BMO Financial Group
Q1 2014 CONFERENCE CALL

CORPORATE PARTICIPANTS

Sharon Haward-Laird
Head, IR

Bill Downe
Chief Executive Officer

Tom Flynn
Chief Financial Officer

Surjit Rajpal
Chief Risk Officer

Mark Furlong
Group Head
US P&C Banking

Frank Techar
Chief Operating Officer

Tom Milroy
Group Head
BMO Capital Markets

CONFERENCE CALL PARTICIPANTS

Mario Mendonca
TD Securities
Analyst

Sumit Malhotra
Scotiabank
Analyst

Robert Sedran
CIBC World Markets
Analyst

Michael Goldberg
Desjardins Securities
Analyst

Meny Grauman
Cormark Securities
Analyst

Peter Routledge
National Bank Financial
Analyst

Steve Theriault
BofA Merrill Lynch
Analyst

PRESENTATION

Operator

Good afternoon, and welcome to the BMO Financial Group's Q1 2014 earnings release and conference call for February 25, 2014. Your host for today is Ms. Sharon Haward-Laird, Head Investor Relations. Ms. Haward-Laird, please go ahead.

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

Thank you, operator. Good afternoon, everyone, and thanks for joining us today.

Our agenda for today's presentation is as follows: We will begin the call with remarks from Bill Downe, BMO's CEO, followed by presentations from Tom Flynn, the Bank's Chief Financial Officer, and Surjit Rajpal, our Chief Risk Officer. After their presentations, we will have a short question-and-answer period, where we will take questions from pre-qualified analysts.

To give everyone an opportunity to participate, we would ask you please keep your questions to one or two questions, and then re-queue. Also with us this afternoon are Frank Techar, Chief Operating Officer; Cam Fowler from Canadian P&C; Mark Furlong from US P&C; Tom Milroy from BMO Capital Markets; and Gilles Ouellette from Wealth Management.

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 adjusted basis, and considers both to be useful in assessing underlying business performance.

Both Bill and Tom will be referring to adjusted results in their remarks. Additional information on adjusting items, the Bank's reported results, and factors and assumptions related to forward-looking information can be found in our annual report and in our first-quarter report to shareholders. And with that said, I will hand things over to Bill.

Bill Downe - *BMO Financial Group - CEO*

Thank you, Sharon, and good afternoon to everyone on the call.

BMO’s first quarter results reflect strong operating group performance and revenue growth, especially in Canadian Personal and Commercial banking. BMO is showing sustained momentum and a growing balance sheet.

Our U.S. segment reported earnings of US$300 million in the quarter with a significant contribution from Personal and Commercial banking, Wealth and Capital Markets.

We’re seeing the benefits of our diversified North American presence. We have good opportunities for growth across our U.S. businesses in an environment of improved household finances and growing consumer confidence.

In addition, progress in debt ceiling and budget negotiations in the U.S. will benefit business investment and our large North American commercial banking platform.

A few highlights from our first quarter results.

Both reported and adjusted net income were $1.1 billion. On an adjusted basis, backing out acquisition-related amortization of intangible assets, earnings per share[1] were up 7% to $1.61.

Revenues[1] were $4.1 billion -- over 8% ahead of last year and ROE[1] was 14.5%.

Provision for credit losses was down from the prior quarter. Surjit will provide more detail on credit later in the call.

Volume growth was strong in the quarter with loans up 11% and deposits up 13% reflecting strong business performance and some lift from a strengthening U.S. dollar.

BMO's Common Equity Tier 1 ratio was 9.3% at the end of Q1 after absorbing previously disclosed items related to counter-party credit risk, IFRS accounting changes, as well as business growth.

Our capital position is strong and will continue to be for the balance of the year.

Turning to the operating groups:

Canadian P&C net income[1] was $486 million, up 8% from a year ago. Loan growth continued to be robust with the total portfolio up 10% from last year. Total loans have increased over $30 billion, or 20%, in the past two years. Momentum in top line growth accelerated this quarter with revenues up 7% and strong operating leverage of 2.3%.

