# BMO Financial Group
## Q1 2016 CONFERENCE CALL

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## CONFERENCE CALL PARTICIPANTS

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please see the Enterprise-Wide Risk Management section on pages 86 to 117 of BMO's 2015 Annual MD&A, which outlines certain key factors and risks that may affect Bank of Montreal's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. See the Economic Review and Outlook section of our First Quarter 2016 Report to Shareholders.

**Non-GAAP Measures**

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 on page 5 of Bank of Montreal's First Quarter 2016 Report to Shareholders and on page 33 of BMO's 2015 Annual Report 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, non-interest expenses, earnings per share, effective tax rate, ROE, efficiency ratio and other adjusted measures which exclude the impact of certain items such as, acquisition integration costs, amortization of acquisition-related intangible assets, decrease (increase) in collective allowance for credit losses and restructuring costs.

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

## PRESENTATION

**Operator**

Please be advised that this conference call is being recorded. Good afternoon and welcome to the BMO Financial Group's Q1 2016 earnings release and conference call for February 23rd, 2016. Your host for today is Ms. Sharon Haward-Laird, Head of Corporate Communications and Investor Relations. Ms. Haward-Laird, please go ahead.

**Sharon Haward-Laird** *- Bank of Montreal - Head of Corporate Communications, Government & 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 our Chief Risk Officer, Surjit Rajpal.

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 limit your questions to one and then requeue. Frank Techar, our Chief Operating Officer; Cam Fowler from Canadian P&C; Dave Casper from U.S. P&C; Darryl White from BMO Capital Markets; and Gilles Ouellette from Wealth Management are also with us this afternoon to take questions.

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 a reported and an 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, our reported results and factors and assumptions related to forward-looking information can be found in our Annual Report and our first quarter Report to Shareholders.

And now I'll hand things over to Bill.

**Bill Downe** *- Bank of Montreal - CEO*

Thank you, Sharon and welcome to everyone joining us on the call. BMO had good operating results this quarter with net income[1] of $1.2 billion and earnings per share[1] of $1.75, up[1] 14% from last year with strong net income growth in U.S. Personal and Commercial Banking and higher earnings in Canadian Banking and BMO Capital Markets. This quarter demonstrates the benefits of BMO's business mix which is well diversified by geography and customer segment.

Net operating leverage[1] was 2.8%, driven by our continued focus on expense management and good net revenue growth. Operating leverage was positive in three of our four operating groups this quarter, and has been positive for three consecutive quarters at the total Bank level.

This was also the first quarter to include the results from the acquisition of BMO Transportation Finance. The integration is going well and early results have been encouraging. Our capital position remains strong at 10.1% after closing the acquisition on December 1st. ROE[1] was 12.1% with book value per share increasing by 13% from last year to $59.61.

We also continued to make good progress on our technology and innovation agenda. An example from this quarter is the launch of SmartFolio™, our new online portfolio management service. We were able to quickly address opportunity in a shifting investor landscape, bringing SmartFolio™ to market within months, enabling us to compete successfully with both disrupters and traditional players.

SmartFolio™ harnesses the strength of our ETF business to provide a professionally managed investment solution at an affordable cost. By providing it online and through our mobile channel, we're reinforcing the potential of technology to transform our business and enhance the customer experience.

1 On a reported basis, net income: $1.1 billion, EPS: $1.58 up 8% Y/Y, ROE: 10.9%, net operating leverage: (0.5)%

We now have one of the most comprehensive personal wealth offerings in the industry, with options ranging from InvestorLine self-directed and adviceDirect services, SmartFolio™, through to our full-service brokerage, BMO Nesbitt Burns and BMO Private Banking. SmartFolio™ has had great feedback from our investment advisors and our customers.

Returning to the current quarter, I'll touch on some of the highlights from the operating groups. Our combined Personal and Commercial[2] banking business grew by 12% from last year to $794 million. Canadian Personal and Commercial banking net income[2] was up 5% from last year to $530 million. Operating leverage[2] was 1.5% and balance sheet growth was good, with loans up 5% and deposits up 6%. During the quarter, we began to roll out new and improved ATMs, making everyday banking transactions easier and more convenient for customers while continuing to offer industry-leading accessibility and security features.

U.S. Personal and Commercial banking delivered strong results, with net income[2] of $264 million, up 29% or 11% in source currency. Operating leverage was 1.2% and organic commercial loan growth remained strong at 9%. During the quarter we launched a suite of credit card products that offer robust features and enhanced value for our BMO Harris customers.

Wealth Management, particularly Insurance, was impacted by market conditions. In traditional wealth, business growth was offset by the impact of weaker equity markets. During the quarter BMO Investor Line was named the best online brokerage at the 21st annual Morningstar Awards for the third year in a row.

BMO Capital Markets had good results, with net income[2] of $260 million, up 18% from last year. Revenue exceeded $1 billion with good performance in Investment and Corporate Banking, partly offset by lower Trading Products revenue in source currency. Expenses continued to be well managed, flat from last year in source currency, resulting in operating leverage of 4.7%.

Finally, I'd like to spend a moment on the current environment. The economy has been unsettled since we reported last quarter. Market volatility has been high and growth expectations are lower, with the global economy experiencing structural adjustments as a consequence of where we are in the commodities cycle and the uncertain effect of highly stimulative monetary policy and the timing of its ultimate withdrawal.

We continue to believe that the Canadian and U.S. economies will see positive GDP growth in 2016. While lower oil prices are negatively impacting the oil-producing regions, the economic fundamentals in the rest of Canada remain positive. Exports have risen to record levels while consumer spending remains positive in these regions due to low interest rates and steady job growth. The Federal government is well positioned to support the economy through additional fiscal stimulus.

In the U.S., while consumers continue to grow their savings, we're also seeing stronger spending, accompanied by record low debt service costs, strong job and income growth, and cheaper gasoline. Business investment also continues to pick up, even in light of a stronger U.S. dollar and cutbacks in the oil industry.

