## CORPORATE PARTICIPANTS

**Jill Homenuk**

*Head of Investor Relations*

**Bill Downe**

*CEO*

**Tom Flynn**

*CFO*

**Surjit Rajpal**

*CRO*

**Darryl White**

*COO*

**Pat Cronin**

*Group Head, BMO Capital Markets*

**Dave Casper**

*Group Head, U.S. P&C*

**Cam Fowler**

*Group Head, Canadian P&C*

**Gilles Ouellette**

*Co-Head, BMO Wealth Management*

## CONFERENCE CALL PARTICIPANTS

**Sumit Malhotra** *Scotiabank*

**Steve Theriault** *Eight Capital*

**Meny Grauman** *Cormark Securities*

**Robert Sedran** *CIBC World Markets*

**Gabriel Dechaine** *National Bank Financial*

**Mario Mendonca** *TD Securities*

**Nick Stogdill** *Credit Suisse*

**Doug Young** *Dasjardins*

## PRESENTATION

**Jill Homenuk - *Bank of Montreal - Head of Investor Relations***

Thanks for joining us today.

Our agenda for today`s investor presentation is as follows. We will begin the call with remarks from Bill Downe BMO's CEO followed by presentations from Tom Flynn, the Bank's Chief Financial Officer and Surjit Rajpal, our Chief Risk Officer.

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

We have with us today Darryl White, Chief Operating Officer, Cam Fowler from Canadian P&C, Dave Casper from U.S. P&C, Pat Cronin 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.

Bill and Tom will be referring to adjusted results in their remarks unless otherwise noted as reported.

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 our first quarter report to shareholders.

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

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

Thank you, Jill and welcome to everyone joining us on the call.

Today we announced net income for the first quarter of $1.5 billion and earnings per share of $2.28. Strong earnings growth of 30% was driven by good performance across our businesses and an improved environment compared to this time last year. Although our results benefited from the net impact of the sale of non-strategic assets during the quarter, underlying earnings grew at 19%.

Good revenue growth and well-controlled expenses resulted in continued positive operating leverage. Performance was broad-based, demonstrating momentum across operating groups and geographies.

Credit quality remains good and Surjit will provide details in his remarks.

Our capital position strengthened, with a CET1 ratio of 11.1%. ROE was 15.3%.

Moving to slide 5. I'll review a few highlights from our operating groups.

Our North American Personal & Commercial banking businesses performed well and in-line with our outlook.

Operating performance in Canadian banking was driven by well-diversified balance sheet growth across commercial and personal businesses. Loans grew by 5% and deposits were up 8% as we continue to grow and deepen customer relationships. Expenses continue to be well-managed, up 3% year-over-year. While the gain on sale of Moneris U.S. contributed positively to this quarter's performance, the underlying business generated positive operating leverage and good net income growth.

Our U.S. banking results were also driven by balance sheet growth and improved net interest margin. Expenses remain well-controlled, up approximately 1%, excluding the extra month of Transportation Finance in the current quarter. The sale of a portion of our U.S. indirect auto portfolio impacted top line growth but underlying operating leverage remains strong.

I'm confident in the strides we're making to accelerate the role of technology in delivering a leading customer experience. Building on our long track record of innovation, we continue to advance our transformation agenda in key areas. We're integrating across groups and using partnerships strategically to enhance customer loyalty.

We re-engineered our IT architecture, allowing us to introduce products in a faster and more iterative way in all of our businesses. We're digitizing the way we work, creating a culture of innovation and productivity. More sophisticated data and analytic tools, including machine learning, are enabling more personalized customer experiences and we're enhancing the digital experience for our customers in ways that are intuitive and easy to use.

By way of example, this quarter we introduced secure and convenient payment solutions for our U.S. customers. People Pay provides customers the freedom to send money to another person from their BMO Harris Mobile Banking App. We also expanded the options available in our digital wallet so that is now includes BMO Harris Debit and Masterpass, Apple Pay, Android Pay and Samsung Pay.