Enhanced sales force productivity and better quality conversations with customers are driving results. Personal deposits were up over $6 billion or 9% from a year ago primarily due to growth in term products. There was also strong year over year growth in commercial deposits of 14%.

During the quarter we announced the appointment of Cam Fowler as Group Head of Canadian P&C banking. Cam has been a key member of the bank's management committee over the past five years and has directly contributed to the advancement of our enterprise strategy. He has been a prominent advocate of our brand and our commitment to customers -- and is well prepared to lead a talented team -- and to build on the current momentum in the business.

U.S. P&C net income[1] in the first quarter was $164 million in source currency. Earnings improved quarter over quarter as revenue was relatively unchanged with stable net interest income and credit losses were lower.

Expenses have been well controlled while we selectively invest in the business to support future growth.

Our commercial banking team continues to deliver excellent volume growth with core C&I loans up $3 billion or 14% from a year ago and commercial deposits have increased by $1.1 billion.

BMO Capital Markets net income[1] was $277 million which included a growing contribution from the U.S. business. Revenue growth of 9% benefited from strength in both Investment and Corporate Banking and Trading Products. And, return on equity was 19%.

Wealth Management net income[1] was $183 million. Traditional wealth businesses were up 17% year over year from growth in client assets and higher transaction volumes.

Assets under management of nearly $200 billion were up 17% from a year ago and 7% quarter over quarter.

A year ago, I highlighted Wealth Management's progress in two areas that are strategically important -- asset management and private banking. At the time, we had just completed the acquisition of a Hong Kong and Singapore-based wealth management provider and began operating as BMO Private Bank Asia -- providing services to high net worth clients in the Asia-Pacific region.

We recently announced an acquisition to expand our BMO Global Asset Management business which had grown to over US$130 billion in AUM and 175 investment professionals at the end of 2013. F&C is a diversified U.K.-based investment

1 – on a reported basis: Earnings per share were up 5% to $1.58; Revenues were $4.1billion, over 2% ahead of last year and ROE was 14.2%; Canadian P&C net income was $484MM up 8%; US P&C net income was US$153MM; BMO CM net income was $277MM; Wealth Management net income was $175MM

manager with over 650 employees including 250 investment professionals located across 8 countries, mostly in Europe. They bring scale, investment track record, and a well-established brand network. Our pro forma combined AUM at December 31, 2013 was approximately US$270 billion.

BMO Global Asset Management includes institutional asset management, our mutual fund businesses in Canada and the U.S. and our ETF complex on a single platform. In 2013, this business contributed over 20% of total wealth management revenue.

To wrap up, strong operating group performance resulted in another quarter with adjusted earnings over $1 billion. We gained market share in domestic personal banking, complemented by double-digit growth in both commercial loans and deposits. And our U.S. commercial banking team also continued to deliver excellent balance sheet momentum with double-digit core C&I loan growth. Margins were stable on both sides of the border, and Wealth Management and Capital Markets posted robust revenue growth.

Looking ahead, we remain confident in the opportunities for growth across the bank throughout the year.

And with that, Tom I'll turn it over to you.

Tom Flynn - *BMO Financial Group - CFO*

Thanks Bill and good afternoon everyone.

Turning to slide 8, EPS[1] of $1.61 was up 7% year-over-year and net income[1] was approximately $1.1 billion. As Bill outlined, our operating group results were good. Momentum continued in Canadian P&C and Wealth Management businesses, Capital Markets revenues were up 9% with a strong contribution from the US segment and US P&C results improved significantly from last quarter which had above trend PCLs.

As you will have seen, we have simplified the definition of adjusted income to start the year. The only adjusting item in Q1 is the amortization of acquisition-related intangible assets which was $22 million in the quarter. Credit-related items on the acquired purchased performing loan portfolio, costs for the integration of M&I and run-off structured credit activities will no longer be adjusting items given they are expected to be less significant this year. This approach will also simplify the presentation of our results. Adjusting items are detailed on slide 25.

