Q1 2025 Conference Call

BMO Financial Group

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PRESENTATION

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

Thank you, and good morning. We will begin the call with remarks from Darryl White, BMO's CEO; followed by Tayfun Tuzun, our Chief Financial Officer; and Piyush Agrawal, our Chief Risk Officer. Also present to take questions today are Ernie Johannson, Head of BMO North American and Personal Business Banking; Nadim Hirji, Head of BMO Commercial Banking; Alan Tannenbaum, Head of BMO Capital Markets; Deland Kamanga, Head of BMO Wealth Management; and Darrel Hackett, BMO US CEO. I would ask participants to limit to one question during the Q&A to give everyone a chance to participate.

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 may differ materially from these statements. I would also remind listeners that the bank uses non-GAAP financial measures to arrive at adjusted results. Management measures performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance. Darryl and Tayfun will be referring to adjusted results in the remarks, unless otherwise noted as reported.

And I will now turn the call over to Darryl.

Darryl White *– Bank of Montreal – CEO*

Thank you, Christine. And good morning, everyone. We began the year with a very strong start with first quarter adjusted net income of $2.3 billion and earnings per share of $3.04. Pre-provision pre-tax earnings of $4 billion increased 32% from last year. Revenue growth was broad based, up 18%, which drove strong all-bank operating leverage of 8.9%, and positive in each of our operating groups. Provisions for credit losses declined from the prior quarter as expected, and we continue to review and pressure test our portfolio in light of geopolitical uncertainty.

Our CET1 ratio remains strong at 13.6%, providing ample opportunity for organic growth and investment, while returning capital to shareholders. We began executing our share buyback program as planned after receiving regulatory approval, repurchasing 1.2 million shares this quarter, and a total of 3.2 million shares as of today.

Return on equity improved to 11.3%. Our top priority is rebuilding return on equity to achieve our target of 15% over the medium term. At the end of last year, we laid out a path to our goal and today, Tayfun will expand on the steps we are taking within our U.S. business.

Looking at the economic backdrop, while widespread tariffs between the U.S. and Canada have been deferred, the challenge has been put plainly before us. In client conversations throughout the past few weeks, their comments on recent events have been clear. Trade wars introduce uncertainty and disrupt the efficient allocation of capital. To that end, we are seeing some clients on both sides of the border adopt a more cautious posture around capital deployment.

At the same time, we're closely monitoring the implications of potential tariffs on our portfolio and working proactively to support client needs. Millions of customers rely on us every day, but particularly in days of uncertainty. We've been helping our clients grow and our communities thrive for over 200 years, and we've helped our clients navigate their way through all economic environments.

We have a strong balance sheet, robust capital and liquidity, and a well-diversified business model built to deliver resilient performance through cycles. Our strategies are aimed at providing trusted advice to clients across our North American franchise, positioning us well to compete and grow in today's dynamic operating environment.

Turning to the businesses, each operating group delivered good PPPT growth this quarter and positive operating leverage. In Canadian P&C, PPPT was up 13% with record revenues of $3 billion, driven by customer and balance sheet growth. Our innovative products and client focused advice are driving engagement. We've opened more than 1 million Savings Amplifier accounts since launch, and customers have set more than 1.7 million financial goals, empowering them to make real financial progress through informed financial decisions.

We recently announced the new BMO VIPorter travel rewards credit card suite in partnership with Porter Airlines and MasterCard, providing customers with enhanced travel benefits. We now have more than 20,000 customers already on a waiting list, and we're excited to announce the details of these innovative products to Canadians shortly.

In Canadian Commercial Banking, strong revenue growth was driven by continued solid loan and deposit growth as we continue to expand and deepen client relationships, including with our award-winning treasury and payments solutions. This quarter, we launched BMO Sync in Canada, an innovative solution that integrates BMO online banking for business services directly into resource planning and accounting systems, boosting automation and efficiency for our clients. Previously available only in the U.S., it's an example of how our North American platform brings industry leading technologies and capabilities to clients on both sides of the border.

US P&C grew PPPT 6%, with revenue growth and good expense management. We're seeing continued momentum in core customer growth and digital adoption, including a 14% increase in checking account acquisition in the new West markets and overall strong performance in the Midwest.

In US Commercial Banking, consistent with the industry, loan growth remains subdued. However, client engagement is strong. We're making progress on our One Client strategy, growing connected relationships with strong referral growth between Commercial Banking, Capital Markets and Wealth. And we're continuing to add top talent, particularly in the California market. We're well positioned for growth as the market improves.

In BMO Wealth Management, PPPT was up 48%, with strong revenue growth in Wealth and Asset Management, reflecting market appreciation and net new assets, as well as a strong quarter for insurance as we took advantage of investment opportunities in the market. This quarter was the highest quarter of mutual funds sales since 2015, and ETF flows continue to be strong. Our industry leading ETF offerings were recognized with 22 FundGrade A+ awards across several categories, the most of any financial organization for 2024. We've also launched new and innovative products, helping Canadians expand their investment options across global markets.

