BMO Financial Group

Q1 2012 CONFERENCE CALL

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By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal or economic policy; the degree of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks; changes to our credit ratings; general political conditions; global capital markets activities; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; and our ability to anticipate and effectively manage risks associated with all of the foregoing factors.

With respect to the completed acquisition of Marshall & Ilsley Corporation (M&I), factors that may influence the future outcomes that relate to forward-looking statements include, but are not limited to: the possibility that the anticipated benefits from the transaction, such as expanding our North American presence, providing synergies, being accretive to earnings and resulting in other impacts on earnings, are not realized in the time frame anticipated, or at all, as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations (including changes to capital requirements) and their enforcement, and the degree of competition in the geographic and business areas in which the combined business now operates; our ability to effectively integrate the businesses of M&I and BMO on a timely basis; reputational risks and the reaction of M&I's customers to the transaction; diversion of management time to issues related to integration and restructuring; and increased exposure to exchange rate fluctuations. A significant amount of M&I's business involved making loans or otherwise committing resources to specific borrowers, industries or geographic areas. Unforeseen events affecting such borrowers, industries or geographic areas could have a material adverse effect on the performance of our integrated U.S. operations. Our anticipation that annual cost savings from the integration of M&I and BMO will exceed US$300 million is based on the assumption that changes to business operations and support infrastructure and staffing will be consistent with our plans and that our expectations for business volumes are met.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 30 and 31 of BMO's 2011 annual MD&A, which outlines in detail certain key factors 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, 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.

In calculating the pro-forma impact of Basel III on our regulatory capital, risk-weighted assets (including Counterparty Credit Risk and Market Risk) and regulatory capital ratios, we have assumed that our interpretation of the proposed rules and proposals announced by the Basel Committee on Banking Supervision (BCBS) as of this date, and our models used to assess those requirements, are consistent with the final requirements that will be promulgated by BCBS and the Office of the Superintendent of Financial Institutions Canada (OSFI). We have also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios are adopted by OSFI as proposed by BCBS. We have also assumed that existing capital instruments that are non-Basel III compliant but are Basel II compliant can be fully included in the January 31, 2012, pro-forma calculations. The full impact of the Basel III proposals has been quantified based on our financial and risk positions at quarter end or as close to quarter end as was practical. In setting out the expectation that we will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, we have assumed that factors beyond our control, including the state of the economic and capital markets environment, will not impair our ability to do so.

Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality, risk of default and losses on default of the underlying assets of certain structured investment vehicles were material factors we considered when establishing our expectations regarding the structured investment vehicles discussed the Q1 2012 Report to Shareholders MD&A, including whether the first-loss protection provided by the subordinated capital notes will exceed future losses. Key assumptions included that assets will continue to be sold with a view to reducing the size of the structured investment vehicles, under various asset price scenarios, and that the level of default and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding continuing difficult market conditions. In determining amounts of asset maturities by year, we have made assumptions as to which issuers will or will not redeem subordinated debt prior to its maturity date, where permitted.

Assumptions about the level of default and losses on default were material factors we considered when establishing our expectations regarding the future performance of the transactions into which our credit protection vehicle has entered. Among the key assumptions were that the level of default and losses on default will be consistent with historical experience. Material factors that were taken into account when establishing our expectations regarding the future risk of credit losses in our credit protection vehicle and risk of loss to BMO included industry diversification in the portfolio, initial credit quality by portfolio, the first-loss protection incorporated into the structure and the hedges that BMO has entered.

In determining the impact of reductions to interchange fees in the U.S. Legislative and Regulatory Developments section, we have assumed that business volumes remain consistent with our expectations and that certain management actions are implemented that will modestly reduce the impact of the rules on our revenues.

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 Outlook and Review section of the Q1 2012 Report to Shareholders MD&A.

PRESENTATION

Viki Lazaris - *BMO Financial Group - SVP IR*

Thank you. Good afternoon, everyone, and thanks for joining us today. Our agenda for today's investor presentation is as follows. We'll 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 the presentation, we'll have a short question and answer period, where we'll take questions from prequalified analysts. To give everyone an opportunity to participate, please keep it to one or two questions, and then requeue. The call is scheduled to run for one hour. Also with us this afternoon to take questions are BMO's business unit heads, Tom Milroy from BMO Capital Markets, Gilles Ouellette from the Private Client Group, Frank Techar Head of P&C Canada, and Mark Furlong from P&C US.

At this time I caution our listeners by stating the following on behalf of those speaking today. Forward-looking statements may be made during this call. They are subject to risks and uncertainties. Actual results could differ materially from forecasts, projections or inclusions in the forward-looking statements. Information about material factors that could cause results to differ, and the material factors and the assumptions underlying these forward looking statements, can be found in our annual MD&A and in our first quarter report to shareholders.

With that said, I'll hand things over to Bill.

William Downe - *BMO Financial Group - President & CEO, BMO Financial Group*

Thank you, Viki,and good afternoon everyone. As noted, my comments may include forward-looking statements. BMO produced record first quarter net income of $1.1 billion, kicking off the year with very strong earnings. Our focus on customers and investing prudently in the business is serving us well. And this is reflected in both our financial results and the momentum of the Bank. Operating group performance in the first quarter was better than initially expected as markets recovered from the depths of early December. Our Capital Markets related businesses, which were particularly impacted by negative market sentiment early in the quarter, experienced improved market conditions in January. And credit performance, a long historic strength of BMO, contributed to earnings growth.

We continue to make steady progress on the integration of the acquired M&I business. And the benefits evident so far confirm that we are on track. We remain focused on living up to our reputation for treating customers extremely well, and ensuring our new customers can draw on the strengths and abilities of the whole Company. The largest of the platform conversions will take place at the end of the year,and we're pleased with the synergies obtained to date, reflecting the work of a focused and capable integration team. The combination of our two banks has created a competitive platform from which to grow personal, commercial and wealth business in the United States.

Turning to the financial results,reported net income increased 34% year-over-year to $1.1 billion or $1.63 per share. Adjusted net income was up 19% to $972 million, representing $1.42, 8% ahead of last year. Adjusted revenue growth was 9%. BMO's ROE on an adjusted basis was 15%, improved from 13.9% in the fourth quarter.