In this environment, the opportunity for the Bank to grow is grounded in our ability to execute on our clear and consistent set of priorities which recognize the potential for technology to transform the business of banking, driving efficiency by simplifying and automating processes and extending the digital experience across our channels. As we've shown over the last three quarters, as the economy performed below expectations, our diversified businesses and strong capital position continue to drive good growth.

Our results this quarter reinforce our confidence that successfully executing on our strategy will enable us to meet customers' changing expectations and continue to perform well in the current environment. And now I'll turn it over to Tom.

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**Tom Flynn** *- Bank of Montreal - CFO*

Thanks Bill, and good afternoon. I'll start on slide 8. Q1 EPS[2] was $1.75, up 14% and net income[2] was $1.2 billion, up 13%. As Bill said, our results reflect good operating performance and the benefits of our business mix.

Net revenue[2] was higher across operating groups and up 11% from last year or 6% on a constant currency basis. Net interest income was up 15% year over year, or 9% on a constant currency basis, due to organic growth and benefits from BMO Transportation Finance.

Net non-interest revenue was up 8% year over year, or 4% on a constant currency basis. The increase was driven by other non-interest revenue, which includes lease revenue from the BMO Transportation Finance transaction, lending fees, trading revenues and mutual fund revenues.

Expenses[2] were well managed, up 3% from the prior year on a constant currency basis and essentially unchanged when excluding the acquisition. In Canadian dollar terms, expenses were up 8%. Operating leverage[2] was 2.8% and was positive for the third consecutive quarter.



2 On a reported basis, Total P&C: $780 million up 12% Y/Y, Canadian P&C: $529 million up 5% Y/Y; operating leverage of 1.5%, U.S. P&C: $251 million up 31% Y/Y, BMO Capital Markets: $260 million; EPS: $1.58, net income $1.1 billion, net operating leverage (0.5)%, net revenue up 9% Y/Y, expenses up 9% Y/Y

The effective tax rate[3] was 16.2%, up from 12.6% last year. On a TEB basis[3] the rate was 24.8%, essentially unchanged from both Q4 of last year and Q1 of last year.

Adjusting items this quarter include a cumulative accounting adjustment related to foreign currency translation, largely impacting prior periods, as well as acquisition integration costs and the amortization of intangibles. These items are shown on slide 25.

Moving now to slide 9. Our common equity tier 1 ratio was 10.1%. The acquisition reduced the ratio by approximately 60 basis points from Q4 which is generally in line with our expectations. As shown on the slide, risk-weighted assets increased by $26 billion in the quarter, primarily due to the acquisition, FX impacts which are largely hedged through AOCI and business growth.

Moving now to our operating groups and starting on slide 10. Canadian P&C had net income[3] of $530 million, up 5% from last year. Pre-tax pre-provision income growth was good at 8%.

Revenue growth was 6%, reflecting higher balances, non-interest revenue, and higher net interest margin. Total loans were up 5% and deposit growth was good at 6%.

Personal loan growth, excluding retail cards, was 3% with mortgage growth of 5%. Commercial loan growth, excluding corporate cards, was 9%.

NIM was stable quarter over quarter. Expense growth was 4%, resulting in positive operating leverage of 1.5%. Provisions were higher year over year, driven by the consumer portfolio and up from below-trend levels in both Q3 and Q4 of last year.

Moving to U.S. P&C on slide 11. Net income[3] was $264 million, up 29% from last year. The comments that follow speak to the U.S. dollar performance. Net income[3] of $191 million was up 11%. This quarter includes two months of results for the BMO Transportation Finance business which represented approximately 10% of U.S. P&C's Q1 revenue and adjusted expenses.

Average loan growth was 10% year over year, benefiting from the BMO Transportation Finance transaction, which added almost $5 billion to average loans. Commercial loan growth was 9%, excluding the acquired business.

NIM was up 16 basis points from Q4, primarily driven by higher deposit spreads and the acquisition. The recognition of the credit mark on the purchased performing portfolio that was previously reported in Corporate Services was largely offset by a decline in loan spreads due to competitive pressures.

Expenses were up 13% year over year, largely due to the addition of the acquired business. Provisions were up $14 million from the prior year.

Turning now to slide 12. BMO Capital Markets net income[3] was $260 million, up 18% from a year ago. Revenue was $1 billion, up 11%.

On a constant currency basis revenue was up 6%, driven by M&A and corporate banking-related revenues. Despite market conditions, revenues from Trading Products declined only slightly as a result of prudent management and lower flows in certain businesses.

Expenses were well-managed and unchanged year over year on a constant currency basis. Operating leverage was strong at 4.7% or 6% on a constant currency basis. Provisions for credit losses were relatively stable year over year.

Moving on to slide 13. Wealth Management net income[3] was $176 million compared to $186 million in Q1 of last year. Underlying results were solid, given the markets.

Traditional wealth earnings were flat year over year and insurance earnings were impacted by unfavorable market movements in the current quarter. Expenses were up 6% year over year or 2%, excluding the impact of the stronger U.S. dollar and British pound. Assets under management and administration were up 1% year over year as favorable FX movements were partially offset by market declines.

Turning now to slide 14 for Corporate Services. Results compared to last year were up as expenses and credit recoveries were better and we had high taxes in the prior year.

To conclude, we delivered good operating results in the quarter, demonstrating the benefits of our business mix and our operational focus. And with that I'll hand it over to Surjit.



3 On a reported basis, 14.98% and on a TEB basis 24.59%, Canadian P&C: $529 million up 5% Y/Y, U.S. P&C: $251 million, up 31% Y/Y and US$182 million up 13% Y/Y, BMO Capital Markets: $260 million, BMO Wealth Management: $148 million (vs $159 million in Q1'2015)

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

Thank you Tom and good afternoon everyone. Starting at slide 16. The PCL rate for the fourth quarter was 21 basis points, up from the prior quarter, which included the benefit of the U.S. loan sale.

