Q2 2025 Conference Call

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PRESENTATION

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

Thank you, and good morning. We will begin today's call with remarks from Darryl White, BMO's CEO, followed by Tayfun Tuzun, our Chief Financial Officer; and Piyush Agrawal, our Chief Risk Officer. Also present to take questions this morning are Ernie Johannson, Head of BMO North American Personal and 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 you 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 could differ materially from these statements. I would also remind listeners that the bank uses non-GAAP financial measures to arrive at adjusted results. Management measures performance on a reported and adjusted basis and considers both useful in assessing underlying business performance. Darryl and Tayfun will be referring to adjusted results in their 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.

Today, we delivered another good quarter, supporting year-to-date momentum across key performance metrics. We had good revenue and PPPT growth with strength in each of our diversified businesses. We're actively managing for risks and uncertainties in the current environment and executing against a consistent strategy to deliver continued positive operating leverage and ROE improvement.

In the quarter, adjusted net income and earnings per share increased 1% from last year to $2 billion and $2.62, respectively, with PPPT growth of 12%. Impaired provisions continued to moderate as expected, and we bolstered our performing allowance. Over the last three quarters, we've added more than $850 million to our performing provision, giving us appropriate coverage for the environment and reflecting our disciplined and proactive approach to risk management.

Our capital position remains robust with a CET1 ratio of 13.5%, as we continue to support clients, invest for growth, and return capital to shareholders, including through share buybacks and dividend increases. We've now completed 50% of the NCIB program and today, we announced an increase in our dividend of $0.04, up 5% from last year.

For the first half of the year, EPS grew 10%, driven by year-to-date revenue growth of 13%. Pre-provision pre-tax earnings of $7.8 billion were up 22%, with all-bank operating leverage of 5.7%, having met our commitment to positive operating leverage for five consecutive quarters.

ROE improved to 10.6% year-to-date. Rebuilding return on equity is our number one imperative and we're executing against our plan. Tayfun, today, will provide more details on our progress in his remarks.

Turning to the businesses. Each of our operating groups delivered solid results and PPPT growth as we continue to focus on enhanced customer experience, deeper One Client relationships and trusted advice.

In Canadian Personal Banking, we continue to see good customer growth and deeper engagement through the first half of the year, driven by product and digital innovation. For example, we've added over 10,000 new VIPorter loyalty cards in the first six weeks since the launch of our partnership with Canada's fastest-growing airline. Our differentiated Savings Amplifier account recently surpassed $10 billion in deposits, over half representing new customers to BMO. Our award-winning digital offerings are making it easier for customers to bank with us, including access to detailed merchant data for debit and credit card purchases, the ability to convert transactions to instalments, while also implementing enhanced security features.

In U.S. P&C, we continue to have good momentum in core customer acquisition across our markets, including 7% year-over-year growth in chequing account acquisition in our West markets where branch productivity and digital engagement continues to improve. We continue to invest in core markets, including in Chicago and the Midwest where we're market leaders, and in our expanded West markets where we're growing regional scale. California's economy is now the fourth largest in the world and growing at a faster rate than the U.S. overall. We're well positioned to capture opportunities to grow share in this attractive market.

In Commercial Banking, business activity and loan demand in both countries is reflecting the impact from trade uncertainty, and businesses are being cautious around the deployment of capital. At the same time, our ability to attract, retain, and deepen One Client relationships and diversify our revenue streams towards fee-generating income is reflected in the fact that more than 90% of our commercial borrowers choose us for additional services.

At BMO, we take pride in delivering best-in-class Treasury and Payment Solutions. Across corporate, commercial, and small business clients, TPS provides award-winning product solutions, seamless and leading cross-border capabilities, and trusted advice that powers efficiency and growth for our clients. TPS is a significant contributor to BMO's revenue, growing 20% year-over-year. It fuels core deposit growth and represents an important fee expansion initiative to drive higher ROE.

BMO Wealth Management continues to perform well with a return on equity of 29% year-to-date, up from 24% a year ago. Growing this business is another key element in our overall ROE rebuild strategy. Net new asset growth this quarter was the second highest on record, including a strong contribution from the U.S. and market share gains in Canadian mutual funds, reflecting strategic investments we've made in these businesses.

We continue to innovate and expand our product offering with new solutions such as BMO's Canadian Depositary Receipt lineup, enabling Canadian investors to gain exposure to international companies and enhance their portfolio diversification. We continue to add to our leading ETF offerings and ranked first in ETF flows for the quarter, building on our number two position in the market.

The launch of the new BMO-LINK Workplace Savings Platform gives employers a one-stop digital solution to help their employees achieve their savings and retirement goals, a first among Canadian financial institutions. Our commitment to meeting the unique needs of private wealth clients was recognized at the 2025 Euromoney Global Private Banking Awards, where BMO was named Canada's Best Private Bank for ultra-high-net-worth clients and for philanthropic advisory services.

Moving to BMO Capital Markets, PPPT of $684 million was above our guidance. We had strong trading revenue led by a record quarter in commodities and continued strength in securitization. Our leadership and strength as a trusted adviser drove resilient performance in key sectors and products, notably Global Metals and Mining and Canadian M&A. Our Capital Markets team is also leading the way in leveraging data-driven AI insights and tools to enable our bankers and traders, enhance client interactions and relationships and provide unmatched value while supporting client growth.

The economic backdrop in North America continues to be challenged by the uncertain environment, and GDP growth is now expected to slow to 1% in Canada and 1.3% in the U.S. in 2025. In Canada, the recent outcome of the federal election is a renewed government with an aggressive economic growth agenda. We've seen promising early results by the federal and several provincial governments in support of eliminating barriers to interprovincial trade. We encourage a positive resolution in support of a stronger overall Canadian economy.

