continues to be benign. This quarter, we had a recovery in the provision for credit losses of $99 million. Pat will speak to these in his remarks.

Before getting into the details of the performance in the quarter, let me take a moment to go through the adjusting items related to the announced acquisition of Bank of the West on Slide 13.

Under purchase accounting, the difference between the purchase price for Bank of the West and the fair value of its assets and liabilities at close is recorded as goodwill. Since goodwill is deducted from capital, changes in fair value, relative to the assumptions at announcement, will impact our capital ratios at close. The fair value of fixed rate loans, securities and deposits is largely dependent on interest rates. If rates rise, the fair value declines and goodwill increases. However, the fair value of floating rate assets and liabilities and non-maturity deposits are accounted for at par, providing no natural offsets.

Between now and closing of the acquisition, we are taking actions to proactively manage the exposure to capital from changes in the fair value with the goal of creating an economic and risk neutral outcome. As part of these fair value management actions, we entered into interest rate swaps that rise in value as interest rates rise, resulting in mark-to-market gains and higher capital to offset the impact of the higher goodwill.

Since the swaps create an exposure to interest rate risk, we purchased a portfolio of match duration U.S. treasuries to maintain a risk-neutral position. As shown in the illustrative example on the slide, together, these transactions aim to mitigate the impact of interest rate changes on the fair value, goodwill and the equity needed at close. In addition, this structure also allows us to maintain the accretion projections that we shared with you in December. The associated revenue impact from the management activities are treated as adjusting items and the impact to our Q1 results is shown on Slide 14.

In Q1, higher interest rates resulted in mark-to-market gains of $517 million recorded in trading revenue. We recorded $45 million of net interest income on the treasuries. The after-tax impact was $413 million, which increased our capital ratio by 13 basis points.

We have also entered into foreign exchange forward contracts to mitigate changes in the Canadian dollar equivalent of the purchase price on close. These qualify as accounting hedges with changes in the fair value of the contracts recorded in other comprehensive income until the close of the transaction. Upon close, the foreign exchange gain or loss recorded in Accumulated Other Comprehensive Income will be recorded as an adjustment to goodwill. Details of the adjusting items for the quarter are shown on Slide 37, which include impacts related to divestiture of the asset management business. The remainder of my comments will focus on adjusted results.

Moving to the balance sheet on Slide 15. Average loans were up 7% year-over-year and 3% quarter-over-quarter. Business and government loans increased 8% year-over-year and 6% quarter-over-quarter, excluding the impact of the continued wind down of our non-Canadian Energy portfolio, and deconsolidation of our customer securitization vehicle, reflecting strong commercial loan growth in our P&C businesses.

Consumer balances were up 9% from prior year, reflecting growth across our P&C and Wealth businesses.

Average customer deposits were up 8% year-over-year, with growth across all operating groups.

Average loan growth in our P&C business is accelerating. Excluding PPP loans in the U.S., loan growth is expected to average in the high single digits on a year-over-year basis.

Turning to Slide 16. Net interest income was up 11% from last year and up 10% on an ex-trading basis, primarily driven by balanced growth in our P&C and Wealth businesses. Total bank net interest margin, ex-trading, was up 2 basis points from the prior quarter. On a sequential basis, margin was up 5 basis points in Canadian P&C due to higher loan spreads, and higher mortgage prepayment fees. In U.S. P&C, margin was up 3 basis points, also reflecting higher loan spreads. We expect total bank NIM ex-trading to widen modestly in the second half of the year.

Moving to our interest rate sensitivity on Slide 17. As shown on the slide, a 100 basis point rate shock is expected to benefit net interest income by $540 million over the next 12 months. The impact of a 25 basis point increase in short-term rates would add $124 million to revenue over the next 12 months. Our modeled sensitivity increased from last quarter due to updated assumptions on the behavior of pandemic-related deposit growth and include approximately $160 million benefit assuming that a portion of surge deposits remain stable as rates rise.

Turning to Slide 18. Non-interest revenue, net of CCPB, was up 12% from the prior year and up 16% on an ex-trading, ex-divestitures basis. Most categories have increased, including particularly strong underwriting and advisory fees. Sequentially, net non-interest revenue was up 15% or 7% ex-trading and ex-divestitures. Trading non-interest revenue was particularly strong, reflecting higher equities, interest rate and foreign exchange revenue, driven by higher client activity.