Improving the Bank's productivity is an area of broad focus and the entire BMO organization is participating in this effort. You'll note the charge taken this quarter for restructuring in our Capital Markets business. Innovation and productivity are themes we're stressing with our customers, and we believe will be important contributors to North American competitiveness. And it's an area of focus for the Bank.

Core credit performance improved in the quarter with provision for credit losses down substantially. And we were effective in the collection of impaired loans. Surjit will take you through our credit performance in detail later in the call. BMO continues to be well-capitalized with a pro forma Basel III common equity ratio of 7.2%.

I'll now take you through the highlights of our operating groups. P&C Canada's reported net income for Q1 was $446 million,and on an actual loss basis, up 5.4% from the fourth quarter. This business continues to perform well with volumes

higher across most products. We continue to innovate in the execution of our strategy, achieving higher net promoter scores, and increasing share of wallet.

We're also confirming our confidence in business growth by committing to increase the credit we make available to small and medium-sized businesses so they in turn can innovate, expand, and create jobs. For consumers, especially home buyers, we are actively encouraging them to borrow smartly by considering a mortgage with a shorter amortization period. Our low-rate mortgage was recognized by the Canadian Mortgage Trends as 2011 mortgage of the year. This product, which carries a maximum amortization of 25 years, is unique in the marketplace, and rewards customers who make responsible borrowing decisions. Moreover it will help Canadians enter retirement without the burden of mortgage debt.

In P&C US, reported net income was $135 million in source currency. On an adjusted basis, net income was $152 million and reflects a good contribution from the acquired business and solid organic revenue growth. These results were impacted, as anticipated, considering new interchange regulations, higher credit losses, under BMO's expected loss methodology and margin pressure.

Our commercial business, a key area of future growth, experienced a good quarter. I'm very encouraged with commercial banking business loan growth of $1.1 billion since the third quarter, up 14% annualized. This growth in key segments was partially offset by paydowns and declines in CRE and other run-off, as expected.

Our market position in the US and leading customer loyalty is a competitive advantage. BMO Harris Bank is taking an active role in the marketplace, providing original products that are relevant and matter to customers. For example, our consumer insights identified that parents are searching for help in providing financial education to their children,and in the fall we launched Helpful Steps For Parents, addressing this need. This initiative marked the first time we utilized the BMO Harris bank brand across our entire footprint.

In the Midwest region, we positioned for the uptick in the economic environment. The Midwest economy continues to grow at a higher rate than the national average. The unemployment rate, 8.1% in December, is expected to decline gradually this year, and should continue to outperform the national average. Overall, we believe that the recovery underway in the United States will lead to gradually more favorable economic and market conditions throughout North America. Our businesses, customers, and shareholders will benefit from this.

Private client group's first-quarter net income of $105 million reflects solid growth in our traditional wealth business, offset by the impact of unfavorable movements in long-term interest rates in our insurance business. Performance this quarter was dampened by softer equity market conditions. We continue to attract new client assets with AUM and AUA of $435 billion, up 2.3% quarter over quarter. Our customers continue to value insurance as a part of our total wealth offering. And we're generating higher premiums and sales of life insurance products, which represent a strong source of future growth and profitability.

Last week, we announced the expansion of our wealth management capability in China, with an agreement to acquire the maximum allowable interest in China's COFCO Trust Co., with AUM of approximately US$5.7 billion, COFCO Trust provides BMO with a leading entry point and greater flexibility to offer a wide variety of wealth management products directly or through third parties in a market that is large and growing. Further, this purchase complements our investment management capabilities with Fullgoal in Shanghai and Lloyd George Management in Hong Kong.

BMO Capital Markets delivered first-quarter net income of $198 million, improved from Q4 although down from a very strong quarter a year ago. The current quarter signalled the return to more normal levels of volatility and client flows in many parts of our business, particularly in the latter part of the quarter. The pipeline for advisory and fee business remains very healthy. Global Finance Magazine recently named BMO Capital Markets the “Best Investment Bank in Canada”, and for the third consecutive year, the “World's Best Metals and Mining Investment Bank”.

To wrap up, each of our businesses is well positioned. Our balance sheet is strong, a source of confidence for our customers. And we are confident that our customer-focused strategy will continue to differentiate BMO. At the same time, we're working hard to improve operating leverage and ensure a competitive cost base that directs spending to support our highest priority, our front-line employees, and every interaction we have with our customers.

Before I pass it over to Tom, I'd like to acknowledge Viki Lazaris, BMO's Head of Investor Relations. Effective April 1, Viki will be leaving IR to assume the leadership of BMO InvestorLine. During her six years as the Head of Investor Relations, Viki has raised our level of professionalism, earning the respect of colleagues and the street alike. I know that you're all going to join me in thanking her, both for her contribution, and to encourage her, let her know that we have a great deal of confidence in her success coming at BMO Investor Line.

And with that, Tom, I'll turn it over to you to go through the Q1 results in a little more detail.

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

Thanks, Bill. And good afternoon. Some of my comments may be forward-looking. Please note the caution regarding forward-looking statements at the beginning of the presentation.

I'll start on slide 7. BMO had a strong quarter with results benefiting from our businesses executing on their strategies, improved credit performance, and acquisitions. Reported net income of $1.1 billion was up 34% from last year. Adjusted net income was $972 million, up 19% year-over-year. And adjusted EPS was $1.42, up 7.6%. Adjusted ROE was 15%, and our capital position strengthened in the quarter. Adjusted revenue was up 8.5% from last year, and 2% from last quarter. BMO Capital Markets drove the quarter over quarter increase with improved trading revenue.

Adjusted results absorbed a negative impact in our insurance operations from lower long-term interest rates of $47 million after-tax, or $0.07 per share. Lower adjusted provisions for credit losses reflected improved performance across portfolios, including a recovery of $88 million after-tax for M&I purchased credit-impaired loans. Results in the quarter also benefited from a lower effective tax rate.

Adjusting items in the quarter reduced income by $137 million or $0.21 per share. Adjustments, all on an after-tax basis, include $114 million credit mark related benefit on the acquired M&I performing loan portfolio. Costs of $43 million for acquisition integration. $136 million gain from runoff structured credit activities. These activities are consolidated now under IFRS and the results primarily reflect market-driven valuation changes that are included in trading revenue. Improved credit market conditions in Q1 resulted in a gain being recognized compared to a charge in Q4 of '11.