Finally, as more plans are put into motion for infrastructure investment to boost economic capacity and Canadian productivity, our teams are here to help governments, companies, small businesses and families with access to financial services and advice to fuel that growth and continue to strengthen the communities we serve. While macro uncertainties drive levels of customer and market activity that are lower than expected at the beginning of this year, we're focused on continuing to execute on our strategic priorities and strong risk management practices to enhance shareholder returns.

And with that, I'll 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. Second-quarter reported EPS was $2.50, and net income was $2 billion. Adjusting items are shown on slide 39. The remainder of my comments will focus on adjusted results.

Adjusted EPS was $2.62, up from $2.59 last year, and net income was $2 billion, up 1% as strong PPPT growth of 12% was offset by higher performing PCLs, as well as a loss of $51 million on the sale of a U.S. non-relationship credit card portfolio related to our balance sheet optimization strategy to achieve the ROE targets.

Revenues increased 9% with good growth across all our businesses, NIM expansion and strong trading and wealth revenue. This was partially offset by markdowns in Capital Markets reflecting market conditions. Expenses grew 6% and we delivered positive operating leverage of 2.7%. Total PCL increased $349 million from the prior year and $43 million from last quarter. Piyush will speak to this in his remarks.

Moving to slide 9, over the last two quarters, we shared with you our medium-term ROE target for BMO at 15% and 12% for U.S. P&C and the priorities to achieve them. Over the course of the first half of fiscal 2025, we have been executing against our action plans that have resulted in improvements in our year-to-date ROE. I would note that excluding performing PCLs in the first half of the year, which have been elevated, year-to-date ROE would be approaching 11.5%.

In line with our commitment, focused expense management has resulted in year-to-date positive operating leverage of 5.7%. Impaired PCLs have improved as expected since the fourth quarter, and while the timing of further normalization will depend on the macro environment, it remains a key driver of ROE improvement over time.

We have made early progress on balance sheet optimization initiatives on both sides of the balance sheet. As mentioned earlier, in the U.S., we executed the sale of a non-relationship credit card portfolio to support the recycling of capital to higher return opportunities and exited a franchise loan portfolio that did not meet our return expectations with minimal impact on current net income.

On the deposit side, given our current strong balance sheet liquidity, we have been executing a more disciplined deposit pricing strategy and made progress in our deposit mix improvements with reductions in higher-cost funding.

Overall, we are pleased with the year-to-date ROE improvements and will continue to report against these and other initiatives.

Moving to slide 10, average loans grew 3% year-over-year on a constant-currency basis, driven by good growth in residential mortgages and commercial loans in Canadian P&C. Sequentially, loans were down 1%, primarily from lower business and government balances in U.S. P&C and Capital Markets.

Customer deposit balances were up 5% from last year, excluding the impact of the stronger U.S. dollar, with growth across all businesses. Sequentially, balances were down 1%. In Canada, we saw good growth in everyday banking and commercial operating accounts offset by decreases in term deposits. And in the U.S., deposit optimization activity and disciplined pricing resulted in lower CDs and non-core customer deposits.

Macro uncertainties in both countries have kept demand muted across our client segments so far this year. We expect these conditions to begin to normalize as we get more clarity on the changes to the global tariff regime. In the meantime, we will continue to leverage our balance sheet liquidity to further optimize our funding profile in-line with our ROE targets.

Turning to slide 11, on an ex-trading basis, net interest income was up 11% from the prior year and down 2% sequentially due to the impact of fewer days in the quarter. Compared with last quarter, NIM ex-trading was up 4 basis points, benefiting from the rolling reinvestments at higher rates and disciplined deposit pricing, as well as lower low-yielding assets in Capital Markets and Corporate Services.

In Canadian P&C, NIM increased 4 basis points, reflecting higher loan and deposit margins, partially offset by loan growth exceeding deposit growth. U.S. P&C NIM increased 5 basis points, as our deposit optimization activity led to higher margins that more than offset the impact of lower deposit balances. Since the second quarter of 2024, we have had four consecutive quarters with margin expansion for a total of 15 basis points. Based on the current market expectations we expect a stable margin at the all-bank level as well as in our P&C businesses during the remainder of this fiscal year.

Turning to slide 12, non-interest revenue was up 4% from the prior year. Growth in Wealth Management and trading and advisory fees in Capital Markets were offset by the shift of BA fees to net interest income, as well as the markdowns, lower net securities gains, and loss on the sale of the card portfolio. We are also benefiting from good growth in deposit fees as we continue to expand TPS penetration with our corporate and commercial clients.

Moving to slide 13, expenses were up 6% from the prior year, or 2% excluding the stronger U.S. dollar and performance-based compensation, driven mainly by higher employee and technology costs. The expense levels in Corporate Services during the quarter were below trend, which we do not expect to repeat.

We maintain our full-year, year-over-year mid-single-digit expense growth expectation on a constant-currency basis, excluding higher performance-based compensation, and expect the second-half growth to be higher than the first half. We still plan to deliver positive operating leverage as we maintain a disciplined approach on managing our expenses in line with revenues.

Turning to slide 14, our CET1 ratio of 13.5% was down 10 basis points from last quarter as good internal capital generation was offset by share repurchases and higher source currency RWA. With the additional 2 million share repurchases in May, we have executed 50% of our buyback program since announcement earlier this year. Given our strong capital position, we plan to continue executing the remaining buybacks at a similar pace during the second half of the year.