In Canada, BMO customers can now open a bank account online in just minutes, expanding the capability we first introduced on our mobile channel last year. The digital adoption rate has increased to 49% with 16% of sales now originated through digital channels. Mobile transactions are up 54% in each of the last two years and we expect these trends to continue.

Moving to BMO Capital Markets. We're successfully executing on a focused strategy, having built an advantaged position across our North American footprint. Net income continues to benefit from a strong contribution in our U.S. segment. We've seen our position in the U.S. market improve consistently as we've refocused our efforts on core sectors in the mid-cap segment. Importantly, we've been disciplined in our execution, closely managing expenses to improve efficiency and return on equity.

Turning to Wealth Management, strong net income growth reflects both favourable market movements that benefited insurance and traditional wealth management, together with good business growth and a focus on efficiency. The strength of BMO Asset Management's mutual fund business has been recognized in the 2016 Barron's/Lipper review of Best Fund Families. Our U.S. family of funds achieved an overall top 20 ranking and our Taxable and Tax-Exempt bond funds ranked in the top 5.

At the same time, we continue to expand our ETF offerings in Canada, Europe and Asia providing customers with more choice in structuring their portfolios and navigating markets.

Across the Bank we're executing against a clearly defined strategy and demonstrating the agility to adapt and innovate as the environment evolves and we're helping our customers to do the same. Businesses are highly integrated and benefiting from our re-engineered technology infrastructure which serves as an effective foundation to make changes faster and at a lower cost.

The strategy is yielding tangible sustainable results and we're confident we'll continue to build on this momentum.

The customer remains at the center of the five strategic priorities guiding the bank. These priorities are anchored in a responsibility to create lasting value for all our stakeholders. In that spirit it's a source of pride for everyone at BMO to have been named a 2017 Catalyst award winner for accelerating diversity, inclusion and gender equality in the workplace.

If there's one thing we've learned over time, it's the importance of keeping the subject alive by making it a permanent part of the business agenda.

In our annual report to shareholders, which you can he review online, we speak about linking sustainability principles to the achievement of our strategic priorities. For 200 years the Bank of Montreal has incorporated a deep sense of responsibility in the way we do business. And as we mark BMO's bicentennial, we're focused on our proven ability to adapt and transform as we refine our strategy to meet the challenges of tomorrow. We've reshaped the Bank while reinforcing our core strengths, and our results confirm it.

Our business model works and thanks to a unique set of advantages the Bank is ideally positioned for future growth. And with that I'll turn it over to Tom to present the Q1 results in more detail.

---

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

Thanks, Bill.

I'll start my comments on slide 8. Reported EPS for the quarter was $2.22 and net income was $1.5 billion.

As Bill mentioned, we had good underlying performance across the Bank in the quarter.

Results in the quarter also benefited from the combination of the sale of Moneris U.S. and the sale of a portion of our U.S. indirect auto loan portfolio, which resulted in a net gain of $133 million after-tax or $0.20 per share. Consistent with past practice for similar gains and losses, this amount is included in adjusted earnings.

Adjusted EPS was $2.28 and net income was $1.5 billion, both up 30% year-over-year or 19% excluding the net gain.

Adjusting items are similar in character to past quarters and are shown on slide 25. Adjusted net revenue of $5.4 billion was up 13% from last year with the net gain contributing 3% of that.

Net interest income was up 2%.

Adjusted net non-interest revenue was up 24% primarily due to the gain on sale as well as higher trading revenue, insurance revenue, and underwriting and advisory fees.

Adjusted expenses were up 4% from last year. The increase was primarily due to higher employee-related costs in-line with performance.

On a net revenue basis, the adjusted operating leverage was 9.1%, with 3% of that coming from the net gain. The adjusted efficiency ratio improved 530 basis points to 61.5%, with 150 basis points of the improvement due to the net gain. On a reported basis, efficiency was 62.6%.

The adjusted effective tax rate was 19.8%, up from 16.2% a year ago and was 24.4% on a teb basis down from 24.8%.

Moving now to slide 9. The Common Equity Tier 1 ratio was 11.1% up from 10.1% last quarter. As shown on the slide, the increase reflects lower risk weighted assets, strong earnings, favourable pension and post-retirement benefit impacts, and share issuance.

