BMO Financial Group

# Q1 2005 CONFERENCE CALL

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**Rob Pearce**
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## PRESENTATION

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**Operator**

Good afternoon and welcome to the BMO Financial Group's first-quarter 2005 conference call for February 22, 2005. Your host today is Susan Payne, Senior Vice President of Investor Relations. Ms. Payne, please go ahead.

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**Susan Payne - Bank Of Montreal – SVP, Investor Relations**

Good afternoon, everyone. This afternoon's brief overview of our first-quarter results will be provided by Tony Comper, President and CEO; Karen Maidment, our CFO; and Bob McGlashan from Corporate Risk Management. After Bob's presentation, Tony, Karen, Bob and the following members of the management committee will be available to answer your questions -- our Deputy Chairs, Bill Downe and Ron Rogers; Yvan Bourdeau from the Investment Banking Group; from the Private Client Group, Gilles Ouellette; Rob Pearce from the Personnel and Commercial Client Group in Canada; Frank Techar of the Harris Bank; and Lloyd Darlington, Head of Technology and Solutions and e-Business.

At this time I would like to refer our listeners to Investor Relations website at BMO.com to view our forward-looking statements and the risk factors pertaining to these statements.

Now I will hand the floor over to Tony.

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**Tony Comper - Bank Of Montreal - President & CEO**

Good afternoon, everyone. I'm going to keep my introductory comments brief.

Point number one is BMO started the year on a strong note and we increased the first-quarter earnings per share 16 percent from a year ago with all three operating groups contributing to the higher net income. Return on equity rose to 19.4 percent. On a linked-basis, linked-quarter basis, performance was also encouraging, as we increased net income 9.5 percent, growing revenues 7 percent, while maintaining expense growth at 2.7 percent. We're well positioned to achieve all of our targets for the year. As a reminder, the annual EPS target excludes any changes in the general allowance. And on this basis earnings per share increased 22 percent from a year ago. That's well ahead of the annual target of 3 to 8 percent. We're now thinking that a specific provision for credit losses of 350 million or less in fiscal '05. That's 50 million better than the target for the year. Our cash productivity ratio improved 288 basis points from a year ago, and that's the result of our ongoing, indeed across-the-board efforts to drive revenue growth while maintaining a very disciplined and strategic approach to resource allocation. As has been the case for the past couple of years, productivity remains right at the top of our list of priorities for 2005.

Another key focus, continued improvement in the performance of our US businesses, which succeeded increasing net income to $156 million in the first quarter, and that compares to $48 million at your ago. As I discussed at this morning's annual meeting, we are also accelerating growth in the US through both organic growth and de novo expansion. And we anticipate a faster pace of retail banking acquisitions.

This morning we announced a 4.5 percent increase in the quarterly dividend of 46 cents a share. That brings the total increase in dividends since the second quarter of 2004 to 15 percent. This increase ushered in our 13th consecutive year of dividend increases, and reflects management's confidence of both the quality of our earnings and our capacity to meet our annual targets.

In a business environment where there are many factors that are way beyond our control, we're very focused on managing the factors that we can control and making the disciplined strategic choices that will create long-term sustained value. We believe this approach is paying off. BMO's five-year average total shareholder return -- that's our primary measure of shareholder value -- reached 21.8 percent in the first quarter, up from 18.9 percent for fiscal 2004, and a big improvement on the 12.9 percent five-year average that we reported for 2003 and the 7.9 percent average that we reported the previous year.

We believe that we have successfully positioned BMO as Canada's high-return, low-risk bank with a high return on equity and a good track record for stability, earnings consistency, and strong dividend growth. And we're working hard to solidify this reputation.

Over to you, Karen.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

As Tony indicated, we had a strong quarter and a good start to the year with earnings of 602 million, up 15 percent over last year and 9 percent over the fourth quarter. Our return on equity for the quarter was 19.4 percent.

Slide three shows the detail of two significant items this quarter amounting to $53 million or 10 cents per share. IBG recovered $32 million of prior year income taxes and the bank booked a gain of 32 million pre-tax on the merchant banking portfolio due to an accounting change, booked mostly in IBG. By comparison, in Q1 of last year we disclosed four significant items amounting to 18 million or 3 cents a share. So excluding the after-tax impact of the Q1 '05 items of 10 cents and the 3 cents impact of the four items from last year, EPS was up 9 percent from a year ago.

In addition, starting in the first quarter, we've consolidated our variable interest entities, or VIEs. The impact on our balance sheet at January 31st was to increase assets and liabilities by approximately $21 billion. OSFI has granted relief for two quarters from including the majority of these assets in risk-weighted assets, and it's our intention to restructure these vehicles before the end of Q3.

We've also restated prior-period results for items such as preferred shares and the introduction of a new funds transfer pricing system and costing methodologies. And for your convenience an updated sup pack was made available on the website yesterday.

Turning to slide four, and back to the quarter's results, I'd like to highlight our progress in improving productivity, our top priority for the year. Our cash productivity ratio for this quarter was 61.9 percent, with revenue growth to expense growth differential of 4.7 percent. This differential does include the benefit of the merchant banking adjustment and the accounting changes, so we think a more accurate reflection of the differential this quarter is about 4 percentage points.

On the credit front, our specific provision for credit losses was 43 million for the quarter with no reduction in the general allowance compared to a specific provision of 37 last quarter and 55 in the first quarter of 2004. In 2004 we reduced our general allowance by 170 million with reductions of 40 million in the first three quarters and 50 in the fourth. Our Q1 capital ratio remains strong at 9.72 percent, and the ratio is down quarter-over-quarter due mostly to an increase in risk-weighted assets.

Slide five shows the change in cash EPS compared to last year and last quarter. Quarter-over-quarter cash EPS increased 9 cents. The reduction in the general allowance last quarter was almost completely offset by the tax recovery this quarter. Business growth was the primary driver of the increase with the improved performance from all of our operating groups. Year-over-year, the increase in cash EPS was 16 cents, driven by business growth, notably in P&C and PCG, as well as the tax recovery, combined with the increased tax provision in Q1 '04.