BMO Capital Markets grew PPPT by 67%, driven by a strong global markets trading performance across all products and strong client flows in our U.S. business. Investment and Corporate Banking had a good quarter with higher client activity in corporate banking and underwriting. Our results this quarter also reflect the broad-based and differentiated capabilities in our metals and mining business. BMO is a global leader and a trusted advisor across the industry. And this week, we're proud to be hosting our 34th Annual Global Metals, Mining and Critical Minerals Conference.

Our strong performance this quarter reflects ongoing investments we've made in talent and technology. This quarter, we took a bold step forward in advancing our Digital First agenda and joined the IBM Quantum Network, which will enable us to develop and deploy quantum powered solutions across our operations and deliver progress and outcomes at scale by merging human experience with cutting edge technology. Investments like this support our commitment to driving new revenue opportunities and improving efficiency, supporting stronger returns over the long term.

Before I end, I want to recognize the profound impact the recent wildfires in Los Angeles have had on countless individuals and families. Our thoughts are with those who have lost their homes, businesses and neighborhoods in the wake of these devastating events. For our employees and customers who were impacted, we're providing ongoing relief and financial assistance and we've pledged U.S. $3 million to local charities to support recovery and rebuilding efforts. I believe that California and the L.A. area will emerge even stronger out of this difficult period.

With that, I will turn it over to Tayfun.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you, Darryl. Good morning and thank you for joining us. My comments will start on slide 8. First quarter reported EPS was $2.83, and net income was $2.1 billion. Adjusting items are shown on slide 39. The remainder of my comments will focus on adjusted results.

Adjusted EPS was $3.04, up from $2.56 last year, and net income was $2.3 billion, up 21%. ROE of 11.3% improved 70 basis points. BMO delivered record PPPT of $4 billion this quarter, an increase of 32% from last year, driven by strong performance across our businesses. Revenue increased 18%, while expenses grew 9%, delivering positive operating leverage of 8.9% and improving our efficiency ratio to 56.3%. On a constant currency basis, revenue increased 14%, expenses increased 6% and PPPT was up 28%.

PCLs increased $384 million from the prior year and declined $512 million from last quarter. Piyush will speak to this in his remarks. The effective tax rate increased to 24.5%, including the implementation of the global minimum tax in the current quarter.

Moving to slide 9. At the end of last year, we shared with you the execution priorities to achieve our medium-term ROE target of 15% for BMO. We expect our performance improvement in the U.S. to be a key contributor to achieve this target. The themes on this slide closely correlate with the broader BMO priorities, converging credit performance to our historical averages and continued disciplined commitment to positive operating leverage are two of the building blocks very similar to our BMO-wide targets.

In addition to these operational business performance targets, the third component is the full capture of the Bank of the West revenue synergies, which, as we have discussed previously, have been slower to develop due to the muted business environment that has lasted longer than anticipated and is now expected to be more constructive.

The final component is portfolio optimization, which encompasses both sides of the balance sheet. On the asset side, we intend to improve our allocation of capital across the businesses and portfolios, focusing on recycling and redeploying capital to higher return opportunities. On the liability side, we have identified meaningful opportunities to improve our funding costs and deposit mix. Our medium-term ROE target in the U.S. is 12% or more, and we expect that will continue to improve over the longer term. We have built action plans across all of these priorities and are in the early stages of execution. We plan to continue to report on progress against these initiatives to enable you to track our improvements along the way.

Moving to slide 10, average loans grew 4% year-over-year on a constant currency basis, excluding the impact of the RV loan portfolio sale and the wind-down of the indirect auto book, driven by good growth in residential mortgages and commercial loans in Canadian P&C. Strong growth in customer deposits continued with average balances up 8% from last year, excluding the impact of the stronger U.S. dollar. Sequentially, Canadian deposits reflected good growth in everyday banking and commercial operating accounts and decreases in term deposits. In the US, total deposits were up 5% from last year and 1% sequentially.

Turning to slide 11. On an ex-trading basis, net interest income was up 11% from the prior year and 5% sequentially. Compared with last quarter, NIM ex-trading was up 2 basis points, benefiting from the rolling reinvestments at higher rates and improving deposit mix.

In Canadian P&C, NIM increased 5 basis points, reflecting higher loan and deposit margins in the quarter. US P&C NIM increased 7 basis points, also due to higher loan and deposit margins, as well as from deposits growing faster than loans. At the all-bank level, we are still projecting margin stability at this higher level, assuming we maintain the benefits of higher long rates. In our P&C businesses, we continue to expect a stable NIM environment.

Turning to slide 12, non-interest revenue was up 24% from the prior year and 15%, excluding trading, with increases across most categories, and particularly in brokerage, investment management and custodial fees. Banking and services fees increased 4% with lending deposit and card fees partially offset by the shift of BA fees to net interest income.