The next item is a restructuring charge of $46 million related to our capital markets business. This was taken to better align the cost structure with the current and future business environment. As Bill mentioned, this is part of the broader effort underway in the Bank to improve productivity. And lastly, amortization of acquisition related intangibles of $24 million. All adjusting items are recorded in corporate services, except the amortization of intangibles.

Moving to slide 8. Adjusted revenue was $3.7 billion, an increase of 8.5% year-over-year, largely driven by acquisitions. Quarter-over-quarter adjusted revenue was up 2% from higher trading, partly offset by lower long-term interest rates impacting insurance results. As shown in the graph on the right, the adjusted total Bank margin, excluding trading was 221 basis points, up 8 basis points sequentially, driven mainly by Private Client Group and Corporate, partially offset by P&C US where the benefits of increased deposit balances were more than offset by spread compression.

Turning to slide 9, adjusted expenses of $2.4 billion were up $37 million or 1.6% quarter over quarter. Q1 expense includes $71 million of stock-based compensation in respect of employees eligible to retire, which is expensed in Q1 of each year. Excluding these stock-based compensation costs, adjusted expenses declined 1%. Adjusted expenses were up $329 million from a year ago, largely due to acquired businesses that added $317 million.

Turning to slide 10, we show the income contribution from M&I. The acquisition added adjusted earnings of $215 million in total and $100 million to operating groups. As previously mentioned, corporate services adjusted net income includes an $88 million after-tax recovery on the M&I purchased credit-impaired loan portfolio. This recovery was primarily due to the gain from the repayment of loans in amounts in excess of their recorded value. The after-tax benefit to reported earnings of the credit mark on acquired performing loans was $114 million. As reviewed last quarter, and shown in the table, accounting for the performing loan credit mark involves a portion of the credit mark being reflected in net interest income

over time, a specific provision being booked as incurred and adjustments to the collective allowance. Reported income from this in Q1 was similar to Q4.

As shown on slide 11, capital ratios remain strong, with the common equity ratio at 9.6% and Tier 1 ratio at 11.7%. The capital impact of IFRS will be phased in over five quarters. The impact was under 10 basis points in Q1 and is approximately 60 basis points in total. Risk-weighted assets were largely unchanged quarter over quarter as higher RWA under Basel 2.5 rules were primarily offset by lower RWA due to the transition to IFRS, improved risk assessments, and lower Basel II market risk RWA. Our Basel III common equity ratio strengthened 7.2% in the quarter. And we remain well-positioned for the Basel III regime.

Moving to slide 13, P&C Canada net income was $446 million. On an actual loss basis, net income was up 5% quarter over quarter. Revenue and net income was down year-over-year, mainly due to a one-time securities gain in the prior year under IFRS. Net interest margin of 290 basis points was relatively flat quarter over quarter. Year-over-year expenses were higher, due to 2011 initiative spending, including higher front line staffing levels. Quarter over quarter expenses were up due to stock-based compensation for employees eligible to retire.

Moving to slide 14, P&C US Q1 revenue and net income more than doubled from a year ago, reflecting good contribution from the acquired business. Adjusted net income was $152 million. Revenue of $771 million declined quarter over quarter, due in part to the expected impact of lower interchange revenue. Revenue was also impacted by spreads. NIM was down 9 basis points quarter over quarter as the benefit of increased deposit balances was offset by spread compression. In addition, provisions for credit losses under BMO's expected loss methodology were higher in Q1 than in Q4.

Turning to slide 15, Private Client Group net income was $105 million, down $39 million from a year ago. Insurance results were impacted by $56 million net income decline year-over-year due to lower long-term interest rates. Excluding insurance, Private Client Group revenue growth was 20% year-over-year, with good contribution from acquisitions and higher than usual asset management revenue from a strategic investment. As Bill mentioned, performance this quarter was dampened by softer equity markets. Looking forward, we expect conditions to improve, driving better volumes.

Turning to slide 16, BMO Capital Markets net income of $198 million was up 39% from Q4, and lower than a very strong Q1 a year ago. Stronger revenue was mainly driven by higher trading revenue, primarily in interest and equity trading, as market conditions improved through the quarter. Expenses were down 1.2% year-over-year, and 0.5% quarter over quarter.

On slide 17, corporate had reported net income of $223 million. And adjusted net income of $62 million. Quarter-over-quarter adjusted net income was better by $129 million. Adjusted revenue and expenses were fairly stable quarter over quarter. The stronger current results reflect a recovery on M&I purchased credit-impaired loans and better performance in other portfolios.

To conclude, we are pleased with the strong start to the year, and feel good about how our businesses are positioned looking ahead. And with that, I'll turn it over to Surjit.

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

Thanks, Tom, and good afternoon. Before I begin, I would like to draw your attention to the caution regarding forward-looking statements at the beginning of this presentation. Today I'll focus my remarks on a few areas of interest and refer you to pages of the deck for further detail.

I would like to start with our first quarter provision for credit losses, which is outlined on slide 25. As Tom and Bill both mentioned, our provisions that you see on that page, are $141 million, or $91 million on an adjusted basis. To better understand our performance, I'll differentiate between our legacy and our acquired book. Our legacy book, which is shown in the top portion of the table, continues to perform well, with a declining trend in provisions over the last 18 months. First-quarter provision was $233 million, down from $281 million in the fourth quarter. We are now almost down to pre-recession levels, with virtually all business lines contributing to the improvement.

Our acquired portfolio can be broken down into two segments. The purchased impaired segment, and the performing segment. On the purchased credit-impaired, or PCI segment, there was a reversal of $142 million. The strong performance of this portfolio was largely driven by early repayments of both commercial and consumer loans. Going forward, there will be variability in this segment as we work through these PCI loans. The purchased performing portfolio has losses of $31 million in the current quarter. We expect formations and losses to continue in this part of the portfolio, but we believe these are adequately provided for through the mark taken at acquisition. There, of course, will be timing differences between when the losses occur and when we recognize the mark through income, as Tom explained.

And finally, as shown at the bottom of the table, we also have an increase of a collective allowance by $19 million this quarter, largely to support building of the allowance for the US acquisition. Clearly, we are encouraged by the resiliency of the US economy and the recent signs of improvement.