Turning to the revenue growth on slide six, on a year-over-year basis P&C revenues improved on higher volumes and the impact of acquired businesses. PCG revenue rose on higher volumes and non-interest revenue, while IBG decreased as a result of compressed spreads and our strategy of exiting certain relationships which are non-core. Investment security gains were essentially flat year-over-year. However, this quarter does include the merchant banking gain. In source currency revenue grew about 5 percent, reflecting the previously-mentioned volume growth and including about 1 percent for the merchant banking. Quarter-over-quarter revenue rose in all of the groups, P&C benefited from higher volumes, PCG from increased client trading activity in the full-service and direct investing business; IBG earned significantly improved trading revenue on higher trading volumes, higher origination fees and commission revenues. Core business growth is up both quarter-over-quarter and year-over-year.

On slide seven, net interest margins on a total bank basis have decreased, both quarter-over-quarter and year-over-year. Year-over-year the net interest margin is down on an as-reported basis by 24 basis points. However, if you exclude the impact of the consolidation of VIE assets from the current quarter, which had a negative impact of 12 basis points, as well as back out the one time adjustments to mortgage prepayment fees in Q1 of 2004 which increased net interest margin by 6 basis points, the decrease year-over-year is 6 basis points. This decrease is due to compressed spreads in IBG and its interest rate sensitive businesses and corporate lending portfolio, and increased costs of client deposits. P&C Chicago's margin decreased as a result of compression in the low-rate environment.

On a quarter-over-quarter basis, total bank net interest margin decreased 6 basis points excluding the impact of the VIEs, and the decrease was primarily in IBG where compressed spreads on client deposits due to competitive market conditions and higher cash collections in Q4. P&C margins remained fairly flat.

Slide eight provides a breakdown of our expense growth. Total expenses are up approximately 3 percent from the linked quarter, driven primarily by performance-based comp and down 2 percent from Q1 '04, driven by the weaker US dollar and performance-based comp as the mid-term incentive program has now been fully hedged. This reflects cost containment across the enterprise.

On slide nine, as you can see, the quarterly cash productivity has improved 288 basis points from the first quarter of last year, or about 220 excluding the impact of merchant banking. This has been driven by revenue growth and keeping expenses relatively flat, and positions us well towards our target of 150 to 200 basis point improvement for the year.

Turning to slide 10, as we indicated in our Annual Report, another one of our priorities for the year is to improve US performance, as well as accelerate growth in the US both organically and through acquisitions. Net income has increased both quarter-over-quarter and year-over-year. Quarter-over-quarter net income was up due to the change in accounting for merchant banking investments, higher market-based revenues and cost management. In Q4 we recorded costs in PCG related to severances and business optimization. On a year-over-year basis net income is up due to a lower provision for credit losses, the marked-to-market impact of our merchant banking investment, as well as higher trading revenues and continued cost containment. In Q1 of last year we also recorded a US$14 million or a CAD$19 million adjustment for future income tax liabilities.

Slide 11 shows our performance for the quarter against our targets, and you can see we're off to a good start this year. Our targets remain the same as previously communicated, with the exception of the specific provision for credit losses which is now anticipated to be 350 million or less. Bob will talk about that more shortly.

I'd like to talk a bit about our target EPS growth for 2005. When we set our target growth we felt we were being fairly aggressive in light of the unusually low PCLs last year. We have had a great start with 22 percent growth, but you have to remember that embedded in this growth are income tax recoveries that are not sustainable and the fact that the merchant banking gains will fluctuate quarterly. On the other side, security gains this quarter excluding the merchant banking gains were unusually low, and we anticipate that they will be somewhat higher moving forward. Based on this, we think our EPS target for the year remains appropriate.

There are of course upside and downside factors that we will need to continue to monitor, in particular the sustained strong credit environment and when it will start to reverse; the impact of the yield curve on margins; and the status of market-based activity.

Q1 has provided us with a good start for the year and we continue to remain focused on achieving these targets.

Thanks, and now I will turn it over to Bob.

**Bob McGlashan - Bank Of Montreal - EVP, Corporate Risk Management**

Good afternoon, everyone. I have a very short presentation today with three main messages.

First, as you can see on slide three, credit quality remained healthy this quarter as impaired loan balances and formations have stabilized at very low levels.

On slide four this is further evidenced by a specific PCL of $43 million for the quarter, only slightly higher than the prior quarter. The corporate portfolio continues to be in a net recovery position, while the level of PCL from the consumer and commercial portfolios remains relatively stable. The credit environment and market conditions have also remained stable in the quarter, not warranting any change in the general allowance.

On slide five the level of new reservations has stabilized due to the leveling off of impaired loan formations, while reversals and recoveries have declined from unusually high levels in 2004.

Second, as shown on slide six, our target specific provision for credit losses for 2005 is now revised to $350 million or less from $400 million or less. This represents 21 basis points of average net loans and acceptances, including reverse repos, versus our 15 year average of 39 basis points.

Revision of the target-specific provision for credit losses is due to a somewhat stronger than expected Q1 performance in conjunction with the three following points. First, the current credit environment is stable and healthy. Second, new reservations for 2004 total 510 million and we anticipate 2005 new reservations will be relatively flat to 2004. Third, 2004 reversals and recoveries were $443 million. However, we anticipate that 2005 reversals and recoveries will be significantly reduced, largely as a result of the dramatic reduction in the size of the impaired loan book and GIL formations year-over-year, and a consequent moderation of loan sales activity in the secondary market from that which we experienced in 2003 and the first part of 2004.

We continue to track a number of sectors, two of which are detailed in the appendices to this presentation on slides 10 and 11, although none represent a material exposure to our forecast.

Interlaced in our view are the issues of sustained and/or increasing strength in the Canadian dollar and oil prices.

Finally, slide seven shows our trading and underwriting performance has been stable.

With that, operator, we can now go to questions.

## QUESTION AND ANSWER

**Operator**

(OPERATOR INSTRUCTIONS) Jim Bantis.

**Jim Bantis - Analyst**

Just two quick questions. One with respect, Karen, a slide at the back of your presentation showed a sharp decline with respect to the mid-market contribution in the US, and there's some earlier slide showing some positive loan development with respect to growth. So if you can reconcile why the declining contribution.

Secondly, Tony, I think at the annual meeting today you talked about acquisitions, and again reiterated it on the conference call, talking as large as US$2 billion. I'm just trying to put that in the perspective of your capital position, the tangible common equity ratio of around 7 percent, and the VIEs coming onto balance sheet later on. Maybe you could just add a little bit of color with respect to the type of funding that you would do for an acquisition with respect to shares and cash.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Could you tell me slide you're referring to?

**Jim Bantis - Analyst**

Karen, you don't have a slide number on it, but if I look at your package --

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

What is the heading?