Moving to slide 13. Expenses were up 9% from the prior year, or 6%, excluding the stronger U.S. dollar, driven mainly by higher performance-based compensation and the impact from the consolidation of certain U.S. retirement benefit plans in the prior year. Sequentially, expenses were up 5% in constant currency, reflecting stock-based compensation for employees eligible to retire and seasonality of benefits that are recognized in the first quarter of each year, which had a combined impact of $245 million. As we look forward to the rest of the fiscal 2025, we maintain our guidance of year-over-year expense growth expected to be in the mid-single digit range on a constant currency basis, excluding higher performance-based compensation, and still deliver positive operating leverage as we continue to maintain investments for growth.

Turning to slide 14, our CET1 ratio of 13.6% remained flat to last quarter, as good internal capital generation was largely offset by higher source currency RWA and the impact of 1.2 million shares repurchased through the previously announced normal course issuer bid, which received regulatory approval in mid-January. We repurchased an additional 2 million shares in February and expect to continue buybacks in line with expected convergence to our management target of 12.5% CET1.

Moving to the operating groups and starting on slide 15. Canadian P&C net income was down 3% year-over-year, with strong PPPT growth of 13%, offset by higher PCLs. Record revenue of $3.1 billion was up 10%, driven by higher net interest income, reflecting higher margins and solid balance sheet growth with deposits up 9% and loans up 6% and higher non-interest revenue. Expenses were up 7%, reflecting higher employee-related and technology costs, and operating leverage was strong at 3.6%.

Moving to U.S. P&C on slide 16. My comments here will speak to the U.S. dollar performance. Net income was down 4% due to higher PCLs, while PPPT growth and operating leverage were strong at 6% and 3.1%, respectively. Revenue growth of 2% was driven by increases in non-interest revenue from higher lending and deposit fees, while net interest income remained flat. Expenses declined 1%, driven by cost synergies and operational efficiencies, partially offset by higher technology costs. Deposits were up 5% and loans were up 2%, excluding the impact of the RV loan portfolio sale in the prior year, reflecting growth in consumer loans, offset by still muted commercial lending demand.

Moving to slide 17, BMO Wealth Management net income was up 53% from last year. Wealth and Asset Management revenue was up 16%, driven by stronger global markets and net sales, higher transaction revenue from increased customer activity, and balanced growth across loans and deposits. Insurance revenue was up 64%, reflecting favourable market movements in the quarter, including stronger equity markets and steeper yield curve. Expenses were up 10%, driven by higher employee-related expenses, including higher revenue-based costs and investment in talent.

Moving to slide 18. BMO Capital Markets delivered very strong results in the quarter, with year-over-year net income growth of 45% and PPPT of $823 million, up 67%. Record revenue of $2.1 billion was up 30%, reflecting particularly strong results in global markets, driven by client activity across all trading products. Investment and Corporate Banking revenue also increased, reflecting higher corporate banking and debt underwriting revenue. Expenses were up 14%, mainly driven by higher performance-based compensation, technology costs and the impact of the stronger U.S. dollar.

Turning now to slide 19, Corporate Services net loss was $220 million, compared with $316 million in the prior year as higher revenue more than offset an increase in retained expenses.

To conclude, our first quarter results effectively displayed the strength of our franchise. While the market environment supported strong revenue performance in Capital Markets, we have also seen continued expansion in our Canadian P&C business and very strong results in Wealth Management. In the U.S., we are optimistic that the economic environment will be more conducive for loan growth and improved customer activity in our P&C business during the second half of the year. Our overall operating performance during the remainder of the year will be impacted by the outcome of the ongoing tariff negotiations in North America and the market environment that impacts client activity in our market facing businesses. These uncertainties could lead to variability in the coming quarters.

We will continue to manage dynamically to achieve positive operating leverage and are committed to delivering improved returns over the medium term.

I will now turn it over to Piyush.

Piyush Agrawal – *Bank of Montreal – CRO*

Thank you, Tayfun, and good morning, everyone. My comments will start on slide 21. Credit performance this quarter was in line with our expectation. With the work we've been doing, impaired losses in our corporate and commercial portfolios have moderated from last quarter. At the same time, loss rates remain above our historical averages, reflecting the prolonged higher rate environment, accumulated inflation and higher unemployment in Canada.

The total provision for credit losses was $1 billion or 58 basis points. Impaired provisions for the quarter were $859 million or 50 basis points, down 16 basis points from prior quarter, reflecting lower losses in our Capital Markets and U.S. commercial businesses, partially offset by higher provisions in Canadian unsecured consumer lending.

Canadian Personal and Business Banking impaired losses were $324 million, up $49 million, and US retail impaired losses were $86 million, up $13 million from prior quarter. Consumer loan losses in both Canada and the US reflect higher delinquencies in credit cards and other unsecured personal loans. With persistently high consumer insolvencies and unemployment continuing to inch up in Canada, we expect the weakness in unsecured credit to continue through 2025.

In our residential lending portfolio, renewal risk has decreased, given rate cuts over the last year. Variable-rate mortgages in negative amortization have declined to just $2.9 billion, and monthly mortgage payment increases have been moderating for renewing customers. In fact, over 30% of renewing customers this quarter experienced a decrease in their monthly payments.