Our formations, which are shown on slide 27 have reduced this quarter,and our legacy portfolio formations are down from quarter four, and in line with formations in earlier quarters of last year. The purchased portfolio contributed $259 million to formations this quarter. $27 million of these formations are covered by an 80/20 FDIC loss share agreement. The remainder is roughly evenly split between consumer and commercial. However, as I mentioned earlier, these loans are adequately provided for by the mark we took at acquisition. We have improved our formations disclosure to provide retail formations on a gross basis with clear segregation of the retail and commercial drivers.

Next, I would like to talk briefly about the Canadian household debt levels and housing market. We touched on this last quarter but I think it's appropriate to revisit. We're closely monitoring and remain attentive to potential interest rate increases in the medium term, slowing wage growth, slight edging up in the unemployment rate, strong overseas investor participation in the housing market, and a sizable condo pipeline in key markets like Greater Toronto and Vancouver. However, we believe the risks in our consumer book are manageable. Our prudent underwriting standards have been maintained through the cycle. And we continue to outperform peers on loss ratios across every consumer product portfolio. Our residential mortgage portfolio long run loss rate, is less than 2 basis points.

Our Canadian consumer portfolio of $122 billion is well secured, with 78% secured by residential real estate. Of the total mortgage portfolio, 70% is insured, and the average loan-to-value of this segment is about 63%, after adjusting for current house prices based on Canadian house price indices. On the uninsured portfolio, the average loan-to-value is 54%.

In our HELOC portfolios, the average loan-to-value is 54%,and 94% of our loans are in first position. The majority of the remaining are behind a BMO first mortgage. The installment portion of our HELOCs, which is more comparable to mortgages, is about half of our portfolio. The remainder of the consumer portfolio is split between cars, auto finance and other personal loan products. These portfolios have been performing very well. And the unsecured portion is only 13% of the Canadian consumer portfolio.

As part of our ongoing management discipline, we stress test our portfolios using different scenarios ranging from moderate to extreme. Under an extreme stress test scenario, with high unemployment rates, a significant decline in housing prices, rapid increase in interest rates, and resulting GDP reduction, our overall losses would increase, but remain well within our ability to absorb. We continue to monitor the risks facing the Canadian real estate and credit markets, but overall, we are comfortable with our Canadian consumer exposure.

Before I wrap up, you will notice that in the quarterly MD&A, we have expanded our disclosure on our European exposure including gross exposures and structured investment vehicles. While there continues to be uncertainty and economic strain in Europe, we believe our exposure is not outsized, is well secured and manageable. Our geographic exposure is subject to solid country risk framework, incorporating economic and political assessments, limits on exposures, regular monitoring, and we are mindful of second order impacts on our assessment of individual transactions.

We provide a summary of the European exposures on slide 28. Our net direct exposure to the five high-risk countries of Greece, Ireland, Italy, Portugal and Spain, is quite modest at just under [sic] $200 million including unfunded commitments of $48 million. It primarily consists of exposures to bank for trade finance and trading products. Net direct exposure to the remaining 12 Eurozone countries is $4.7 billion, and for the rest of Europe, another $3.6 billion. The majority of the

exposures is to highly rated countries, and consists primarily of tradable cash products, short-term trading instruments, and derivative products.

In closing, I would say that I'm very pleased with our performance this quarter. The underlying credit trends have moved in a positive direction, although we remain cautious in our outlook in light of several factors that are contributing to the global economic uncertainty.

Thank you. We will now turn over to the Operator for the question and answer portion of today's presentation.

QUESTION AND ANSWER

Operator

(Operator Instructions) Steve Theriault, Merrill Lynch.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Couple quick questions, first for Frank, Frank, last quarter you said you'd be working hard to deliver positive operating leverage for the full year 2012. And appreciating full well that Q1 is a bit of a tough quarter seasonally. As we sit here roughly four months into 2012, is that still an achievable goal for the full year? And then, separately, I noted some pretty good growth in commercial deposits this quarter. Are you taking share there that's offsetting some of the loss in share and personal?

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

Yes, thanks Steve, on your first question with respect to expenses and productivity, we're not standing aside from what I said last quarter. We're working really hard to get to positive operating leverage in all subsequent quarters this year. And the expectation is that if we don't hit positive operating leverage by the end of the year for the full year, we're going to be very close. So we think that the trends that I was expecting last quarter are going to hold. We're going to see our revenue growth improve as we go through the remainder of the year. My expectation is we're going to end up in the low to mid-single digit range on revenue growth. And we're managing our expenses tightly. Obviously this first quarter, as you mentioned, was a little anomalous because of the compensation impact in Q1. And we have had some flow-through of some of the investments that we've made in previous quarters that hit in Q1, as well. We are going to continue to invest in our front line capabilities, but at a more moderate pace. We think we can manage that. We're going to try to hold the investment in our sales forces that we've made over the course of the last year or so. And we think there's a way forward to get to that objective that we set. So all I can say is stay tuned on that front.

Relative to commercial deposits, it's one of those areas that we have been focused on over the last year or so. We've been strong, as you know, from a commercial lending perspective for a long time. Our market share in commercial deposits is not commensurate with our natural share. So we put some initiatives in place over the course of the last few years, including adding some sales force in our cash management segment. And when I look at our growth over the last year or so, it has been very strong, as you noted. And the share performance year-over-year is strong. We're number two in our commercial deposits share performance year-over-year. And we think we're on the right track. So I'm optimistic that we're going to continue to improve in that product category.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Great. Thanks very much, Frank. And just one quick one, if I might, for Tom. You mentioned that asset management revenue benefited from a strategic investment. Can you talk just quickly on the size and nature of that, please?

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

Sure. That was revenue that we recorded in our PCG division that relates to an equity investment that we have in a company. And a few years ago, we sold part of our US mutual fund business, took back equity as a part of that transaction, and have done well through that. And in the quarter, the net income impact from an unusually high level of income in the Company that we have the investment in was about $20 million.

Steve Theriault - *BofA Merrill Lynch - Analyst*

But it is somewhat recurring?

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

There's absolutely a recurring equity pickup. But their income was unusually high this quarter.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay. Thank you very much.

Operator

Sumit Malhotra, Macquarie Capital Markets.