In Canadian P&C, consumer PCLs increased from the prior quarter which was below trend. A small part of the increase in PCL was due to an uptick in Alberta losses. Commercial PCLs were consistent with last year's average quarterly loss level.

In U.S. P&C, consumer PCLs were largely in line with the prior-quarter results after taking into account last quarter's loan sale. Commercial PCLs were lower than in the prior quarter, in part due to positive economic conditions in the U.S. And as Tom mentioned, the acquired Transportation Finance assets were added to P&C this quarter as was the purchased performing portfolio where provisions were previously recorded in Corporate Services.

PCL in Capital Markets increased by $10 million due to a single provision. There was a net recovery in the Corporate Services portfolio.

On slide 17, gross impaired loans were up by $199 million with the stronger U.S. dollar contributing approximately half of the increase. Much of the remaining increase was due to impaired loan formations in the oil and gas sector, in line with our expectations, as we have discussed on previous calls.

This quarter, the collective allowance increased due to FX. Our collective allowance reflects our diversified business mix. Geographic diversification is a benefit, as our U.S. commercial portfolio continues to perform well, providing an offset to challenges related to oil and gas which represent only 2% of our well-diversified portfolio.

As I have indicated previously, if low oil prices persist this year, we expect our current loan loss rate to increase to the mid to high 20 basis points for the year. If this scenario continues for an additional two years, total losses could increase to between 35 and 40 basis points, closer to the Bank's long-term average loss rate. I'll now turn it over to the operator for the question and answer portion of today's presentation.

## QUESTION AND ANSWER

**Operator**

Thank you. We will now take questions from the telephone lines.

(Operator Instructions)

The first question is from John Aiken from Barclays. Please go ahead, your line is now open.

**John Aiken** *- Barclays Capital - Analyst*

Good afternoon. Surjit, I'm going to leave it to others to talk about the oil and gas reserves and impairments, but I'm sure Sharon has briefed you that I wanted to talk about the consumer delinquencies. Now, I understand that we had another quarter that ended on the weekend but we have seen a step up on the credit card and consumer loan delinquencies on the 1 to 29 days. Can you give us some rationale as to what's happening within the delinquencies?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

Yes, John. Sharon did tell me that you had the question. The question that you ask relates to the fact that this quarter again was on a weekend. The difference between this quarter and the last quarter was that this quarter was on a Sunday as opposed to ending on a Saturday, which really means that two days of payments that you would normally receive had to be deferred to the Monday following.

And that explains the difference because right after the weekend, the delinquency rate did go back to normal levels. So I wouldn't read too much into the early-stage delinquencies that you see in the chart there.

**John Aiken** - ***Barclays Capital - Analyst***

So, Surjit, for what we consider normal delinquency levels, can you give us some idea of what the magnitude of the payments were on that Monday?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

I don't have that offhand, but a 3 to 4 basis point reduction happens as a consequence of this on a normal basis, I think.

**John Aiken** - ***Barclays Capital - Analyst***

Okay, but presumably does the weekend reporting have any impact on the 30 to 90 and 90-plus buckets?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

The 90-plus bucket is slightly different. The 90-plus bucket, I think, we look at much more closely even though it does have an impact even on the 90-plus bucket days as well. But that bucket is used somewhat differently because the early-stage delinquencies are early-stage, as you know. Whereas once it's overdue 88 days or 89 days, we take that risk somewhat -- we view that risk somewhat seriously.

So when I look at the 90 days, you did notice that there was a quarterly increase of 14 basis points year over year. And that is telling in some ways. We looked at Alberta in that respect as well, because the question is if it's more related to what's going on in Alberta. In Alberta year over year there has been an increase of 34 basis points, which is actually much more telling. But then it's not surprising, given that the unemployment rate in Alberta has gone up year over year from 4.6% to 7.4%.

**John Aiken** - ***Barclays Capital - Analyst***

And then that is, as you said in your prepared comments, that's what's driving the increase in the charge-offs on the credit cards. Going forward, though, are expectations that it should continue to tick up?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

I would say yes. Consumer losses would tick up a little bit. But to give you some sense of what this really means, we have a rather small non-real estate secured portfolio in Alberta. And the 34 basis point delinquency increase over the year really accounts for about $4 million in balances. It's not a huge impact but it certainly will have an impact on our Alberta losses going forward. We've been talking about this for the last several quarters.

**John Aiken** - ***Barclays Capital - Analyst***

Absolutely. If I could add part D to my line of questioning, in the provisions for the Consumer Installments and Other Personal, we saw an uptick on that. But was there any classification from the GE acquisition that got pushed through on that?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

Yes, on the 90 day, yes. There is a portion of the GE portfolio is very much like a retail portfolio. Because you have two components to the portfolio, one which is clearly commercial-like and the other one which is more retail.

To the extent that there is the retail part, and it's about half the portfolio, the delinquencies associated with that component are higher than in the regular commercial portfolio. And what you see in the numbers this time are in line with historical numbers for the GE portfolio. So they're very much in line with what we had expected.

**John Aiken** - ***Barclays Capital - Analyst***

Thanks, Surjit. And Sharon, I'll requeue.

**Operator**

Thank you. The next question is from Meny Grauman from Cormark Securities. Please go ahead.

**Meny Grauman** - ***Cormark Securities - Analyst***

Hi, good afternoon. In the MD&A, the economic section talks about that you're projecting another rate cut in the spring. I'm just wondering whether you can comment on what you expect that to do to margins. And then more broadly, there's been a lot of talk about negative rates and so, I'm wondering your thoughts on negative rates, what that would mean if there's any work you've done on that issue and anything you can add on the impact from that potential.

**Tom Flynn** - ***Bank of Montreal - CFO***

It's Tom, I'll take the question. On the potential impact of a rate cut, the impact would really depend on how the market adjusted to that. And over the last couple of cuts we've seen prime move by a lesser amount than the full cut. And that near term is a slight positive to margin and revenues.