Canadian Commercial impaired loan provisions were $167 million, relatively flat from last quarter, while the US Commercial impaired of $226 million were down $136 million, and Capital Markets impaired losses of $35 million were down $168 million from prior quarter. While improved from prior quarter, impaired losses are still elevated in the commercial businesses, reflecting challenges for some clients whose business models have been strained by the restrictive monetary policy and changing consumer preferences. However, across the wholesale portfolios, we are seeing the pace of migration to watchlist slowing.

Moving to slide 22. The performing provision for credit losses was $152 million. The macroeconomic forecast in our scenarios at the end of Q1 did not include the impact of tariffs announced after January 31. In determining the allowance, we applied experienced credit judgment to reflect the impact of the uncertain environment, including the potential introduction of tariffs, on future credit conditions. The performing provision also included the impact of downward credit migration in the quarter. Our current allowance of $4.5 billion provides good coverage of 65 basis points over performing loans, given the credit profile of our portfolio and our forecast for impaired losses. In the event that the outcome of trade negotiations changes the economic outlook, this will lead to future adjustments to this allowance.

Turning to slide 23. Impaired formations were $2.4 billion. Gross impaired loans increased to $7 billion or 1% due to higher impaired loans in US Commercial, consistent with prior period migrations to watchlist. A large proportion of formations are fully or substantially collateralized, reducing risk of loss.

In conclusion, based on current economic outlook, which does not include the impact of broad-based tariffs, I continue to expect impaired losses to average in the high 40 basis points for the year with quarter-to-quarter variability. The macro outlook is increasingly uncertain in light of shifting trade and fiscal policy pronouncements. We are monitoring these developments closely and taking action to proactively manage these emerging risks. Over the last couple of quarters, we have conducted extensive work on several tariff scenarios. Given the diversification of the portfolio between Canada and the US, our strong capital and liquidity levels, we are in a good position to both manage these risks for the bank and help our customers.

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

Ebrahim H. Poonawala– *BofA Securities– Analyst*

Good morning. A question for you, Darryl. I think there is a lot of focus, obviously, on tariffs and no one knows what's going to happen. I think you have a very unique perspective, given the mix of your business. Over the last few weeks, have you observed any difference between your US Commercial client base versus the Canadian Commercial client base, and how the tariff headlines have weighed on those two groups? And what's your view around how this plays itself out? Again, knowing that no one knows, but a tariff scenario in the Canadian economy feels like it's a recession, so I don't think there's a ton of debate there. But I would love your perspective.

Darryl White – *Bank of Montreal – CEO*

Thanks, Ebrahim. It's a really good question and I'll give you my sense and then I might invite Nadim to come in because he's talking to the commercial clients on both sides of the border, as I am. Look, I realize it's frustrating for a lot of people. It's frustrating for you guys, and it's frustrating for our clients to try to predict where this all lands. I would start out by saying that I think it's premature, believe it or not, to front run and predict specific outcomes with high degrees of confidence, because in my conversations - to your question with clients, I'm reminded and they remind me that 24 days ago this wasn't on the horizon. So, we're only 24 days into this, and the shelf life of any prediction within those 24 days has been worth about 24 hours. So, it's difficult to figure out where all this lands.

In the meantime, you did hear me say in my prepared remarks that we're seeing some clients effectively hit the pause button on some of their commercial activity, waiting for clarity. Capital seeks clarity, as you all know. And there's some uncertainty overshadowing that. I think you asked me to juxtapose a little bit Canada versus the U.S., I think the anxiety levels are a little bit higher in Canada than they are in the U.S. But that's not to say that there aren't anxiety levels in the U.S. as well with folks who also look for uncertainty to the extent that they're trading outside of the U.S. borders, which is applicable to a lot of our clients.

In our case, we're working through various scenarios, I should say, with our clients. And our focus has been to control what we can. I think you saw that in the quarter, with some pretty disciplined operating performance across our businesses, with the build of capital and liquidity. And it is the case that net our presence on both sides of the border, with 40% of our earnings plus coming from the U.S., is probably relatively beneficial. But that's not to say that there isn't pressure on each side.

Nadim, would you complement that from what you're seeing?

Nadim Hirji – *Bank of Montreal – Group Head, BMO Commercial Banking*

Yeah, absolutely. Thanks for the question, Ebrahim. The increased uncertainty that Darryl talked about in business sentiment is playing on both sides of the border, but I agree there is more encouraging optimism in the U.S. than, particularly right now, in Canada. So, we are seeing some slowdown in investment plans and M&A activity. Our relationship managers are working very closely with our clients on both sides of the border and I've got to tell you, Ebrahim, our clients are not standing still here. There's lots of work going on and looking at business models, creating contingency plans, looking at inventory management and supply chains, and utilizing tools like currency or interest rate hedging. And frankly, that's how we can add value to our clients during a dynamic and uncertain environment.