Moving to Slide 19. Excluding higher performance-based compensation, expenses were up 2% from the prior year with targeted investments in sales force, technology and marketing, partially offset by the impact of divestitures. Quarter-over-quarter expense growth of 3% was driven by higher employee-related costs due to stock-based compensation for employees eligible to retire and seasonality of benefits that is recognized in the first quarter each year, which together added approximately $235 million this quarter.

We plan to continue investing in our sales force expansion as well as technology and digitization projects. As Darryl mentioned, these disciplined and strategic investments have helped fuel our revenue growth and created efficiency gains in our businesses.

In Canadian P&C, our investments in digital and data analytics are driving top-tier digital sales that represent close to twice our branch share.Enabling our customers to transact more digitally, including through our new global money transfer solution creates capacity for our branches and call centers to focus on advice. Combined with the expansion of sales roles, including mortgage specialists, financial planners and personal and commercial bankers, these investments are leading to market share gains across key relationship products, strong revenue growth, averaging 13% over the last four quarters and efficiency that is now below the peer average. We are achieving similar results across our U.S. P&C, Wealth and Capital Markets businesses.

With the constructive economic background and building on our recent success, we plan to continue to reinvest for growth. We estimate that the combined impact of these investments and some inflationary pressures on compensation will result in full year expense growth of approximately 1% to 1.5%, excluding the impact of performance-based compensation and including the full impact of divestitures. Since we began increasing our investments in the second half of last year, the year-over-year expense growth should be lower in the second half of this year compared to the first half. We continue to expect positive operating leverage for the year.

Moving to Slide 20. Our capital position continued to strengthen with a common equity Tier 1 ratio of 14.1%, up 40 basis points from the prior quarter, reflecting strong internal capital generation, the sale of our EMEA asset management business and the impact of actions related to the management of fair value changes that I mentioned. Source currency risk-weighted assets were higher, reflecting strong growth in our commercial lending businesses. We now have $10.3 billion in excess capital to our 11% target and continue to project the same capital generation and issuance estimates that we shared with you at the time of the acquisition announcement of Bank of the West in December.

Moving to the operating groups and starting on Slide 21. Canadian P&C delivered record net income of $1 billion, reflecting pre-provision, pre-tax earnings growth of 19%. Revenue was up 15% from the prior year. Higher net interest income reflected good balance growth while higher non-interest revenue across all categories reflects higher customer activity. Expenses were up 9%, reflecting investments in the sales force and in technology. Average loans were up 9% from last year, reflecting continued strength in residential mortgage lending and 10% commercial loan growth. Deposits were up 7% year-over-year.

Moving to U.S. P&C on Slide 22. My comments here will speak to the U.S. dollar performance. Net income was $537 million compared to $456 million in the prior year, with 12% growth in pre-provision pre-tax earnings. Revenue was up 9% from last year, reflecting good growth in both net interest income and non-interest revenue. Expenses were up 5%, primarily due to higher employee costs.

On the balance sheet, excluding PPP loans, average loans were up 12% from the prior year. On a period-end basis, commercial loans, excluding PPP, were up 10% from the prior quarter. Average deposits increased 7% year-over-year.

Moving to Slide 23. Wealth Management net income was $316 million down from $344 million last year, reflecting the impact of divestitures, which reduced net income growth by 3% as well as lower insurance income. Traditional Wealth net income was $262 million, with good underlying revenue growth of 12%, including strong organic growth in client assets, offset by the impact of divestitures. Expenses were down 2%.

Turning to Slide 24. BMO Capital Markets had a record quarter with net income of $712 million, up 47% from the prior year. Investment and Corporate Banking revenue was up 41%, driven by strong advisory and underwriting revenue, reflecting strong M&A activity. Global Markets revenue increased 14%, reflecting elevated client activity. Expenses were up 18%, mainly due to higher performance-based compensation and technology spend.

Turning now to Slide 25 for Corporate Services. Corporate Services net loss was $130 million compared to a net loss of $126 million in the prior year.

