BMO Canadian Bank Income Index ETF (ZBI)

Access the strength of Canadian bank credit

Investors are looking for an alternative cashflow solution that behaves differently from traditional fixed income.

The BMO Canadian Bank Income Index ETF (ZBI) is a unique fixed income ETF that allows investors to conveniently access a portfolio of Canadian bank funding instruments, excluding common shares offering income potential.

ZBI pairs the benefits of higher yield potential and lower duration[1], by investing in non-traditional securities while remaining anchored with traditional Canadian bank fixed income. This solution provides access to Limited Recourse Capital Notes (LRCN) and preferred shares that source capital through wholesale funding.

The benefits of ZBI:

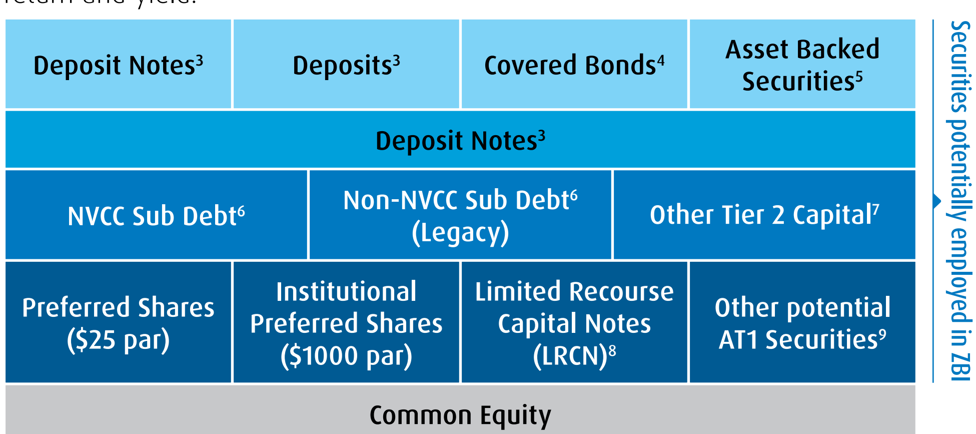
Anchored with Canadian bank fixed income and combined access to non-traditional securities: preferred shares, LRCNs, seeking to provide:

- Lower duration
- Higher yield potential
- Low risk rating[2] due to portfolio structure, anchored by traditional Canadian bank issued fixed income

The Canadian banking system has often been recognized as one of the most stable in the world. Collectively the banks in Canada have conservative practices, are well capitalized and adhere to strict governance. Compared to other issuers of corporate credit, banks tend to utilize a wider variety of instruments in order to source capital funding. These financial instruments include secured and unsecured borrowings and also hybrid instruments, which offer various levels of defensive and yield.

Bank Capital Structure Hierarchy ("Capital Stack")

Chart illustrates capital instruments that banks employ and their hierarchy in the "capital stack," which determines its priority in repayment, risk and thus expected return and yield.