**Jim Bantis - Analyst**

It is "US Retail and Midmarket". It's the fourth slide from the back -- oh, slide 27.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Okay, thank you.

**Tony Comper - Bank Of Montreal - President & CEO**

It's a bit speculative. What I was signaling when we were talking about what we see as the pace of acquisitions is that we have been pursuing a pretty steady-eddy kind of pattern of acquisitions in the smaller end of the range.

A couple things are going on, though, is that Frank and his team are really getting the platform and the operations in Chicagoland in pretty good shape. And we think gives us the capacity to kind of ramp that up a little bit.

Now, as I said today, the dilemma with that is it takes two to tango. Just because we happen to have an appetite for acquisition, the acquiriees might not have an appetite to be acquired. So we're actively -- we have got the team actively working in the marketplace, in Chicagoland and Illinois.

With specifically respect to funding, and your comments on the tangible Tier 1 ratio, I am going to Karen to deal with specifically how we would approach the funding of those acquisitions, but I guess you're talking about the higher level.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Jim in terms of capital management, first of all, on the VIEs, we don't intend to have those on the balance sheet when the capital release is gone. So we don't see any impact on the Tier 1 ratio because of that. And as you know, we're generating a fair bit of cash and capital in the operation right now. So small acquisitions we could self-finance, like we have in the past. If we do something larger, we would look at raising capital in the markets as one possibility.

**Tony Comper - Bank Of Montreal - President & CEO**

Frank, are you going to address Jim's question on the --?

**Frank Techar - Bank Of Montreal - President & CEO, Harris Bank**

Jim your question was on page 27 about the net income coming from both P&C Chicagoland and US midmarket. Is that right?

**Jim Bantis - Analyst**

Yes, no that's correct. All I was getting to is there was a $5 million decline with respect to the midmarket, but all of the trends had been positive. I was just trying to understand if there was certain variants in the quarter or if there's another explanation.

**Frank Techar - Bank Of Montreal - President & CEO, Harris Bank**

On that slide, I think the P&C Chicagoland numbers are in Canadian dollars, and I think in US dollars there actually was growth in net income. So I think the decline is really on the midmarket side. Maybe Yvan can carry from that.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Again, the same issue. All these numbers are Canadian dollars, so you don't see -- you do see the effect of the exchange there.

**Jim Bantis - Analyst**

I wouldn't have thought the currency had made that much of a difference. I was wondering if perhaps you can just tell me with respect to operating metrics and cost control, with respect to the commercial business, are things moving along positively?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Yvan is going to speak to that.

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

Two points. The first one is with regard to Frank and Kevin's point with regard to the currency. Quarter-over-quarter on a linked basis the Canadian dollar appreciated by about 4.5 percent. So that's definitely one impact.

The other one that is specific to us in the midmarket is related to the cash management business. As you saw over the last nine months, interest rates have risen in the United States. And it has affected the amount that we pay on deposits placed with us from our client in the cash management business. Therefore, the spread that is being earned by cash management is not as great as it used to be because of the increase as to how much we pay to them, but also as to how much corporate treasury pays to us in IBG, because our deposit, the rate that we receive from corporate treasury, is on a rolling five-year basis. As you know, the yield curve is very flat. So you have a squeeze sentiment out there where we pay more to the clients, and actually the return that we receive from the corporate treasury is actually flattish.

So that's really these two factors are affecting this reduction from 44 to 39.

**Jim Bantis - Analyst**

With respect to clients using their lines, have you seen a little bit more activity this quarter?

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

I will comment on two fronts on this one. If you were to look on a source currency basis where loan outstanding in the US have increased by 500 million, which is positive, as you convert that back into Canadian dollars, the balances from our US loan portfolio increased only by 100 million. So that's one factor you should be aware of. And the utilization rate is up by about 1.1 percent. So it's basically flat.

**Jim Bantis - Analyst**

Thanks very much.

**Operator**

James Keating.

**James Keating - Analyst**

A couple of little housekeeping questions. One, on the revenue growth, Karen, slide six, revenue, could you just detail the additive impact of the acquisitions and just confirm I guess that's all retail? I'm also wondering, you mentioned securities gains were unusually low in quarter, which we noted as well, and that they may go back up. Can you comment on unrealized securities balances? I just want confirm -- I'm reading 37 million as unrealized after hedging, or am I reading 62?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

37 is the right number, and so we do see it -- the security gains were unusually low this quarter, and we expect them to increase going forward, but not at the rates they were in previous years.

In terms of revenue growth, on slide six, the acquisitions added 14 million to revenue.

**James Keating - Analyst**

Perfect. Could I also well I got you, just on the credit front perhaps? On page 21 of the sup pack, your notionals look like they were upsized in the quarter on, say, equity and credit contracts, as well as on FX commodity. It looks like you should keep ramping them up sharply because the credit risk equivalent went down quite a bit in the quarter and nice offsets or something going on. Could you just comment on the appetite and the influence of that? And if I'm reading it correctly, that the credit risk equivalent influence and the capital influence was negligible to in fact it was the opposite of the directionality of the direction on notionals?

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

I will comment on this point. In the case of foreign exchange, it is basically due to the volatility that existed over last quarter between US and Canadian dollar. And there's no question that our client activities increased at a very high pace and is reflected in the amount of contracts that were concluded with our clients.

The same is true also on the commodity front. With the volatility that existed with natural gas and oil, the same impact existed both from the producers, as well as the buyer of energy.

In the case of the credit contracts, in view of the interest rate rising, there's been an increased interest from our clients to try to hedge themselves. Therefore, the activities also on that front have increased as they foresee that in the coming quarters we may be moving in an environment that is not as positive as it is presently from a credit perspective.

**James Keating - Analyst**

The capital attribution though is down. Is that the influence of netting and a lot more contracts?

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

That's correct. The notional is going up, but the net is actually down.

**James Keating - Analyst**

Appreciate it. Thank you guys.

**Operator**

Quentin Broad.

**Quentin Broad - Analyst**

A couple of questions just on the credit side and the expectations for this year. I guess two things. One, it looks like the full-cycle expectations for wholesale is down from a run rate of 45 odd million to 25 in the full bank, down to about 100 million a quarter from -- what was it, 125? So understanding what's going on there -- and then if that is the case, I guess what you're saying, then, is for the remaining three-quarters your current guidance is to have corporate and other read 0 on the PCL line versus negative odd 50 that it was this quarter. Am I understanding what the current guidance is for 350 or less?