To conclude, we had very strong operating performance, resulting in record quarterly revenues and net income to start the year. The results demonstrate the benefits of our diversified business mix, the investments we have been making to deliver long-term growth and active management of the business through the cycle. And with that, I will turn it over to Pat.

Pat Cronin – *Bank of Montreal – CRO*

Thank you, Tayfun, and good morning, everyone. We were pleased with our risk performance again this quarter, with many of our key risk metrics continuing at levels equal to or better than pre-pandemic. This strong performance reflects the combination of disciplined risk origination from prior periods, strong risk management discipline through time and a solid economic environment in the markets we serve.

Starting on Slide 27. The total recovery of the provision for credit losses was $99 million or negative 8 basis points, down from a recovery of $126 million or negative 11 basis points last quarter. Impaired provisions for the quarter were $86 million or 7 basis points, flat compared to Q4 and remain well below pre-COVID levels.

Similar to last quarter, strong impaired loan performance is due to low formations and delinquency rates. We are pleased with these results but do expect impaired provisions to return to more normal levels over time. We recognized a release on the provision for performing loans of $185 million this quarter that reflected reduced uncertainty around future credit conditions and positive credit migration, partially offset by balance growth and slight changes in the economic outlook due to Omicron. Given the consensus for continued economic strength and our specific forecast for impaired

losses in the year ahead, we remain comfortable that our $2.3 billion of performing loan allowances provides ample provisioning against loan losses in the coming year.

Turning to the impaired loan credit performance in the operating groups. We saw unusually low loss provisions across most business segments. In Canadian P&C, Personal and Business Banking impaired loan losses were $79 million, flat relative to Q4. The U.S. Personal and Business Banking business had impaired loan losses of $4 million, down from $6 million in the prior quarter. This strong credit performance across our personal and business banking loan portfolios was driven primarily by low delinquency rates.

In our commercial and corporate businesses, we also saw strong credit performance. In Canadian commercial, we reported impaired loan provisions of $21 million, up from very low levels of $12 million last quarter. Our U.S. commercial business had a net recovery on impaired loans of $1 million. This very strong performance in U.S. commercial, again this quarter, was driven by very low formations and a low loss rate on those formations.

Our Capital Markets business had excellent impaired loan credit performance this quarter with a net recovery of $16 million, its fourth consecutive quarter of net recovery on impaired loans. This performance was also driven by very low formations and additionally by reversals in the oil and gas sector.

On Slide 29, impaired formations were $462 million this quarter, leading to a gross impaired loan balance of $2.2 billion or 44 basis points. Both formations and gross impaired loan rates continue to be below pre-COVID levels.

And as you can see on Slide 31, there were no trading loss days this quarter and that trend has continued so far in Q2, including through the events of last week. Given the geopolitical events of last week, I would also note that we have no direct credit exposure to Russia or Ukraine. And as a result of the Russian invasion, this should not be a factor in our PCL in the coming quarters.

In terms of the outlook, we remain cautiously optimistic given the solid credit performance we've seen in the last year. While uncertainty remains related to the pandemic and potential headwinds such as inflation, supply chain concerns and geopolitical tensions, assuming economic growth continues in line with consensus estimates, we would expect further measured releases from our performing provision. As I said last quarter, we do expect our impaired PCL rate to drift slowly back up to a level more consistent with our pre-pandemic experience, which was consistently high teens to low 20s in terms of basis points. While it's difficult to predict the timing of when that level will be reached, based on what we're seeing today, I would expect that normalization to start in the second half of the year and continue through fiscal 2023.

I will now turn the call back to the operator for the question-and-answer portion of the call.

QUESTIONS AND ANSWERS

Ebrahim Poonawala – *BofA Securities*

Tayfun just a question around your outlook for the margin for the back half. I think you mentioned it should gradually see expansion -- modest expansion in the back half '22. Just talk to us, one, in terms of what you're baking in terms of rate hikes as we think about both the Canadian and the U.S. segment margins? And then when you think about the deposit franchise today, any differences that are meaningful today versus back in 2016 when rates were going up, that would lead you to have a lower deposit beta compared to back then ex Bank of the West, obviously?