Risk weighted assets were down from the prior quarter due to the benefit of our focus on managing certain risk positions and executing on risk mitigation opportunities as well as from foreign exchange and methodology changes.

Moving now to the operating groups and starting on slide 10. Canadian Personal & Commercial adjusted net income was $744 million, and includes the $168 million gain on the sale of Moneris U.S. Net income growth was good with and without the benefit of the gain.

Revenue growth of 15% was driven by higher non-interest revenue and higher balances partially offset by lower net interest margin. The gain is included in non-interest revenue and contributed 11% to the 15% revenue growth.

Total loans were up 5% and deposit growth was good at 8%.

NIM was down 2 basis points from last quarter, largely due to the low rate environment.

Expense growth was 3% as we balance investing in the business with good expense management.

Operating leverage was positive with and without the benefit of the net gain.

On provisions, both consumer and commercial losses were down compared to the prior year.

Moving now to U.S. P&C on slide 11. The adjusted net income was $272 million, up 3% from last year. The comments that follow speak to the U.S. dollar performance.

Adjusted net income of $205 million was up 7% from last year. Income includes a $27 million loss on the sale of indirect auto loans, which reduced income growth by 14%.

Revenue was up 3%, driven by an additional month of BMO Transportation Finance being included in the results this year. Higher deposit revenue and increased loan volumes, were partially offset by loan spread compression and the impact from the loan sale, which reduced revenue growth by 5%. Average loan growth was 6%.

Net interest margin increased 12 basis points from last quarter, largely from benefits from reducing the lower yielding auto loan portfolio and from the Fed interest rate increase.

Expenses were up 5% year-over-year primarily due to an additional month of the acquired Transportation Finance business being included in results in the current quarter.
On an adjusted basis, operating leverage was negative 1.6% and it was solidly positive if you remove the 5% impact from the loan sale.

Credit provisions were down slightly from last year.

Turning now to slide 12, BMO Capital Markets had strong net income of $376 million. Results reflect good execution of our strategy, strong U.S. performance and constructive markets.

Revenue was $1.2 billion, up 21%, driven by strong performance in trading products and growth in investment and corporate banking.

Expense growth of 9% largely reflects higher employee costs in line with performance.

Operating leverage was double-digit and the efficiency ratio was 58.8%.

Provisions for credit losses were down from last year due to net recoveries in the current quarter.

Moving now to slide 13, Wealth Management adjusted net income was $281 million, up significantly from last year.

Adjusted earnings in traditional wealth were up 16% reflecting improved market conditions, business growth and efficiency benefits.

Insurance earnings were up significantly, mainly due to favourable market movements relative to a year ago and business growth.

Adjusted expenses declined 1% year-over-year due to favourable FX impacts and good expense management partially offset by higher revenue-based costs.

Turning now to slide 14 for Corporate Services. The net loss was $143 million, compared to $48 million a year ago. Results declined due to lower non-teb revenue from above trend levels a year ago, lower credit recoveries and higher expenses.

To conclude, the strong results in the quarter demonstrate the growth benefits of our business mix and continued good operating discipline across the Bank.

With that I'll hand it over to Surjit.

---

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

Thank you, Tom and good afternoon everyone.

Starting on slide 16, our PCLs were $173 million or 19 basis points, flat compared to the prior quarter.

PCLs in the Canadian P&C business were down as a result of continuing below trend consumer losses.

In U.S. P&C, PCL was also slightly down with low new reserves in the commercial business more than offsetting consumer losses that increased after two low quarters.

Capital Markets had a PCL of negative $4 million, once again benefiting from recoveries in the oil and gas sector.

On slide 17, formations and gross impaired loans are both down with gross impaired loans decreasing 2 basis points to 60 basis points.

Turning to slide 18. The risk characteristics of our Canadian residential portfolio remain strong. 57% of this portfolio is insured and our loan to value ratio on uninsured mortgages remains low at 54%.