**Bob McGlashan - Bank Of Montreal - EVP, Corporate Risk Management**

Let me take crack at this. If you look at slide four in my deck, the $43 million that we incurred this quarter is a bit less than what we expected. But if you look at the lines above that 43 million, you can see consumer and commercial typically tick along pretty steadily quarter-in, quarter-out. The swing factor is corporate, and you can see that it is credit 12 contribution, and it has been a credit for a while. We don't believe that is sustainable, that that's going to continue, which is the issue that I referenced about declining volumes of reversals and recoveries as our gross impaired loan book has continued to shrink. So we're basically saying this 43 is a little lower than expected, and we're adjusting our $400 million forecast for the year basically down by the amount of the difference.

**Quentin Broad - Analyst**

But, Bob, have you changed your full cycle expectation for credit provisions this quarter?

**Bob McGlashan - Bank Of Montreal - EVP, Corporate Risk Management**

No.

**Quentin Broad - Analyst**

So the charge for the investment bank at only 25 million versus 45 million, which is the run rate, what happened there?

**Bob McGlashan - Bank Of Montreal - EVP, Corporate Risk Management**

If you look -- the way these numbers are reported in the sup pack, we're basically putting plan numbers against each of the businesses. So $100 million was the number for the year that was in plan for the investment bank; 25 a quarter. Clearly not what they are actually experiencing. So we would normally disclose against plan with the adjustment being in the corporate adjustment to get you back to the actual 43. Is that your question?

**Quentin Broad - Analyst**

Yes, but I thought -- sorry, I thought plan was typically driven off of a full cycle provision expectation (multiple speakers) about 125 million a quarter, $500 million a year.

**Bob McGlashan - Bank Of Montreal - EVP, Corporate Risk Management**

I guess that answer to your question is generally. It is not precise, but it's close. Our cycle-neutral number is a little higher than $400 million.

**Quentin Broad - Analyst**

Which you're now reporting in Q1?

**Bob McGlashan - Bank Of Montreal - EVP, Corporate Risk Management**

Right.

**Quentin Broad - Analyst**

Secondly, just in terms of the accounting change for the merchant bank, am I understanding that the full merchant bank as at October 31, 2004 was about 550 million, Karen, and that's the accounting the 32 million only relates to that 550 --?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

That's right.

**Quentin Broad - Analyst**

So that was the only -- if I look at the unrealized gains, losses, change in the quarter it didn't move Q4 to Q1 between corporate equity. Those two basically stayed stable at 81 despite 32 being pulled out on a marked-to-market basis?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Yes. The merchant banking, you're right. The book value is about 550; the book values -- the accounting rules changed for companies who had merchant banking in subs. We had to move them to marked-to-market. So we brought the one time adjustment in this quarter so the book value is getting closer to 600 now. And going forward we will adjust that quarterly, although I would not expect large swings like we've had, because this is the big catch-up in terms of the adjustments.

And in terms of the securities gains and loss, I just want to check your question. What was your question?

**Quentin Broad - Analyst**

Well, that obviously the unrealized hasn't moved, so as part of the unrealized in Q4 2004 32 million of that was related here.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

And it was unrealized at the end of Q4. And it's still unrealized, but it's been going through the P&L.

**Quentin Broad - Analyst**

Sorry, but doesn't the market value become the number that is reflected in Q1 2005, and so it would no longer get picked up here in the unrealized number; the 37 million would be net of that?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

I will double check on that. But the market value is now close to 600 million. And I will check on that and get back to you later in the call.

**Quentin Broad - Analyst**

Thanks.

**Operator**

Shannon Cowherd.

**Shannon Cowherd - Analyst**

On slide 13 you mention the total share of the banking industry in Canada, the personal market business, is about 13 percent, which is a 7 basis point decline from the fourth quarter and from the first quarter of '04. And you attribute it to erosion in personal loan market share. I just wanted to know if you could potentially elaborate on that.

**Tony Comper - Bank Of Montreal - President & CEO**

We'll get Rob Pearce to respond to your questions.

**Rob Pearce - Bank Of Montreal - President & CEO, Personnel and Commercial Client Group**

The market share issue, the personal share, and for that matter the small end of the commercial business, has been declining somewhat over the last few quarters a couple of points. As you pointed out in the question, on the personal side, the biggest driver of that is the continuing decline in market share in consumer lending.

But overall the things that we are encouraged about is the sales momentum in the business has been very good and the balance sheet growth has been very good. In fact, the pace of balance sheet growth all-in in both assets and liabilities has been growing at an increasing rate. And margins now have been stable for five years, which has really been driving our earnings.

The thing that we aren't happy about is that share continues to erode. So what we have got to do is keep the sales engine going, grow the balance sheet even more so, trying to make sure that we hold margin because that's an expensive way to grow share, but drive our share. We're looking at product initiatives in the consumer lending business. We've just launched a product called Homeowner Ready Line, which is a hybrid product between a mortgage and a consumer loan. We think that will help. There's some pricing initiatives that we've done in the commercial lending business. We have a rate sale for loans that are 250 right now which is driving some volume in there. We're looking at sales force expansion both in the personal side and on the commercial side, and we're going to be doing some more promotion.

So there's a bunch of actions that we're taking to try and stabilize the share situation on both personal and commercial, but the key is to be able to do it all while maintaining margins, which again have been pretty stable for the last while, which has been a big driver to our bottom-line.

**Shannon Cowherd - Analyst**

So the most significant contributor to the erosion is just purely competition, like some competitors undercutting you?

**Rob Pearce - Bank Of Montreal - President & CEO, Personnel and Commercial Client Group**

That would -- it's always hard to tell and come up with the exact answer as to what is going on.

But we have got -- there's obviously a robust consumer out there as it relates to consumer lending. We had year-over-year almost 10 percent, 9.5 percent consumer loan growth, and that's still a decline in market share. That's very, very solid growth. We think -- and it's going to be -- it's hard to tell. It's hard to compare a bank's margin from institution to institution. But certainly our performance in '04 of relatively stable P&C margins seem to be better than our peers. So it's not illogical to extend that thought and say that some of our share decline is because we aren't as aggressive on the pricing side as some of our competitors have chosen to be.

**Shannon Cowherd - Analyst**

Thank you.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Back on the merchant banking in your page 20, of the sup pack, just confirming, the merchant banking unrealized gains were in there in the fourth quarter, but they're not there this quarter because book value equals market value. So therefore, just because the numbers are the same, it means there's other appreciation of other investments that have taken place in the first quarter. Hopefully that helps. And there's a little comment underneath that box that tries to explain that.