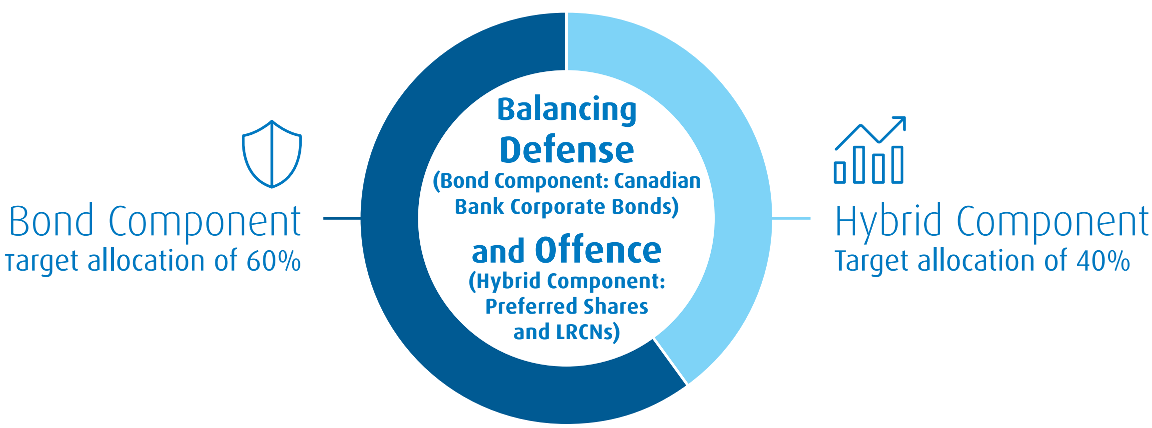
For illustrative purposes only

Instruments Included in ZBI

- **Canadian Bank Issued Bonds:** which include secured and unsecured funding and are considered obligations and liabilities by the issuing Canadian bank. These instruments are considered lower risk as they are collateralized by designated assets and/or have the highest priority in the event of a bankruptcy, insolvency liquidation or resolution. Due to the higher quality and shorter duration of the bonds, they offer a lower yield.
- **Canadian Preferred Shares:** are lower in the capital structure relative to bonds but higher than common equity. Similar to Canadian bank bonds, they have par values, but maturities that are less defined as they can be called on scheduled dates. Preferred shares have priority in claims to dividends and repayment to common shares. These include traditional structures such as rate-resets preferred shares[10], straight perpetual preferred shares[11]; and newly created structures like institutional preferred shares), launched in 2021.
- **Canadian Limited Recourse Capital Notes (LRCNs):** are structured like bonds but are considered on "pari-passu" with Canadian bank preferred shares, due to many of their similar features and characteristics. The main difference being that LRCNs distribute income rather than dividends and are only available through the wholesale funding market.

Portfolio Construction

BMO Canadian Bank Income Index ETF (Ticker: ZBI) seeks to replicate the performance of the Solactive Canadian Bank Income Index. It allows credit-oriented investors to get access to potential yield while anchoring to traditional fixed income from Canadian banks[12]. The portfolio is divided into two broad components: bonds and hybrids. The ETF is reconstituted on a monthly basis in order to capture new issuance activity, while being rebalanced on a semi-annual basis back to its target allocation. There is an intra period buffer of +/- 5%[13] where a rebalance would be triggered.



This ETF allows investors to enhance potential yield in the bond portion of a portfolio, while keeping duration low. The rules in the ETF also allows investors to limit potential risk, by investing in a combination of Canadian bonds and hybrids (non-traditional securities including but not limited to preferreds and LRCNs). This ETF gives investors access to yield enhancing segments of the Canadian bank funding market that are currently only accessible by institutional investors. Furthermore, the structure of the ETF allows investors to conveniently access the various instruments in one portfolio, with the benefits of liquidity and transparency.

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[1] Duration: A measure of a bond's sensitivity to changes in interest rates. It is expressed in years and helps investors understand how much the price of a bond is likely to change when interest rates move. Essentially, duration estimates the percentage change in a bond's price for a 1% change in interest rates.

[2] All investments involve risk. The value of an ETF can go down as well as up and you could lose money. The risk of an ETF is rated based on the volatility of the ETF's returns using the standardized risk classification methodology mandated by the Canadian Securities Administrators. Historical volatility doesn't tell you how volatile an ETF will be in the future. An ETF with a risk rating of "low" can still lose money. For more information about the risk rating and specific risks that can affect an ETF's returns, see the BMO ETFs' simplified prospectus.

[3] Deposits and Deposit Notes: Funds held at a bank by individuals and businesses. A deposit note is a debt security that pays a fixed rate issued by a bank.

[4] Debt securities issued by a bank collateralized against a pool of assets to protect bond holders.

[5] Asset backed securities: instruments where payments are derived from cash flow generated by a pool of mortgages, credit card receivables and other underlying assets

[6] NVCC Sub Debt: Non-Viability Contingent Capital Subordinated Debt: hybrid financial securities that have elements of both debt and equity. With a mechanism that allows them to be converted into common stock

[7] Other Tier 2 Capital: A buffer designed to absorb bank losses in case of financial difficulties, such as hybrid capital and subordinated debt. Considered less secure than Tier 1 Capital.

[8] Limited Resource Capital Notes (LCRNs): a subordinated, interest bearing debt instrument issued by a Canadian bank. Combines features of both debt and equity.

[9] AT1 Securities: Additional Tier 1 Capital, designed to absorb losses if a bank were to experience material financial stress.

[10] Rate Reset Preferred Shares: Rate-reset preferred shares offer a dividend rate that is fixed for an specified period, then resets to a new rate based on a benchmark interest rate plus a spread.

[11] Perpetual Preferred Shares: Perpetual preferred shares have no fixed maturity date. They pay a fixed dividend indefinitely, as long as the company remains in operation.

[12] For more information on the index methodology please visit: solactive.com/wp-content/uploads/2017/07/Guideline-Solactive-Canada-Bank-Index-2.pdf

[13] Rebalancing Range: Between the semi annual rebalance, should the target allocation weights deviate +/-5%, a rebalance would be triggered.

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