Looking at the GVA/GTA, which have been the focus of much attention, we are well positioned with loan to value, delinquency and bureau scores all better than the national average. Adjudication is based primarily on the financial strength of the borrower and we remain prudent in our underwriting practices with lower LTVs for higher risk segments.

In summary, good results in U.S. commercial and Capital Markets, which reflect normal variability in these businesses, contributed to another good quarter from a credit risk perspective.

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

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

First question is for Tom Flynn and it goes to your capital ratio.

So there's obviously a reversal of the Basel I floor, RWA floor inclusion that we saw for the first time last quarter but I think it has impacted your numbers over the last year after the restatement.

That $15 billion swing, could you maybe help me understand what triggers that going away this quarter, and from your perspective what is the likelihood that we see this line item re-emerge again going forward in terms of your capital sustainability?

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

So the Basel I floor risk weighted assets did go just a little below, zero in the quarter. That reflected, I would say, two categories of things.

Firstly, accounting for almost half of the reduction, we took a series of actions focused on reducing assets that are heavy from a Basel I perspective and did that through the course of the quarter and referred to that in the press release and on the slide.

And then, in addition, there were a number of other things that helped reduce the number and they would include higher source currency Basel III risk weighted assets, pension impacts, FX, and risk weight changes. And those things contributed the balance of the change.

And then in terms of the go-forward expectation, two things. Firstly, notwithstanding the strong improvement in the ratio in the quarter, our ordinary course move through time expectation would be that the ratio would go up by in the zone of 10 to 15 basis points a quarter.

It's possible in some quarters the Basel I floor will pop up it's just slightly under water this quarter. But as we look at it, that's just part of what drives the ratio. And overall, we would expect what I'd call a traditional normal build through time.

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

So when we look at that line - the Basel I capital floor - so over the past five quarters previous to this one it had a steady increase before dropping off.

So when you say it's just slightly below water - that's what you said - if it was to re-emerge, it would be at a smaller level than the larger ones we saw in the back half of 2016. Am I thinking about that the right way?

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

That's correct. It should be at a smaller level. I'd say we're managing it in a tighter way in order to get that result.

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

Let me wrap it up here, for you, or maybe for Bill.

I feel like your capital deployment and management strategy has been pretty consistent for a number of years now, after you undertake an acquisition you spend some time building the capital back up, usually more quickly than I've expected, and you put the buyback in place and are somewhat active on it until you find something else from an acquisition perspective that works.

By filing for the NCIB today, is it reasonable to think you're in a position now that we will see you active on the buyback in the near term if and when it's approved in short order? In other words, the step-up in capital today gives you enough comfort that you can activate the NCIB ?

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

I think the first two-thirds of what you just said was almost a perfect recall of what we say in almost every call.

Having the normal course issuer bid back in place gives us the flexibility to repurchase stock and obviously the higher ratio gives us the ability to transact if opportunities were to present themselves.

What Tom has laid out is the completion of a set of actions we took in 2016 after announcing a significant acquisition, and that's the pattern that we've really held to. It's rebuild capital in order to restore flexibility and then have the option of deploying that either through stock purchase or when the opportunity presents itself, businesses that are complementary to our existing suite of capabilities.

So I wouldn't say it signals anything different than what we've always said, that we want to have maximum flexibility.

---

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

Thanks for your time.

---

**Steve Theriault – *Eight Capital - Analyst***

Tom, the U.S. margin is up nicely this quarter. I saw a mention of the loan sale and higher rates. Anything else that's driving that, and all else equal, is there more upside looking out to Q2 and beyond from the December rate hike and the divestiture? How should we think of that?

---

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

We were happy with margin in the quarter.

It was up 12 basis points from Q4 which is a nice increase.

A little over half of that came from the sale of the indirect auto loans and they are a lower yielding part of the loan portfolio and as a reminder, when we announced the acquisition of Transportation Finance we said we would reduce that portfolio by about half, and the sale that we had in the current quarter really accomplishes that objective and does improve the margin.

And then around half of the increase came from the Fed increase that we had in the quarter. And there is some upside to that that we'll see in the next quarter.