Tayfun Tuzun – *Bank of Montreal – CFO*

Ebrahim, in terms of the rate outlook, the number of increases and the timing of increases we typically use market expectations. Obviously, they're a little bit different in the last couple of days based on the Ukrainian crisis. But up until last week, the market was expecting about four increases depending upon the day, both in the U.S. and in Canada. The last one probably at the very end of the year, which would not make a big difference. So that was the underlying assumption, we always update that in our modeling. In terms of the different businesses, P&C businesses, a couple of items. If you were looking at individual NIMs, we need to keep in mind that in the U.S., we had a very strong PPP contribution last year, and given the fact that we're down to about $0.5 billion in loans, this year, we will not have the same. So on a year-over-year basis, we will feel the impact of that. And against that, we have expanding loan spreads, both businesses in Canada and the U.S. have done a very good job in maintaining pricing discipline, as you can see in this quarter's numbers. But given the fact that PPP is going to have a fairly large impact, I would expect in the U.S. somewhat of a down drift in NIM. And in Canada, again, we've done a great job in maintaining spreads. You may see some lower impact from mortgage prepayment rates. And then on both sides, just remember, as loan growth is picking up and exceeding deposit growth, that by itself is going to have some negative impact on individual business NIMs, which, in turn, is actually a good thing from the consolidated perspective because we're using existing cash to fund loan growth. So that will help consolidated NIM and that was the basis in our forecast that it will be expanding through the second half of the year.

Ebrahim Poonawala – *BofA Securities*

Got it. So the year-over-year decline, but we should see sequential expansion ex-PPP going from here?

Tayfun Tuzun – *Bank of Montreal – CFO*

If you're talking about consolidated, yes, you should see year-over-year expanding NIM in the second half of the year.

Ebrahim Poonawala – *BofA Securities*

Got it. And just one quick follow-up on Capital Markets. I know that Darryl, you've talked about structural changes at KGS-Alpha and Clearpool, but PPPT extremely strong. Just if you don't mind, remind us if this is how we should think about the run rate? Or was this an unusually stronger quarter even relative to what we've seen over the last year?

Darryl White *– Bank of Montreal – CEO*

Yes. Ebrahim, I'll start, and I'll actually ask Dan to pipe in on this question because it's an important one. The markets are and have been constructive. I think we've performed relatively well as compared to peers even in those constructive markets. Your question on where do we go from here? I think what's really important to remember is that this isn't the business we had going into the pandemic. We have invested in it with some of the features that you just summarized. We've also focused the business more tightly, and we really do have a new expectation for the run rate going forward. Why don't I ask Dan, you to come in on the question more particularly?

Dan Barclay – *Group Head, BMO Capital Markets*

Sure. Thanks, Darryl. And as you said, Ebrahim, we've had great investment, and it's very rewarding to see that performance come. The performance over the last quarter and the last year has been very diversified across many of our businesses. Quarter-to-quarter, there's some variability, but what we've seen is just outstanding performance for most, if not all our businesses as we go. We've had the opportunity through the cycle to invest in technology and people, new products, new clients. And so we're reaping the benefit of that as we go. As I mentioned last quarter, we see guidance for PPPT as we look forward in the mid-600s, maybe even high 600s as we go forward. Those dynamics continue to play out as we go. We continue to invest. We continue to build our businesses. And so I'm looking in the long term to continue to see positive growth and positive outlook on the business.

Scott Chan – *Canaccord Genuity Corp.*

So you talked about a lot of modernizing with tech projects. And I think you just talked about on the Capital Markets side. I was just wondering just an update in terms of if you're spending more on projects now versus pre-pandemic basically looking just for an outlook over the next 12 to 18 months on that front?

Tayfun Tuzun – *Bank of Montreal – CFO*

So Scott, this is Tayfun. As I mentioned, based on the results that we are seeing from our investments over the past 4, 5, 6 quarters, both in technology and in salesforce, we will continue to invest. Technology investments have resulted both in helping us grow revenues and take market share as well as create efficiencies in our businesses, and the results are fairly self-evident. And we will continue. Those expenses are built into my guidance of 1% to 1.5% expense growth year-over-year.