Moving to the operating groups and starting on slide 15, Canadian P&C net income was down 10% year-over-year, as higher PCLs offset good PPPT growth of 5%. Revenue of $3 billion was up 6%, driven by higher net interest income, reflecting higher margins and balance sheet growth, with loans up 6% and deposits up 4%, partially offset by lower non-interest revenue. Expense growth of 6% reflected higher technology and employee-related costs.

Moving to U.S. P&C on slide 16, my comments here will speak to the U.S. dollar performance. Excluding the loss on the sale of the card portfolio, net income increased by 3%, with PPPT growth of 8% and positive operating leverage. Revenue growth was driven by higher margins as balances were relatively stable year-over-year and higher deposit fees were offset by lower commercial M&A advisory fees. Expenses were relatively unchanged year-over-year, with higher employee costs offset by lower operating expenses.

Moving to slide 17, BMO Wealth Management net income was up 13% from last year, with positive operating leverage of 3.5%. Revenue in Wealth and Asset Management was up 11%, driven by stronger global markets and strong net sales and balance growth across loans and deposits. Insurance revenue was down 6%, reflecting unfavourable market movements in the current quarter. Expense growth of 7% was driven by higher employee-related expenses, including higher revenue-based costs and continued investment in talent.

Moving to slide 18. BMO Capital Markets net income was down 7%, with PPPT growth of 6%, offset by higher PCLs. Revenue of $1.8 billion was up 7%, reflecting good performance in Global Markets, driven by strong client activity, particularly in commodities trading. Investment and Corporate Banking revenue was down due to the impact of markdowns and lower net securities gains, partially offset by higher advisory fees and Corporate Banking revenue. Expenses were up 8%, mainly driven by higher employee-related expenses and the impact of stronger U.S. dollar.

For the second consecutive quarter, our Capital Markets performance has exceeded the guidance that we gave at the beginning of the year, especially with strong results in the Global Markets business. We remain aligned with our previous guidance of achieving quarterly PPPT of above $625 million during the remainder of the year. Our expectations reflect the strength of our model while recognizing the broader market uncertainties and the muted level of client activity in Investment and Corporate Banking.

Turning now to slide 19, Corporate Services net loss was $155 million due to the low point in retained expenses in the current quarter, mainly due to timing. We expect the third-quarter net income in our Corporate segment to be similar to last year's third quarter.

In closing, our results this quarter reflect solid execution and financial discipline, with strong performance helping our progress towards achieving our targets. Revenue growth was supported by all business segments which, together with disciplined expense management, helped us sustain positive operating leverage. And as we expected, we continue to make progress in reducing our impaired PCLs.

Our balance sheet remains a point of strength with healthy capital ratios, sound liquidity, and a well-managed risk profile, as we look for more clarity in the macro environment in coming quarters. These outcomes reflect the resilience and the balance of our underlying business model and position us well against our strategic priorities.

I will now turn it over to Piyush.

Piyush Agrawal – *Bank of Montreal – CRO*

Thank you, Tayfun, and good morning everyone.

In line with our prior guidance, impaired provisions for credit losses continued to improve this quarter. At the same time, we remain cautious given the ongoing uncertainty and volatility in the economic environment related to trade policies. The outlook for the Canadian economy has weakened with rising unemployment and declining GDP growth. The U.S. market has shown resilience, but momentum has softened. This weaker macroeconomic outlook relative to Q1 is now incorporated into our base case, driving performing PCL of $289 million for the quarter.

On slide 21, performing allowance stands at $4.7 billion, providing good coverage of 69 basis points over performing loans given the credit profile of the portfolio and our forecast for impaired losses. We continue to monitor closely the outcome of trade negotiations and will incorporate changes to the outlook in the allowance assessment in future quarters.

Please turn to slide 22 for an overview of total and impaired provisions. The total provision for credit losses was $1.1 billion, or 63 basis points. Impaired provisions for the quarter was $765 million, or 46 basis points, down 4 basis points from prior quarter and down 20 basis points from Q4. The quarter-over-quarter improvement was primarily due to lower losses in our U.S. commercial business.

Personal and Business Banking impaired losses were $318 million in Canada and $67 million in the U.S., down $6 million and $19 million, respectively. Delinquencies are continuing to trend up in our Canadian consumer portfolios, in line with rising unemployment. We expect these trends to result in moderately higher losses in the unsecured portfolios, and we have expanded early customer engagement to help manage these risks.

In our commercial businesses, impaired loan provisions were $158 million in Canada and $180 million in the U.S., down $9 million and $46 million, respectively. Capital Markets impaired losses of $28 million was down $7 million from prior quarter. The pace of credit migration across the wholesale portfolio has been slowing, and impaired formations decreased $601 million over the prior quarter, as shown on slide 23. Gross impaired loans were relatively stable, and the GIL ratio at 99 basis points was down 1 basis point from last quarter.

We are encouraged by the positive signs in our credit portfolio, including lower migration to watch list and impaired and moderating provisions in our wholesale business. At the same time, we are subject to macro and industry risks related to the evolution of trade policies, some of which have already had an impact on business and consumer confidence and on economic activity.

Our impaired provisions are trending in line with our previous guidance. But given all of the tariff pronouncements, it is possible that impaired provisions may rise modestly from here but remain manageable. We are actively managing the tariff risks, including close monitoring of our portfolios and engaging with clients to help them manage through this uncertainty. Given the diversification of our portfolio, strong capital and liquidity levels, we are in a good position to manage current and emerging risks.

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

Gabriel Dechaine – *National Bank Financial – Analyst*

Good morning. I want to ask, I guess, a two-fold question on the ROE story here, which is clearly an emphasis for the bank. In my view, and I think mathematically, heavily contingent on improvement in the U.S. business. First, we saw commercial loan growth negative sequentially. What's the outlook there? Is there any, I guess, hope that we could see that commercial book turn around into positive growth over the course of the year?