So we'd expect the NIM to be up a bit next quarter, based mainly on the remainder of the Fed increase rolling through and a little bit of benefit also from the indirect auto.

---

**Steve Theriault – *Eight Capital - Analyst***

Fair to say that's about half of the benefit from the December rate hike that you saw in Q4?

---

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

In the zone of half, yes.

---

**Steve Theriault – *Eight Capital - Analyst***

Okay. Then maybe also for you Tom. The adjusted loss in the corporate services has been higher now for a couple consecutive quarters. Would you still guide us to somewhere closer to $100 million per quarter? Or has anything changed in there that would also be higher?

I ask in part because I'm seeing higher expenses in the report to shareholders. So I'm wondering if there are more unallocated expenses? How should we think about that line item after a couple quarters of lumpiness there?

---

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

A couple of things. Over time we've had some residual expenses in corporate and some residual negative revenue and we've also had the benefit of loan loss recoveries. There was a point in time a few years ago where those were significant, but they have been helpful over the last couple of years, although in a smaller way, and at this point those have pretty much gone away.

And so with those going away, the net negative in corporate is likely to be on average a little higher this year than it's been over the last couple of years. And the level we're running at this quarter, negative 140, is actually pretty much in-line with the average level that we've had over the last year.

The numbers do move around quarter to quarter. Some of that is timing of spend. Some of that is residual items from a Treasury perspective.

And as a reminder, in Q1 of every year we do have our eligible to retire expense and that was included in the expense number in corporate for the corporate segment in the current quarter and that was about $30 million.

So bit of a long answer. PCLs are part of the story. But with the benefit we've had from that over time going away I'd expect a slightly higher net negative in corporate going forward like you saw this quarter.

---

**Steve Theriault – *Eight Capital - Analyst***

Obviously Tom it bumps around, but in the range of what we saw this quarter?

---

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

That's as good a number as any.

---

**Steve Theriault – *Eight Capital - Analyst***

Thanks a lot. Thanks for the time.

---

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

Hi. I'd like to ask about your outlook for U.S. bank valuations.

One of your peers talked about the fact that they thought that an ability to generate synergies and return on capital remains challenging at best. I'm wondering if you agree and if not, what's your outlook in terms of U.S. bank valuations right now as you think about the M&A opportunities?

---

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

It's Tom. I'll take that.

I don't think I'll comment directly on bank valuations but I will say that we feel good about the ability to grow our U.S. business organically. And over time we've made meaningful investments in our U.S. platform.

We do think we've got the ability to drive positive operating leverage off of it and that's particularly true in a better revenue environment, which we certainly had in the first quarter and we're hopeful that we'll have over the balance of the year.

So we're happy to have the U.S. exposure, expect it to grow, but the focus of the management team is really on generating good organic growth.

---

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

Thanks for that.

---

**Robert Sedran – *CIBC - Analyst***

Hi. Good afternoon. I wanted to go back to the portfolio sale in the U.S. I guess it's for Tom.

I'm just curious what gave rise to the loss. Whether it was rates or credit quality, or something else? And whether there's any contemplation of, now that you've kind of gotten to where you said you'd get to, a) how you chose the ones that you sold and b) whether you might be inclined to do a little bit more.

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

It's Tom. I'll take that.

The loss was actually driven by writing off a deferred in effect sales commission that we have on the portfolio. And we call the portfolio the indirect auto portfolio because it's originated through auto dealers and we pay a fee for that and we amortize that fee over the life of the loans. And so in the sale of the loan, we wrote off the balance of that deferred commission and the financial asset itself, for the loan was basically sold at a price pretty close to par.

And in terms of future direction for the portfolio, it has been a lower yielding portfolio. We wanted to reduce it for that reason.

We do think being in the business, in our footprint makes sense and so we'd expect the portfolio to continue to be in the zone that it's in now, maybe a little bit of growth, but not significant. And we're not looking at completing another sale.

**Robert Sedran – *CIBC - Analyst***

So this is very much not a business in runoff it's just a business now that you're going to replace as things roll off and kind of grow with the market.

Is that the idea here?

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

That's correct.