If the cut was of a similar amount or the bank prime reduction was of a similar amount as the Bank of Canada cut, the impact would be slightly negative. So it really depends and wouldn't be that significant.

In terms of the impact of negative rates, it's been a topical issue more so in the European context. I think our objective from a business perspective would be to serve our customers, to help people through whatever the economy was doing at the time and to look to preserve our margins to the maximum extent possible.

And exactly how that would play out, I think and hope is a ways away, if at all. So it's hard to really be precise at this time.

**Meny Grauman** - ***Cormark Securities - Analyst***

Is there any discussion that you have with the Bank of Canada regarding negative rates? Has there been any official talk going to the banks, asking for input on that subject specifically?

**Tom Flynn** - ***Bank of Montreal - CFO***

I would say no. There's generally discussion going on around the rate environment overall. Negative rates is part of that, but nothing unusual.

**Meny Grauman** - ***Cormark Securities - Analyst***

Thanks for that. And then if I could add another one on the total trading number on a TEB basis, a big number -- looks like the strongest since Q1 2009. I'm wondering -- it seems like a surprising result and I'm wondering if we could get a little more colour on what's driving that. Do you think it's sustainable? That would be helpful.

**Darryl White** - ***Bank of Montreal - BMO Capital Markets***

Thanks for the question. It's Darryl. I can probably help you with that. The first thing I would say is that we've been saying for a couple quarters now that we've been managing our market risk prudently. So that has helped a lot. So there hasn't been a material negative to start with. In addition to that, as we've also said from time to time, we have some client activities which can be lumpy in nature with some of that.

And also, while the volatility does create challenges, in some our businesses it does create wider spreads where we can capture some reasonable revenue despite the drops in volumes that might occur. When you put it all together, we're reasonably pleased, I would say, with trading performance in the context of the market, as you point out.

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**Meny Grauman** *- Cormark Securities - Analyst*

From a geographical point of view, could you comment on the split between Canada and the U.S.? Is the U.S. more of a driver here? What would you be able to say on that?

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**Darryl White** *- Bank of Montreal - BMO Capital Markets*

On the trading side?

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**Meny Grauman** *- Cormark Securities - Analyst*

Yes, in terms of the geographical split, in terms of what drove the strong result this quarter?

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**Darryl White** *- Bank of Montreal - BMO Capital Markets*

I would say nothing unusual relative to previous quarters. We still have the majority of our trading revenues in the Canadian business. There wasn't anything particular in this quarter. We had some good performance in the U.S. business as well but not outsized.

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**Meny Grauman** *- Cormark Securities - Analyst*

Thank you.

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**Operator**

Thank you. The next question is from Mario Mendonca from TD Securities. Please go ahead.

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

Good afternoon. First, on the U.S. earnings, if we were to pull out the benefit of GE Transportation Finance -- I know that you gave us some indication there that it was 10% of revenue, 10% of expenses, but it's hard to figure out what the bottom line impact -- what growth was there on a U.S. dollar basis, taking out the impact of GE Transportation Finance?

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**Dave Casper** *- Bank of Montreal – Head, U.S. P&C*

This is Dave. The growth of the overall business was pretty much consistent with what we've had in the past. One of the ways we look at it is our pretax, pre-provision. If you look at that quarter over quarter, ex the Transportation Finance business, we were up quarter over quarter about 6% in our core business. We were pretty much consistent if you go back year over year. So good performance, particularly in the last quarter over quarter, but big strong help from the Transportation Finance business.

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

Okay. So on an after-tax basis in the U.S., on a U.S. dollar basis, if we were to exclude GE Transportation Finance, would earnings have been flat or up?

**Dave Casper** - ***Bank of Montreal – Head, U.S. P&C***

Quarter over quarter they would have been up. And year over year they would have been flat, I believe.

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

Flat, okay. Tom, if we could go to the FX adjustment this quarter, could you explain, like, how does this happen? Is this an adjustment that should have been made in prior quarters but somehow got missed? And so this is a catch-up that we get in the full quarter?

**Tom Flynn** - ***Bank of Montreal - CFO***

It is a catch-up and so it's a cumulative catch-up. The amount covers basically two years and the item related to an FX hedge. And as you know, hedge accounting rules are highly detailed and prescriptive.

And so, in a sense this is an instance of hedge ineffectiveness that was identified in the quarter. We adjusted for it, given that the majority of the item does relate to prior periods. It's really an accounting item, not an economic item, and it doesn't relate to the operations of the business.

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

So it wasn't so much missed as the accounting necessitated booking it in the quarter, is that fair? Or was it just missed?

**Tom Flynn** - ***Bank of Montreal - CFO***

I would say the accounting was not perfect on the way through. That was recognized in the quarter and we booked the result.

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

This is not a criticism of BMO, but it's more about the banks generally. The definition of core or adjusted is starting to lose some meaning for me, at least over the last couple of quarters. The question I'm asking is, what criteria do you apply? Maybe these aren't hard and fast criteria, but what criteria do you look at when you're trying to determine whether something should be removed from a reported result?

**Tom Flynn** - ***Bank of Montreal - CFO***

Our approach is to adjust for the amortization of intangibles, acquisition intangibles, for integration expenses, for changes in the collective allowance. And then other things on a judgmental basis as we go through time. Considerations that go into deciding what to adjust for include the extent to which items relate to, what I'd call, normal business activities, the size of the items or the item, the extent to which items relate to the current period versus the prior period.

And in the case of the current item that we're talking about adjusting for, it is again largely an accounting item as opposed to an economic item. And we didn't want that to cloud the picture that we were presenting on how the business itself performed.