Meny Grauman – *Scotiabank Global Banking*

If I look in the Capital Markets segment, average loans down 1.5% quarter-over-quarter. That's different than what we're seeing across peers. And I'm wondering what's driving that decline sequentially?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, I was just going to note that in that number, Meny, there are two items. One is the continued decline in our non-Canadian Energy portfolio. And the second one is the deconsolidation of the customer securitization program. That happened at the last day of last year, so therefore, the quarter-over-quarter comparisons will reflect both of them.

Meny Grauman – *Scotiabank Global Banking*

And if you ex those out, what would you say that underlying sequential loan growth adjusting for those items?

Tayfun Tuzun – *Bank of Montreal – CFO*

For Capital Markets, I don't have that right in front of me, but we'll get back to you on that.

Dan Barclay – *Group Head, BMO Capital Markets*

Yes, I actually have if you want Tayfun. It's roughly 5% quarter-over-quarter in our core loan growth.

Meny Grauman – *Scotiabank Global Banking*

Sounds good. And then maybe just more broadly on the subject of loan growth. I think there's a little bit of discussion last quarter. But if we look at commercial loan growth, what we're seeing is very strong numbers. It doesn't look like supply chain issues are having an impact on those numbers. So I'm wondering why we're not seeing that come through? And are there specific portfolios still where if you dig in, you actually see that impact and I'm curious about that?

Dave Casper – *Bank of Montreal - CEO, BMO Harris Bank N.A. and Group Head, N.A. Commercial Banking*

So Meny, this is Dave. The supply chain issues are real and they are still there. And despite those, we have had in both Canada and the U.S., really strong loan growth. As Darryl mentioned in his comments, the loan growth in the U.S. this quarter was almost half related to new business. So that means we're out continuing to grow. And throughout the pandemic, we've done that. And back to your question, our utilization in our core diversified businesses in the U.S. is still well below where it was pre-pandemic. So had that utilization been at the same level as pre-pandemic, our loan growth would have been probably more 75% existing clients and 25% new. So there's still untapped utilization that will come back. And it specifically in some of our businesses like our floor plan business for autos, our floor plan for trucks, our asset-based lending business, which continues to grow, but still is not where we would expect it to be when the supply chain issues subside. Which, by the way, I don't see necessarily happening in the next quarter or two. I think this is still an area where we have issues. And despite that, we've had good loan growth. Hopefully, that helps and gives you a little more colour.

Meny Grauman – *Scotiabank Global Banking*

Yes. I mean so you're saying there's still upside to commercial loan growth in your view?

Dave Casper – *Bank of Montreal - CEO, BMO Harris Bank N.A. and Group Head, N.A. Commercial Banking*

Yes. I believe there is as the supply chain issues work out. Now obviously, demand over time will have some impact but there's definitely, clearly in our auto business for one, there's still very few cars on the lot that we finance. And at some point, that supply/demand will reverse itself and there'll be more there.

Paul Holden – *CIBC Capital Markets*

So going back to the discussion on loan growth, and this question applies to both commercial and retail. I think one of the common questions we're starting to here is the potential impact from higher interest rates on loan demand. So it would be great to hear your thoughts there, again, both on commercial and retail in terms of how higher rates might impact the demand.

Dave Casper – *Bank of Montreal - CEO, BMO Harris Bank N.A. and Group Head, N.A. Commercial Banking*

So this is Dave. I'll start and then Ernie will pick up. I would say it's going to have some effect, but not a significant impact. For most of our clients, they hedge themselves on rate increases, whether it's our real estate business or diversified. And the rate increases that we're forecasting, we don't think will have a significant impact on loan demand in the near term. Ernie?