**Operator**

Susan Cohen.

**Susan Cohen - Analyst**

You mentioned that it is your intention to restructure the VIEs and get them off the balance sheet. How easy is that to do? And what is your confidence level that that will be done in time before the capital relief does expire?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

We're very confident that we will have that in place by the time that -- the end of the third quarter. And the real issue is the cost of doing it. And it can be done. It is a little complex, but there are other companies have done it and we will go through the process over the next few months.

**Susan Cohen - Analyst**

Secondly, just coming back to these US spreads and your P&C bank, as you have mentioned rates have been going up, and yet your spreads really haven't been. I'm still trying to reconcile what exactly is going on there and what would it take before you do start to finally see some margin expansion there?

**Frank Techar - Bank Of Montreal - President & CEO, Harris Bank**

On the US spreads, you'll see that our spreads went down 40 basis point year-over-year, and there's two primary reasons for that. The first one is in Q3 of last year we brought in some lower-yielding assets into our portfolio on two fronts. The first one is the new Lenox Sate Bank acquisition closed. And their average spread was lower than ours, and that has contributed to the decline. The second group of assets we brought in is we brought over from the investment bank a portfolio of municipal bonds that had a spread of 75 basis points at no cost, but effectively it was a transfer from one of the groups to the others, and that had an impact as well. So the portfolio changed a bit in Q3 of last year.

The second large reason is because of the low rate environment at the medium term duration that Yvan referenced earlier. We are seeing spread compression in our core deposit book because we invest those deposits at a five-year rolling rate, and the tranches that are rolling off are actually at a higher rate than the five-year is currently. And so we are seeing compression in that spread.

What's going to turn it around is the five-year rate moving up over time. And at this point in time I think Yvan would agree it's very hard to predict when that is going to happen. We are actually expecting over the course of the year to continue to see some compression in our net interest margin in the P&C group in Chicago. The good news is if you look at the linked-quarter spread, we maintained that spread at 358. So we're hoping that at least the decline won't be happening at as robust a rate as it did over the last four quarters.

**Susan Cohen - Analyst**

That's great. Thank you very much.

**Operator**

Andre Hardy.

**Andre Hardy - Analyst**

Can you please continue on the margin discussion and talk about your auto lending book? Some of your competitors have seen their spreads being squeezed. And also, in the US dollar report on numbers, can you talk about the increase year-over-year and how much acquisitions helped the bottom-line?

**Frank Techar - Bank Of Montreal - President & CEO, Harris Bank**

On the auto lending business, you'll note -- and I don't have my finger on the page -- page 16 in the slides, which shows our consumer lending business and the volumes, you'll see that in Q1 on a linked-quarter basis the volume dropped off a bit from -- the growth dropped off a bit from about 29.5 percent to 23.9. We have seen a bit of a slowdown in volumes based upon our action. We're starting to see a bit of price compression because rates are going up and we can't pass those rates on to our consumers.

If you go back to my earlier comment about the 40 basis point drop that we saw year-over-year, this has really contributed very little to that drop at this point in time. So we're trying to manage our margins and volume activity as closely as we can. We expect to see a little bit drop off in volume and a bit more pressure, but it hasn't had a material impact on our business to this point in time.

Sorry, Andre, what was your second question?

**Andre Hardy - Analyst**

In US dollars the P&C bank in the States is up from 25 million to 30 million on a cash basis Q1 '04 and Q1 '05. How much of that was driven by acquisitions?

**Frank Techar - Bank Of Montreal - President & CEO, Harris Bank**

Can I get back to you on that one? I want to say it's $1 million or $2 million, but let me confirm that before we're over with the call.

**Andre Hardy - Analyst**

Thanks. And two questions for Yvan, if I may. You talked about utilization rates being up a percent. Can you talk about where they are now versus where they were at the peak? And can you also talk about the sequential revenue and cost changes? Revenue were up 106 million, including the merchant banking gain, and costs were up $82 million. That seems like a big increase in costs for you.

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

On the first question with regard to the utilization rate, if you were to look at the entire IBG balance sheet, we're basically slightly up 42 percent, moving to 44 percent on a linked-basis. And the bulk of the increase actually took place in the US, moving from last quarter 50.4 to 52.9. So that's really the play on the utilization on a linked-basis.

If one were to look on an annual basis, the utilization in Canada is actually higher, moving from 31.7 to 34.5. In the US it is basically flat, 52.6 to 52.9. And on an overall basis, 42.7 to 44.1. And on the year-over-year basis obviously the Canadian component does help to bring this utilization up.

In terms of the revenue, as you were mentioning, we had an increase in revenue quarter-over-quarter, and that was mainly due to our trading income that improved on all fronts whether it was foreign exchange, interest rate, commodity and so on and so forth. But also we had greater commission revenue emanating from the US particularly as the equity markets there were stronger. And in the US also we had a better pipeline in terms of M&A. Also, in terms of debt and equity origination, both performed extremely well in Q1, and the deal flow improved quite a bit also in Q1. So all of this contributed to the quarter-over-quarter revenue increase of about 106.

On the expense side, it's really -- if you were to look at our overall expenses over time, you would see that Q4 of last year was somewhat a very unusual quarter. We had total expenses of 290, and if you look at Q3 of '04, 354; the quarter before that 380; in Q1 '04 was 381 versus our 372 this quarter. So year-over-year we are better by 9 million, and the discrepancy is really last quarter in '04, we made an adjustment, a quite significant one, to our comp just because the performance in Q4 was not as great as in previous quarters. So if you were to normalize our expenses, I think we would be flat quarter-over-quarter.

**Frank Techar - Bank Of Montreal - President & CEO, Harris Bank**

In answer to your question, our net income grew 26 percent in US dollar terms as reported. If you exclude acquisitions it grew 17 percent, so I think the number is about US$1.8 million. That was as a result of acquisitions. Similarly, if you look at cash productivity, I think our cash productivity was improved by 2.7 percent, and acquisitions represented about 47 basis points of that. So the majority of the improvement is still coming from our core business.

**Andre Hardy - Analyst**

Thanks.

**Operator**

Rafael Bello.