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

Okay. If I could just flip over to oil and gas now. There have been a number of downgrades, in some cases multi-notch downgrades of large oil and gas companies. What would be helpful to understand is, like, I can appreciate that a downgrade in and of itself doesn't drive an impairment. An impairment, clearly there's more to it than that. What would be helpful to understand is the extent to which a multi-notch downgrade where something goes from investment grade to below investment grade, how does that inform your decision about whether to impair an exposure or not?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

This is Surjit. A downgrade of an external rating in itself doesn't take it to -- if it's within the investment grade category, if it takes it down two notches but it's still in a comfortable zone, doesn't necessarily take it into impaired status. Impaired status is based on where we feel that the loan that we have is now in danger of not getting repaid. It's not as much the rating that matters or the two notches that matter. And the determination is made on an individual basis.

And we go one step beyond once we impair, then we make a determination as to whether we think there's a risk of loss. And if there's a risk of loss then we put a reserve or a PCL against it. You will find that there are some that get impaired but we don't believe that we're going to lose money and so we leave it as impaired with no reservation. And as I mentioned in the earlier part of the conversation we had, if for a lot longer period of time that stress continues and the company does start performing worse and doesn't have the cash flows to fulfill its debt obligations, then we leave it at the label.

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

Surjit, I was specifically referring to a circumstance where the multi-notch downgrade took something from investment grade to below investment grade. You seem to refer to specifically scenarios where they remained investment grade. So let me ask the question more directly. When it goes from investment grade to below investment grade, how does that inform your decision to impair something?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

The comment would be the same; it doesn't really matter whether it's within investment grade or still is non-investment grade. I think the criteria you use is whether it has impaired the ability of the borrower to pay you back.

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

Okay. And then finally, are there circumstances when you want to accommodate an important client -- and I'm referring to not a borrowing client but a client that is both borrowing and capital markets -- where you would be more, let's say, more accommodating insofar as covenants are concerned or the calculation of a reserve value. Where, for example, you would provide temporary covenant relief to a borrower.

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

I don't think the relationship is as big a factor. It's the circumstance of what is it that's being requested and what was the covenant doing for us in the first place. The covenant really gets the borrower back to the table to have a discussion with the lender. And that's how we view it.

We see this as a basis to reopen a discussion and get a better sense of what the plans are that the client has. It doesn't have as much to do with making concessions for the relationship. What we do with covenants depends on where those discussions lead us to.

In the very extreme they could lead to a restructuring, in which case the whole deal is different. And in others if there is some forbearance that's required for a period of time because of relaxing the covenant, and we believe that outcome is going to be good for both us and the customer, we would accommodate. But the relationship doesn't dictate that; it's the economics to both the borrower and the customer that dictate it.

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

So, there's precedence of forbearance that have played out in the last 6 to 12 months then, presumably, for BMO and the banks as a whole?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

When you say forbearance --

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

That was the word you used.

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

I don't think -- no, I think the way it works is not so much forbearance as it is in the price that you have in your deck for, particularly, some of the reserve-based loans. Banks typically take a different view and banks normally don't exactly have their price decks based on the strip.

If your comment is that unless you use a strip, you've made a concession, then clearly there is an element of softness that the banks take to their clients, because they have a much better understanding than the application of the strip would have on a client's specific situations as to whether they have any reserves coming on-stream or what their cash flow status is.

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

So bottom line, if it makes economic sense for the bank and for the customer, you'll make some concessions. But it's got to make sense economically, I guess that's the bottom line in this conversation. Is that fair?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

That's fair.

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

Okay, thanks for your help.

**Operator**

Thank you. The next question is from Peter Routledge from National Bank Financial. Please go ahead.

**Peter Routledge** - ***National Bank Financial - Analyst***

Hi, couple questions for Surjit. Coming back to the delinquency data. On the business and government loans delinquency data, particularly for 30 and 89 days and 90 days or more. It's on page 30 of your supp pack. I'm given to understand that the increase between January 31, 2016 and October 31, 2015 is pretty much entirely due to the GE Transportation portfolio. Can you just confirm that and give us a sense if there is any oil and gas or mining-related credits in that increase?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

I think you're accurate in terms of the assessment. It is almost entirely because of the retail-like portfolio that we have within the Transportation Finance business. That is the vast majority of the portfolio.

**Peter Routledge** - ***National Bank Financial - Analyst***

Okay, thanks for clarifying. One other question that relates to your household exposure in Alberta. In 2008 I recall that there were a number of U.S. banks that cut, or started to cut, unsecured and/or home equity lines of credit where the recessions was hitting the hardest, Nevada would be an example. This was early 2008, before Lehman.

When or would BMO consider doing that in Alberta where, obviously, you mentioned the economic trends aren't great? When and under what conditions would BMO do that?

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**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

We constantly adjust our underwriting criteria based on where we see the economic situation in every market. And Alberta is no different. So when you say when will we begin, we actually have already made changes to how we underwrite in Alberta, as we have in other markets which are operating differently. I don't know whether --

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**Peter Routledge** - ***National Bank Financial - Analyst***

The question I was getting at was, are there households where you're cutting home equity lines of credit or unsecured lines of credit, i.e., lines BMO has already extended and under the terms of the credit you're now revoking them? These are revocable, right?

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**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

No, the things that are operating within the terms of the agreement that we have, we are not doing anything with. As long as they're complying with the terms, there's no action that we take and that's not atypical.

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**Peter Routledge** - ***National Bank Financial - Analyst***

I understand. But the lines you extended, they are revocable, right? They're commitments that you can revoke?

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**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

There are commitments that we can revoke. And to the extent that there are commitments that we can revoke and the financial condition has changed considerably, we can. We can reduce the lines to such customers, for example their personal lines of credit.

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**Peter Routledge** - ***National Bank Financial - Analyst***

And it sounds to me like that's done right now just on a case-by-case basis, as per normal course operations.

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**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

That is correct. It depends on the situation.

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**Peter Routledge** - ***National Bank Financial - Analyst***

There are instances where an institution might choose to just do a blanket revocation of lines of credits in a particular geography. You're not there yet, nor do you contemplate doing that.