Q1 revenue[1] was $4.1 billion, up 8% year-over-year or 6% excluding the impact of the stronger US dollar.

Net interest income was up 4% year-over-year and up 6% quarter-over-quarter due to growth in the P&C businesses and revenue from acquired purchased performing loans.

Non-interest revenue[1] was up 13% year-over-year driven by growth in trading revenues and most other categories of non-interest revenue.

Non-interest revenue[1] was flat quarter-over-quarter as increases in most categories were more than offset by significantly lower securities gains, which were high last quarter, as well as lower insurance income and other income.

Q1 expenses[1] were $2.7 billion, up 8% year-over-year or 6% excluding the impact of the stronger US dollar. The increase reflects higher employee-related costs, including severance and higher technology and support costs related to the changing business and regulatory environment.

Expenses were up from Q4 primarily due to $66 million pre-tax, or $46 million after-tax, of stock-based compensation for employees eligible to retire that is expensed in the first quarter of each year, and higher severance.

Moving to slide 9, our Common Equity Tier 1 Ratio was 9.3%. The drivers of the change in the ratio and risk weighted assets are shown on the slide. The change in the ratio from Q4 was due to higher business driven source currency risk

1 – on a reported basis: EPS of $1.58 was up 5% Y/Y and net income was approximately $1.1B; Revenue was $4.1B, up 2% Y/Y; Net interest income was down 6% Y/Y, flat Q/Q; Non-interest revenue was up 13% Y/Y; Expenses were $2.7B, up 4% Y/Y and Q/Q

weighted assets, the phase-in of the credit valuation adjustment or CVA risk capital charge, changes in IFRS accounting standards and the net impact of the stronger US dollar. These declines were partially offset by the benefit from increased retained earnings.

Risk weighted assets were up $25 billion from Q4 primarily due to increased business driven source currency RWA, the phase-in of the CVA and IFRS accounting changes, and the impact of the stronger US dollar.

Moving to slide 10. Momentum from the second half of 2013 continued in Canadian P&C with strong revenue[1] growth of 7% and net income[1] of $486 million, up 8% year-over-year.

Loan growth continued to be good, with personal lending up 10% and commercial loans up 11% year-over-year.

Deposit growth was similar, up 11% from last year. Our continued focus on commercial deposits resulted in commercial balances increasing 14% year-over-year.

NIM was basically flat, up 1 basis point quarter-over-quarter.

Expenses were up 4% year-over-year reflecting investment in the business and ongoing work to simplify our core processes. The quarter-over-quarter increase was primarily due to higher volume-driven costs.

PCLs were higher year-over-year, with higher commercial losses partially offset by lower consumer provisions.

Operating leverage was 2.3% and the efficiency ratio was 50.8%, an improvement of 110 basis points from last year.

Moving to slide 11. US P&C net income[1] was US$164 million, down from a strong quarter a year ago and up significantly from Q4 which had above trend PCLs.

Revenue of $693 million was down 7% year-over-year as loan growth was offset by lower NIM and strong mortgage related revenues a year ago. Revenue was up 1% quarter-over-quarter due to loan growth and stable NIM.

Total loans were up 2% year-over-year and 1% quarter-over-quarter. Core C&I loan growth continued to be strong with balances up 14% from last year.

Expenses were relatively unchanged from the level of a year ago.

Turning to slide 12. BMO Capital Markets net income[1] was down from a year ago and up 27% quarter-over-quarter.

Revenue was up 9% year-over-year due to good revenue performance across the businesses, and in particular from our US segment. Quarter-over-quarter revenue was up 22% reflecting improved performance in Investment and Corporate Banking driven by higher equity underwriting fees and corporate banking. Revenue in Trading Products was also good, particularly in interest rates and equities.

