BMO Financial Group

Q4 2014 CONFERENCE CALL

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Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found in Bank of Montreal's Fourth Quarter 2014 Earnings Release and BMO's 2014 Annual MD&A, all of which are available on our website at www.bmo.com/investorrelations.

Examples of non-GAAP amounts or measures include: efficiency and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; adjusted net income, revenues, provision for credit losses, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio and other adjusted measures which exclude the impact of certain items such as credit-related items on the purchased performing loan portfolio, acquisition integration costs, amortization of acquisition-related intangibles assets, decrease (increase) in collective allowance for credit losses, run-off structured credit activities and restructuring costs.

Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

PRESENTATION

Operator

Good afternoon and welcome to the BMO Financial Group's Q4 Fiscal 2014 earnings release and conference call for December 2, 2014. Your host for today is Ms. Sharon Haward-Laird, Head of Investor Relations and Corporate Communications. Ms. Haward-Laird, please go ahead.

Sharon Haward-Laird - *BMO Financial Group – Head of Corporate Communications and Investor Relations*

Thank you. Good afternoon everyone and thanks for joining us today. Our agenda for today's investor presentation is as follows:

We will begin the call with remarks from Bill Downe, BMO's CEO followed by presentations from Tom Flynn, the bank's Chief Financial Officer and Surjit Rajpal, our Chief Risk Officer.

After their presentations we will have a short question and answer period where we will take questions from pre-qualified analysts. To give everyone an opportunity to participate, please keep it to one or two questions and then re-queue.

Also with us this afternoon to take questions are Frank Techar, Chief Operating Officer, Cam Fowler from Canadian P&C, Mark Furlong from U.S. P&C, Gilles Ouellette from Wealth Management and Darryl White from BMO Capital Markets. We will end the call with comments from each of our group heads and from Frank Techar on our F2015 outlook.

On behalf of those speaking today, I note that forward-looking statements may be made during this call. Actual results could differ materially from forecasts, projections or conclusions in these statements.

I would also remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess and measure performance by business and the overall Bank. Management assesses performance on both a reported and adjusted basis and considers both to be useful in assessing underlying business performance.

Bill and Tom will be referring to adjusted results in their remarks unless otherwise noted. Additional information on adjusting items, the Bank's reported results and factors and assumptions related to forward-looking information can be found in our annual MD&A and our fourth quarter earnings release.

With that said, I will hand things over to Bill.

Bill Downe - *BMO Financial Group - CEO*

Thank you, Sharon, and good afternoon everyone.

BMO's fourth quarter results conclude a good year in which the bank delivered $4.5 billion in net income[1] with earnings per share[1] up 6% from last year. This performance reflects a well-executed customer-focused strategy and the momentum we've demonstrated over a number of consecutive quarters. We've clearly strengthened our position in the market and become more competitive.

1 – on a reported basis: the bank delivered $4.3B in net income with earnings per share up 4% from last year

In 2014, earnings reached another high with great execution from our operating groups. Our largest business, Canadian P&C, had strong annual earnings growth of 11%.

Personal and Commercial Banking in the U.S. demonstrated improved trends in revenue and earnings growth in the second half of 2014.

Both P&C businesses had strong organic growth in loans and deposits.

Wealth Management had another good year with over $800 million in earnings[1] while completing the acquisition of F&C. With the expansion of our asset management platform, we've strengthened our position as a globally significant money manager.

Despite Q4 being the slowest quarter in 2014 for Capital Markets, the business generated over $1 billion in earnings for the year with strong returns and good progress on our U.S. strategy.

Capital Markets and Wealth Management continue to provide valuable diversification to our business mix.

The investments we've made cumulatively in our businesses since 2009 contributed in a significant way to this year's results and are having a compounding effect that's evident in our growth. Over that period we've nearly doubled annual earnings and increased book value per share from approximately $32 to $48. This performance reflects a deliberate and consistent strategy grounded in moving ahead of our customers' expectations.

Having completed the integration of our expanded U.S. platform in 2012, we've shifted from a heavy emphasis on conversion to ramping up how we go to market to increase product categories per customer and bring new customers to BMO.

We've recently refreshed and expanded brand support across our entire North American footprint. This investment is designed to build and maintain industry-leading customer loyalty over time – to continue to increase market share and drive revenue growth as a consequence.

I'll now touch on a few financial highlights. Tom Flynn's remarks will focus on the fourth quarter and I'll provide my perspective on the year as a whole.

Net income[1] was $4.5 billion or $6.59 per share[1]. Revenues[1] were up 9% to $16.7 billion and return on equity[1] was 14.4%. Credit performance was good with higher provisions largely reflecting lower recoveries compared to last year. Surjit will comment on credit later in the call.

We ended the year with a very strong capital position which gives us the flexibility to balance growth opportunities with the return of capital to shareholders to maximize long-term value.

Our Common Equity Tier 1 ratio was 10.1% reflecting a quick rebuilding of capital following the F&C acquisition. We achieved this through good internal capital generation while managing earning assets prudently. Today, we announced a dividend increase lifting our annual dividend to $3.20 per share. We also announced our intention to renew a Normal Course Issuer Bid, subject to regulatory approvals. We view share buybacks as one useful part of our overall capital management approach.

Turning to the operating groups, Canadian P&C had record net income of over $2 billion this year with 2% operating leverage. Total loans were up 8% and deposits were up 10%. Personal and commercial deposit growth was robust reflecting the success of management actions we've taken to grow this side of the balance sheet. Efficiency improved 90 bps this year as we have effectively balanced cost control with investments in the business.

In Personal banking, we're expanding customer relationships and increasing products per customer. And, we're building an integrated and seamless customer experience by accelerating our digital and physical channel capabilities. Mobile transactions continue to grow, roughly doubling from last year.

1 – on a reported basis: Wealth Management had earnings of $785MM; Bank net income was $4.3B or $6.41 per share; Revenues were up 4% to $16.7B and ROE was 14.0%

In Commercial banking, we continue to enhance sales force productivity and are targeting growth opportunities by region, segment and industry.

U.S. P&C net income[1] was $636 million in source currency, 3% ahead of last year. Total loans were up 7% with continued double-digit growth in core C&I loans -- up $4 billion or 18%. We also grew chequing deposit balances by 9%. Our large scale commercial banking business continues to build on its strengths, focusing on new client acquisition, increasing share and extending our corporate payments reach.

And, we continue to improve our product and channel capabilities to make our banking experience even more responsive and intuitive. We enhanced our mobile banking platform this year, enabling customers to book appointments in the branch and from their mobile device. Mobile users grew by 18% and mobile banking deposits were up 60%.