But I also agree with Darryl, we have a very diversified client base in Canada, and in the Commercial Bank, we have over 50% of our book in the U.S., and not everyone is going to be impacted equally. But again, until we have more clarity, I do expect loan demand to slow, but I do believe our North American footprint will be advantageous to us and will be continuing in the market for growth in a tactical way.

Ebrahim H. Poonawala– *BofA Securities– Analyst*

Thanks for that and just a quick follow-up. CET1-13.6% a good place to be. Do we see the pace of buybacks pick up from here or are you okay with capital ratios potentially building beyond maybe closer to 14% over the coming months and quarters? Thanks.

Darryl White – *Bank of Montreal – CEO*

I'd be surprised if it were the latter, Ebrahim. I think that we've got some benefit in the flexibility that I talked about in my prepared remarks at 13.6%. We've got the ability here to watch the environment and to play according to the environment but our intent, generally speaking, over the course of the coming quarters would be to continue with the buyback.

Matthew Lee – *Canaccord Genuity – Analyst*

Thanks for taking my question. I like that one of your earliest slides in the deck is the U.S. P&C ROE waterfall. I just want to touch on the improvements, particularly in relation to Bank of the West. It does sound like there's a little bit more juice to be squeezed out of that business. Can you maybe talk about what kind of revenue synergies you're looking for there? And maybe overall in the U.S. business, what kind of operating performance improvements you're expecting that make up the 200 basis points to 300 basis points of ROE improvement not related to credit and balance sheet there?

Tayfun Tuzun – *Bank of Montreal – CFO*

Thanks for the question, Matthew. Two years ago, I think when we first started talking about, maybe it was 2.5 years ago, our revenue synergies expected related to our Bank of the West acquisition, we quantified it as sort of a US$450 million to US$500 million of revenue pickup, starting with our Commercial business, closely followed by our P&BB business and Wealth Management and Capital Markets. That stands still as the target that we have.

What changed since then was just the timing of capturing those revenue synergies. The muted market environment in the U.S. unfortunately did not give us the opportunity to early on get on that path. And about a year ago or so, we said that we expect to achieve that target at sort of the exit run rate in 2026. So, we would expect to hit that number in 2027 in the full year financial results. So, that clearly is, as you can see here, one of the four cornerstones of our ROE build. And today, we are on our way. There's a path to achieve those targets and we are on that path. And as the improvement in markets enable us to speed that up, we expect to see those results showing up in our financials, in addition to sort of the other elements here, including the balance sheet optimization, which captures profitability improvement, both on the deposit side of the balance sheet as well the loan side. Happy to get into those details but since you only asked for the revenue pickup, I'll just stop there.

Matthew Lee – *Canaccord Genuity – Analyst*

Have you captured any of the synergies in your view yet?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, we are currently in our run rates slowly progressing on that. I wouldn't say that we captured a large portion of that, because there is a path, there is a timeline associated with it. That's why we are guiding to sort of this exit run rate exiting fiscal year 2026.

Gabriel Dechaine – *National Bank – Analyst*

I'd like if you could clarify some of the statements you made around the performing ACL. It sounded that you didn't apply any specific assumptions for tariffs, but then you use some sort of expert judgment to set the performing ACL this quarter. I misheard, I'm sure. Can you maybe expand on that? And what sort of assumptions you're making, if any?

Piyush Agrawal – *Bank of Montreal – CRO*

Hi Gabe, its Piyush. So, just on the performing PCL, we had $152 million build. And I think it might be helpful, if I just take a step back to talk about the performing provision through the different lenses. There is a very rigorous process around the performing allowance. We consider both portfolio dynamics and macro variables, but under accounting principles, it's a point of time assessment.

So, as we closed the quarter on January 31, the executive orders weren't announced and, therefore, our macroeconomic forecast did not have an inclusion for tariff. So, our base case and our different scenarios, but without tariff implications. However, given the pronouncements coming out of the U.S. administration, we felt it was prudent to consider the sensitivities in the environment as a result of the tariff threats. So, we've taken the overlay based on other variables we ran to get a feel for what it might be even in the interim pre-tariffs, as tariffs were going to get announced.

What I can tell you is, if tariffs are implemented as announced and remain in place for a prolonged period, all else being equal, we would expect that deterioration in the economic outlook to then become part of our economic assumptions in maybe the second quarter or whenever that gets implemented. But as of now, I feel very good about where we've landed, where we've ended the quarter, given just the prudent allowance coverage we have of 65 basis points.

Gabriel Dechaine – *National Bank – Analyst*

Okay, great. That's helpful. And I don't know if you can handicap this, it's a moving target, of course, but let's say the tariffs are in effect, March 4 looks like the 25% is going to be slapped on us. You've got a 10 basis point performing PCL this quarter. Would that double? Triple? I wouldn't expect that to be like pandemic level stuff, because you have to factor in government support programs and all that. But just trying to get a sense of how much change we could see in that line item?