Expenses were up year-over-year and quarter-over-quarter due to higher employee-related expenses, including severance, and higher support costs, both driven by a changing business and regulatory environment. Stock-based compensation costs for employees eligible to retire, expensed in the first quarter each year, contributed to the quarter-over-quarter increase.

Moving on to slide 13. Wealth Management net income[1] was $183 million, up 8% from last year.

Momentum continued in traditional wealth businesses with net income up 17% year-over-year reflecting growth in client assets and increased transaction volumes. Net income was down quarter-over-quarter as the prior quarter included a $121 million after-tax security gain.

1 – on a reported basis: P&C Canada revenue growth of 7% and net income of $484MM, up 8% Y/Y; US P&C net income was $153MM; BMO CM net income was down from a year ago and up 27% Q/Q; Wealth management net income was $175MM, up 8% from last year

Expenses were up 13% year-over-year primarily due to higher revenue-based costs and support costs, timing of initiative spend, and the higher US dollar. Approximately half the quarter-over-quarter expense increase was due to stock-based compensation costs for employees eligible to retire.

Assets under management and administration were up 19% year-over-year.

Turning now to slide 14. The Corporate segment had a net loss[1] of $41 million compared to a net loss of $79 million in the first quarter of last year and $22 million in Q4. Revenues were higher versus last year and last quarter mainly due to purchased performing loan revenue, which is now included in Corporate adjusted results, and was higher this quarter than we expect looking ahead. Year-over-year this was partially offset by a higher group teb offset.

Recoveries of credit losses were relatively flat year-over-year and down from last quarter, largely reflecting provisions related to the purchased performing loan portfolio. Expenses were lower year-over-year in part due to reduced costs associated with impaired loans.

To conclude, we had a good start to the year and feel confident about the balance of the year.

With that, I will turn it over to Surjit.

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

Thank you Tom and good afternoon everyone.

Starting with slide 17, total provisions for credit losses were $99 million, a decrease of $90 million from the previous quarter.

US Commercial and Consumer PCLs decreased as a result of strong recoveries and lower new reservations. Canadian Commercial and Consumer PCLs were also lower than the previous quarter, though Commercial PCLs remained elevated due to a few accounts.

The recovery on the purchased credit impaired portfolio was $117 million. While we continued to have loan sales and resolutions, over half of the recovery was due to the return of a few large accounts to current status. The purchased credit impaired portfolio is now down to approximately $600 million with a credit mark of $51 million.

Moving to the next slide, absent the impact of foreign exchange, formations are largely flat quarter over quarter. Gross impaired loans decreased further this quarter to just below $2.5 billion, because of improvement in the US commercial portfolio.

Overall, I am pleased with our performance this quarter, which is reflective of continued improvement in the US economic environment and stable conditions in Canada.

I will now turn it over to the operator for the question and answer portion of today's presentation.

1 – on a reported basis: Corporate net loss of $41MM compared to a net loss of $50MM in Q1'13 and $22MM in Q4'13

QUESTION AND ANSWER

Operator

(Operator Instructions)

The first question is from Mario Mendonca with TD Securities.

Mario Mendonca - *TD Securities - Analyst*

Probably a question for Tom. I understand the logic in the change you made to performing, bringing that back into core makes sense.

What would be helpful to understand though is that $248 million that you referred to on page 42 of your report to shareholders, that's the future credit marks that will fall back into NII over time. It would be helpful to know the period over which that would fall into earnings, and whether that should approximate the increase in PCLs, also from that purchase performing portfolio.

Tom Flynn - *BMO Financial Group - CFO*

Okay, it's Tom, Mario. I'll take that. A couple things, the total amount of the credit mark that will amortize is around $300 million. So in total, it's a little bit higher and it's broken down into different pieces in the disclosures. And that will phase in into income over the next, probably three years for the most part. And I'd say for the most part, because there's a bit of a tail to it related to some of the retail portfolios that have a longer term to them. The amount of amortization we had in the current quarter, or revenue we had in the current quarter, is above the average that we expect over the balance of the year, and that was partly due to pay downs that we had in the current year. So if you were looking at modeling this going forward, I'd reduce the current level of revenue and spread it out over around three years.