Sumit Malhotra - *Macquarie Securities - Analyst*

My first question is regarding slide 21 of the presentation. It could be for Surjit or Tom. Just looking at the commercial loan balance in the US, there's a comment, your second comment under commercial, that says the growth was offset by paydowns and declines in CRE and runoff portfolios. Can you give me an idea how much of the $30.1 billion balance would you say relates to what you would call portfolios that you're expecting to run off? I know some of the CRE impaired portfolio was housed in corporate, so how much of the $30.1 billion relates to portfolios you expect to run off?

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

Sumit, this is Surjit. I will answer the last part of your question, and then I will ask others to perhaps deal with other segments. With respect to the real estate portfolio, at the time of acquisition that portfolio was roughly $10 billion. And through the mark and through paydowns, as well as loan sales that we've undertaken, that number is now down to $7 billion. But that includes the mark, let me tell you. So there has been a reduction as a consequence of that. There have been other paydowns, as well. And perhaps Mark or Tom want to talk about those.

Mark Furlong - *BMO Financial Group - President & CEO, BMO Harris Bank*

Okay, this is Mark Furlong, we have kind of a lower middle market portfolio. It's down about $500 million in the quarter, and that was intended shrinkage. The big part of the portfolio, a little over $17 billion, is the core commercial banking business,and that portfolio continues to show some very nice growth,and that's the comment up $1.1 billion.

Sumit Malhotra - *Macquarie Securities - Analyst*

What I just want to get clear here is that -- and correct me if I'm wrong -- when the M&I transaction closed, I believe the Bank told us that the bulk of the impaired CRE book that you were looking to run off was being housed in corporate services, such that we'd be able to see the true trend in how the book you want to grow is actually performing. So what I just want to be clear on is when we look at this number every quarter, do you think that represents the base we should be looking at to see what kind of growth the Bank is achieving in commercial? Or is there more of this portfolio that you expect to run off?

Mark Furlong - *BMO Financial Group - President & CEO, BMO Harris Bank*

I think it's a pretty good base. There will probably be some commercial real estate out of here that will continue to let some refinance out, some opportunities where we think that's a good risk diversification strategy. But this is pretty close to a good base to look at. Now, in here we have a portfolio that we call runoff that is performing, but that we think over a period of time will wind down or restructure or something, but currently performing. But this is the portfolio that we run through P&C that we watch closely, that we're trying to grow. And the bulk of the portfolio is related to relationships we want to grow.

Sumit Malhotra - *Macquarie Securities - Analyst*

Fair enough. And then last one for me, Mark, you might get involved here again and also directed to Tom. If I look at your non-compensation expenses in the quarter on an all-bank level, obviously I appreciate the increase that you have in Q1 for the benefits. So if we look at non-compensation, usually we see a peak from the bank in Q4 and then a decline to begin the new year. You were down about 2%, but Mark's segment had an increase, as did some of the others. You referenced this last quarter Tom, should we expect the level of non-compensation expenses at the Bank to continue to trend lower as the year goes forward, or do you expect we'll see the normal pattern of growth?

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

I'll say a few things in response to that. The first is that in the P&C US segment, we did have a litigation provision in the quarter that was about $15 million. So that item basically accounted for the increase in expense that you see. It was largely offset by a securities gain. So it's not a big impact on the bottom line, but it does explain the expense change.

In terms of the total Bank compensation-related expense, I wouldn't say that we're expecting any fundamental changes in the trend. We had the $71 million in the quarter give or take, as we do every 1st quarter. So that inflates the Q1 expenses,but there is nothing else unusual going on other than the focus on productivity,and we talked about that last quarter, and we talked about it this quarter as well. So we expect over time that that will show some benefits that you'll see in the compensation-related expenses, and generally in expenses.

Sumit Malhotra - *Macquarie Securities - Analyst*

And I'm right to say it's $100 million? You've talked about, of the $300 million synergies target that you expect the run rate by the end of this year will be $100 million for the US business?

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

That's correct.

Sumit Malhotra - *Macquarie Securities - Analyst*

Thanks for your time.

Operator

John Aiken, Barclays Capital.

John Aiken - *Barclays Capital - Analyst*

Just a quick question for Surjit, on the home equity line of credit. Surjit, I think that you stated that the loan to value on the HELOC currently -- is it 54%?

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

Yes, I did.

John Aiken - *Barclays Capital - Analyst*

And Surjit, do you have any back of the envelope or quick calculation as to how much of the commitments are actually drawn on the HELOC? I'm assuming they're not all at 100% drawn.

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

Roughly about half of it I would say is drawn.

John Aiken - *Barclays Capital - Analyst*

Okay. Thank you. And I'm actually surprised it's taken this long to get to this question, but on the corporate segment, Viki did an excellent job walking me through the cash component of the recoveries in the impaired portfolio. But what was it in the quarter that actually drove these repayments? And is this something that might actually be recurring going forward? Or is the experience in the first quarter a bit of an anomaly in terms of the repayments that were received?

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

So let me start. The repayments that we received were, as you know, the $142 million is entirely within the purchased credit-impaired portfolio, and a lot of the $142 million relates to repayments. I think the way you've got to look at it is it's very difficult to predict paydowns, and while we were quite happy with the paydowns, typically in distressed pools, I think the early repayments come from clients who have the ability to refinance. And so that tells you that the pace may not be sustainable, but clearly it's helped us this quarter. Does that help answer your question?

John Aiken - *Barclays Capital - Analyst*

Yes, it does. Thank you very much, Surjit.

Operator

Mario Mendonca, Canaccord Genuity.

Mario Mendonca - *Canaccord Genuity - Analyst*

A question probably for Tom Milroy. The trading number was obviously pretty good. I think it was characterized by Bill as returning to normalized conditions. How would you characterize Q2 if you can? Does it feel normal again? What I'm really trying to get at is, was there anything in this quarter, either from a mark-to-market perspective like CVA or DVA that would have benefited the quarter?