In a sense we accelerated the reduction in the portfolio that we talked about at the time of the Transportation Finance acquisition and we're very much in the business with our customers in our footprint and that's what the remaining business represents.

**Robert Sedran – *CIBC - Analyst***

Thank you.

**Gabriel Dechaine – *National Bank Financial - Analyst***

Good afternoon. My first question is on this RWA reduction.

When I see these things happen it's positive at the outset because you get a nice little capital boost but then I have to ask myself if there's any negative impact on earnings.

If I look at your return on risk weighted assets it's around 2%. I suspect the risk weighted assets that went away this time aren't that lucrative.

But is there any material or noticeable earnings impact from this RWA reduction?

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

There is some impact but it's modest.

We were focused on B1 assets, and Basel I as you know is less risk sensitive, so we were able to reduce assets in a pretty efficient way.

And I think of the run rate impact as being a little under $5 million in net income per quarter for the actions that we took.

**Gabriel Dechaine – *National Bank Financial - Analyst***

Ok. And then just a follow-up to the comment you made about the U.S. margin.

So 12 basis point increase sequentially, half of that is tied to the Fed rate hike plus a little bit more. And if I take 6 basis points - let's just use what happened this quarter - it works out to about $100 million of net interest income.

So if there are more this year -- is it linear? Are we going to see that much of an impact on your revenue in the U.S. this year if these rate hikes happen - $100 million a quarter?

---

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

That seems high off one increase. But I guess I'd say two things.

Number one, we absolutely have a positive sensitivity to higher U.S. short rates and we're hopeful the Fed moves again this year. We'll see.

And then secondly, this is diminishing as rates move up or through time. Because customers become more sensitive as money has a higher value. And so it's not a linear curve. It does decline through time.

---

**Gabriel Dechaine – *National Bank Financial - Analyst***

Of course. Then just a quick final one.

I appreciated your annual report disclosure on sensitivity to U.S. tax rate changes and it clearly outlined the benefits of a reduction to the statutory rate. Did you take into consideration any offsets, interest deductibility, anything of that nature that you would call out, something we should be aware of that could water that down?

---

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

From our perspective it's too early to comment on that. There's lots of public discussion about the direction that U.S. tax policy might take and we'll wait for the process to work through.

Rather than commenting on different things that might or might not happen, but given the commitment that the administration has had to lowering the corporate tax rate, we get the sensitivity which was that a 5% reduction in the corporate tax rate in the U.S., it would increase our annual earnings by about $75 million.

And going forward as the proposals get firmed up we'll give additional colour.

---

**Gabriel Dechaine – *National Bank Financial - Analyst***

Appreciate the responses. Thanks.

---

**Mario Mendonca – *TD Securites - Analyst***

Hi. Two quick questions.

First, operating leverage in the Capital Markets business - not something I look at very often. I was a little surprised at how big the operating leverage has been over the last three quarters, it`s just not something I would expect.

Is that really a function of the mix or is that a change in philosophy toward expenses in Capital Markets?

---

**Pat Cronin – *Bank of Montreal – Head of BMO Capital Markets***

It's actually it's a combination of both of those things.

Certainly if you look at the revenue increases that we've seen in the U.S. market, there we're getting very strong operating leverage, consistent with what we have said for a while. The installed base there of capital and FTE, and we have said it for a long time, has significant upside potential on revenue. So we expect to get a very high degree of operating leverage there.

And at the same time, we have been very focused on costs generally speaking, both in the U.S., and also in Canada, with a much higher level of discipline over the course of the last two years.

So the combination of both of those things is driving that operating leverage.

The other thing you're seeing as well though, is year-over-year you're seeing revenue comparisons particularly to Q1 last year where we had a fairly weak Q1. So you're seeing larger revenue growth numbers than you might otherwise see. As we roll forward, the comparison of strong revenue quarters will start to temper the operating leverage that you’re seeing.

---

**Mario Mendonca – *TD Securites - Analyst***

What was the nature of the revenue in the U.S. that would have been supportive of the big operating leverage?

---

**Pat Cronin – *Bank of Montreal – Head of BMO Capital Markets***

It was really broad-based.