Mario Mendonca - *TD Securities - Analyst*

One thing to be clear on, then when you refer to the $300 million that amortizes into income, is that the NII component, or is that net of the PCL?

Tom Flynn - *BMO Financial Group - CFO*

No, so those are gross numbers. And to refer to the PCL component, this quarter, the revenues did exceed the PCL. There will be variability quarter-to-quarter but we aren't expecting this to be a really big contributor to income through time.

Mario Mendonca - *TD Securities - Analyst*

Am I reading it correctly so, net of the two, you'd expect the numbers to be fairly modest?

Tom Flynn - *BMO Financial Group - CFO*

Correct.

Mario Mendonca - *TD Securities - Analyst*

And then just for final clarification, you referred to $300 million but again, on page 42, it refers to $248 million. That difference isn't that big, but I want to make sure I understand the difference.

Tom Flynn - *BMO Financial Group - CFO*

Yes, the difference relates to a portion of the credit mark that is attributable to revolving credit, revolving loans, and it's disclosed in the first paragraph on page 42 of the disclosures.

Mario Mendonca - *TD Securities - Analyst*

I'll read it more carefully then. One final question then. Expenses in the corporate segment, so non-interest expenses in the corporate segment dropped fairly significantly this quarter relative to last, and relative to the year-ago quarter. Is there something obvious there that I just can't remember?

Tom Flynn - *BMO Financial Group - CFO*

The corporate expenses move around a bit quarter-over-quarter. The number is down on a year-over-year basis, in part because of lower costs associated with working out impaired portfolios, so that's a contributor. And as well, pension and benefit costs are down a little bit in corporate, and that helped.

Mario Mendonca - *TD Securities - Analyst*

Thank you.

Operator

Thank you. The next question is from Sumit Malhotra with Scotiabank.

Sumit Malhotra - *Scotiabank - Analyst*

This is probably also for Tom Flynn. Looking at page 40 of your supplement, and I'm looking to understand some of the growth in the RWA this quarter.

Specifically, in the credit portion, we see about $6.4 billion attributed to methodology and policy changes, also a decent amount for the model update, and the model update was a key driver for market RWA. I think you gave some color in your prepared remarks, Tom, but was hoping you could give us an idea what the key moving parts were, to drive this magnitude of increase.

Tom Flynn - *BMO Financial Group - CFO*

So the methodology and policy change of about $6 billion includes the change for the CVA, which is about $4 billion, and it also includes about $2 billion related to a change in our treatment for an entity that we've got a 50% interest in, as a result of a new IFRS accounting standard. And so those two basically drive all of the change. So CVA is $4 billion and the change in joint venture accounting is $2 billion.

Sumit Malhotra - *Scotiabank - Analyst*

And the two model updates on the market risk and credit RWA; just kind of getting an idea what it is you changed and whether this is something that has the potential to move back the other way, or was this something you feel is going to be sustained at this level?

Tom Flynn - *BMO Financial Group - CFO*

I think the model updates aren't likely themselves to change. In the quarter, the total risk weighted asset number was up quite a bit, as you've seen, and we do expect some of that to reverse and in particular, a good portion of the increase in the market risk, risk-weighted asset that we had in the quarter, we do expect to come back over the next quarter or two.

Sumit Malhotra - *Scotiabank - Analyst*

And taking that last statement into account, and I'll stop here, if we go ahead and look at this on a pro forma basis, after the proposed acquisition, you're clearly going to have some organic build, but you'll get closer to the 8.5 level. Does this, and this is probably more for Bill Downe. Does this temper your expectations on what the bank may be able to do on a return of capital basis, or additional capital deployment basis, for the balance of 2014?

Tom Flynn - *BMO Financial Group - CFO*

It's Tom. I'll keep on going. I guess the first thing I'd say is that we expect the acquisition of F&C to close in the third quarter, so we do have two quarters of build to come, and our expectation is that will be above 9, given the capital that will build, and also the reduction to risk weighted assets we're expecting in market risk, which could be in the order of 20 basis points.