**Rafael Bello - Analyst**

Good afternoon. My question relates more to the foreign exchange impact on your operations, and I realize that depending on the movement of interest rates that would be the impact on the bank. But overall, if in the scenario of the US currency continuing to weaken, could you make a general comment as to how you think that would impact your operation going forward? And two, if again the US currency were to weaken, would that make you more aggressive regarding your acquisitions in the US, both in terms of geography and size?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

In terms of the operations, the change and the weakening in the US dollar has quite an impact on the revenue and expenses, as I outlined. But because we have a natural -- fairly natural US denominated balance sheet and we put in place some hedging programs, the impact on the bottom line is pretty small on a relative basis. In fact, if you look year-over-year we were translating the first quarter of '05 numbers at $1.21 and we were translating the first quarter of '04 numbers at $1.31. So with that substantial change in the dollar, our reduction in net income was $12 million, or about 2 cents a share. So the bank is pretty well matched and manages currency volatility pretty effectively.

In terms of the acquisition strategy, obviously it helps in terms of ability to pay. Your earnings streams also, though, are affected by that. So if you expected the dollar would come back to -- the Canadian dollar back to a lower level, that would have some kind of offsetting impact.

**Rafael Bello - Analyst**

Thank you.

**Operator**

Ian de Verteuil.

**Ian de Verteuil - Analyst**

My question relates to page 33 of the sup pack. Yvan, it looks as if for the first time in my memory anyway the bank actually has a positive gap. Can you talk about from here what caused sort of the big change in your positioning, one? Two, how is it that when rates increase it's positive to earnings and when rates decrease it's positive to earnings? And as well, talk about how in this quarter the trading revenues are impacted by the yield curve versus the spreads, which it looks as if they almost offset one another. Trading was very good and spreads seemed to be quite weak. Thanks.

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

If you look on page 33, I think the story is that towards the middle there. If you look at where it says 100 basis point increase, and how sensitive the earnings would be, if you look at the first column, which is structural column, which is really corporate treasury, and obviously what they did there, they repositioned themselves their overall balance sheet position in order to be more sensitive to an increasing interest rate environment.

In the case on the next one, which is the money market accrual book, this is really our IMM book, international money market book, our Canadian money market book, and also we have a domestic US money market book, which is on an accrual basis. And as you can see, if interest rates were to increase overnight by 100 basis points, the impact for all of those money market books would be at this point in time, as of January 31st, $52 million negative impact.

The point to remember here is this is an overnight move with no management interference or any kind of management of the interest rate gap associated with the portfolio. The thing to remember is even though interest rates are rising, we still carry a positive interest rate spread against those portfolio. So as long as we're capable of maintaining the yield of the overall portfolio ahead of the increase that we're forecasting, we will have a positive spread emanating out of those accrual book. The issue of course is as interest rates are rising as opposed to having a stable yield curve with a positive carry is that the spread is narrowing. That's what you're seeing in IBG from our accrual book, the spread is narrowing because as the cost of funding goes up, the spread emanating from those accrual book is not as great as it used to be.

The next column explained why our trading books are doing well is in the US particularly we anticipated that interest rates would be rising, and therefore all of our trading books, most of them anyhow, took a position that would be anticipating those kind of moves. That's why you see quite a significant change from October 31st through January 31st for 100 basis point increase in our trading books. We move in October to a negative impact of 21 million to now a positive impact of 37 million.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Also, one another factor regarding the VIEs and the margins compression resulting in it, it's from bringing the assets on the balance sheet. But we also reclassified 15 million of revenue from spread to non-interest revenue, which would also affect your run rate numbers when you're looking at it.

**Ian de Verteuil - Analyst**

So just backing up a little bit, so from here what you're saying is the IMM book, which is in the accrual, is what drives the spread in the IBG and the marked-to-market drives trading?

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

Yes that's correct.

**Ian de Verteuil - Analyst**

So assuming that not a lot of change in the yield curve or the absolute level of interest rates from here, or even a little bit of help -- a little bit of a steeper curve than we have, what do you think on these trading numbers and the spread numbers? Do they offset one another as we move from here?

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

You can see the differential on this page, 37 versus 52. They're not perfectly aligned, but they're somewhat aligned. And I would say -- and this is once again assuming overnight 100 basis point move upwards. I think the key for us is if you look at the yield curve as it stands today, you could have -- you could put on your books assets at six months duration around 310 to 315. The actual cost of funds today is at 250, and we anticipate the next Fed meeting it is going to go to 275. So the question for us in the next 6 to, let's say, 12 weeks will be how do we anticipate the Fed monetary policy and at what pace will they continue or at what point in time in fact stop rising interest rates, and what is the risk-reward versus the yield curve as it stands today. I think those are the kind of decisions that the desk has to take over the next 2 months or 2.5 months as we have some of our accrual assets maturing, and we're going to have to make adjustment as to what we anticipate from an interest rate point of view.

**Ian de Verteuil - Analyst**

Thank you. That's very helpful.

**Operator**

Darko Mihelic.

**Darko Mihelic - Analyst**

My question is for Karen. On page 18 of the supplemental, on the asset securitization, it looks like you have got fewer outstanding balances of credit card loans. Is that going to be something we can expect from BMO going forward?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

We did not renew one of the programs last year, and that's why the run rate is lower.

**Darko Mihelic - Analyst**

So when we look at the impact of the securitization on the statement of income, is it safe to say now that within P&C you're getting more net interest income from credit cards? Is that correct?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

More net interest income? Yes.

**Darko Mihelic - Analyst**

So that's kind of also helping your margin, I presume.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Yes.

**Darko Mihelic - Analyst**

Great. Thank you.

**Operator**

Michael Goldberg.

**Michael Goldberg - Analyst**

I have a few questions. First of all, did VIEs affect risk-weighted assets? And if so, how much? And would that come off also?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

They did not. They affected adjusted assets by 21 billion and OFSI gave us the risk weighting of 0, so there was no impact on risk-weighted assets.

**Michael Goldberg - Analyst**

The next area -- question that I have has to do with the change in approach to transfer pricing. Can you explain why the new approach to transfer pricing? And on the new transfer pricing approach, are you allocating any treasury revenue to segments? And if not, where is treasury revenue being included and what's the trend of the treasury contribution look like on the new transfer pricing approach that you're using?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

The changes related to us implementing a new management information system, which we had implemented a couple of years ago, as you may recall, at Harris, and then this year we put it in place at BMO. And it really has three effects. One is we have activity-based costing, so we have a little difference in our cost allocation. The other is our funds transfer pricing, so that the fund -- the transfer price that the treasury gives to the different businesses is more accurate. And the third is we have more granular information to manage our business. So that's really the net effect of the changes that you would have seen.