We finished the year with momentum, delivering Q4 pre-provision pre-tax earnings[1] growth of 5% from a year ago and operating leverage[1] of 1.3%.

BMO Capital Markets reported earnings of $1.1 billion for the year with a strong ROE of 19%. Revenue was up 10% reflecting diversified growth across the business, led by Investment and Corporate Banking where revenues increased 16%. There was good progress in our U.S. mid-cap focused strategy with market share gains in investment banking as well as equity sales and trading.

During the fourth quarter, Tom Milroy announced his decision to retire. Tom has been an exemplary leader whose vision, execution and client focus have made him highly respected among colleagues and clients. Under his leadership, BMO Capital Markets has solidified itself as a leader in Canada and a strong competitor in the U.S.

Concurrent with Tom's retirement, we announced the appointment of Darryl White as Group Head of BMO Capital Markets. Darryl joined BMO in 1994 progressing through various senior positions until his most recent role as Head of Global Investment & Corporate Banking. He has been a key member of the Capital Markets executive committee and has played an important role in shaping our strategy, and as Sharon said, is with us on the call this afternoon.

Wealth Management posted net income[1] of $848 million, in line with last year which included a significant security gain. There was strong underlying growth across the business with earnings up 15%, excluding the security gain, driven by good organic growth and the acquired F&C business.

We continue to differentiate our global product offering through innovation – to meet every aspect of our clients' evolving investment needs. BMO recently became the first Canadian bank to launch exchange traded funds in the Hong Kong market.

Looking ahead, we'll continue to invest in our distribution to bring our strong manufacturing capability to North American, European, Asian and other select global markets.

To wrap up, looking back at our performance against our medium term objectives, our annual EPS growth has averaged 9% for the past 3 years, in line with our target growth of 7 to 10%.

Our capital ratios are strong and exceed regulatory requirements – and ROE was within our target range although below 15% this year on stronger capital levels.

We fell short of our operating leverage objective due to higher than planned expenses. We continue to target 2% operating leverage and believe work done in 2014 will yield benefits in the coming year.

As we head into 2015, the environment in which we're operating provides both opportunities and challenges. The progress we've made in 2014 and the momentum across our operating groups give me confidence looking forward.

1 – on a reported basis: U.S. P&C net income was US$592MM, 4% ahead of last year; Q4 PPPT growth of 7% with operating leverage of 2.1%;
Wealth Management posted net income of $785MM, with strong underlying growth up 11%

We have an advantaged business mix, geographic diversification and a workforce with a deeply engrained commitment to customers, all of which provide attractive opportunities for growth. You'll hear more on our outlook from Frank and our Business Heads at the end of the call.

On behalf of our more than 46,000 employees, I want to thank our customers for their loyalty. And with that Tom, I'll turn it over to you.

Tom Flynn - *BMO Financial Group - CFO*

Thanks Bill and good afternoon. Bill has covered the annual results and so my focus will be on the quarter.

Turning now to slide 9 to start, Q4 EPS[1] of $1.63 was up 1% from last year. Net income[1] was $1.1 billion, up 2% from last year, which included a $121 million security gain.

Our results reflect the benefits of a diversified business model, with continued momentum in both P&C businesses and in Wealth Management. Capital Markets results in the quarter were below trend, as I will discuss in a few minutes.

Adjusting items are similar in character to prior quarters, with this quarter including F&C acquisition integration costs of $9 million after-tax.

Revenue[1] was up 8% from last year to $4.3 billion driven by growth in all operating groups, particularly Canadian P&C and Wealth Management.

Net interest income[1] was up 9% year-over-year driven by volume growth, the stronger US dollar, and purchased performing loan revenue. Net interest income was up 3% from the prior quarter due to higher margins, volume growth, and the impact of the US dollar.

Non-interest revenue[1] was up 8% from last year with increases across most categories. Securities gains were significantly lower as the prior year included a pre-tax gain of $191 million in Wealth Management.

Q4 expenses reflect spending associated with business and regulatory activities and some seasonal uptick. Expenses[1] were up 14% from last year. Approximately half of the growth was due to non-operating type items as shown on the slide.

The effective tax rate[1] of 16.8% was down from Q4 last year and up from the prior quarter.

Moving to slide 10, our Common Equity Tier 1 Ratio was 10.1%, up approximately 50 bps from Q3. Higher capital levels improved the CET1 ratio by approximately 35 bps. Risk weighted assets declined by $4 billion in the quarter. As shown on the slide, changes in methodology and book quality improvements drove the reduction with these partially offset by the impact of business growth and FX.

Moving now to our operating group performance, starting on slide 11.

As Bill mentioned, Canadian Personal and Commercial Banking net income for the year exceeded $2 billion. Q4 net income was $526 million, up 14% year-over-year, with 7% revenue growth and positive operating leverage. Total loans were up 5% and deposits were up 9% from the prior year. NIM was up 1 basis point from Q3.

Expenses[1] increased 6% year-over-year and 2% from Q3 due to continued investment in the business and higher variable compensation consistent with business growth. The efficiency ratio[1] improved from last year to 50%.

Moving to US P&C on slide 12, net income[1] was US$163 million, up 48% from the last year, which had relatively high credit losses, and 3% from Q3.

1 – on a reported basis: Q4 EPS $1.56 was down 3% from last year, net income was $1.1B, down 0.4% from last year; Revenue was up 5% from last year to $4.3B; Net interest income was up 3% Y/Y and up 3% Q/Q; Non-interest revenue was up 7% from last year; expenses up 12% from last year; effective tax rate was 16.6%, up from previous quarter and down from previous year; Canadian P&C net coming was $524MM, up 14% Y/Y; Expenses increased 6% year-over-year and 2% from Q3 ; efficiency ratio improved from last year to 50.1%; U.S. P&C net income was US$152MM, up 55% from the last year and 3%

Revenue[1] of $705 million was up 3% from last year driven by strong commercial loan growth and higher deposits, partially offset by lower NIM. Loans were up 9% year-over-year with continued strong growth in core C&I balances of 21%. Revenue was relatively stable quarter-over-quarter despite a net interest margin decline of 9 bps, which was due to continued competitive pressure on loan spreads and strong loan growth.

Expenses continue to be well managed and were modestly higher providing operating leverage of 1.3%.

Turning to slide 13, BMO Capital Markets net income of $191 million was down year-over-year and from a strong Q3. Q4 results include a $28 million after-tax charge for the adoption this quarter of the funding valuation adjustment and were impacted by weaker market conditions as well as lower client activity. The funding valuation adjustment or FVA reflects the funding cost or benefit associated with non-collateralized derivative positions.