Piyush Agrawal – *Bank of Montreal – CRO*

Yeah, look, I understand this is hard. Let me say there's so many unknowns in this tariff scenario.We don't know the duration. We don't know what percentages will be. We don't know which industries might get excluded. We don't know what monetary, fiscal policy actions the government might take here to mitigate some of the impact. And then, as we've looked at our own individual borrowers, not everybody gets impacted the same way. So, it's very difficult right now without clarity to give you that perspective. But like we've done every quarter, we'll come back and provide you better guidance, once those are implemented and they're set.

Right now, things are fluid. They're moving around. So, it's hard to give you a number. Directionally, you heard from me and others that it is expected to go up, because it will result in some weakness in the economy. But we just have to figure out the extent of that when we come back and speak to you again.

Meny Grauman – *Scotiabank – Analyst*

Good morning. Question for Darryl, and it's really about your 15% ROE target. Can it survive a tariff scenario? And if so, how is it, I'm really looking for levers that you have, particularly in the U.S., to maybe offset some of the weakness in Canada?

Darryl White – *Bank of Montreal – CEO*

Yeah, it's a good question, Meny. Thanks for it. Look, I'll remind us that, the 15% ROE target is a medium-term target. And so, the impact of whatever may come with respect to this meta tariff question, is one that we and others would have to work through over the course of those years, not quarters or months, as it pertains to the 15% medium-term target.

I would also say that, when I step back from this, we're obviously omnipresent in the tariffs conversation here, But when I look at the global economy and I step back and look at the North American opportunity, I think there's a huge advantage here in North America, broadly speaking. And with that, we're net optimists. I am a net optimist on the North American opportunity over the course of time. Is it possible that in the near-term, if we got an extreme scenario on tariffs, that would have a negative impact on Canadian GDP which is what Piyush was just referring to a moment ago - sure. But it's also possible that it would have a lesser impact on U.S. GDP. And it's also possible that within the course of time, two, three, four, five years, we'll end up in a place that round trips to where we are today. So, I'm not about to tell you that that we're confident that it'll have a negative impact on our ROE path because there's just too much variability and too much of a timeline against it right now, but those are the types of scenarios that we test against it.

Meny Grauman – *Scotiabank – Analyst*

Understand. And just as a follow-up, I'm just wondering if there is anything about your U.S. book that would make it either less susceptible or more susceptible to tariffs versus the broader US economy?

Darryl White – *Bank of Montreal – CEO*

No, I don't think there is any. The U.S. book is pretty diversified, Meny, as you know. So, I don't think that there is anything that would cause it to skew on either side of whatever the general outcomes ought to be.

Doug Young – *Desjardins Capital Markets – Analyst*

Good morning. Tayfun, we can go back to that slide 9, the U.S. ROE improvement. I'm actually curious about the balance sheet optimization, more on the liability side. Can you remind us what CET1 ratio you're assuming within this whole evolution?

Tayfun Tuzun – *Bank of Montreal – CFO*

Doug, so there are two. Let me start with where we are with CET1 in the U.S. It is currently, because of the nature of the U.S. entity and also related to some of the dynamics of the Bank of the West transaction, that ratio has been growing quite fast, and it's accreting and it will probably continue to accrete. But at this point, we are basically assuming that accretion will be redeployed into business growth and will not be an impediment to achieve the 12% ROE target. So, I think if I were you, Doug and you're modeling our financials in the U.S., I would roughly use a similar capital ratio that we are using for our BMO enterprise level, so that 12.5% to 13% is probably the right number.

Doug Young – *Desjardins Capital Markets – Analyst*

Okay. And then the balance sheet optimization?

Tayfun Tuzun – *Bank of Montreal – CFO*

On the balance sheet optimization side, as I mentioned, it encompasses loans and deposits. We do know today, compared to the peers, we have a higher cost of funds that relates to the nature of the composition of our deposit book. We have more commercial deposits than our peers. And we have, with Bank of the West and continuing improvements in our retail franchise, we intend to increase consumer deposits. Within the deposit book in each business, there are also opportunities to reduce our dependence on higher cost deposits. So, that is underway. Both businesses are already executing those and we will make improvements.

On the asset side, there are three layers. We look at this at a relationship level, is the relationship in the long-term going to hit our return targets. At the portfolio level, is it a portfolio that is suited to achieve the return targets. And at the business level. And those efforts, are also, analytically as well as from an execution perspective, are underway. We intend to improve the recycling and reallocation of capital across all three layers. And as you can see, it is a meaningful impact that shows up in these four, sort of, boxes. We're not going to stop that. Even beyond 2027, those efforts will continue and help us achieve the 12% target.

Doug Young – *Desjardins Capital Markets – Analyst*

And maybe just to finish off on this, so 12% is the medium-term target and I get that. But what's the ultimate goal in that U.S. business, I assume it's above 12%? Where do you think you can take that?