Tom Milroy - *BMO Financial Group - CEO, BMO Capital Markets*

Thanks, Mario. I actually do think the trading revenues in this quarter were probably back to levels we would expect the range to be for the rest of the year. There was negative marks to market in Q4, which we didn't experience in Q1, obviously that's helpful. The quarter was characterized by the latter half, seeing the high levels of volatility and the stress, generally leave the market. And so that enabled us to actually get back to business. We saw improved client flows, instances of wider bid ask spreads, active new issue flows, more stable funding costs, and generally better overall market conditions. And so as I look at it, in every quarter we have mark-to-market activity, but this felt to us like it was a quarter where we're coming back to more normal ranges.

Mario Mendonca - *Canaccord Genuity - Analyst*

That's helpful. Question for Surjit. You talked about the stress testing you did, I think on all your books, HELOC and what have you. And your comment was that you think that the losses, while higher, would be well within your ability to absorb. And I need a little more clarification. When you say absorb, do you mean absorb without having to raise capital, or absorbed in your earnings without earnings declining in a material way? I'm not sure what absorbed means. Is it absorbed from a debt perspective, a debtholders perspective or more from a common equity holders perspective?

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

So let me put this in some perspective for you. Let me give you a scenario which will give you some sense of what I mean by what I said. If unemployment rates, for example, went up to 9.5%, if housing prices declined by 25%, and interest rates moved up by, let's say, 50 basis point and the GDP declined by a little over 2.5%, in that scenario, our losses over the period of two years would double, double the base. So that's what I mean. It would be totally manageable. So it would go up from, let's say, something like 40, 41 basis points to about 85, 87 basis points in that scenario

Mario Mendonca - *Canaccord Genuity - Analyst*

And just to be clear that was unemployment at 9.5%, housing down 25%, rates up 50 basis points and GDP down 2.5%?

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

That's correct.

Mario Mendonca - *Canaccord Genuity - Analyst*

And this is all over what? A12-month period?

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

Over a 24-month period.

Mario Mendonca - *Canaccord Genuity - Analyst*

Okay. That's helpful. Thank you very much.

Operator

John Reucassel, BMO Capital Markets.

John Reucassel - *BMO Capital Markets - Analyst*

Question maybe for Tom Flynn or Frank. Just trying to understand the CMHC decision to ration bulk insurance. Is it your understanding, is this a temporary or is this a permanent shift in that? And how is that going to impact the way you manage the balance sheet or not? And what is the potential impact on funding costs? Or your ability to absorb loan growth or other things?

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

It's Tom, John. A few comments on that. The first would be that we don't see this as having a big impact in the near term on our business. Through other providers in the market who are able to offer insurance, and under existing insurance that we have, we have the ability to substitute new product in existing product matures and rolls over. So not expecting a big impact in the near term. Obviously, can't speak to CMHC's plans for future actions. And ultimately our expectation would be that if there's a higher cost to funding for some portion of the portfolio, there would be an adjustment to market pricing that we would hope offset that.

John Reucassel - *BMO Capital Markets - Analyst*

Okay. That's helpful. And then just for Surjit, when you talk about the losses going up, you're talking about the entire portfolio? It's not just the personal side? It's commercial lending, personal lending, the whole bit? Is that when you talk about these losses?

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

You're referring to the stress?

John Reucassel - *BMO Capital Markets - Analyst*

Yes.

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

The stress is entirely on the consumer portfolio.

John Reucassel - *BMO Capital Markets - Analyst*

So what would happen, presumably in those scenarios, there would be some commercial losses, what would you expect on that?

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

I don't have an estimate offhand of that one. But clearly the scenario would result in losses elsewhere, as well.

John Reucassel - *BMO Capital Markets - Analyst*

Sure. Thank you.

Operator

Brad Smith, Stonecap Securities.

Brad Smith - *Stonecap Securities Inc. - Analyst*

Just two quick ones. On slide 25, the $142 million negative provision relating to the credit-impaired purchase loans, would I be correct in assuming that the other side of that entry would have been an increase of $142 million in the carried value of those loans?

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

No. The majority of the $140 million comes from payoffs of loans. So in effect, it would be cash.

Brad Smith - *Stonecap Securities Inc. - Analyst*

So it would have gone to cash? Great. My second question relates to the Supp Pack on page 39. When we're looking at the changes in the consolidated allowance for credit, the recoveries there are $223 million. In the quarter, it was up about four-fold, and the write-offs were elevated from the fourth quarter and are the highest level that they've been since I can remember. Can you talk a little bit about what led to that increase in recoveries? What the likelihood of it repeating itself

would be? And what happened that caused write-offs in a quarter where otherwise it sounds like credit was improving to go up so much? Thank you.

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

I'm trying to focus on the page you pointed out. Why don't we move to the next question and I'll get back to you.

Operator

Darko Mihelic, Cormark Securities.

Darko Mihelic - *Cormark Securities - Analyst*

My question is regarding slide 8, it's probably a question for Tom Flynn. Can you walk me through the mechanics of the increase in the net interest margin on an adjusted basis, the 221 from 213? When we go through the Supp Pack and through your written materials, it looks like it's coming from two areas. PCG, first of all, that equity investment, is that being recorded through the net interest income line? But more importantly, I suppose my question drills down to what's happened in corporate? How did you get such a big increase in the margin quarter over quarter? One of the things that we noted in the balance sheet is an awful lot of Federal Reserve deposits. That's typically not something that would have high margin associated with it. So any help on the margin improving and what the outlook for the margin would be, would be very beneficial for us all. Thanks.

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

Sure, it's Tom. I'll take that. On slide 8, we showed the adjusted margin ex trading, up 8 basis points to the 221. The biggest single driver of that relates to the higher investment asset management revenue in P&C Canada [sic] that we referred to earlier. And the accounting for this is a little counterintuitive, but we do take that income through net interest income. And that increased the margin by about 4 basis points in the quarter. The Canadian retail business, including the P&C business and the wealth business, increased the margin by 2 basis points quarter over quarter. And so the residual piece in corporate wasn't that big. And I'd say more than anything, just reflected random activities in the quarter that weren't individually significant. There was nothing really unusual going on from a corporate perspective.

Looking forward, next quarter we won't have the benefit of the PCG higher investment pickup. That was 4 basis points. So that number, all else equal, will drop by about the 4. And in terms of the margin outlook in the retail businesses, for the last few quarters we've talked about some pressure on margins in both Canada and the US. Canada reversed this quarter on that front. But we think the longer-term trend is in tact. So we would expect some impact on margins in the retail businesses in the next few quarters.