Ernie Johannson – *Group Head, N.A. Personal & Business Banking*

Thanks, Dave. And if I think of the lending business and the retail side, I'll start with mortgages. We still believe that there'll be a strong mortgage market, particularly in Canada over the next little while, slightly lower than we've seen over the past year, but it's certainly going to be a market that's growing with immigration and some upside on some housing starts. So we're prepared for that growth in terms of our investments we've made in our mortgage specialists, our sales teams to be able to capture our share of that growth as we continue forward. I think about unsecured lending, we're starting to see a little bit of rebound on that as consumers get back into the marketplace. And credit cards would be starting off with consumer

spending, there we're seeing the retail spend come up. We'll see the revolving balances take a little bit of time, but outstandings have been improving this year, for example, in Canadian P&C we're seeing about 9% year-over-year growth, and we'll continue to see that change into revolving balances as some of the surplus deposits get used up going forward. So overall, feeling confident that we'll be in a growth position in lending on the retail side.

Paul Holden – *CIBC Capital Markets*

And then sort of related question, going back to something another analyst asked earlier in the call just regarding deposit betas and I guess, particularly in the U.S. Maybe you can give us some updated thoughts on how you're thinking about deposit retention and a rising rate environment and how much of that might impact disclosed NII sensitivities?

Tayfun Tuzun – *Bank of Montreal* **–** *CFO*

So as I mentioned, we have changed our modeling assumptions with respect to net interest rate sensitivity. I used to tell this audience that our numbers, prior to this quarter, did not include any retention assumption about the surge deposits. But we knew that we were going to retain a portion of them. So we now are actually including a portion of the deposits that we think we are going to retain. And therefore, our asset sensitivity has increased. In terms of betas, at the moment, I don't think that necessarily we are thinking that betas in this cycle are going to be significantly different than the previous cycle. I've seen some assumptions that were disclosed by U.S. banks that indicate that they are expecting lower betas now. We have not made necessarily that particular adjustment. Our betas are based on products, and they reflect the sensitivities, whether it's on the commercial side or the retail side of the deposits, that we actually have the ability to model. I would say that the range of the beta assumptions, both, I would say, in Canada and in the U.S., are very appropriate, I would say, maybe a little bit on the conservative side. But I think, given the potential steepness of the rate increases, it is worth maintaining a relatively conservative approach here.

Doug Young – *Desjardins Securities Inc.*

I think Tayfun, you mentioned in your remarks on NIMs that Canadian mortgage spreads was a positive to NIMs in Canada, which I think is a bit different than what we've heard from others. So I'm just hoping to get a clarification of that and just to get more detail in terms of what you're seeing from a loan yield perspective in the mortgage market in Canada?

Ernie Johannson – *Group Head, N.A. Personal & Business Banking*

Doug, it's Ernie. I'll take that question. As we look at our NIM, we're seeing some very strong performance across the various elements in NIM. One of those is the prepayment of mortgages. And you think about it as Canadian consumers were looking at interest rates, taking an opportunity to be able to adjust their mortgage and taking advantage of that. That's part of our growth, but there's also been some strong pricing capabilities across our lending business and also deposit growth as well in that NIM. As I think about that prepayment, that will come down over time, just simply as rates level out and consumers have already made those choices. So as we think about the P&C NIM going forward, we'll see a little bit of downward pressure but anticipate as rates go up at the back end and have an impact on NIM, we might see a little bit of an increase in the fourth quarter. That's how we're thinking about our NIM.

Doug Young – *Desjardins Securities Inc.*

Okay. So that was more related to the prepayment. Have you disclosed what the prepayment -- it might be in your disclosure, I apologize if it is, but have you disclosed what the prepayment impact was in the quarter?

Ernie Johannson – *Bank of Montreal – Group Head, N.A. Personal & Business Banking*

I don't believe we have.

Doug Young – *Desjardins Securities Inc.*

Okay. And then second, just on the CET1 ratio. When I look at your capital supplement, it looked like the methodology and policy changes, there's some changes that happened on the AIRB side that was, I guess, a negative impact and then there was some positive changes that happened from again a methodology and policy perspective on a Standardized basis. Just hoping to get a little colour. Was that just related to the fair value adjustments or changes in the hedges related to the Bank of the West? Or is there some methodology and policy updates that went through on the calculation this quarter?

Pat Cronin – *Bank of Montreal – CRO*

It's Pat. Maybe I'll just jump in on that one. It's really a function of a model approval for a chunk of the portfolio that was previously based on Standardized, it relates to the M&I portfolio we acquired. So that's been on Standardized for a while, and during the quarter, we received approval to move that to AIRB. So that's why you see that movement.