And then, on the return on capital, we do expect to be basically not active under the buyback prior to the close of the acquisition of F&C, given that it will consume some of our excess capital. We were very active with the buyback last year, bought back over 10 million shares and feel good about that, and through time, as we talked about, we want to be in a position of capital strength and we'll deploy that capital through acquisitions that make sense, organic growth, and share buybacks, when the ratio would otherwise be getting higher than makes sense.

Sumit Malhotra - *Scotiabank - Analyst*

That's very helpful. Thanks for your time, Tom.

Operator

Thank you. The next question is from Robert Sedran with CIBC.

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

Just first off, a quick clarification on the performing, the $300 million performing portfolio. Is there anything, Tom, that would bias that number up or down? I know pay downs may change the timing of when the revenue comes in, but is there anything that might make that number get larger or smaller than the $300 million?

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

Not really. It basically is what it is at the current time. It will come down over time and the only thing that will really accelerate the decline is paybacks, and we did have some of those in the current quarter, which increased the revenue number.

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

Okay, and I just want to ask about the US margin. I'm sorry if I missed it in the prepared remarks, but I guess the guidance had been for a little bit more margin pressure to be felt through this year, and the margin ended up being up a basis point quarter-on-quarter. Was there something unusual in the quarter, or are we more confident now that a stable margin is the more appropriate view from here for the year?

Mark Furlong - ***BMO Financial Group - Group Head - US P&C Banking***

This is Mark Furlong. So we had some interest recoveries that was positive to the margin this quarter, but I'd say overall, we continue to believe there will be downward pressure on the NIM. As you said, last quarter, I said it would be about 4 to 8 basis points. We feel like it could be more towards the lower end of that range.

This quarter we had better performance, and we'll continue to have some upside performance in future quarters, in part due to the interest recoveries like this quarter, and an improving credit environment. There will be variability, though, from quarter to quarter, based on things like competitive pressures and interest recoveries and things like that.

But I'd say overall, when we look at the new business we're adding, the new business is generally at lower spreads than our existing portfolio, but we really like the diversity and credit quality of the customers we're adding. So over the long term, I think this will still be a good revenue growth story.

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

Mark, we've been hearing a little bit about competitive pressures in the Midwest, in particular. If you were to back out the impact of those interest recoveries, would the margin have been actually down that 4 to 6 basis points this quarter?

Mark Furlong - ***BMO Financial Group - Group Head - US P&C Banking***

No. It would have been down 2, and so that's this variability between quarter to quarter, the competition isn't consistent quarter to quarter. It's always there, but we would have only been down 2, so my estimate would have been a little bit high last time.

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

Okay, thank you.

Operator

Thank you. The next question is from Michael Goldberg with Desjardins Securities.

Michael Goldberg - *Desjardins Securities - Analyst*

Wonder if we could get some additional color on growth in business lending in Canada and the US. Where is it coming from, and what's the sustainability like?

Frank Techar - *BMO Financial Group - COO*

Michael, it's Frank, I'll start with Canada. Business growth that we've seen in our lending book in Canada has been pretty consistent for the last year or so, and there is no one place that is the spot where most of that is coming from. We've got good diversification across the country.

We've got good diversification from a segment perspective, and that's part of the plan and the strategies and tactics that we have in place, are bringing that to bear. So expectations for the future are strong growth, again on the back of something that we're very good at, we're very good at it here in Canada. We're very good at it in the United States, but there's not one place where we've got over-representation flowing into the growth profile for the business.

Michael Goldberg - *Desjardins Securities - Analyst*

So would you say that this growth has been in line with your expectations, or better than your expectations?

Frank Techar - *BMO Financial Group - COO*

Well, speaking for the Canadian business, the growth has been in line with our expectations. We've got investments continuing to be made in the business, and we believe we can even have stronger growth as we look forward, Michael.