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**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

No, we don't contemplate doing that. I think we've got to be mindful of customers. Not all customers are exactly the same in their financial condition, in geographies that are strained. I think that would be too blanket. I don't think that would be appropriate to have something as broad-based as that.

**Peter Routledge** *- National Bank Financial - Analyst*

Okay, thank you very much.

**Operator**

Thank you. The next question is from Steve Theriault from Bank of America Merrill Lynch. Please go ahead.

**Steve Theriault** *- BofA Merrill Lynch - Analyst*

Thanks very much. Couple quick ones, hopefully, mostly on oil and gas. Surjit, maybe you covered this, but the balances went up to $7.4 billion quarter end. I think that's up about 10% sequentially. Any purchases going on in the quarter or is it just all currency or something else?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

Well, part of it is currency and some of the increases we have had are really in the investment grade side of the business and largely in pipelines.

**Steve Theriault** *- BofA Merrill Lynch - Analyst*

In terms of just draw-downs or new accounts?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

In terms of draw-downs largely.

**Steve Theriault** *- BofA Merrill Lynch - Analyst*

And what's the mix, Canada versus the U.S., on the whole book?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

On the whole book, the mix between Canada and the U.S. would be -- let's say -- it's about 60% in Canada and 40% in the U.S.

**Steve Theriault** *- BofA Merrill Lynch - Analyst*

Okay. And also trying to get a sense -- we've got lots of parameters around the stress tests and I imagine today you wouldn't migrate away from that up to 40 basis point max loss rate. But in the context of your stress tests, I'm wondering, could you share what the cumulative loss rate for the direct oil and gas exposure would look like? So the stress losses or the cumulative loss rate on the about $7.5 billion portfolio?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

Actually, I think I'm more comfortable giving you the ranges that I have because those are the averages for the three-year period. And yes, there could be a spike in one year relative to those three years but not by a whole lot.

Having said that, I think you've got to look at the stress test as being instructional more than being indicative of something that's too exact. We have done stress tests, as I said, as low as $25. We've stressed both our wholesale, for first order, and looked at our retail, the impact on our retail, for second order. And the value of the stress test really right now is more in the second order on the retail side because we've looked at our wholesale portfolios, with a bottoms up approach on an individual basis.

More than the stress test, we get a lot more comfort from looking at the individual accounts that we review in the wholesale portfolio. And so the guidance that I've given you, 35 to 40 basis points, still holds and is good guidance. It does include an element of retail and wholesale.

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**Steve Theriault** *- BofA Merrill Lynch - Analyst*

Could you hazard a guess at the split between the element of retail versus wholesale?

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**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

It varies based on the year. If you’re looking for some sort -- I can tell you that it gets -- it depends. It's different. I'm looking at the sheets as I'm talking to you. It varies year to year. It's difficult to give you a trend just based on looking at averages, so I'll just leave it at that.

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**Steve Theriault** *- BofA Merrill Lynch - Analyst*

Okay, maybe I'll follow up. And then lastly, again sticking with oil and gas, maybe this was covered, so feel free to let me know. Gross impaired’s on oil and gas up about 60, net impaired’s up about 40 and a $20 million provision. So was that one or multiple credits flowing through there? Should I think of that as about a 30% write-down on whatever did go bad this quarter?

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**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

To give you some sense, there was not one credit. It was more than one credit. It was a small number of credits. And it was in both geographies, roughly half and half. And you can make from it whatever cumulative number you think we've taken it down to. But it’s not -- these are not large numbers, none of them are large numbers.

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**Steve Theriault** *- BofA Merrill Lynch - Analyst*

Okay, thanks for all that. Appreciate it.

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**Operator**

Thank you. The next question is from Gabriel Dechaine from Canaccord Genuity. Please go ahead.

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**Gabriel Dechaine** *- Canaccord Genuity - Analyst*

Good afternoon. My first question is for Darryl and Surjit. Maybe Darryl you could start so Surjit can get a drink of water. The oil and gas loan book, how much of that is -- what's the credit rating on average of that portfolio? How much of it has external credit ratings?

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**Darryl White** *- Bank of Montreal - BMO Capital Markets*

So the second part of your question -- and I can confirm, Gabriel, Surjit is getting water -- the second part of your question, I don't know exactly what percentage of them have external credit ratings. A large portion of them would be, but I can get back to you offline on that. In terms of investment grade versus non-investment grade right now it's about 50/50.

**Gabriel Dechaine** *- Canaccord Genuity - Analyst*

Oh, okay. The reason I'm asking is I was wondering if maybe there's a rule of thumb. I'm going from the capital angle here and trying to determine what the sensitivity of credit downgrades is in that portfolio. If there are further down grades, how much RWA inflation that would cause. Is it a material number?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

Let me answer the question. In our various stress scenarios, there will be RWA migration. One of the ways to look at is the impact that it can have on our CET1 ratio, the range would be between 16 to 20 basis points if oil prices were to stay at about $25.

**Gabriel Dechaine** *- Canaccord Genuity - Analyst*

Oh, okay. So it falls under that manageable category, I guess. And then my next question is on the collective allowance, there's big overhang on the sector right now. Why haven't the banks boosted their collective allowances for this oil and gas exposure? When are they going to do it?

It seems like the banks are just seeing the world a little bit differently than we are -- or I am, anyway, and others. What are you seeing differently that precludes you from having to boost your collective allowances? Is it just a matter of time, or are things happening that we don't actually get to see? Within your existing collective are you moving some from manufacturing to oil and gas? Just from bucket to bucket? Are things like that going on? I'm trying to get a sense for what needs to happen for the collective allowance to go higher?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

That's a good question. As I mentioned in my remarks, we benefit from the business mix we have. So there are segments and sectors for us where the risk is actually improving. So that certainly is a factor in the adequacy as we see it in our collective allowance.