Doug Young – *Desjardins Securities Inc.*

And what was the net impact? I guess I could calculate that looking at the net positive impact that, that had.

Pat Cronin – *Bank of Montreal – CRO*

Sorry, in terms of the RWA.?

Doug Young – *Desjardins Securities Inc.*

The CET1 ratio.

Pat Cronin – *Bank of Montreal – CRO*

It's positive. I don't have the number in front of me, but it was a mild positive.

Doug Young – *Desjardins Securities Inc.*

And is there anything else that's happening from Standardized to AIRB? I forget what's left, but is there anything else that could occur through the rest of this year that would be a positive impact or movement from Standardized to AIRB?

Pat Cronin – *Bank of Montreal – CRO*

I mean we always are looking at our models. There's nothing in the pipeline at the moment, nothing imminent to the next quarter or so that I would put in the material category.

Mario Mendonca – *TD Securities*

I would like to take you to your domestic retail segment, o Canadian P&C, specifically the other income. I appreciate that we're seeing a lot of growth there year-over-year, and it's been going on now for four straight quarters. And I think I understand that a lot of that just relates to how challenging it was last year in 2021 when we saw that come off. But it just seems to me like that growth is running at well above what I would have expected. And again, I'm referring to your non-interest revenue – non-interest income in domestic retail. Is there anything in there that's outside your sort of normal fee income categories? What I'm getting at is things like were there any real estate sales, like the gains on which would be recorded in that line? Or is this mostly just lending fees really kicking in? How would you describe the strong pace of growth?

Ernie Johannson – *Bank of Montreal – Group Head, N.A. Personal & Business Banking*

It's Ernie. I'll take that question. So as I look at the line, overall, if you look at P&C Canada's revenue growth, really strong, NII and NIR. In the NIR line in particular, as you're referring to, we're looking at really broad-based growth across all the categories, if you think of the mutual funds, consumer activity fees are there. A big portion of this is the return of credit card spend into that number as well. And so it's a very balanced growth. We obviously think that will come down a little bit over the next little while because it's a year-over-year factor with the credit card growth, and seeing it normalize as we go forward. And in that number, as you recall, there are investment gains in that number as well that we include. But again, it was a broad base this quarter, I should say, mix across all of those elements of just general good strong business performance.

Mario Mendonca – *TD Securities*

And those investment gains, those are the ones that relate to what co-investing with your accounts, with your customers?

Dave Casper – *Bank of Montreal - CEO, BMO Harris Bank N.A. and Group Head, N.A. Commercial Banking*

It's Dave. That's what those would be. And those are, I guess, if you annualize it, they're modestly higher than they might have been last year, but this is a lumpy business. So it's nothing that's outside of what we would expect.

Mario Mendonca – *TD Securities*

Okay. So when I look at growth in that line, it's been like 21%, 28%, 26% this quarter, and these are all year-over-year, when the gains on co-investing with your accounts subside or return to normal, presumably, they will, I guess what I'm getting at is how much of those really added to that revenue line?

Dave Casper – *Bank of Montreal - CEO, BMO Harris Bank N.A. and Group Head, N.A. Commercial Banking*

Well, I don't have it right in front of me, but those go, as we said, they go up and down. It's been a part of our business though for the last ten years. So you've seen it over a long period of time. But to your point, I mean, oftentimes these are fair market value gains. So if the market would go down, you could have decline, offset against when an investment is sold. But it's pretty hard to predict, but it's not a core part of our business, but it's an important part and it's there to support the growth in our commercial business.

Tayfun Tuzun – *Bank of Montreal – CFO*

Mario they were about the same as last quarter. So it's really quarter-over-quarter, we didn't see much of an increase relative to last year's first quarter they were only up about $10 million.

Mario Mendonca – *TD Securities*

Yes, they just have such a flattering effect on the domestic retail numbers. And we've seen this from other banks in the past when gains of this nature go away, it obviously doesn't look that good. But I think it's just -- it would be helpful to understand how important these are. So we're not surprised going forward.

Tayfun Tuzun – *Bank of Montreal – CFO*

Our total non-interest income, I think in Canadian P&C last year was $2.2 billion. This line item was just a little over $100 million.