So this is, as I said, this is a business that we've been good at for a long time, and our intention is to continue to grow rapidly. Do you want a comment about the US? I'll turn it over to Mark for that.

Michael Goldberg - *Desjardins Securities - Analyst*

Sure.

Mark Furlong - *BMO Financial Group - Group Head - US P&C Banking*

So I could almost repeat what Frank said and really, market by market and national segment by national segment, we've had growth quarter to quarter and year-over-year in the US. And it has pretty much been that way for the last probably 8 to 9, 10 quarters. Really it's been diverse, and then commercial real estate of course has picked up the last three quarters and that's been diverse by geography and diverse by property type as well.

So to echo Frank's comments in the US, we really have a strong commercial and a strong business banking team, and it isn't a surprise to us that we're having this kind of growth, and that we feel optimistic, based on what's in the pipeline and when we look forward into future quarters. We really feel like we have some really strong momentum going broadly across the US markets, and see no reason why we should reduce expectations on continuing to grow strongly.

Michael Goldberg - *Desjardins Securities - Analyst*

Okay, and separately but sticking to the balance sheet, personal demand and notice deposits looked like they were up about 5% from the fourth quarter, or 20% annualized. Can you tell me what's going on there, and how sustainable that is?

Tom Flynn - *BMO Financial Group - CFO*

Yes, it's Tom, Michael. A portion of the increase, both quarter-over-quarter and year-over-year, would relate to the move in the currency. So that would give the numbers a lift.

And then as I said in my comments, we have seen good growth in the deposit business in both businesses. P&C Canada has had good performance overall, particularly good in commercial, with I think, our fourth quarter in a row of double digit deposit growth on the commercial side of the business. And we've had good performance in the operating P&C US business as well, and to help with the margin, we have let some of the legacy longer term, higher cost, term deposits in the US run off.

Michael Goldberg - *Desjardins Securities - Analyst*

Thank you.

Operator

Thank you. The next question is from Meny Grauman with Cormark Securities.

Meny Grauman - *Cormark Securities - Analyst*

My question is about US Capital Markets. We saw a really strong quarter in Q1, and I'm wondering what's driving that, and whether that's sustainable going forward, at the level we saw in Q1?

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

It's Tom Milroy, Meny, thank you very much. The US had a really strong quarter this time. As you saw the net income for the quarter up quarter-over-quarter, almost 50%, revenue up 26%, so it was pretty encouraging.

We saw the revenue coming really across both the investment and corporate banking, and trading businesses. We had stronger equity underwriting and loan syndication, and we just think it was a quarter in which a bunch of things fell into place. We are, I'm not sure, as you know, the nature of this business is there is some variability quarter to quarter, but as we look at the US business, we are very encouraged about what we have seen and where we are, and we think going forward, this will continue to perform well.

Meny Grauman - *Cormark Securities - Analyst*

Thank you.

Operator

Thank you. The next question is from Peter Routledge with National Bank Financial.

Peter Routledge - *National Bank Financial - Analyst*

Yes, thanks. I guess a question for Frank, just on comparing growth in pre-provision income in P&C Canada and P&C US, and the trends are very different. And Mark spoke about good organic loan growth in very tough competitive positions. I guess from your vantage point in your relatively new role, what are your objectives for the US, and what plans for change do you have?

Frank Techar - *BMO Financial Group - COO*

Thanks, Peter for the question. The US at this point in time, as Mark has described over the last few quarters, is a tale of two cities. The commercial business and our business banking segment has been performing extremely well, and we have seen a lot of growth.

On the consumer side, not only because of some of the regulatory changes, but also because of some of the competitive and economic realities in the marketplace, top-line growth has been a little bit more of a challenge. So as we look forward, our focus is on continuing to build on the momentum we have in our business segments, and really focusing on changes to the business on the consumer side. In particular, our consumer lending and card businesses are a couple of the areas that we're focused on over the next little while.