Revenue growth was 2% year-over-year as higher corporate banking revenue, equity underwriting fees, and securities gains were partially offset by lower trading and the funding valuation adjustment.

Expenses were up 9% from last year or 6% excluding the impact of a stronger US dollar, driven mainly by higher employee expenses.

Moving on to slide 14, Wealth Management net income[1] was $253 million, down from last year which included a significant security gain of $121 million. Excluding this gain, income would have been up 28%. Quarter-over-quarter net income was up 18%.

Traditional wealth, earnings[1] were up 25%, excluding a $23 million after-tax impact from the settlement of a legal matter and the security gain last year reflecting good performance from F&C and good organic growth.

Q4 Insurance results include $44 million after-tax related to the impact of beneficial changes in actuarial reserves. There was also continued growth in the underlying Insurance businesses.

Expenses were up year-over-year and were above trend due to a few factors including the legal matter I mentioned earlier.

Assets under management and administration were up 44%, or 17% excluding F&C, driven by market appreciation, the stronger U.S. dollar and growth in new client assets.

Turning now to slide 15, the Corporate segment had a net loss[1] of $39 million compared to a net loss of $22 million in Q4 of last year and $55 million last quarter. The year-over-year decline reflected above trend revenue this quarter, offset by lower credit recoveries and higher technology and regulatory expenses.

To conclude, our results demonstrate continued execution on our plans priorities, and for fiscal 2014 we delivered record net income. With that, I will turn it over to Surjit.

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

Thank you Tom and good afternoon everyone.

Starting on slide 18, specific PCLs were $170MM, $40MM higher than in the prior quarter. This was due to lower recoveries in the purchased portfolios. Excluding the impact of the recoveries, PCL actually improved this quarter.

In Canada, Personal and Commercial losses were stable quarter-over-quarter while in the US, commercial losses were lower.

1 – on a reported basis: Operating leverage was 2.1%;
Wealth management net income was $226MM; traditional wealth earnings up 9%
Corporate segment had a net loss of $39MM compared to a net loss of $14MM last year and $55MM last quarter

Looking at the full year's results, total bank PCLs were 19 bps. In Canada, Personal and Commercial PCLs decreased from 31 bps in 2013 to 28 bps reflecting stable economic conditions. PCLs for US Personal and Commercial group decreased from 61 bps to 34 bps, as a result of the improved economic environment.

Moving to the next slide, formations were $534MM, up $77MM largely due to one commercial account in the U.S.

Our GIL ratio for the quarter was stable quarter over quarter at 67 bps, and down from 91 bps last year.

In summary, our credit performance over the past year was good. Through active management of our portfolio, we have made good headway in reducing our impaired loans. The portfolio remains well-diversified and is of high quality.

Looking forward, I expect continued good credit performance. I will now turn it over to the operator for the question and answer portion of today's presentation.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

The first question is from Gabriel Dechaine from Canaccord Genuity.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Good afternoon, Bill. I just wanted to touch upon some of the comments you were making about this year's revenue and expense performance and how you fell short of your operating leverage targets. So the 10% growth in adjusted expenses was the big driver there. Wondering if you can shed some light on what investments were included in there that are going to help drive that number lower and what your expectations are for next year.

Bill Downe - *BMO Financial Group - CEO*

I think the point of my comment, Gabriel, was to reinforce the commitment to a continued target of operating leverage in the 2% level; and I think this year, the deviation from that, in part, was a reflection of investment that we have been making in both technology and in making the capacity of the organization to deal with regulatory burden in a much more efficient way and a much more productive way, will pay off in future years.

As you know, there's been a big ramp up in the industry of expense on that side; and we're really looking for some abatement of expense through a more efficient process. And then obviously, the management of channels, so the modernization of the way we face the market in our branch systems, how they work with the call centers, and most importantly, the rapid change that's taking place in mobility.

So I think our expenses came in higher than we had started the year anticipating. We accomplished a great deal, and that's really the basis for renewing the commitment to operating leverage improvement.

Tom, you might want to comment briefly on a couple of the expense areas that would have been out of ordinary expectations.

Tom Flynn - *BMO Financial Group - CFO*

Sure. So the total expense growth that we had in the year, as you mentioned, is at 10%. FX contributed 3% of that, and the acquisition of F&C, 1%. So net of those items, more ordinary operating expense growth was in the 6% zone.

And that was driven partly just by normal expenses in the business and also by a higher level of investment in technology that we had in the current year, with some of that related to regulatory items and some of that related to things that we're doing both to enhance our processes, so that we're more lean in our operations and also able to respond to client needs in a quicker way.

And some of the technology spend was also associated with things we are doing in the digital space. And as Bill said, we feel good about how those investments will position us for next year.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

And I guess it's something that isn't unique to Bank of Montreal, but the outlook for revenue growth is not the strongest, mostly due to declines in Canadian consumer borrowing, and a lot of banks are talking about pulling back on expenses and we haven't seen that this year. Just wondering what we can hang our hats on to hope for better expense performance from any bank next year. Is there anything you can add there?

Bill Downe - *BMO Financial Group - CEO*

I think your point on Canadian Personal and Commercial is a good one, in that I think we've shown very good anticipation around where there would be changes in the revenue growth. We're hoping to continue to grind out market share growth.

But we had good operating leverage performance in Canadian P&C for the year and are operating the business with that same perspective for next year. So I think that's the area where the revenue sensitivity is the greatest and where the focus on managing the operating leverage is also, for us, an important marker.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Okay. Thanks for that. And a little follow-up for Surjit or Tom, if I look at the accretable yield this year, it was a total of $238 million. I think it was last year or the year before, you'd given some indication of where you expected recoveries on impaired loans to trend down over the next year.

Could you maybe give an indication of where you expect the recoveries on purchased performing loans to end up next year and how that should trend over the next couple years even?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Let me start. I'll answer the first part of the question and then I'll pass it on to Tom. There are two elements, the recoveries and the purchased credit impaired portfolio. And I think in previous quarters, I'd indicated that that component of the portfolio has come down very significantly.

And now it's less than $500 million, and most of that portfolio is performing, more than 50% of that portfolio is performing. And the only benefit that we can get out of that portfolio is - we're not going to be selling too much of that going forward. I think we'll let a lot of it run off naturally.

But having said that, we even recorded this at lower than legal balances when we bought the portfolio. So there is some upside left in the portfolio, but it's rather small, given that, as I said, more than half of it is performing. And so you're talking about a portfolio of about $200 million, but there is some upside.