And then on the, I guess, funding optimization, we saw a drop in U.S. deposits sequentially, and that's getting rid of higher cost deposits. But as you look -- your strategy seems to emphasize, let's get some lower cost deposits. How easy is that? How do you execute on that? It's easy to say and perfectly logical, but there's got to be a cost and an execution challenge there. So how long does that take to start seeing an improved funding mix in the U.S.? Thanks.

Darryl White – *Bank of Montreal – CEO*

Gabe, it's Darryl. Maybe I'll start the response to your question. There was a lot in your question, and I might invite -- given the market dynamics that you correctly allude to, I'm going to invite Ernie and Nadim to comment as well from the retail and commercial perspectives.

In the U.S., you're quite right, we're very committed to the ROE rebuild. A lot of that is in the U.S., as you've seen and as we talked about over the last couple of quarters. I would start by saying that the balance sheet dynamism that you're observing, for sure, it's been muted for a while. That's not just us, that's the industry.

If I look at loans, we've been in line with market for a few quarters now in that flattish world. And when I look at deposits, we had some, frankly, we had a lot of opportunity there because our liquidity, which we had lots of and we had built pretty successfully over a couple of years, gave us the opportunity to reprice lower value deposits. And you're seeing that in our NIM. Tayfun mentioned that we're up 5 basis points on the NIM, which is pretty impressive. We see more room there as well.

So let me make a couple more comments before we come back to how the balance sheet could move, because I'm quite impressed with the way our teams aren't just waiting for a rebound in loan demand. Like, if I look fundamentally at the U.S. P&C's PPPT delivery, despite little movement in loan demand in the marketplace, it's up 5% year-to-date. It's up 7% year-to-date if you exclude the card loss that Tayfun described earlier, and 8% in the quarter. So it's even accelerating quarterly relative to the year-to-date.

And why is that? It's because of the pricing and the balance sheet optimization that we've been talking about. And we do expect that to continue. And we expect to diversify into more fee-generating revenues. So the teams have done a really good job on that.

And cycling it round-trip back to the ROE journey, when I look back to the 6.2% number that we had in 2024, that's 7% already in 2025 year-to-date. So we're on the journey. We're making these moves, and we're executing pretty well against them. And that's before an uptick in loan demand, which I've been saying this for some time, but it will come one day. But that would be in addition to everything I've just said.

Why don't we have -- Ernie, can you give a couple of comments from your perspective, and then Nadim, please?

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

Thanks, Darryl. And thank you, Gabriel, for the question.

So two parts to the strategy in the retail bank in the U.S. One, Darryl's already spoken to, and Tayfun did as well, is around we're changing our funding mix. And we are fundamentally looking at building deeper relationships in core deposits. So we're going to change that funding mix. And you see that today coming through in the NIM improvement, the five basis points quarter-over-quarter. But that's 14 basis points year-over-year. And that shift is really critical in our ROE build.

But at the same time, we're not giving up on a new customer acquisition, which is really focused on those core chequing, savings accounts, money market accounts in our U.S. business. And that performance is based on driving new customers into our franchise and deepening the relationship with the existing. Just to give you a perspective, our chequing account acquisition in the West or in California is up 9%, whereas we're about 7% overall. So you see the California market picking up for us in particular.

And then lastly, I would say the effectiveness of our analytics and our marketing is really driving more primacy with our existing customers and driving also the productivity of our sales force. So while you see us reducing those high-cost deposits, we're bringing in new customers and new relationships on chequing, savings, and money market accounts.

So with that, I'll turn it over to Nadim to talk specifically about the loan side on the commercial.

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

Thanks, Ernie. As Darryl mentioned, the borrowing demand in the U.S. has been largely muted, as we've seen in recent quarters. That's in line with industry peers. So our results are very similar. At the same time, I think we've mentioned we're focused on acquiring strong ROE loans with appropriate risk return and full banking relationships, which means we're also optimizing capital away from deals or portfolios that do not meet our long-term return thresholds.

But I will tell you, Gabriel, our pipelines are healthy. Execution has obviously been delayed due to uncertainty in the market. However, I will say also that in my recent conversations with clients, sentiment is actually improving. And as we get more clarity in the economic environment, as Darryl mentioned, we do expect loan growth to be positive in the back half of the year.

And I'll also say that we've seen the month of April show some positive signs already. In the meantime, we're executing on our fee-generating strategic initiatives. So as Darryl mentioned in his opening remarks, our TPS and Treasury revenue is outpacing our expectations with double-digit growth. This is a significant part of our ROE rebuild journey. And our One Client efforts, so referrals between capital markets, commercial and wealth, continue to accelerate, and again, a key part of our ROE rebuild journey.

The second part of your question, Gabe, was on the deposit side. So very similar to what Ernie talked about in commercial, as we optimize loans, we're optimizing the entire balance sheet, including deposits. Pipeline is actually very healthy on our deposit side, good core operating deposits. So what we are doing is in a balanced way, as we get new client acquisition, which we are each and every day, and it's healthy, we are dismissing deposits that, for example, in Q2, what you're seeing is the effect of exiting large dollar, low liquidity value, high cost deposits. And in favour of that, we brought in good core operating deposits. And as you saw, deposit margins are showing about a 5-basis-point improvement already, again, part of the ROE rebuild.

Gabriel Dechaine – *National Bank Financial – Analyst*

Okay. Well, in the interest of time, I'll say thanks and have a good day.