**Michael Goldberg - Analyst**

So if everything is on a matched basis now in the actual segments, where does the netted out treasury contribution actually show up?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

The treasury tries to run on a net basis on a fairly clean basis, with the exception of that trading activities, which are -- if you think of treasury, you think of the structural -- the management of the structural balance sheet and the trading activity. Management of the structural balance sheet is intended to end up fairly flat, because we don't take positions in that book. So there's a true-up in Corporate that occurs just because of timing and lags and differences like that. The rest of the treasury operation is in the trading activity in IBG.

**Michael Goldberg - Analyst**

So any trends in things like the shape of the yield curve would show up in trading revenue?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Right. That's where we take any positions, and so trading revenue reflects our clients' trading business as well. And the structural balance sheet is really intended to match the assets and the liabilities.

**Michael Goldberg - Analyst**

Just one last question about transfer pricing. Do you charge IBG the bank's average cost of funds? Do you charge it what they would have to pay for funds on a non-recourse basis to the bank?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

For capital purposes we charge the average cost of funds.

**Michael Goldberg - Analyst**

One other area of question. Looking at US PCG, your non-interest expenses this quarter are down order of magnitude about 15 percent. What expenses have actually been reduced? Are the reductions sustainable? And are you feeling any impact of intensifying competition in Harrisdirect?

**Gilles Ouellette – Bank of Montreal - President and CEO Private Client Group**

Could you just repeat that?

**Michael Goldberg - Analyst**

Your expenses in US PCG are down 15 percent. What expenses have been reduced? Are the reductions sustainable? And are you feeling any impact of intensifying competition in Harrisdirect?

**Gilles Ouellette – Bank of Montreal - President and CEO Private Client Group**

The expenses are down in a number of businesses in the US in the private bank and in Harrisdirect. And we've talked about this in the past, expenses have been with -- we've closed some call centers. We've redone some contracts. We've closed some branches and so on.

With respect to the recent price competition, this started I guess this time last year. We've adjusted our prices. We have had some recent changes. And we've looked at our pricing. And there is one area where we will have to make some changes, which we will make in the next couple of weeks. But it has had some impact on revenues, because in the most recent quarter our trade volumes were up 39 percent and our revenues were up 14 percent. So the average yield per trade has gone down in that period.

**Michael Goldberg - Analyst**

And what impact do you expect the change that you plan to make is going to have?

**Gilles Ouellette – Bank of Montreal - President and CEO Private Client Group**

We've looked at this and we're making some other changes for the cost structure. And we think that with the other changes that we're making, that we're contemplating making, we don't think it is going to have much of an impact. But having said that, it doesn't mean that this is necessarily the end of prices going down. But so far, that's where we are.

**Michael Goldberg - Analyst**

Okay. Thanks a lot.

**Operator**

James Keating.

**James Keating - Analyst**

Page 10 of the sup pack, investment banking, and I guess for even Yvan. I may have misinterpreted -- it sounds like the numbers are pretty good in a whole bunch of respects. But if I'm doing the numbers on page 10 right, did you not have also the tax recovery in that number as well as the merchant banking, and perhaps even year-on-year you're down about 11 percent in-quarter? Is that assumption correct, about --?

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

The 32 million referred to is included in our 236. That is correct.

**James Keating - Analyst**

But also the 21 after-tax for the merchant banking?

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

That is correct as well, yes.

**James Keating - Analyst**

So I deduct both those were down, yet trading was up a lot. And I'm wondering, from a return perspective you mentioned that the pipeline is up going forward, M&A or so?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Before Yvan answers that, don't forget that we reclassified revenue related to our VIEs from the spread to the non-interest revenue. So that actually drove some of that increase in that revenue.

**James Keating - Analyst**

That make sense.

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

On a comparative basis. But there is also business which Yvan will speak --

**James Keating - Analyst**

VIE is income neutral?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Right.

**James Keating - Analyst**

Yes, that make sense.

**Yvan Bourdeau - Bank Of Montreal - President & COO, Investment Banking Group**

From a pipeline point of view, particularly in the US, we see, as I was mentioning earlier, quarter-over-quarter in source currency, our loan balances are up by 500 million, and there seems to be finally some momentum developing there. So that's a good news.

In terms of the M&A also in the US, we have increased the number of personnel professional in this field, and they are really having some impact. So we're much more positive with regard to our M&A activities in the US. And in Canada it looks very stable quarter-over-quarter and looking forward.

The institutional equity LOB line of business is also doing extremely well, as you probably know, in Q1. And we see no reason for that the slow down in the coming three quarters. The debt origination side is actually experiencing a similar kind of positive momentum as the institutional equities.

On the trading front, even though we had some negative impact because of the increase of interest rates, on the other side, because of the environment that we're moving in, our clients are much more active. And it's fair to say, and you saw that in our results, that because of our increased client activities, capital markets overall in the trading revenue improved significantly quarter-over-quarter.

Securitization, also there's an increase in the momentum in that field. And as I said, the volatility we expect will continue in foreign exchange and commodity, which also should be conducive for us to do well on our trading front.

**James Keating - Analyst**

Thank you. Just a follow-on to Darko's question, I was hoping he would ask how much influence securitization in-quarter -- or the change in securitization on cards had on the NIM. Can you just quantify for that for us at all, Karen?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

I'm not sure -- if you look at the sup pack, the page 18, you can see that the impact of securitization related to credit cards has gone from 20 million in the fourth quarter to 1 million negative on this quarter. So that that's the delta there.

**James Keating - Analyst**

That's the NIM impact as well?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Is that the what?

**James Keating - Analyst**

The net interest margin impact?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

No, I would have to break that out further. That's the impact on revenues -- the securitization revenues.

**Rob Pearce - Bank Of Montreal - President & CEO, Personnel and Commercial Client Group**

I don't think it has had a material impact on our NIM, but we're going to have to go check that. Off the top of my head, it's not a material reason for the stability in our margins quarter-to-quarter.

**James Keating - Analyst**

Okay. But I would appreciate a follow-up. It would be nice to just tidy that one up.

**James Keating - Analyst**

Thank you guys.

**Operator**

Quentin Broad.

**Quentin Broad - Analyst**

Just a quick on the -- has it had any impact on the PCLs in the retail bank in the quarter, bringing back on of the credit card

**Rob Pearce - Bank Of Montreal - President & CEO, Personnel and Commercial Client Group**

No, no impact as a result.