With respect to the purchased performing portfolios, we have taken some opportunistic sales in the last quarter which we didn't pursue this quarter. That portfolio is here to stay. Because we would like to manage that as part of our regular program.

So there is no real push for us to sell that. We've absorbed that portfolio. We just carry it separately because of accounting reasons, but actually that's very much part of our core book now.

With respect to the accretion, I'm going to ask Tom to answer that question.

Tom Flynn - *BMO Financial Group - CFO*

So on the accretion, the amount of credit mark that will be amortized in the future is about $200 million. It's a little bit higher. The revenue recognized in any quarter is a function of the regular amortization plus acceleration of the amortization as a result of pay-offs. And the pay-offs are obviously variable.

And so I think probably something under half of the $200 million will come through the revenue line in the year. Exactly where it will be will depend on what level of pay-off and refinancing activity there is.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Right. And then I guess there would be the PCL item, as well, with that. Anyway, that's fine. Thanks a lot.

Operator

The next question is from Robert Sedran from CIBC.

Robert Sedran - *CIBC World Markets - Analyst*

Hello. Good afternoon. Tom, we talked a fair bit on the last conference call about some pretty aggressive risk weighted asset management that helped more or less offset the impact of F&C on the ratio. And it seemed like another aggressive move this quarter to manage that risk weighted asset balance lower.

And we've got a pretty good beat on what organic capital generation is, but is there more of this opportunity left to optimize the risk weighted assets and actually generate more capital for deployment or return?

Tom Flynn - *BMO Financial Group - CFO*

Thanks for the question. A few things. Like you said, both last quarter and this quarter, we had good performance on the risk weighted asset side and it did reflect active management, including some risk reduction. I would say the risk reduction part of the improvement, with this quarter, has run its course.

And we did take the opportunity, given F&C, to look at positions that we didn't think were earning a sufficient return and with that, liberated some capital. In the current quarter, that contributed about $3 billion of RWA reduction. And so I think that piece is essentially behind us and we feel good about it.

We have had some methodology changes over the last couple of quarters, and those, as you know, can come and go. And so sitting here today, I would say we're not expecting anything really out of the ordinary, looking forward, and the rate of capital accretion that we've had over the last couple of quarters is above trend.

Robert Sedran - *CIBC World Markets - Analyst*

Maybe I'm being too cynical, but often times we see those methodology changes and we think it's the regulator doing something. And it always seems to drive capital levels lower, not higher. So was there a net impact of these methodology changes or was it just model refinements that are working in your favor?

Tom Flynn - *BMO Financial Group - CFO*

This quarter and last quarter, the biggest single methodology change relates to moving a part of our portfolio that has been calculated on a standardized RWA basis towards AIRB. And the part of the portfolio is the US portfolio. It's moving more slowly to AIRB. And the majority of the methodology adjustment just reflects us moving to the Basel III advanced method of calculating RWA for that part of the portfolio, as the models have matured to a greater extent.

Robert Sedran - *CIBC World Markets - Analyst*

Okay. Got it. Thank you.

Operator

The next question is from Brian Klock from Keefe, Bruyette.

Brian Klock - *Keefe, Bruyette & Woods, Inc. - Analyst*

Good afternoon. My question's on slide 17 in Surjit's section of the loan portfolio overview. Just trying to think about -- the slide shows about $5.9 billion in oil and gas related exposure in the loan book.

Thinking about with WTI here under $70.00, should we think about that $2 billion of growth that you've had in that portfolio over the last year, should we think about the outlook maybe slowing for that loan growth? And I guess maybe talk about maybe the expectations about the credit performance in that portfolio.

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Thank you for the question. In terms of expectations for growth, there had been, in the past few years, there have been a lot of investment in this sector. And so the portfolio has grown in keeping with those investments that companies have made.

With respect to the outlook, our portfolio, at $5.9 billion, our portfolio is roughly 2% of our total loans. And this is an important part of our portfolio. We do a lot of business with these companies. And we've always known that these are somewhat cyclical. You do have oil cycles that come and go. And we've been in this business for a long time.

But let me give you a little bit of feel for what this portfolio is about. About 40% of this entire portfolio is borrowing based. And yes, borrowing base is determined based on prices that you assume from time to time when you change, so that's less than 1% of our portfolio's borrowing base, put another way.

The other large chunk of that portfolio is really to investment grade companies that are either in the oil and gas business, and some in pipeline and midstream businesses. So that's again largely investment grade.

And then the smallest piece of our portfolio is in the services sector. And that's largely in Canada, which is in Alberta and not at the wellhead, but for companies that do maintenance and roads and housing and such like that are tied to the performance of the sector.

So when I look at the sector, firstly, I think the amount is not that large. Secondly, I think some of these companies do have the resilience. We've got investment grade portfolios in our Company that have a lot of resilience. And you should look at borrowing based lending as secured lending. And it's probably, in my view, one of the better forms of asset-based lending.

Because there is oil in the ground, and temporarily, when oil prices do go down, these companies are able to withstand and over a period of time run themselves out. So if there's any negative migration -- if there's a continued decline in oil prices and it's sustained for a period of time, they will always come back with the prices going back up, or even remaining stable over a period of time.

The exposure that we have roughly is two-thirds in Canada and one third in the U.S., and the Canadian side does benefit from a lower Canadian dollar. The Canadian dollar goes down with oil prices and that also provides a natural hedge for some of the costs that the Canadian producers have. So that plays out as a positive.

So a long way to say I'm not terribly concerned about the portfolio. Of course, oil prices need to be watched closely, because they have much broader implications than just for this $5.9 billion portfolio that you point out.

There are positives, of course, in a lot of areas. From the consumer lending standpoint with gas prices going down, there are many geographies that are going to benefit.

The U.S. is going to benefit, Europe is going to benefit, not Russia though. And the emerging economies are going to benefit and Latin America can't do that well. But if you look at it from that perspective, I think there's a lot of good that will come out from low oil prices which will benefit us in other sectors. I hope I've answered your question.

Brian Klock - *Keefe, Bruyette & Woods, Inc. - Analyst*

No, I think that's great color. Thanks, Surjit. Just to follow-up on that, I know you did talk about the servicing portion of that. Can you quantify how big that servicing portfolio is?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

That would be a little over 10% of the overall portfolio. And it's small names and, as I said, largely in the Alberta region and not at the wellhead.