Obviously market conditions were very conducive in the quarter and there were some catalyst events that are well-known like the Fed rate hike, the OPEC decision and the presidential election that released a fair bit of pent-up demand.

And client volumes - and you can see it in most of the market volume related metrics. You saw very significant increases, certainly year-over-year but even quarter-over-quarter. So market volumes were higher generally speaking across the board.

---

**Mario Mendonca – *TD Securites - Analyst***

And you're saying those revenue streams didn't give rise to similar levels of expense growth?

---

**Pat Cronin – *Bank of Montreal – Head of BMO Capital Markets***

Absolutely. And like we've said for a while, we think we have a platform there that can support a significant increase in revenue without a commensurate increase in cost.

---

**Mario Mendonca – *TD Securites - Analyst***

Now a quick question for Tom.

I'm going back to the notes I have from last quarter where I think you offered that U.S. margins could -- we could see 2 to 3 basis points of margin pressure going forward each quarter.

It sounds like things have changed, but the rate increase -- I thought that was sort of well-known around that time. Am I missing something? What else may have changed?

---

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

I think that guidance was absent a Fed increase.

---

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

Oh, I see.

---

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

So that's the difference.

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

Thank you.

**Nick Stogdill – *Credit Suisse - Analyst***

Hi. Good afternoon. Just a follow-up on the Basel I floor reduction.

Were capital relief trades a material driver of that reduction in the Basel I floor and is that is a tool you could continue to use going forward to mitigate the return of the floor?

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

We looked at a number of ways to reduce the RWA intensity of some of the Basel I assets. We did have some credit default transactions that were part of what we did and looking forward I'd say we have some ability to manage the numbers. It's not complete. And like we talked about earlier, the B1 floor is sort of just below being operative. And so there is some chance that it will be part of the ratio as we go through the year.

But overall, looking at risk weighted assets and our growth in capital we'd expect some growth in the ratio through time like we've seen looking back.

**Nick Stogdill – *Credit Suisse - Analyst***

Thank you. And then just a quick question for Surjit.

Another strong quarter on credit with PCLs at 19 basis points.

Is mid-20s for 2017 still a realistic number and if so, what business lines do you see ticking up from here?

**Surjit Rajpal – *Bank of Montreal - CRO***

Well, I still think mid-20s is a good number to work with because there is variability in the commercial and corporate businesses and while the economic environment we're operating in is very good at this point in time, and the credit is again, from a loss perspective, in a very benign environment, I don't want to become complacent but I would say mid-20s is a good number to work with.

**Nick Stogdill – *Credit Suisse - Analyst***

Okay. Thank you.

**Sumit Malhotra – *Scotia Capital - Analyst***

A couple of more number questions to clarify.

First off, in U.S. banking, commercial loan growth has been one area where this Bank has had very strong performance for a long time. At least on a sequential basis, if I'm looking at this correctly, it looked like the growth was much flatter than we've seen in a long time.

Can you give me some detail on what you're seeing in the commercial portfolio and why that portfolio growth slowed so abruptly?

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

You're right, we have had really very strong, probably above market growth for two or three years now.

The last quarter, a couple things, and I think we've probably seen a fair amount of press around this and just what's happened to loans and commercial loans of late, and we were probably no exception.

We saw one thing that was unique for us, and that was utilization in our revolving loans was down close to a percent. That's $700 - $800 million, and that's a reasonable amount. We still expect our loan growth to be very good this year. We expect it to be above market, whatever the market will be, and our pipelines continue to be good. We continue to add new clients and I feel confident about continued good growth. But as we've guided in the past, not at the levels we've had in the past.

---

**Sumit Malhotra – *Scotia Capital - Analyst***

This business, even obviously off the last year, you've had your year-over-year benefit from the trade finance acquisition. But even next to that it looks like this has been a double-digit business for quite some time and it's been carrying a lot of weight given that the consumer portfolio's been declining.

When you say "very good", do you still think that commercial for BMO is a double-digit growth business in the U.S.?

---

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

When you call the trade finance, I think you meant transportation finance?