Tayfun Tuzun – *Bank of Montreal – CFO*

So, if you go back to pre-Bank of the West times, and acknowledging that those were very mild credit periods with really no PCL build, our ROE in the business was 15-plus percent, with the efficiency improvement that we made in the business over the years. So, today, we acknowledge that we're sitting on goodwill and that is going to have an impact on ROE in the U.S. But 12% is still 3% away from that 15% number pre-Bank of the West. So, we believe that over sort of a five-year plus period, we can get closer to 15% with continued optimization of the balance sheet, and continued execution of the BAU business priorities.

Mario Mendonca – *TD Securities – Analyst*

Tayfun, if you could just sort of stick with that slide for a moment please, 6% to 12%, it sounded like you were you were suggesting that capital be recycled. So, there's not going to be new capital being allocated to the U.S. to grow earnings. So, if we assume for a moment that capital allocated to the U.S. is just steady, it's constant, let's call it, is the message then that you can double earnings, more than double earnings in the US, because it says 12% plus, more than double earnings in the U.S. over the next three to five years? Is that the message?

Tayfun Tuzun – *Bank of Montreal – CFO*

I think the numbers probably are close. I don't have in front of me exactly what earnings levels we are using. But the math works that way. But you can see here, Mario, that some of these are very discrete numbers like normalized PCL, moving that to sort of the mid-30s. And we don't expect that to take years, we expect that to get there in a couple of years at longest time. So, those are very discrete numbers that are going to have a large impact on bottom line revenues.

And then, the U.S.$500 million revenue synergy that I just mentioned, that also is a big contributor to this. And then if you sort of compound the operating performance that we've been able to achieve at the enterprise level, there is no really big impediments towards that goal. And then also just a reminder, that slide is U.S. P&C, it's not necessarily our full segment. Our full segment, obviously, has Wealth Management, Capital Markets in those financials as well.

Mario Mendonca – *TD Securities – Analyst*

Okay. A slightly different question -Trading revenue, arguably $400 million - $500 million higher this quarter than an average over the long term. I know that Q1s are special because they include a particular trade involving U.S. bank's Q4. What I'm interested in is, of that $400 million or $500 million benefit this quarter, could you assign a particular portion of that specifically to the Q1, the seasonality benefits? Like what I'm really trying to get at is, how abruptly does trading return to normal or is there something more sustainable in there?

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

Hi. This is Alan. I'll take that. And clearly, as you're aware, we do experience, over year-end, a consistent trade, but this again is a feature that we experience every year, and some years are a little better than others. But again, it's something that will show up every Q1 for us. What we saw across our business where there were other parts of the business, specifically our metals trading business had an outstanding quarter, where I would focus, in addition to some of those outperformers, which again some would be expected. We had much more consistent performance across all of our businesses for the quarter. When we look across each of our operating businesses, they were ahead of our expectations. So when we think about this type of quarterly performance, it's more a function of consistency as opposed to any one business outperforming and our objective is to deliver that type of performance on a regular basis.

Mario Mendonca – *TD Securities – Analyst*

So just to put the fine point in this, you're suggesting that a $1.1 billion or so of trading revenue quarterly is BMO's new run rate for trading?

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

No, not at all. What I want to suggest is that when we see opportunities in the market, we're well-positioned, and we've invested in businesses to be able to take advantage of them. When there's volatility in the global macro environment, as we have seen over the past quarter, we expect our teams to take advantage of that. We do not expect that that level of volatility and opportunity will be consistent throughout the year. So, we do see businesses above trend rate, but the performance we saw, particularly in November and December, we do not expect that high level performance on an ongoing basis.

Paul Holden – *CIBC World Markets – Analyst*

Thank you. Good morning. Two questions for you. First one is there's a bit of a narrative or a question I've heard regarding BMO's loan composition that suggests, despite your geographic advantage, having a large proportion of U.S., maybe there's something in your C&I book that would suggest your loan portfolio might be more susceptible to higher credit losses under a tariff scenario. So, if you can provide any data on what percentage of your customers have sort of cross-border businesses, that'd be helpful.

Piyush Agrawal – *Bank of Montreal – CRO*

Paul, it's Piyush. Let me try and take a stab at that. I mean, the question is probably broader than tariffs, but on the C&I book, we've done a lot of work as we have through 2024, given some of the performance we've talked about. And in addition to looking at our broad sector diversification, we've also looked at individual files where we believe there is more export dependency. Net-net, dynamically, we're managing our industry limits, our single borrower limits. We've got a toolkit of many other things and a playbook ready to go but I wouldn't call out a particular zone or a sector that's more vulnerable for us, specifically at BMO. In fact, I think the diversification has added benefits and given our performance and the experience in 2024, I think going into the tariff cycle, we're better positioned, because we are tracking our watchlist very closely, we are tracking formations very closely. So, I'm not sure if there was something else on your mind, but I feel pretty good about the work we have done, in our preparedness that we have. I don't know, Nadim, if you want to share anything else.