Brian Klock - *Keefe, Bruyette & Woods, Inc. - Analyst*

So it sounds like right now it's still a little bit too early, with WTI just dropping recently, but with the borrowing base, with your price deck pretty conservative, you feel pretty good right now and there's nothing that's showing up on your impaired loan formation at this point?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

No, no. In fact, at this point in time, there's nothing. I was examining our migration. There has been as much positive migration as there has been negative. So it's actually neutral right now. There's nothing to worry about today. But as I said, it all depends on how long the prices remain low.

Brian Klock - *Keefe, Bruyette & Woods, Inc. - Analyst*

Great. Thanks for your time. Appreciate it.

Operator

The next question is from Darko Mihelic from RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets - Analyst*

Hello. Actually Surjit, so while we're on the topic, there's impaired loan formation and then there's watch list. So maybe you can talk -- has anything actually hit the watch list? And maybe as a follow-up, at what price of oil do you get concerned about this portfolio?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Good question, Darko. The watch list is -- I hate using the word that I've used before -- miniscule. There's hardly anything on the watch list. It is rather, rather tiny. The sector has performed extremely well, to this point in time.

Now going forward, if oil prices, as you say, remain depressed, there will be some strain on some of these loans and there will be some negative migration. Hard to tell what it will be like, and it's also hard for me to tell you what price I'll get totally concerned at.

We run stress tests from time to time, and we've done a number of them on a regular basis with respect to this sector. And the results of the tests that we've conducted do not cause me any concern, at prices that we had done in the past as low as $60. And so I'll leave it at that. But we continually will keep looking at our portfolios.

Darko Mihelic - *RBC Capital Markets - Analyst*

Okay. Thank you. Maybe just a question on the expense; the bump up that we saw in the quarter, you sort of mentioned that it was partly seasonal and partly related to regulatory. And I guess what I'm wondering is, a lot of it showed up in equipment, premises, and so on.

I'm just trying to get a feel for the run rate of expenses and if the regulatory/technology costs are in fact fluid, or should we think of it now as a new run rate of expenses, in particular in that line item, just because it caught me off guard a little bit and I struggle to see why it wouldn't remain elevated going into F15?

Tom Flynn - ***BMO Financial Group - CFO***

Okay. So I'll try to answer that. The expenses, we did characterize as being a little elevated in the quarter. Some of that relates to the legal item that we mentioned. And then there's some higher spend that not uncommonly goes on with the fourth quarter. We didn't try to put too much emphasis on that point, but it is a part of the story.

Heading into next year, the first thing I'd point out, just as a side bar, is that in Q1 of every year, we do record a higher level of expense for eligible to retire employees. And that is about $70 million of NIX in Q1, and it's been at that level for the last few years. So it's just a Q1 event.

And then looking through that for the year, I would say we expect regulatory expenses to continue to run at a higher level next year. And that's partly because we're going through a change, as an industry, and people are making adjustments as a result. We do think there will be relief on that front in the future, but it won't be next year.

And I would say as an organization, and as Bill said earlier, we're focused on managing expenses in a reasonable way, keeping a close eye on the relationship between revenue and expense. And I do think that the good operating performance really in both P&C businesses this year is a testament to that. P&C Canada, 2% for the year, and US P&C in the quarter 1.3%. And they've done a very good job of managing their expenses through the course of the year.

Darko Mihelic - ***RBC Capital Markets - Analyst***

Okay. Thanks, Tom.

Operator

The next question is from Mario Mendonca from TD Securities.

Mario Mendonca - ***TD Securities - Analyst***

Good afternoon. Surjit, could we go back to the oil and gas type questions? You referred to the 40% portion of the loan book that, you called it borrowing based. Is that the same as what some oil and gas guys refer to as reserve based lending?

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

That is correct.

Mario Mendonca - ***TD Securities - Analyst***

And the 50% that you said went to the investment grade lenders -- or borrowers, rather -- is that more the covenant type funding?

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

Yes, that would be covenant type lending, as well as lending to mid-streams and pipelines. And that didn't go entirely to investment grade lenders, but the vast majority of that lending is investment grade, to investment grade companies.

Mario Mendonca - *TD Securities - Analyst*

And you referred to the duration over which very low oil prices could have an effect. Were you referring to -- what are you referring to there, like about 12 months, so that the trailing 12-month tests become an issue?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

It's more than that. It also depends, in the change in prices; when the prices first started dropping, most people thought it was a shock. It was called the oil shock. But are they going to be sustained down there? One doesn't know. But when we do our price decks for these borrowing bases, we have a different price outlook for every year.

So when I talk about how low prices will be, it depends on how long they stay. Because the present value of the cash flows for each year, depending on a different price level.

Mario Mendonca - *TD Securities - Analyst*

Would it be unfair to ask questions about the price deck and where a lot of these loans got priced, like in the $80 to $90 range, or is that a reasonable question to ask?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

It's not something we disclose. But they were definitely not there at the high range that you talk about. They were done at higher levels than currently trading, obviously. But we don't normally disclose the level of our pricing.

Mario Mendonca - *TD Securities - Analyst*

Now just a sort of related question, ignoring the loan book now and just thinking about Capital Markets revenue, so M&A and underwriting. This is going to change year to year. But in any given year, what proportion of that Capital Markets revenue would actually relate to oil and gas? Could it be as high as 50%, or would that be overstating things?

Darryl White - *BMO Financial Group - Group Head, BMO Capital Markets*

Mario, it's Darryl White speaking. That would be overstating things. If you look at our Capital Markets revenues, I can't give you the total as a percentage of our revenues that relate to energy, but I can give you some examples in the businesses that could be affected, you might argue, that could be affected going forward.

But our Equity Capital Markets revenues, for example, our underwriting business in Canada would be about 1% of our total Capital Markets revenues. And our Commodity Trading revenues would be about 1% of our Capital Markets revenues. Our M&A revenues would be a little bit more than that. So when you add up all of the Capital Markets revenues that we would have, they would be in the single digits, for sure, as a percentage of total Capital Markets, and probably in the low single digits.

Mario Mendonca - *TD Securities - Analyst*

So when you referred to 1%, you're referring specifically to energy as a proportion of the Equity Capital Markets revenue, or are you saying Equity Capital Markets revenue is only 1% of the total?

Darryl White - ***BMO Financial Group - Group Head, BMO Capital Markets***

No, I was referring to Energy Equity Capital Markets revenues as a percentage of Capital Markets revenues.

Mario Mendonca - ***TD Securities - Analyst***

Total Capital Markets revenues, got it.

Darryl White - ***BMO Financial Group - Group Head, BMO Capital Markets***

Is that helpful?

Mario Mendonca - ***TD Securities - Analyst***

Yes, it is. So 1%, and M&A you said, was slightly greater than 1%?