**Quentin Broad - Analyst**

Secondly, Karen, just on the merchant bank, is there any other merchant bank holdings outside of those holdings held in subsidiaries?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

No, and that would pick up pretty much them all. Most of them are in IBG and there's a small amount in P&C Canada.

**Quentin Broad - Analyst**

Finally, just understanding the significant change in capital allocation that's now being allocated to the P&C bank, what's going on there that you have decided to reallocate into that group a significant amount of new capital?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Every year at the beginning of the fiscal year we go through our capital allocation process that reflects the business plans of the year and also the run rate from the prior year. And as you know, unless there is a material change throughout the year, we don't change the capital allocation methodology. So we leave it in place. So this is -- what you see, P&C Canada received more capital related to the volume growth, the mortgages and the underlying businesses; Chicagoland, more capital related to the growth and also the acquisitions and the goodwill that supports that, and really just reflects the continuation of the strategy that we're executing against.

**Quentin Broad - Analyst**

So Mr. Pearce and Mr. Techar are carrying 33 percent more capital against their businesses?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Businesses are growing.

**Quentin Broad - Analyst**

Then I guess if I were to look at the ROEs for these businesses as you break them down, P&C Canada and Chicagoland, if I use kind of as a metric RWA to capital on a consolidated -- you give us the consolidated RWA, you give us the consolidated equity, but you don't give us the equity when you break it down into Canada and Chicagoland. If I use consistent RWA to equity, it looks like Canada's ROE in the quarter down year-over-year from 27.9 to 26.2, which isn't that bad. But the US guys are down 15.4 percent down to 12 on a cash ROE basis, which seems like we're being quite challenged. And given this is where you want to grow I guess the question is am I getting these numbers a correct number one? Number two, is this the type of ROE level -- and maybe I've asked this question before, Frank, but is this the type of ROE level where we might expect as you go forward and do these bigger acquisitions?

**Frank Techar - Bank Of Montreal - President & CEO, Harris Bank**

I think the answer is our expectation has always been that as we make the acquisitions the ROE is going to be a challenge in the early years. And if we can continue to improve the operating performance of the core business, which I touched on a bit earlier, continue to grow earnings, continue to integrate acquisitions effectively and improve the productivity, which we have done consistently over the last couple of years and that's our intent going forward, we believe we can move that ROE over time back to the levels that we would find more appropriate.

So there was a big change in this year, as Karen mentioned, from a capital allocation perspective. But I think it does mirror the fact that we are spending more time and money and resources in trying to grow the business. And in the short-term, we're going to see a bit of a depressed return on equity.

**Quentin Broad - Analyst**

So the notion of how I would allocate capital between Chicagoland and Canada is reasonable to kind of extend the RWA to capital that you use in the consolidated book?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Directionally reasonable. Goodwill is a big factor in the Chicagoland.

**Quentin Broad - Analyst**

That's why I wondered whether Canada -- actually I'm overstating Chicagoland's ROE, i.e. Chicagoland would get a greater capital allocation given the goodwill that has --?

**Karen Maidment - Bank Of Montreal - Senior EVP & CFO**

Proportionately, yes, Chicagoland would get a greater allocation because of the goodwill of the acquisitions that have taken place.

**Quentin Broad - Analyst**

Thanks guys.

**Operator**

Ian de Verteuil.

**Ian de Verteuil - Analyst**

I'm sorry to say that since Quentin opened this Pandora's box, I may as well plow right in here. On page 9, just thinking about how Quentin approached the issue of returns in the US versus returns in Canada your ROE at all of PCG is 21 percent, yet it looks as if it has half the assets and looks like 85 percent of the earnings. So if I was to do the same analysis I think the ROE in Canada was 25 or 30 percent and the ROE in the US was about 5. Is that directionally right? And is there an opportunity to take the 5 and put it into the 12 that Quentin came up with in the US personal commercial bank?

**Gilles Ouellette – Bank of Montreal - President and CEO Private Client Group**

That is directionally right. And as you know, the business we brought at Harrisdirect carried a lot of goodwill and attracted a lot of capital. And this is what we've been working on for the last couple of years.

As I said earlier, we feel that we're making progress in the US businesses. If we look at what's happened in the last couple of years we've gone from a loss of $32 million in '03 to a loss of $11 million last year. And this year in the first quarter we had a profit of 3 million. So we feel that we're making improvements in the US businesses and as long as if we were to keep making progress as we are -- and we have patience. It takes a while to build a business like that.

**Ian de Verteuil - Analyst**

So given the fact that the trades today (ph) this quarter went bad and pricing looks as if it's probably going to be lower, you are still confident that there's going to continue to be improvements?

**Gilles Ouellette – Bank of Montreal - President and CEO Private Client Group**

The trades in the first quarter were quite healthy. They were up 11 percent over the previous quarter. But it did translate into revenue growth of 14 percent.

We've looked at the business. Obviously we're not happy with where we are. I think that when we bought the business we didn't anticipate the markets to slow down the way they did. And so we look at the business, as I say, very deeply. And we're making a number of changes to the marketing model, to the website, etc. And based on the consumer research that we've done, we're very optimistic that we're going to be able to get to through the hurdles that we as a bank are looking for.

And in the meantime we're constantly trying to refine our models. I was saying earlier to Michael's question, is that the most recent price changes that we're going to have to make, the offset to that is we're looking at some of the expense levels and some of the changes we can make, and we think we can probably have a saw off (ph). So we're constantly looking at the business model.

But having said that, we're monitoring the situation very closely. And as long as we keep making progress like we have in the last few years, I think we have patience, because this is a business that has an excellent long-term prospect. It's a business that's growing as fast as any business that we have in PCG. And as you know, wealth management prospects are pretty good because of demographics. So we're going to continue working at it, but we're going to monitor very closely.

**Ian de Verteuil - Analyst**

Thank you.

**Operator**

There are no further questions in the queue.

**Susan Payne – Bank of Montreal - SVP, Investor Relations**

Thanks everyone for joining us today. There's one outstanding question that Jamie asked and we will put the answer to that up on the website. If you have any other further questions, please either call me at 416-867-6656 or e-mail us at BMO.com/investorrelations. Thank you and good afternoon.

**Operator**

Ladies and gentlemen, this does conclude your conference call for today. Thank you all for your participation and you may disconnect your lines.