Darko Mihelic - *Cormark Securities - Analyst*

Thanks very much. That's helpful.

Operator

Cheryl Pate, Morgan Stanley.

Cheryl Pate - *Morgan Stanley - Analyst*

A question probably for Frank. I just wondered if you can lay out for us your base case for housing in terms of home price appreciation for the year. And how that fits into the expectation for mid to low single-digit revenue growth? And the composition of mortgage growth within that segregated new versus renewal activity?

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

Thanks, Cheryl. Sorry, you cut off just a little bit when you were asking your question. This was about the contribution of mortgage growth to our overall revenue expectation. Was that it?

Cheryl Pate - *Morgan Stanley - Analyst*

Right. And how you think about that in relation to your base case for home price appreciation this year.

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

Yes. I think to start, our expectation is that home price increases are going to moderate over the course of the year. And we started to see that, I think, in this quarter. I think we will continue to see that. House price activity in general, our expectation is, will slow, but will still be appropriate for the marketplace. There's going to be growth. I just think it will be at a slower pace than we've seen in 2011. So we were pretty clear about our objective, which is we've been at 2% mortgage growth for quite some time now. And our expectation is we can grow that a little faster. We're going to have to take some business from others as the market is slowing around us. So that's how I'm thinking about it. And I don't think that's changed from the last few quarters.

We plan on doing that through the activation of the investment in our sales force, our mortgage specialist sales force, which continues to grow. Obviously, we've been innovative over the last couple of years with respect to some of our products. And in particular, our five-year fixed rate, 25-year product, which has been in the marketplace for almost two years now. We think that's a product that is good for Canadians, it's good for Canada, it's good for our customers. And we intend to continue to promote it in this environment. It's a product that we believe addresses all of the risks that are currently being debated about whether or not there are consumer debt levels that are too high in Canada, and the possible fallout from economic slowdown and rising interest rates. It helps our customers pay less interest, it mitigates their interest rate risk for five years, it helps them retire debt free by paying off their balance faster, and it works against market price appreciation, in the fact that it helps with the issue that you raised, the house price appreciation, because the shorter amortization reduces the maximum purchase price people can afford. So we think that this product that we've been pushing for the last couple of years fits right into the sweet spot of what we need in the country, and it will help our balance grow as we move forward.

Cheryl Pate - *Morgan Stanley - Analyst*

Thanks. That's helpful. And can you just give me a sense of where the volumes are coming from, new versus renewal? Or is it fairly evenly split?

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

Yes. New versus renewal, this past quarter was a little unusual, because we did go out for this limited time offer on our low-rate product, the 299 offer. So we saw an increase in new in the first quarter. It was about 50/50 from an application perspective. But there's been a big shift in volumes going to fixed versus floating over the last couple of quarters. It's now

three quarters fixed versus one quarter floating, and a year ago, it was close to being the reverse. So we're seeing some change in consumer behavior for sure.

Cheryl Pate - *Morgan Stanley - Analyst*

How does the current portfolio lay out fixed versus floating on a total basis?

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

I don't have that number right in front of me, Cheryl. I think it's about 50/50, though. That's my recollection.

Cheryl Pate - *Morgan Stanley - Analyst*

Great. Thanks so much.

Bill Downe - *BMO Financial Group - President & CEO*

Maybe we'll just take a break before the next question and go back to Brad Smith's question and Surjit.

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

Brad, on page 39, I think if you are referring to the large pick up in the recoveries, that recovery number includes the $142 million for the purchased credit-impaired. That's what is the big difference there, I can go into it in greater detail if you call me off-line.

Operator

Gabriel Dechaine, Credit Suisse.

Gabriel Dechaine - *Credit Suisse - Analyst*

Just on the M&I reversals, I'm just wondering why we should be treating that as core. And then to put that on a positive spin, it's a reflection of obviously improving credit conditions. Just wondering what that says about potentially improvement on the expense line later this year, or 2013. Anything related to lower credit adjudication cost or the credit management process…If that outlook is improved at all? Then, just a follow-up on Darko's question on the margin, just wondering about the Canadian segment NIM that was up 2 basis points, I understand you're expecting that to maybe reverse in the coming quarters, but what was going on this quarter? How much was the deposit growth outpacing asset growth factoring into that?

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

It's Tom. I'll take the first part of the question related to the recovery on the purchased credit-impaired loans. I think the simple reason why we think it makes sense to include that in the core earnings is that the impaired loans are accounted for in the same way if you purchase the loans versus if you don't. So there's no fundamental difference in the accounting for impaired purchase loans versus regular impaired loans. In both cases, you look to value the loans and you take any

change in value through the P&L. This quarter, as we've talked about, the strong majority of the $142 million relates to actual payoffs on loans that were marked down, and so that's a true gain.

We do adjust for the credit mark related accounting on the performing loans, and there are two reasons why we do that. The first is there is an inherent mismatch between the timing of the revenue recognition and the PCL expense recognition. We amortize a portion of the credit mark into income over time. More or less on a straight-line basis. And, as we've talked about before, we expect the losses will emerge somewhat later. And so the last couple of quarters, we've seen meaningful income coming from that item. Through time, we think that the number will be closer to flat. The other reason we adjust for that is if we didn't, it would distort some of our ratios including revenue growth, productivity, and net interest margin.

On the question related to expenses on the impaired, I'd say it's too early to expect any pickup on that. We're still working the portfolio. People are doing a very good job realizing on the value, as we saw this quarter. And I think the expense reduction story there will be more one that we will talk more about next year. And on the Canadian margin I'll turn it over to Frank.

Gabriel Dechaine - *Credit Suisse - Analyst*

Actually, next year, if you can elaborate a bit on that then for the lower credit costs?

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

I think I'd be reluctant to speculate, really, on what the expense might do more than a year out. Assuming the economy continues to recover and impaireds go down, both purchased and regular, there will be some savings that will flow, but that's a ways out.

Gabriel Dechaine - *Credit Suisse - Analyst*

Okay.