Darryl White - ***BMO Financial Group - Group Head, BMO Capital Markets***

Correct.

Mario Mendonca - ***TD Securities - Analyst***

And then a follow-up question. Then if we in fact, going back to Surjit perhaps, or Tom Flynn, if we do in fact see oil prices stay low for some time, at what point might that start to play out in the RWA? Or is it just not large enough to really move the needle?

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

It would not be large enough to move the needle. The reason for that is, again, a lot of these loans -- I said 40% of them, as you called them, reserve based, they're secured. And the capital that gets allocated to secured loans is much lower, based on the loss history of these loans. So I don't think it will be material.

Mario Mendonca - ***TD Securities - Analyst***

Okay. Thanks very much.

Operator

The next question is from Sumit Malhotra from Scotiabank.

Sumit Malhotra - ***Scotiabank - Analyst***

Good afternoon. First, just a point of clarification for either Tom or Darryl. On the funding valuation adjustment, Tom, I think in your prepared remarks you referred to the $39 million cost this quarter as the cost associated with adoption of the FVA, is that correct?

Tom Flynn - *BMO Financial Group - CFO*

That's correct.

Sumit Malhotra - *Scotiabank - Analyst*

How does this item impact you on an ongoing basis? And what I mean is, is it going to be, like we've heard over the last few years with the CVA or the DVA, something that can have an impact depending on how credit markets move quarter to quarter, or is this something that's more one-timish in nature? Just looking for some color on how this moves on a go forward basis.

Tom Flynn - *BMO Financial Group - CFO*

Sure. So just to reinforce the point you made, the charge in the quarter is out sized and reflects the adoption of this new practice which has become a market norm, which is why we're recognizing it in the current quarter.

In terms of regular quarterly movement in the number, we're not expecting it to be significant quarter to quarter. So it could be in the order of, in an ordinary quarter, plus or minus $5 million. And it's a function of how the nature of the book changes, so how our exposure to uncollateralized derivatives would move quarter to quarter, and a function of the relationship between our funded bond credit spread and our CDS spread.

So those are the variables that impact it. But it shouldn't be a significant item quarter to quarter. And in more volatile markets, we wouldn't expect it to be the kind of item that CVA can be for the industry.

Sumit Malhotra - *Scotiabank - Analyst*

That's helpful. Thank you. And my second question is for Bill. Bill, in referencing your return on equity target and the fact that you came in slightly below in fiscal 2014, you pointed specifically at the continued build up in capital ratios, which is something we've talked about a lot.

When you think about that 15% mark -- and I know this is a medium term target -- but when you look at fiscal 2014, you had a very favorable PCL ratio, very strong capital markets. And at least from my seat, it doesn't seem like the amount of capital you're going to have to hold is going to change significantly. So in keeping that 15% target, what are you envisioning as the key component that gets BMO above that 15% level going forward?

Bill Downe - *BMO Financial Group - CEO*

Well, there's a couple of areas where we expect to see the business grow, and grow with reasonably good margins. And I've talked about Investment and Corporate Banking in the United States. The return on equity of Capital Markets clearly has been strong, and that's why we have been building the U.S. business with an investment in talent on the banker side and on the advisory side, and the revenues have been following.

We've seen good growth in 2013, 2014. We expect to see continued growth in 2015, 2016, and 2017. So in that area I think that it will be a net contribution. U.S. Investment Banking, the business mix will change, and in more advisory and fee income.

And in P&C U.S., as Mark has talked about the business, we have earned our way through pricing declines in the market, which are natural, and continued low interest rates, which have a dampening effect on the current return on the deposit base.

And our own view is that that those headwinds, including the run-off portfolios, have abated and that that business should be able to show good ROE, revenue growth and income growth, again contributing to the improvement in ROE. Because coming out of a period of time like the last five or six years, you have, I think, an inherent conservatism in both the granting of credit and in the estimation of the amount of capital required in those portfolios. And I think both of those will be a favorable trend going forward.

And then the ongoing cost of all of the regulatory change that has taken place -- and this was a worldwide phenomenon in last six or seven years, as I alluded to in, I think, my first answer -- we're just going to get a lot more efficient in managing that expense.

We have a large US business we've invested in, in order to maintain our capability in the face of that regulatory change. A lot of the work that we've done, I think, will be applicable in the long run in the Canadian market, as well. So spend once and use twice. So in the same way that we've maintained the commitment to an operating ratio improvement of 2%, we think that will flow through to the return on capital as well.

Sumit Malhotra - *Scotiabank - Analyst*

So if I summarize, stronger results in US capital markets and P&C and improved efficiency across the franchise gets you to that 15%?

Bill Downe - *BMO Financial Group - CEO*

Correct.

Sumit Malhotra - *Scotiabank - Analyst*

Thanks for your time.

Bill Downe - *BMO Financial Group - CEO*

My pleasure.

Operator

The next question is from John Aiken from Barclays.

John Aiken - *Barclays Capital - Analyst*

Good afternoon, Bill. I guess a follow-on to Sumit's question. With the capital levels that you're at, what do you think the message the Board is trying to convey to the market with the dividend increase, as well as the renewal of the NCIB, considering that there were actually no repurchases on the last program?

Bill Downe - *BMO Financial Group - CEO*

Well, I think it's a message of consistency with everything that we've said about the management of capital. We're back above 10%, which I've indicated as the range that we wanted to get back into. We did that very quickly, considering that we made a $1 billion-plus acquisition in fiscal 2014 that was all goodwill, effectively all goodwill.

So when you look at F2014 versus F2013, F2013 we bought back $700 million worth of stock. So they're basically in alignment. And I would say that they would be good competitors with each other, from the perspective of value creation or being accretive.

So I think the message is exactly what we have said on virtually every call, that we want to have strong capital because we believe that we're going to generate good organic growth, and that's going to give us the best return on capital. We're going to increase our dividend consistent with the growth in earnings, and we're within the range. But we also know that having a dividend increase every second or third quarter on a fairly regular basis is valued by shareholders. We happened to have two this year. I think last year we had one. But on a fairly consistent basis, adjusting the dividend up.

And then when we look at the investment horizon, if there are good acquisition opportunities, they can be balanced off against the buyback. So we want to have that capability in place. In 2013, we used it to great effect. In 2014, we made an acquisition that I think will turn out exceptionally well in the long run. It's looking good right now.

And in 2015, we have the flexibility that we want to fund organic growth, to manage the dividend as we've been doing it to acquire businesses that are complimentary and to buy back shares where we think it's accretive. So the message is entirely consistent with both our stated intent and the things you've observed us do.