John Aiken – *Jefferies – Analyst*

Good morning. In terms of the balance sheet restructuring that you're undergoing on in the U.S., obviously, good to see the movements in there, the sale of the credit card portfolio. I'm assuming, though, that there are other opportunities that you're exploring. Is there any way that you're able to scale or quantify what these potential opportunities are moving forward, of course, with the condition that I'm not going to hold you to an exact number?

Tayfun Tuzun – *Bank of Montreal – CFO*

We have an ambitious plan to improve our ROE within a very reasonable timeframe. And that means that we have to look at all of our businesses and the entirety of our balance sheet, and we're doing that. I don't have any specific news to share with you today. As we identify them and as we make the decisions, we'll share those decisions with you.

John Aiken – *Jefferies – Analyst*

Can we expect periodic announcements over the period of time where you're trying to improve your ROE? Granted, not expecting everything every quarter, but is this something -- will the second quarter's experience be representative of what we might be able to expect moving forward?

Tayfun Tuzun – *Bank of Montreal – CFO*

I think it's reasonable to assume, given, again, the plans that we have, that there will be other decisions that we will make along the way. I can't comment on the timing of those decisions, but I think it is reasonable to assume that there will be more.

John Aiken – *Jefferies – Analyst*

Understood. Thank you. I'll requeue.

Matthew Lee – *Canaccord Genuity – Analyst*

Hi, guys. Thanks for taking my question. So at the end of last year, you did a lot of work walking through your U.S. commercial portfolio to really try to determine areas of risk. And it looks like maybe it's paying off here with PCLs dropping this quarter. Can you maybe talk about what you're hearing from your U.S. commercial customers that's getting more comfortable with your current allowances?

Piyush Agrawal – *Bank of Montreal – CRO*

Matt, can you just repeat the question? You said just in the U.S.?

Matthew Lee – *Canaccord Genuity – Analyst*

Yeah, U.S. commercial, but just what you're hearing from commercial customers right now that is getting you comfortable with the credit situation that you're seeing in that space?

Piyush Agrawal – *Bank of Montreal – CRO*

I think our customers are absolutely indifferent and untouched. In fact, we are here as a relationship bank for our customers, so the credit situation is more internal. We manage through that, as you can see, in the sequential improvement across the enterprise. But from a customer perspective, it's growing. The book is very healthy, I would say, in general. I'll probably offer Nadim the opportunity to talk about the U.S. commercial book.

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

Yeah. Thanks, Piyush. I would say, when I think about our conversations with customers and how they're feeling with the environment that we're under, as I mentioned earlier, the sentiment continues to improve and getting more and more positive. The customers are navigating quite well in the environment. They're focusing on cost discipline, working capital management, finding new markets, strategizing about evolution of their business models -- as the fiscal policy settles in the market.

So far, we're feeling good about the commercial book. Customers are feeling better. And we do expect, like I said, some rebound coming in the back half of the year, including some likely rebound in the M&A markets as well.

Matthew Lee – *Canaccord Genuity – Analyst*

So I guess you're pretty comfortable with the idea that, assuming there's no further tariff impacts, PCL should continue to kind of trend the way that you suggested it would kind of in Q4.

Piyush Agrawal – *Bank of Montreal – CRO*

Yeah. I would say the tariff impact, the short answer is, even without any tariff impact, there is a little bit prolonged uncertainty, which is obviously slowing the environment, that has an impact on some of the files that are already being worked through. But it's moderate. So if everything works out the way we expect, I don't see any significant shift in what we've guided you.

Matthew Lee – *Canaccord Genuity – Analyst*

Okay. And then I might have missed this, but what's the tariffs that are kind of baked into your base case expectations in your credit model right now?

Piyush Agrawal – *Bank of Montreal – CRO*

So in Q2, we took into account what had been announced, and of course, these are stop/go that we hear every week, but our Q2 economic forecast base case saw significant deterioration. You'll see some of this in our disclosure.

If I were to just point you to a couple of metrics, you think about Canadian GDP. Six months ago, we were projecting about a 1.82%, and in Q2, that was 0% to negative 0.2% in our base case. In the next 12 months, even more significant, and I would point you to Canadian unemployment, unemployment has a big driver to our PCLs. Six months ago, we thought unemployment should be improving from 7% down to maybe 6.5%. Now, we've got a deteriorating outlook for unemployment with 7% going up to 8%. So you'll see more of these details in our disclosure, which really drove our performing PCLs in the second quarter.

Ebrahim Poonawala – *BofA Securities – Analyst*

Hey. Good morning. I guess maybe, Tayfun, following up on the U.S. ROE discussion, remind us if there's anything from a capital standpoint that we should be mindful of around capital allocation to the U.S. We have the stress test results coming out, which did have an impact on the stock last year. So any kind of expectation? I realize it's an opaque process, but how you are approaching the stress test, anything coming out of that may -- that could inform your capital allocation decision in terms of how much capital you hold in the U.S. bank?

Tayfun Tuzun – *Bank of Montreal – CFO*

The short answer is no. Some aspects of our capital situation in the U.S. really are related to the strength of the capital position, both with respect to our historical levels as well as with respect to the peers. And it's accreting quite fast, which is just fine, and we expected that. I think we shared that with you at the end of last year that our expectation is still strong accretion in the U.S. We're quite happy with that. I don't expect this year's CCAR exercise to have any meaningful impact on how we manage capital.

Ebrahim Poonawala – *BofA Securities – Analyst*

Got it. And if I could follow up on the margin discussion earlier. One, I think last quarter, you talked about stable margin outlook. You had a decent expansion this quarter. If you don't mind spending some time on the puts and takes, I heard you on the deposit mix optimization. But when I look at the U.S. margin at 3.9%, it seems to be best in class. So one, do you see that 3.9% margin improving materially from here? And is the bias on the balance sheet, is it asset sensitive, liability sensitive? How should we think about that?