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

Gabriel, it's Frank. Relative to the margins in P&C Canada, the reported number was up 2 basis points. I'd characterize that as our margins remained relatively flat. And you were on target. The positive in the quarter was we had a favorable product mix. Our deposits grew faster than our loans in the quarter. And that was offset by the continuing competitive pricing pressures and the low interest rate environment putting pressure on our deposit spreads. So essentially, those two things offset. We did have a couple of very small minor non-core items that weren't correlated to the balance sheet growth that hit also in the NII. So I'd characterize it as a quarter where we saw our margins remain relatively flat. And as I said earlier, my expectation is there is pressure as we go through the remainder of the year to the downside on margins for us.

Gabriel Dechaine - *Credit Suisse - Analyst*

And the commercial pricing trends are still good? Or got worse?

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

I'd call them rational. Spotty in places. Maybe irrational in places. But overall, nothing systemic that is causing us a big concern at this point.

Gabriel Dechaine - *Credit Suisse - Analyst*

Thanks.

Operator

Peter Routledge, National Bank Financial.

Peter Routledge - *National Bank Financial - Analyst*

Just have two. First one is for Bill. It relates to Gabriel's question. On your dividend payout ratio on an adjusted basis, you're at 49%, near the middle range of your target. When the Board thinks about the dividend, are they thinking about it in relation to the adjusted number? Or do you pull out the purchased credit-impaired piece?

Bill Downe - *BMO Financial Group - President & CEO*

The earnings available to the common are driven by the reported. And over time, it's our expectation that, with the exception of the amortization of intangibles, those two numbers are going to converge. And I think that the way that we think about it is more conditioned by the work stream that remains in 2012 on the integration than on anything else. That that's really the timing. We have a lot of work to do. By the end of the calendar year, you're going to see a lot more clarity around the earnings level, and we'll see that convergence. So I think your question is really pointing towards timing. And you're right. The Bank's earning power is starting to show up nicely against the dividend, and it's reflected in the payout ratio. So all other things being equal, when we are satisfied, that we've followed through on the integration the way we're planning to, then we'll be in a position to look at it.

Peter Routledge - *National Bank Financial - Analyst*

Okay. Just one more for, perhaps for either Frank or Surjit. Just on the Canadian mortgage business. The CMHC has deemphasized bulk insurance, but as I understand, there is still, a high LTV mortgage comes up, they'll still write insurance on it. So from BMO's perspective, would you rather have a high LTV mortgage where the consumer is already buying mortgage insurance at the get-go? Over a low LTV product where you couldn't necessarily get bulk insurance on that?

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

That's an interesting question, I would say. This is Surjit. We have never relied too much on the CMHC from a risk mitigation standpoint. And so my answer to that question would be that we would underwrite to our standards. And depending on our clients needs. It wouldn't be driven by what can be insurable or not. And that's the way I would approach it. Frank, anything from your perspective?

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

I would just echo that comment. I think we're indifferent. We're comfortable with our underwriting standards and have been in either category.

Peter Routledge - *National Bank Financial - Analyst*

Thanks very much. That's very clear.

Operator

Brian Klock, Keefe, Bruyette & Woods.

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

A quick follow-up on the Canadian mortgage market. This is for Frank. Frank, I think you said that you are aiming to try to get back to a 2% year-over-year mortgage growth for Canadian mortgage. It sounds like -- and maybe I'm thinking too much about the impact of this CMHC hitting its limits and what that could mean. But isn't there also somewhat of a trend given the high debt to income ratio for the Canadian consumer that we should see some slowing in that whole mortgage pipeline? So I'm just wondering, is there something you're seeing? Are you saying that you think you can hit your targets by just the market share take away with the innovative products?

Frank Techar - *BMO Financial Group - President & CEO, Personal and Commercial Banking Canada*

I think, Brian, very simply, we saw mortgage balance growth in Canada of about 7% in 2011. Our portfolio grew by about 2%. So all I'm saying is I think we have room to grow in the context of what we think the market growth is going to be in 2012, which might be a little slower than 7%, but it's going to be higher than 2%. So we have the opportunity to do more business, and that's what we're shooting for.

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

Okay. And then last question, we talked about this last quarter at the end of the fourth quarter call. The concern outside is still that the condo market in Canada is somewhat frothy. Can you talk about the Canadian condo market? Are you guys ready to disclose what your exposure is to the Canadian condos? Or even in the major metro markets. If there's any color you can give us, that would be great.

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

Yes. Why don't I share some of this with you? We are very comfortable with the level we have. Our total condo exposure is $10 billion. And of that, the insured portion is $5.2 billion and the uninsured portion is the balance. I'll tell you why I'm comfortable. When I look at the high-risk segments of the condo market, we are not very involved in that segment. And I'll go through three segments that would cause me concern in particular.

One would be the jumbo mortgages, which are greater than $1 billion [sic]. And in that segment, we have sub $300 million of exposure. And, as you know, in that segment, while there is a higher down payment requirement, there is still the possibility of large declines with the higher value condos when actually markets do turn. Having said that, our loan-to-value there is very low, it's 55%. So that gives me comfort from the standpoint of the jumbos.

The next segment that I think one looks at, which I think I'm not as concerned about but people ask why we should be concerned about, and compare it to the alt-A in the US, which is the one where there is limited availability of financials or verification of income. In our case, that's largely the non resident or the new immigrant program. And in that, again, our exposure is under $1.5 billion. And the loan-to-value there is again in the low to mid-50%s. And in fact, when I look at that portfolio right now, that portfolio actually is performing better than the remaining part of our portfolio from a delinquency

standpoint. If that gives you any sense of the selection process that we've gone through in making a determination during adjudication.

The third segment of the portfolio I think one needs to look at is the investor-owned portion of that portfolio. And there we are under $3 billion. And our loan-to-value is in the high 50s, it's about 58%, 59% loan-to-value. So when I look at it overall, I don't believe to be concerned. From a geographic standpoint I think the portfolio is scattered exactly where you would expect it to be, in the two big metropolitan areas where there are more condos. And that's largely Toronto and Vancouver you have more of those. So it tracks where the condos are.

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

Thank you very much. That's actually very helpful, thanks, Surjit.

Operator

Thank you. There are no further questions registered at this time. I would like to return the meeting over to Ms. Lazaris.

Viki Lazaris - *BMO Financial Group - SVP IR*

Great. Thanks very much, Jason. I'd like to thank everyone for joining us today. And if you have any further questions, the IR team is available to take your call. Thanks, and have a great afternoon.