Peter Routledge - *National Bank Financial - Analyst*

When do you think, I know I don't want to pigeonhole you, but are we going to start to see the pre-provision income up this year? Quarter-over-quarter growth?

Frank Techar - *BMO Financial Group - COO*

Well, I think we're confident that the second half of the year is going to look better than the first half of the year. The year-over-year growth question, we're working as hard as we can on that front.

And as Mark said, quarter to quarter, we're going to see some variability continuing in the market, just given the dynamics. So I'm not in a position to go out on a limb at this point in time, relative to where we are today.

Peter Routledge - *National Bank Financial - Analyst*

Okay, thanks very much.

Operator

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

Steve Theriault - *BofA Merrill Lynch - Analyst*

Couple questions. First, I think for Tom. Just on currency, I want to make sure I understand this correctly. In the capital section, you highlight that source currency from new business created a 50 basis point headwind in Q1, so what scenario would create additional headwinds there? Is this driven by future moves in the currency or business mix by geography, or something like that?

Tom Flynn - *BMO Financial Group - CFO*

The 50 basis points from business-driven source currency RWA tries to give the growth in risk-weighted assets, excluding the impact of the strengthening US dollar. So we just hold the currency constant in giving that number, so we aren't suggesting that there's anything else going on, other than backing out the dollar.

Steve Theriault - *BofA Merrill Lynch - Analyst*

And so if the dollar stays at around $1.10 or $1.12 where it ended January 31, it's probably not a big item?

Tom Flynn - *BMO Financial Group - CFO*

Well it's not a big item on the capital ratio but I'd go back to the earlier comment about how the business driven risk-weighted asset growth included higher market risk assets in the quarter, and we do expect some of those RWAs to decline over the next quarter or two.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Yes, okay. I just wanted to go back related to your currency question, trying to run through the sensitivity to your earnings to the weaker C-dollar.

In there, you note that your sensitivities are all disclosed, assuming no hedging of your exposure to the C-dollar versus US dollar. Can you tell us a bit about, in effect, any hedges in place on currency?

Tom Flynn - *BMO Financial Group - CFO*

Our hedging practice on the US dollar varies through time, and in the current quarter, a portion of our US earnings would have been hedged, but it was not the majority of the earnings.

Steve Theriault - *BofA Merrill Lynch - Analyst*

But a material amount, I guess?

Tom Flynn - *BMO Financial Group - CFO*

I really don't think it was that material at the end of the day. It was less than half of the total earnings would have been hedged.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay, and then I had a last question on regulation. Bill, we can't let you off the hook through a whole Q&A session, so I'll ask -- we're a few days post the Fed posting a 400-plus page document on foreign bank holding companies, so I'd be interested in your first impressions, any sort of initial sense on whether holding company requirements, minimum leverage if you think that will have much of a material impact on your business? Appreciating of course that it's being phased in over a long period of time.

Bill Downe - *BMO Financial Group - CEO*

Well thanks, Steve and thanks for giving me the opportunity to participate in the call. It has been such a good quarter that I was hoping somebody would let me speak.

I think from our perspective, first of all, you're right, the phase-in gives lots of flexibility to 2016. But from our perspective, because we run the US bank as a US banking subsidiary of a holding company, we have historically maintained the capitalization and the leverage as though it was a domestic institution. So there will clearly be some details in the final interpretation that will be important, but the overall impact on BMO Financial Corp, the US holding company and BMO Harris Bank is going to be very little.

And so I think on a relative competitive basis, having run that bank the way we did as a discrete well-capitalized institution stood us in very good stead going through the period of challenge during the crisis. And it means as we look at this new body of regulation, we don't expect to be materially impacted, so it was actually a good news piece.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Thanks very much for that.

Bill Downe - *BMO Financial Group - CEO*

Thank you and thank you to everyone for being on the call.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting over to Ms. Haward-Laird.

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

Thanks, everyone for joining us today. If there are any follow-up questions, we're happy to take them in Investor Relations and have a good afternoon.