Tayfun Tuzun – *Bank of Montreal – CFO*

So the principle that we have applied in the way we manage our interest rate risk, in the way we manage our balance sheet is one of stability. And we've been on that for a number of years now. We try to let the businesses drive our margins with credit spreads as they move and also with discrete balance sheet actions such as the ones that Ernie and Nadim mentioned.

As I look ahead, I do expect those actions, as they will remain in place for the duration of our ROE journey, to continue to impact our margins. Today, as I sit here, I expect them to be positive in the coming quarters. We're not changing our stability target in terms of managing our margin, and I'm not expecting a significant improvement in those margins. But probably, I had commented on this a couple of quarters ago, I expect a stable margin with some upside. But I want to be cautious about that upside because it tends to be impacted by the movement in market interest rates. So my message is the same as before, Ebrahim.

Ebrahim Poonawala – *BofA Securities – Analyst*

Got it. Thank you.

Doug Young – *Desjardins Securities – Analyst*

Hi. Good morning. Piyush, I just wanted to go back to your comment that you might see impaired PCLs up moderately from here but to remain manageable. And so just trying to understand or maybe you can kind of flesh out what frames that view given what we hear from the team and just your kind of seems to be a little bit more cautiously optimistic outlook. And can you define up modestly from here? I mean, your PCLs have been quite volatile in the last year or so. Can you give a kind of a sense of what you mean by moderately?

Piyush Agrawal – *Bank of Montreal – CRO*

Sure, Doug. So just to give you a sense of the forward trajectory, let's step back in the last two quarters. You've seen sequential improvement from us down from 66 basis points to 46. That's significant progress and it shows you the amount of work the teams have been putting in into our credit portfolios.

But in addition to the outcome of what you've seen in the PCL, you're also seeing key portfolio metrics like watch list and impaired formations at its lowest level in the last five quarters. So this backdrop gives us comfort around the guidance we had given you in the high 40s, and there will be inter-quarter variability. I've always mentioned that because of sometimes the lumpiness of large files.

But as you look forward, we're just mindful of the headwinds in the outlook. So the evolving U.S. trade policies has created uncertainty and volatility. And no matter what gets resolved, this uncertainty and volatility itself has taken its toll on business and consumer sentiment and the way you should think about this is we've run different scenarios. If I were to give you the scenario rewinding the last three or four months and said there were no tariffs, then we would exactly be in the trend of our guidance.

If you take the scenario, things will get resolved, but it will take some time, that's a couple of basis points. So we've given you guidance of high 40s. You can add a few basis points just because of the time factor of the resolution. And if things don't get resolved and the tariff wars pick up, then that's a much more adverse scenario that would put us and everybody else probably out of guidance.

Doug Young – *Desjardins Securities – Analyst*

That's helpful. And if I could just - one quick one. Your non-interest revenue just seems lower in Canada than the U.S. And just wanted to confirm, in the US, that includes the loss related to the sale of that portfolio. But just trying to understand lower non-interest revenues in Canada and the U.S. if there's any big drivers behind that.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, the loss on the sale of the credit card portfolio is included in our numbers in the U.S. There are a couple of items in Canada that have impacted the trends, including the BA fees shifting to net interest income in Canada. And also, just keep in mind that Q2 has three less days in the quarter, which tends to impact fees as well, especially in our P&BB business and our Wealth Management business.

Doug Young – *Desjardins Securities – Analyst*

Okay. So it's just really in the U.S. is the big one. Okay, appreciate the colour. Thank you.

Paul Holden – *CIBC World Markets – Analyst*

Thanks. Good morning. I wonder if you can provide similar commentary on what Canadian commercial customers are saying, if the message or sentiments are any different than what you're hearing from the U.S. with a little bit more caution.

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

Thanks for the question. Obviously, something on everyone's mind. Talking to clients, I would say it's still similar to the U.S. It's cautious optimism that this will get resolved in a timely fashion. And when it does, there'll be some sort of tariffs, but it'll be manageable, reasonable, and that our clients feel comfortable that they'll be able to work around it.

Most of our Canadian clients, there's a, I would call, wait-and-see or a watch mode, a little bit of cautiousness. We saw good loan growth in Canada going into the year. Q1 was good. Q2 held up pretty well as well. But we are seeing some moderation. I would expect we're going to see some moderation downwards on the loan growth for the remainder of the year in Canada. But I still expect the loan growth to be positive. So clients are cautious, but there's still activity, but at a decelerating pace.

Paul Holden – *CIBC World Markets – Analyst*

Okay. And then maybe one question on Capital Markets, because I think one of the earlier questions on the U.S. is prospect for more M&A in the second half of the year. So maybe a refresh of what the Capital Markets pipeline looks like if you have a similar read in terms of potential for more activity in the back half of the year, particularly in the sort of that mid-market private equity space where BMO really has a good market position.

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

Thanks, Paul. And appreciate the question. And I'd be remiss if I didn't just take a second and highlight some of the strength that we've had in our M&A practice, particularly in Canada around our metals and mining business, energy, and most recently around real estate.

So what you're really seeing is a mixed picture around the M&A market. And as you point out, the U.S. has been weaker. And that's certainly the experience post the geopolitical dynamics around the tariff announcements. We are starting to see a pickup in the pace of meetings and pitches and engagement. But as you would anticipate, a number of transactions were deferred and delayed as a result of the market turmoil. So we are more confident in what we're seeing in terms of the pipeline. But as you know, for that market, meetings, mandates turning into revenue can take a little bit of time. So I would describe it as cautiously optimistic.