Having said that, we are seeing, and will continue to see, risk migration in the oil and gas side. And the way I look at it right now is that, look, we've got a small oil and gas direct exposure and we have to look at the second-order impacts as well. The collective really right now we have in our wholesale book is more for the direct exposure. When you look at it from that perspective, you look at -- and there's some in consumer as well which is not being felt very much -- but when I look at it, I look at it on the basis of our collective as a percentage of our credit RWA.

If you look at our collective as a percentage of our credit RWA, we were at 83 basis points at the end of last quarter and right now we're at 76. Which is actually quite high relative to where our other four peers are at.

Having said that, that does not include -- that number includes in the denominator the Transportation Finance assets, but does not add up the mark, or the incurred mark that we have, just the mark for the one year period that the collective was supposed to have. If I was to add that to the numerator then our coverage is 80 basis points. So our credit to RWA is 80 basis points, including the incurred mark on the Transportation Finance as a percentage of current RWA and I feel comfortable with that. That's good-size coverage for the portfolio that we have where oil and gas still is a very small piece - 2%.

**Gabriel Dechaine** *- Canaccord Genuity - Analyst*

Okay. And just to circle back on that CET1 impact, was that in your stress test going from the 50/50 split in investment grade, below investment grade Darryl was talking about, to 100 below investment grade, something like that?

**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

Yes, so, in our stress test we don't look at it in terms of the investment grade to non-investment grade. The migration happens and we look at the RWA associated with that risk category where it migrates to. It becomes less relevant as to whether it's investment grade or whether it has external rating or not.

**Gabriel Dechaine** - ***Canaccord Genuity - Analyst***

Okay, thank you.

**Operator**

Thank you. The next question is from Robert Sedran at CIBC. Please go ahead, your line's open.

**Robert Sedran** - ***CIBC World Markets - Analyst***

Hi, good afternoon. Just wanted to follow up quickly on a couple of questions from earlier in the call. First off, Darryl, on that trading revenue you talked about client activity in Canada. Is that still TRS activity going on? Does the longer runway that the banks have had on that business give you any better visibility in terms of the mitigation you can put in to lessen the impact? Or is that original impact still something we should be thinking about?

**Darryl White** - ***Bank of Montreal - BMO Capital Markets***

You're talking about the equity TRS, Rob?

**Robert Sedran** - ***CIBC World Markets - Analyst***

Yes.

**Darryl White** - ***Bank of Montreal - BMO Capital Markets***

The short answer is yes. The longer runway does give us a little bit of time to reallocate resources and capital. And that's not new, we've said that before.

In terms of the quarter in question, was the equity TRS business alive in the quarter? It was, in the same way it has been in previous quarters; it has not changed. You might ask has it started to roll off. It has, I would I say, just begun to roll off. We've seen a couple of circumstances where it's begun but it's pretty immaterial in the grand scheme of things.

**Robert Sedran** - ***CIBC World Markets - Analyst***

And so 2017 is the year where that's going to happen more quickly?

**Darryl White** - ***Bank of Montreal - BMO Capital Markets***

It's hard to know for sure, Rob, but as the year goes on, this year you might see what I just said in terms of roll-off accelerate a little bit. I can't predict it with any sort of linear accuracy. But then it carries on into 2017. We haven't seen a lot yet.

**Robert Sedran** - ***CIBC World Markets - Analyst***

Okay. Wanted to follow up on the U.S. margin. I think there was some talk about how the U.S. performed excluding GE. I'm wondering if we can get a similar view on how the margin did ex GE. And even better, if you can kind of explain the evolution pre- and post-Fed move in terms of how the margin did?

**Dave Casper** - ***Bank of Montreal – Head, U.S. P&C***

I'll start, it's Dave. The overall margin for the U.S. in terms of our NIM was up about 16 basis points quarter over quarter, 17 year over year. Half of that was the Transportation Finance business. The other half of that was really our -- two things -- the rates going up and our deposits going up. That covers the 16.

But there were some puts and takes. Part of that was some -- we talked about the purchased loan accounting. That was a positive and that was offset by continued deterioration in the corporate loan spreads. Those spreads continue to go down.

So that's pretty much the story. We would expect, to your question on rates, that NIM improvement reflects really one month of the interest rate increase and two months of the Transportation Finance business. So we would expect in the next quarter we'd get mid single-digit improvement from there, assuming no increase in rates.

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**Robert Sedran** *- CIBC World Markets - Analyst*

That's helpful, thank you.

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**Operator**

Thank you. The next question is from Sumit Malhotra at Scotia Capital. Please go ahead, your line is open.

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

Thanks, good afternoon. Wanted to go back to Surjit and just get a little bit more colour on what you're thinking in terms of potential loss rates. Under the 40 basis point stress scenario that you talked about, specifically for the energy portfolio, when I look at your provisions over the past, let's say since the start of 2015, you've taken about $50 million worth of provisions related to oil and gas. So that puts us at roughly 70 basis points on your average portfolio over that time.

Bill Downe's made a few references in the last few months -- number of months -- about 1986 being a comparable period. When I go back to that time -- and correct me if my numbers are wrong -- but looked like BMO's energy losses were in the neighborhood of 5% or 500 basis points.

Is that a reasonable scenario for the way you see your portfolio today on a cumulative basis through this cycle? Or has something changed from how you were positioned, what was a long time ago, in 1986?

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**Surjit Rajpal** *- Bank of Montreal - Chief Risk Officer*

I think things change and I'll tell you why. Because I think each cycle is slightly different. And while Bill is absolutely right about our history, the sub-sectors that we are in now are somewhat different. We are focusing on those sectors where there is much more asset cover, in the U.S. for instance. We have a service sector business but that's largely in Canada. There's nothing in the U.S. to speak of. We have more pipelines now.

And the actions that have been taken by the oil and gas companies in this cycle have been -- I think they've been quicker to take actions than they had in past cycles. I think the only unknown right now is how long will it last. I think Bill's response is more in the context of if this was to carry on for a long period of time, well, you could lose a lot more money than you currently have.