Nadim Hirji – *Bank of Montreal – Group Head, BMO Commercial Banking*

No Piyush, I think you covered that very well. Piyush and I, we work side by side. I'm looking at the portfolio many, many times to make sure that as we grow it, we grow it in a diversified way. So, I would not characterize that we have a portfolio in our C&I or anything else that creates any sort of higher tariff opportunity, if you will. And beyond that, we also have the benefit of a North-South diversification. So, not only do we have the business diversification, but we have good geographic diversification.

Paul Holden – *CIBC World Markets – Analyst*

Got it. And then second question is just related to the improvement in net interest margins in the U.S. P&C business. You highlighted a number of drivers there. Just wonder if you give us sort of a forward outlook, are those drivers sustainable, i.e. will we continue to see NIM expansion in the near term to the same factors?

Tayfun Tuzun – *Bank of Montreal – CFO*

I'll comment on U.S. P&C NIM, and then I'll just briefly comment on the broader BMO NIM. In the US, the deposit and loan margins are holding up. I think they helped obviously this quarter. And this phenomenon of higher deposits, faster deposit growth relative to loan growth also helps within the business units. And as we look forward, I think in general, we expect those margins to hold up pretty well, as we see it today in the market. Some of these efforts that both businesses are now pursuing on the deposit side also should be helpful. But we also anticipate, as we said, loan growth in the second half of the year potentially starts actually exceeding deposit growth, that's a negative for the overall U.S. P&C, as well as it is for Canadian P&C. That's a mathematical equation.

So, therefore, we are still guiding for stability. We're guiding for stability in both businesses, Canadian P&C and the U.S. P&C. And then for BMO, our longstanding guidance has been one of stability. But we always put a footnote and said there is upside to that, starting last year this time. We captured 10 basis points in the last two quarters. So, our prediction came through and the upside is not infinite. Therefore, once again, we are guiding for margin stability going forward.

I don't know, Ernie or Nadim, if you guys want to comment on anything that you're seeing in your businesses.

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

Yeah, it's Ernie. I would just add to your comments to say our focus is on growing core deposits in our U.S. business. That's checking accounts, you heard Darryl speak to the fact that we're up 14% just in our Western markets. That's been a core objective of ours, is to shift that mix and ensure we have a stable core deposit growth for checking and savings accounts overall. That's our job and we've been seeing that shift take place over the past couple of quarters and will continue throughout this year. That would be only other comment I'd add.

Paul Holden – *CIBC World Markets – Analyst*

But the growth in the core deposits, checking accounts, demand deposits, et cetera, I mean, that will be accretive for NIM, correct?

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

Accretive. Yeah, definitely. Shifting that mix is accretive overall to our objectives on the ROE agenda.

Lemar Persaud – *Cormark Securities – Analyst*

Yeah, thanks. Maybe for Alan on the Capital Markets business and just building along Mario's line of questioning. Obviously, exceptional Capital Markets results, looks like it's going to be a key theme of Q1. Can you talk about the outlook heading into Q2? And then, also what would be helpful is, if you could remind us of what a more normalized level of earnings or PPPT growth is appropriate for the Capital Markets business?

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

Thanks, Lemar. And just to reiterate, the experience that we had in the first quarter really reflected outperformance of a couple of businesses, but strength across all of our businesses, which really was a result of the volatility in the marketplace that presented some excellent opportunities that we were able to take advantage of, but also reflective of the investments that we've made.

When I mentioned something like our metals business and Darryl touched on this, that we have our mining conference this week, in order to really take advantage of that market opportunity, you have to have all pieces. We've got deep connectivity with the producers. We can help them with their hedging programs. We've got the ability to store and transport the metal and then work with the buyer. So, the investments that we've made across that spectrum can really be monetized when we see a market opportunity like this.

At the same time, it's not necessarily reflective of consistent activities in the market. And as a counterpoint, we have seen that the higher levels of volatility, they will have a negative impact on some of our investment banking opportunities. And we are starting to see some of the great M&A opportunities that we've been exploring slow down a little bit. So, there is some balance to that business.

And as we think about our business overall, while we're obviously pleased with the quarter, it would be premature for us to recalibrate on what our long-term expectations are. We have communicated previously an expectation of $625 million on PPPT and above, and when we see more consistent performance at a higher level, we can revisit that, but at the moment, see that as a baseline for us to continue to focus on.

Lemar Persaud – *Cormark Securities – Analyst*

And then what are more near term? What about Q2? Do you think some of the strength is bleeding into Q2 based on what you're seeing today?

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

I would describe our Markets business as above trend line, but not as strong as what they experienced in November and December.

Darko Mihelic – *RBC Capital Markets – Analyst*

My last question was just asked and answered, so we're good to go. Thank you very much.

Darryl White – *Bank of Montreal – CEO*

All right. Thank you, Darko, and everyone else, for your questions this morning. We had a strong first quarter, as I began the call in 2025, we feel here in this room, like we built our businesses to achieve consistent and enduring performance. And that positions us well to manage through a dynamic environment. And that's what we have is a dynamic environment. I have got every confidence in our strategy and the team's ability to deliver on the superior client experiences that we've talked about, and improved returns and we look forward to speaking to you all again in May. Thank you very much.