Paul Holden – *CIBC World Markets – Analyst*

Okay. That's helpful. That's it for me. Thank you.

Darko Mihelic – *RBC Capital Markets – Analyst*

Hi. Thank you. A question for Piyush, sort of two-fold in nature, I guess. One is, can you describe your exposure to tariff-related industries? And just out of curiosity, why not provide that detail in your deck?

Piyush Agrawal – *Bank of Montreal – CRO*

Hi, Darko. So we've got disclosure on the loan portfolio in the deck. And as you know, it's a very well-diversified portfolio across sectors. We've obviously been doing a lot of scenario analysis and stress tests well before the U.S. elections, and continue with all of the tariff changes. So from a macro perspective, I think we are seeing the softness in consumer demand and business sentiment that has an impact overall to the broader economy.

But more directly to your question, we have analyzed the sectors. And the way we've done this is we've looked at our sectors that are higher risk, medium, low. And I would call those higher-risk sectors the ones you're reading about – agriculture, auto manufacturing, lumber. And when you add those up, those are about 6% of our portfolio in the higher risk.

But I'd be remiss if I said that's all high-risk, because really, the risk lies in individual files. So we've spent a lot of time with the teams reviewing our individual files. And like us, many of our clients are also safeguarding their interests. There's financial flexibility. Some people are changing the supply chains, getting ready for what's coming. So I would actually say that the higher risk files within those high-risk industries is probably around 1% of our total exposure.

Darko Mihelic – *RBC Capital Markets – Analyst*

And is it fair to say it's mostly Canada?

Piyush Agrawal – *Bank of Montreal – CRO*

It's a mix. Clients are going to be affected everywhere with what's going on. So there are some in the U.S. and there are some in Canada.

Darko Mihelic – *RBC Capital Markets – Analyst*

Okay. And what's the biggest industry in that 1% for your particular portfolio?

Piyush Agrawal – *Bank of Montreal – CRO*

The biggest pieces will be manufacturing because it's the manufacturing sector that's going to see the brunt of tariffs. These are low-margin industries, very stable. And so when you see tariffs that have been announced, if they came through, you'll see the biggest impact there because it impacts various pieces of their supply chain.

Darko Mihelic – *RBC Capital Markets – Analyst*

Okay. Great. Thank you.

Mario Mendonca – *TD Securities – Analyst*

Good morning. Slightly different type of question, but it relates to the same themes, which is a less friendly regime in the U.S., political climate in the U.S. Now, I'm referring to this bill going through Congress that would impose materially higher taxes on residents like Canadians in the U.S., individuals and corporates. And it relates to this digital tax that Canada has on U.S. tech companies.

Now, it's entirely possible that this thing dies on the floor of Congress, but it's a meaningful risk and it matters to banks like BMO and other institutions with large U.S. operations. What I'm asking here is, does BMO have a house view on how this plays out? Does this go away, or how do you address it if, in fact, the U.S. does impose materially higher tax rates on Canadian corporations?

Tayfun Tuzun – *Bank of Montreal – CFO*

So Mario, just like you, we are watching developments, and uncertainties are quite high on this topic. And as you know, the U.S. process does not get finalized until the very last moment. And we just need to continue to watch. The outcomes are not certain to us enough to have a view today as to what it may mean for BMO. And when it's finalized, we obviously will form our perspective and what we need to do internally at BMO. But at this point, I don't have a good answer for you because of all these uncertainties.

Mario Mendonca – *TD Securities – Analyst*

Neither do I. One other sort of follow-up question to Doug's question. Piyush, Doug's asking about what manageable means in terms of higher PCLs. And it's the same sort of thing I'm interested in. What does manageable mean to BMO? Does it mean that the bank can continue to grow earnings even though higher PCLs emerge because of tariffs? Or does it certainly mean that it wouldn't impact the bank's capital strength? That, I treat as a given. But does manageable mean you can continue to grow through something like that? Help me understand what manageable means.

Piyush Agrawal – *Bank of Montreal – CRO*

Yeah. So the short answer is yes. We can continue to grow. Our capital ratios are healthy. Our client relationships, our client pipelines are healthy. So there's nothing that changes that story.

The manageable was to give you a perspective of the uncertainties in the environment. And so if we land exactly where we are today with a bulge reciprocal tariff and come in at a much lower number than announced, that would, because of the delay of the resolution and the softness in the economy in the interim, be a couple of basis points higher. So whether it's 1 or 2 or 3, that's the range we are thinking about. We're not going back to what you saw in 2024.

The only difference that I've continued to caveat is, if nothing gets resolved and we are in this high uncertain environment and back to an April 2 kind of announcement, that, of course, you can see in our base case forecast, has a significant impact on Canadian and U.S. economies.

Lemar Persaud – *Cormark Securities – Analyst*

Thanks. So I'm wondering if we could kind of look through the impacts of the trade war because the messaging from your bank and peers seems one of cautious optimism that we could be moving past the trade war. So if you had to guess, does it feel like this recovery would be led by consumer or commercial clients? It's something I'm spending some time thinking about because it does feel like consumers would be exiting this period of trade uncertainty in kind of a much weaker state than we saw post-COVID. So any thoughts on that?

Darryl White – *Bank of Montreal – CEO*

It's a tough -- it's Darryl, Lemar -- it's actually a tough call. You're asking a very good question.

I think when you look across Canada, you heard Piyush talk earlier about the outlook at the consumer level. We are seeing upticks in unemployment. We do expect to continue to see upticks in unemployment. And that puts a certain challenge on the household budgets, which can persist. You don't wave a magic wand over that situation and say trade wars are over and then all of a sudden everything's okay and then you see a quick rebound, because some damage is done, and it can persist. So we're watching that very carefully.