By the way, it's $60 million that we've taken in provisions. I carry that in my head all the time. It's not $ 50 million to date in this little period. And yes, there will be more provisions that will come our way. But it's hard to tell where that will end or how quickly it will go there. But we do get comfort from the stress test thats we've done and there will be incremental losses if this persists.

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**Bill Downe** *- Bank of Montreal - CEO*

Sumit, I might also say that the analog is very helpful in understanding how long the price could stay down and what steps large independents could take to bring their costs back in line. It's also the case when you look at the capital structure of the industry, that there are now layers of junior debt that were placed in the public debt market that are materially higher than they were.

If you go back to the 1980s, the vast majority of credit that the independent sector had access to was bank credit. And in the U.S. in particular, you still have structured reserve-based senior secured loans provided by banks but you have tiers of debt under it.

And so, I think that the magnitude of losses in aggregate -- it's interesting that you went back and looked because I think that probably is a good way to try to judge. But the magnitude of losses that will accrue to junior levels of debt, I think, are going to be quite significant. That's part of the inquiry that we've made also is there's going to be money lost, where is it going to be lost.

I think that the quality of the lenders is particularly important in these transactions. The deeper the experience of the bank, the higher quality of the review of the engineering they do, the more care they take in the documentation and perfection of collateral, the better the outcome will be.

So I think the analog works in aggregate. If you want to think your way through why prices wouldn't snap back in three months or six months necessarily, or trying to figure out which oil companies are going to do better and which ones are going to have to be restructured or their assets redistributed.

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

Well, yes, I don't want to belabour this but I think obviously the tone of the questions you can hear, we're trying to get a handle on within these stress tests and through the cycle basis, what are you guys expecting from this portfolio? It certainly seems as if -- and you both gave me some detailed colour there -- that your expectation is that it's not necessarily an apples-to-apples comparison to just look at the loss rates from 30 years ago.

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**Bill Downe** *- Bank of Montreal - CEO*

No, but our analysis is informed by the same information that you're looking at and the experience that we've had and our ability to do name-by-name analysis and field-by-field and well-by-well.

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

That's fair. While you're here, let me just ask you one more on capital. You end the quarter at 10.1%. BMO seems to have had less, I'll call it, macro sensitivity in its capital position than some of your peers. That's obviously a positive with everything going on right now.

When you think about that 10.1% level, I know you filed the paperwork on the NCIB, you've obviously just completed an acquisition, where is your thought process right now in terms of deployment? Is this an environment where you wouldn't mind building a buffer on that 10.1% before you put money to work? Or are there opportunities that you would be willing to transact on today, given where your capital is positioned?

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**Bill Downe** *- Bank of Montreal - CEO*

We were clearly focused on ensuring that in the process of closing Transportation Finance, that we had our capital level at the level that you can see in this quarter. And there's still, I think, some management attention focused on Transportation Finance. It's a great business. There are opportunities to grow it in ways that we're only now exploring. There are relationships with other capabilities of the bank.

So I think there's some organic growth opportunity that comes from there. And my comments at the beginning of the call related to, as well, investment in the evolution of the business model. And we've talked an awful lot about 2% of the loan portfolio. But a very significant portion of the earnings of the Bank are coming from doing business with individuals and small companies and companies not in the oil and gas business, that are growing and the digital economy is allowing us to make investments that are going to change the nature of the business.

And so I think, to go specifically to your question, at least through the middle part of the calendar year, we're still digesting the most recent acquisition. We're really focused on the core agenda of the Bank. I have no doubt that two or three quarters from now, when the capital has rebuilt to the levels that they were before we did this transaction, we'll be talking about what kinds of opportunities might be of interest. But right now, we just completed the meal and I think it's time to digest it.

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

Thanks for your time.

**Bill Downe** - ***Bank of Montreal - CEO***

You're welcome.

**Operator**

Thank you. The last question is from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

**Sohrab Movahedi** - ***BMO Capital Markets - Analyst***

Thank you. I'm a little bit embarrassed to go back to that 2% of the business. But Surjit, 40% is U.S., 60% Canada. Is it fair to say that for up to 40% of the oil and gas book at BMO may be subject to the Shared National Credit exam?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

The vast majority of the U.S. book would be, yes.

**Sohrab Movahedi** - ***BMO Capital Markets - Analyst***

And is it possible that the Shared National Credit exam would result in the legal entity taking some charges that get reversed out at the total Bank level?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

Likely not. We think we've appropriately rated our accounts. And in the last go-around when the Shared National Credit examiners came, in accounts that we had agented, there was very little change. In accounts that some other banks had agented, there were some downgrades.

We're hoping our portfolio will stand the test of the Shared National Credit exam. Not to say I rule out some negative migration, but I'm going to wait to see what happens.

**Sohrab Movahedi** - ***BMO Capital Markets - Analyst***

That is very helpful. And if for every 100 basis point increase in the unemployment rate in Alberta, what do you think your loan losses in the credit card portfolio in Alberta would increase by about 100 basis points? As far as consumer lending, unsecured, every 100 basis point increase would more or less map to 100 basis point PCL rate increase?

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

I can't offhand comment on that.

**Sohrab Movahedi** - ***BMO Capital Markets - Analyst***

Okay.

**Surjit Rajpal** - ***Bank of Montreal - Chief Risk Officer***

It would certainly go up, but I don't know whether there's a relationship that you're trying to get to. I can't answer that with any level of precision. It will go up, but I can't tell you what.

**Sohrab Movahedi** - ***BMO Capital Markets - Analyst***

Okay, thank you very much.

**Operator**

Thank you. I would now like to turn the meeting back to Ms. Haward-Laird.

**Sharon Haward-Laird** - ***Bank of Montreal - Head of Corporate Communications, Government & Investor Relations***

Great, thank you, everyone. We're happy to take any further questions in Investor Relations and please have a great rest of the day. Thank you.