John Aiken - *Barclays Capital - Analyst*

Okay. Thanks for your thoughts, Bill.

Operator

The next question is from Peter Routledge from National Bank Financial.

Peter Routledge - *National Bank Financial - Analyst*

Hello. I'll go to Surjit, just on the oil price issue again. Surjit, if in a year we're still $65 price of oil, based on your judgment, based on your experience with stress testing, what will Canadian consumer delinquency and loan losses look like?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

That's an interesting question, but a hard one for me to answer at this point in time. You know, there are positives and negatives of low oil prices. And I think the one thing that we'd like to get a fix on is if oil prices remain low, what impact does it have to the regions, particularly in Alberta, of that change? And how much does the manufacturing sector pick up as a consequence of a lower dollar that always accompanies an oil price decline?

So it's hard for me to jump all the way to consumer delinquencies at this point. But clearly, we are mulling all that in our heads, looking at all kinds of scenarios. And we'll get a better fix as time progresses. But there will be positives that come out of it, as well.

Peter Routledge - *National Bank Financial - Analyst*

Thanks for that. I'd like to go back to Bill on capital. You've been pretty prescient on taking your capital ratio a little bit higher than at least some observers have thought, and 10% sounds like that's your run rate target. We've got the Department of Finance putting in the recapitalization regime next year, probably, and then the FSB doing the TLAC proposal, granted for GSIBs, but I don't imagine OSFI will fail to notice that. Does the 10% incorporate the expectation that those two changes are coming, and you think that 10% will sustain through them both?

Bill Downe - *BMO Financial Group - CEO*

We moved to the 10% in belief that that is the right level for the CET1 ratio. And with respect to all of the other things that might happen, I think that we are essentially reaching the end of global cooperation on new standards, new regulations and new provisions. And at this point, I don't expect, quite candidly, I don't expect any major changes.

What I think you will see is the full cost of higher capital levels working its way into the market in pricing. And as well, I think the next wave is going to be probably a broader encirclement of non-banks in the capital and liquidity regime, which I think will also be long-term positive to pricing.

So I think certainly among the Canadian-based banks, we have moved to the higher capital levels in a pretty effective way and have found a way to continue to earn good returns. And I think basically that's what's going to happen across the industry.

Peter Routledge - *National Bank Financial - Analyst*

Okay. That's very clear. Thank you.

Operator

The next question is from Steve Theriault from Bank of America Merrill Lynch.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Thanks very much. First question, maybe for Cam Fowler. Good operating leverage again this quarter, but loan growth just under 5% is the weakest of the 4 quarters that we've seen for you. So I'm noting a decline in mortgage balances, flat commercial. So maybe just walk us through, Cam, the trends you saw for Q4, talk a bit about your outlook for next year. Specifically, are growth rates that had been well above industry average maybe not repeatable next year or should we look at Q4 as a bit more of an anomaly?

Cam Fowler - *BMO Financial Group - Group Head, Canadian Personal & Commercial Banking*

Okay. Thanks, Steve, for the question. So I'll cover both sides. On the Personal side, as we expected, loan growth did slow. And we were 4% in Q4, which was clearly not where we were in the first half of the year, but I think consistent with the market.

Up to Q3, we did lead the market, as you know, on lending and on personal loans and the activities we feel quite good about in our own business. So looking ahead to FY15, I'd expect a similar performance and mid-single digits on the mortgage side.

On the Commercial side, we're a little bit lower, quarter-on-quarter, on the lending. We do have some seasonality in that number traditionally in Q4, but the activities in that business are strong, the pipelines in that business are strong. So we feel quite good about the growth on the Commercial side and pleased with year-on-year at 10%.

On the deposit side, we're pleased. We've been focused on this in both Personal and Commercial for several quarters now. And the Personal deposit growth at 10% is pleasing. And that's not just the term side, that's everyday banking and some of the core things we watch in terms of the health of the business. Very pleased with the Personal side, and Commercial deposits at 7% is good.

So we expect, I think, that things did slow a little bit on the loan side in Q4. I would expect that we'll be able to keep our momentum in the mid-single digits on loans, high single digits in deposits through fiscal 2015, and perform well on both an absolute and relative basis against the market.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay. And in Commercial, you're not seeing any spike in competition that's suggesting you might pull back or anything of that nature?

Cam Fowler - *BMO Financial Group - Group Head, Canadian Personal & Commercial Banking*

No, not beyond what I've described in the last quarter. There is competition and it's healthy.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay. Thanks for that. Second question for Darryl, please. Looking at the interest rate trading for this quarter, reported at $21 million. Am I right in adjusting that for FVA? Does that go through that line and should we look at more of $60 million for that line item this quarter?

Darryl White - *BMO Financial Group - Group Head, BMO Capital Markets*

Steve, you are exactly right. So if you add the FVA, you would get to exactly $60 million, which is itself a pretty steep decline from what you would have seen in the quarter prior at $90 million, which is itself a result and a fall out of the fairly extreme market volatility that we saw in the middle of the quarter, which affected the quarter for us quite broadly. But your math is exactly right. You could take the $21 million and add the $39 million.

Steve Theriault - *BofA Merrill Lynch - Analyst*

So the below run-rate number for this quarter, let's call it on an adjusted basis, that's obviously partly a function of the volatility in mid-October. But how much of it would you say is due to reduced client activity versus maybe the desks losing some money with corporate spreads gapping out for a period of days?

Darryl White - *BMO Financial Group - Group Head, BMO Capital Markets*

It's almost all, Steve, reduced client activity. If you look, every quarter we have maybe a couple of days of losses on our desk. And this quarter would be no different. It would be literally a couple of days. And certainly nothing out-sized. So the answer to your question is it's reduced client activity.

If you think about the quarter relative to the quarter prior, we had $139 million of less revenues overall, ex-FVA impact. And when you look at the volatility that crept into the quarter towards the end of September, we saw the VIX jump up to -- you guys will have noticed -- around 26 was the highest level it's been in 2.5 years. And as a result, markets for the full quarter, volumes in the market were down very substantially.

If you look across -- not just you're referring to interest rate trading, but fixed income broadly, M&A, debt, equity, underwriting, loan syndication, both Canada and the US, when we look across our businesses in the markets we participated in, they're down, volumes are down about 20% to 25%.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay. And I guess appreciating that the dust has somewhat settled on volatility, thinking about next year, and I guess having seen November, does it feel like we're going to see trading more like first half of fiscal 2014 or second half of fiscal 2014?