On the commercial side, it's actually a little bit mixed. So you'll have -- we talked about it in this call and in other places -- some businesses that are impacted, in some cases could be severely, but they're in the minority and those folks won't rebound quickly at all, as you and I know, but there are a whole bunch that will. And they're building capacity right now and waiting for demand to come back.

So if I had to guess what you'll end up seeing in that environment that you're hypothesizing around, Lemar, is you'll see some of the consumer businesses come back quickly, but some of them won't. And you'll see the same thing on the consumer side. You'll see a big sort of rebound of demand on the commercial side, while those that were particularly impacted and targeted will take a long time. And that's probably not what you're hoping for in terms of me telling you it's ones and zeros on your answer, but you have to decompose each of the portfolios and look at them individually.

Lemar Persaud – *Cormark Securities – Analyst*

No, that's helpful. And then if I may just tack on to Paul's question there, how do you feel about the loan growth prospects of Canada versus the U.S.? And I'm trying to take this a step further. I'm talking about actual BMO loan growth here, because it really feels like given the timing of the closing of the Bank of the West deal, we never really got to fully appreciate the strength of the combined franchise. So what I'm asking is, like, if you had to look through a period of recovery, is it possible and plausible to expect stronger loan growth in the U.S. just given that kind of set up between the timing of the closing of the Bank of the West deal that U.S. loan growth should outperform Canada?

Darryl White – *Bank of Montreal – CEO*

Yeah. That's possible, plausible, of course, it is. If you kind of read through some of the things you've heard from my colleagues today, you can imagine a scenario where both economies kind of muddle through here for the next couple of quarters. I think what you're really asking is what does '26, '27 end up looking like from a balance sheet dynamic perspective.

I don't think the U.S. market freezes forever. And so there will be a release there. And when there's a release, we've said time and time again, we intend to fully participate in that release. And our positioning is very good for that relative to most.

I wouldn't go so far, though, Lemar, to say that that will come at a stark juxtaposition to what might happen in Canada, because there are different dynamics in Canada this time with the -- as I mentioned in my remarks, maybe we'll have a resolution on interprovincial trade barriers. Maybe we'll have a pretty significant build Canada infrastructure spend. I think those things will take time to evidence commercial activity underneath it. But they could come. So as I push myself out through '26, '27, different factors could produce loan growth in Canada as well.

Mike Rizvanovic – *Scotiabank GBM – Analyst*

Good morning. First one, just a quick one for Tayfun on the NIR and just if we could dig a bit deeper here. So the sequential decline was almost $300 million on the NIR overall on an adjusted basis. And correct me if I'm wrong, but I think the card -- the non-relationship card portfolio was only a small fraction of that. So in terms of where Q1 level was at, are you expecting that we sort of see this reflate back to Q1 levels? Or is Q1 a bit of an anomaly in terms of how strong it was and maybe you just sort of trend at the Q2 level for the second half of the year? I'm just trying to get some more granularity here, if you can provide it.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, I do expect the second half of the year to actually be stronger than how you would interpret the quarter-over-quarter decline. The quarter-over-quarter decline does have certain elements, including some of the items in Capital Markets, as well as some of the items that we just mentioned, including the credit card sale and also lesser number of days. That's an important one. That's actually -- it's not a small one. Our total revenue decline solely tied to days is over $200 million, not all in non-interest income, obviously, but a decent portion of that. So I would expect our non-interest income to go higher from here into Q3 as well as into Q4.

Mike Rizvanovic – *Scotiabank GBM – Analyst*

Okay, that's helpful. And then one quick one for Ernie. Just on the mortgage growth, a little bit weaker sequentially, I think about 0.5% higher. Anything you're seeing in the broker channel, we did have one of your peers that reported earlier suggest that there was a bit of spread pressure on that distribution channel. Are you seeing the same thing? And if so, is this part of the reason why you're maybe pulling back a bit on the RESL?

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

Thanks for the question. Overall on RESL, if I think about quarter-over-quarter, we're about 1% up, and year-over-year, we're 6%. So we're seeing some strong growth. It's the market that, as you're well aware of, has really slowed down. Our broker channel is still performing as expected and bringing in that quality customer that is new to the housing market. So we're not seeing anything unusual there.

Is the market overall more competitive? It's a competitive marketplace, and we're primarily -- our first job is renewals. Our second job is acquiring new customers that are in the mortgage market, particularly young profile that are in their first time home buyers. So I would say overall pleased with the growth and think hopefully as things get more constructive, we'll see a return back to some normality.

But the prices are down and the sales are down and that's been consecutive for five months. So we think it'll turn, but not in any great amount for the back half of this year, but some slight performance. And we're seeing that even as we speak in the past couple of weeks, more listings. So more to come but pleased with the broker channel overall.

Mike Rizvanovic – *Scotiabank GBM – Analyst*

Okay. So you wouldn't flag any spread compression in that channel though?

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

There's always competitive market across all the channels. So I don't think there's anything even more so than broker market than I would say just in general, whether it be direct digital or in our branch channel.

Mike Rizvanovic – *Scotiabank GBM – Analyst*

Got it. Thanks for the insights.

Darryl White – *Bank of Montreal – CEO*

Well, thank you, operator, and thank you all for your questions this morning.

I think you saw today that our results for the quarter continue to position us well for the current dynamic environment and for growth going into 2026. In the meantime, we're continuing to build a strong, resilient organization that's well equipped to meet both the challenges and the opportunities of the future, and our focus is unchanged. It's on effective risk management, on digital transformation and client-centric innovation to drive our success.

And with that, we look forward to speaking with you again in August. Thanks, everyone.