Mario Mendonca – *TD Securities*

Maybe one for Darryl. I found that very helpful that slide where you show that the equity raise doesn't change regardless of how the fair value changes unfold. That was helpful. But maybe going one step further, is there a scenario where the equity raise could be materially lower than what you've contemplated or maybe even zero. Is that conceivable?

Darryl White – *Bank of Montreal – CEO*

Yes, it's a good question, Mario. Is it conceivable? Sure. I'm not predicting that, by the way, but I'm answering your question. Is it conceivable - yes, I mean, it's conceivable, what would have to be true for that to occur, for example, relative to what we have modeled, we end up with less organic RWA deployment into the marketplace and more fee generating income and/or Bank of the West does the same, and we end up in a position where our CET1 ratio takes care of itself, and we don't need to top it up with the equity offering. The opposite could be true. We could go in the other direction, and we could need a little bit more. As we sit here today, we did that work both on the hedge as well as on our business-as-usual forecasting to give you the point of view that we've given you today, which is the assumptions we made a couple of months ago when we announced the transaction, stand today. We don't have an updated point of view because we checked our math and it still is the same. But the answer to your question, could it move, is it conceivable? Sure it is. But things would have to change relative to our outlook.

Mario Mendonca – *TD Securities*

Do you have a timing outlook on the equity raise?

Darryl White – *Bank of Montreal – CEO*

No, look, we said at the time of the acquisition announcement that it was a year or so estimate to close. It's less than 3% of our market cap. We have had investors express some interest and say to us that they're there when we're ready. So we'll just take it all into consideration, and we'll pick the time that we think is best for our shareholders, Mario. I don't have a better update than that at this point.

Gabriel Dechaine – *National Bank Financial, Inc.*

Thanks for the rate sensitivity disclosure change there, but I have had a question about the surge deposits. Can you quantify that deposit base against which we're evaluating an additional benefit? And like how do you define a surge deposit?

Tayfun Tuzun – *Bank of Montreal – CFO*

Typically, we define surge deposits as the net increase in the deposit base since the beginning of the COVID environment. And the change that we have made in our modeling really took only about maybe 1/3 of those and moved it into the more non-rate sensitive category. So it was not a big chunk of it.

Gabriel Dechaine – *National Bank Financial, Inc.*

Okay. So as the total increase since the pandemic started, that's a 1/3 of that amount is considered surge?

Tayfun Tuzun – *Bank of Montreal – CFO*

No just remember, along the way, we have continued to make investment decisions. So I'm talking about basically what remains out of that. And it's not a big number, Gabriel. It's probably, I would say, in the teens in terms of billions of dollars. So it was not a huge number.

Gabriel Dechaine – *National Bank Financial, Inc.*

All right. And just to clarify on the fair value and hedging offset, you will see fluctuations in the core Tier 1 ratio. There's an important timing difference there, we should be aware of, I think, anyway, that you'll see fluctuations in the core Tier 1 ratio until you close when you have gains or losses on those swaps, but then the goodwill adjustment is the offset at close, whether that's up or down, like they move -- that's correct, right?

Tayfun Tuzun – *Bank of Montreal – CFO*

That is correct. The actions are designed to maintain the CET1 ratio at closing.

Gabriel Dechaine – *National Bank Financial, Inc.*

Okay. But it's important for investors to know that you'll not panic if rates go down and your core Tier 1 ratio goes down because there's an offset at the end of the line.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, that's precisely why the hedge is in place.

Darryl White – *Bank of Montreal – CEO*

Thank you, operator. I'll be quick as I am respectful of the fact that you all have to go to another call. So I'll conclude with a very quick comment on the key themes: Number one, our results for the first quarter are very strong. In fact, the peer leading ROE, EPS growth and operating leverage are all above our midterm targets. Number two, we're strategically investing, as you've heard, to deliver growth and efficiency. Number three, our superior risk management and improving credit quality remains a differentiator and we believe it will continue to be. And number four, we've got strong momentum and an advantaged business mix that's positioned for growth and performance in any environment.

So with that, thank you all for participating in today's call. We look forward to speaking to you again in May.