Darryl White - *BMO Financial Group - Group Head, BMO Capital Markets*

It's tough to say. As you say, we're only a month into the year. And a month doesn't make the year. But we can say that looking forward, we're comfortable in a way that we weren't in the middle of the last quarter. Any Capital Markets business, as you know, can be affected by volatility. November certainly feels better than what we experienced in Q4. But I wouldn't say it's quite to the level that we experienced in, for example, Q2, Q3 yet. But it's one month and we've got 11 more to go.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay. Thanks very much.

Operator

The next question is from Meny Grauman from Cormark Securities.

Meny Grauman - *Cormark Securities - Analyst*

Hello. Good afternoon. Just a question about the U.S. Capital Markets business, specifically on trading and underwriting. Wondering whether you saw any trends in the U.S. that were different from what you saw in Canada, any divergences there in terms of client activity or in terms of just the general direction of performance?

Darryl White - *BMO Financial Group - Group Head, BMO Capital Markets*

No, and thank you for the question. Very similar, in fact, to what we saw in Canada. We saw, to different degrees, M&A volumes in the market in the U.S., in the mid-market that we participate in, down in the quarter. We saw equity new issue

volumes down in the quarter, high yield down in the quarter, and loan syndication new issue also down in the quarter in the U.S. So it was consistent from geography to geography with different variations, depending on the product.

Meny Grauman - *Cormark Securities - Analyst*

And then just turning to the loan book, quite a bit of discussion about that $5.9 billion direct oil and gas exposure. I'm wondering if we look at the loan book as a whole, sort of on a second order basis, I'm wondering if you can give any sort of indication, or if there is any sense of what the exposure is to areas that are not direct oil and gas, but that are highly vulnerable to persistent declines in oil prices. Is there any ballpark idea? Is that a number that you think about? Do you think about it in those terms?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

I think I tried to indicate that there are positives and negatives from oil price declines, and it's difficult to look at them. I can't go through every element with you. But clearly, there will be positives and negatives. But we do look at it on that basis.

We look at, at the macro level, we look at geographies that will get impacted, then we look at industries and then we look at clients. So we do do that sort of analysis. And when we do our origination work from a lending perspective, we are already cognizant of those factors. Beyond that, I don't think I can add anything today.

Meny Grauman - *Cormark Securities - Analyst*

Fair enough. Thank you.

Operator

Thank you. This concludes the question-and-answer session. I would now like to turn the meeting back over to Ms. Haward-Laird.

Sharon Haward-Laird - *BMO Financial Group - Head, IR*

Thank you. As we said at the outset of the call, each of our Group Heads will now provide some comments regarding their outlook for 2015. We will start with Cam Fowler, Head of Canadian P&C.

Cam Fowler - *BMO Financial Group - Group Head, Canadian Personal & Commercial Banking*

Thanks, Sharon. 2014 has been a record year for Canadian P&C, with NIAT above $2 billion for the first time. This momentum we have in the business reflects our continued focus on anticipating customer needs, enhancing our distribution capacity, and driving our sales force productivity. And the result has been above market balance sheet growth.

In 2015, I expect we'll deliver continued good revenue growth similar to 2014. I'd expect above market balance sheet performance, stable margins and positive operating leverage.

We're continuing to invest in the business to sustain growth in this dynamic environment. The key focus of our investments include our digital priorities in online and mobile, productivity through process renewal and sales force

expansions, and the continued growth of our payments businesses. And I'm confident, as I said earlier, that we'll be able to continue our growth and sustain performance that is strong on both a relative and absolute basis. Over to Mark.

Mark Furlong - *BMO Financial Group - Group Head, US Personal & Commercial Banking*

Thanks, Cam. Well, we started the year with the view that it would be an inflection point for US P&C, and it certainly was. But overall, I'm pleased with our performance this year, particularly in the second half, when we delivered improved revenue and net income growth.

Despite low interest rates and a highly competitive environment in the US, we were able to maintain our net interest income at last year's level, due to consistently strong loan growth throughout the year. We're diversifying our sources of revenues in areas where we have significant opportunity to grow market share, including business banking and our Treasury payment services and investing in our mortgage, our home equity and our credit card platforms, which will generate top line benefits late in fiscal 2015 and into fiscal 2016. And we're continuing to be extremely diligent in managing our expenses.

We expect to continue this momentum into 2015 and our growth over the next couple quarters, it will look a lot like the last couple of quarters. So as we move into fiscal 2016, we expect growth to continue to improve, with some assistance from rising rates. So at this point, let me turn it over to Gilles.

Gilles Ouellette - *BMO Financial Group - Group Head, Wealth Management*

Thanks Mark. 2014 was a great year for Wealth Management, with net income $850 million. We had good business growth in the Traditional Wealth and Insurance, and at the same time completing the F&C acquisition and investing in our distribution platform. We expect to maintain this momentum by focusing on integrating the F&C platform and capitalizing on the cross sell opportunities, to continue to strengthen our distribution, and also to realize the benefits from our investments in the U.S.

We think we'll benefit from strong asset growth this year of 44%, which was 17% ex-F&C. We're well positioned for growth in FY15, and we're pretty confident that our momentum is going to continue. Over to you, Darryl.

Darryl White - *BMO Financial Group - Group Head, BMO Capital Markets*

Thank you, Gilles. On the Capital Markets side, when we look back at 2014 as a full year, despite a very slow Q4 driven by the client activity that we discussed, we had 3% full year net income growth, with good contribution from our US business and an overall ROE of 19.2%, which was up from 18% in fiscal 2013.

Looking forward, we expect to see continued growth based on our expectations for GDP growth in North America broadly and the opportunity to continue to grow our U.S. market share. Taking the geographies and the businesses together, we're very comfortable with the direction of our mix. So assuming constructive markets, we feel very comfortable with our 2015 growth prospects. Turn it to you, Frank.

Frank Techar - *BMO Financial Group - COO*

Great. Thanks, Darryl. Just a few brief reinforcing comments to close the call today. And the first one is this, as we end a good year, we're all focused on one thing as a group, and that is sustaining the momentum in each of our operating groups and our businesses.

The second one would be, as Bill and Tom said earlier, we're confident that our continued investment in areas that will support revenue growth as well as process enhancements will lead to productivity improvements next year. As Bill said earlier, we have an advantaged business mix, geographic diversification, and a customer vision that provides attractive opportunities for growth in the current environment. And the third thing I'll just leave you with is we're all confident that 2015 will be another strong year for BMO.

As this is our last call of the year, I'd like to wish everyone the best for the holidays. And we look forward to seeing you in January at our Investor Day, featuring our Canadian P&C and Wealth Management businesses. That's it. Thanks and good afternoon.