---

**Sumit Malhotra – *Scotia Capital - Analyst***

Yes, sorry, transportation finance.

---

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

The transportation finance, even without that, the growth has been double-digit.

It's hard to tell over time where it will be. I feel more confident saying we'll be at or above the market than to be able to predict specifically where it would be for the year. I think it will be good. I would say it will probably be a little bit lumpy. I would expect it to be in the around 10%.

That's what I would expect based on what I see today.

---

**Sumit Malhotra – *Scotia Capital - Analyst***

Last one I would say is probably for Tom.

Your insurance business – so the earnings that you show us from insurance are up about $25 million quarter-over-quarter. I think we've all gotten used to some volatility in this business based on what happens with long yields, good or bad.

When we look at this $104 million number, is there what you would term somewhat of a one-off in here as a result of the large upward move in yields, or is $100 million or so more of a run-rate number now based on where yields ended the quarter?

---

**Gilles Ouellette – *Bank of Montreal, Co-Head of Wealth Management***

The way it works is that when rates go up you get a one-time bump.

As you know, for the last six or seven years, rates have been going down and we've had this headwind. For the last two quarters the rates have been going up and that's been helpful. The fourth quarter, but much more so this quarter.

The underlying business is probably yielding about somewhere around $65 million a quarter. But this quarter we get the benefit of something like $40 million which is a combination of interest rates and equity moves, and the numbers roughly, Sumit are, for 100 basis points in long rates, that's probably worth $65 million after-tax.

And for a 10% move in the equity markets that's worth about $30 million after-tax.

So if we're expecting going forward rates to be going up and markets to be going up, this should be a tailwind for us.

**Sumit Malhotra – *Scotia Capital - Analyst***

All right. So that's some really good detail. Thank you for that.

Run rate has been around 65. The last two quarters have helped. Based on these factors continuing to work, that's where the bump to run rate earnings comes into play.

**Gilles Ouellette – *Bank of Montreal, Co-Head of Wealth Management***

If you're looking at a flat rate environment, probably start around 65.

**Sumit Malhotra – *Scotia Capital - Analyst***

That's very helpful.

Thank you for your time.

**Doug Young – *Desjardins Capital Markets – Analyst***

I didn't catch that. Did you say a 100 basis point increase in equity markets equals $65 million? Did I get that number right?

**Gilles Ouellette – *Bank of Montreal, Co-Head of Wealth Management***

No, the 100 basis points increase in long rates is $65 million. And a 10% increase in the equity markets is worth around $30 million after-tax.

**Doug Young – *Desjardins Capital Markets – Analyst***

$30 million. That's on an annual basis or that can go through in a quarter?

**Gilles Ouellette – *Bank of Montreal, Co-Head of Wealth Management***

It goes through the quarter. That’s what’s experienced in the quarter, that’s what we’re going to get. We get some fraction of that.

**Doug Young – *Desjardins Capital Markets – Analyst***

My other question is for Gilles too.

Traditional Wealth Management earnings were extremely strong. They were up 16% year-over-year. AUM I think was up around under 2%. AUA I think was down.

So just trying to triangulate. It sounds like expense management was a big contributor. Can you maybe break it out a little bit in terms of the delta between what we're seeing in the traditional earnings growth and what we're seeing in what I would consider to be the main metrics that would drive earnings.

**Gilles Ouellette – *Bank of Montreal, Co-Head of Wealth Management***

The single biggest factor for us is the foreign exchange. As you know, in the asset management business, half of the book is in the UK and so obviously the pound coming off in the last few quarters has had a real impact on AUM.

That's going to rectify itself in another couple of quarters. So when you look at year-over-year, starting in the third quarter, we're not going to have that.

But the reason that you don't see much of an increase in rates or increase in assets converted back to Canadian is because of FX. In constant currency the numbers are quite different than that. The assets are growing in the UK, et cetera. But when you convert it back, compare that to last year, we're not getting the impact.

But to your point though, there's been a real drive for efficiency as you know around here for the last few years. We've had some real dividends this quarter. I think you look at our top line grew by something in the order of about 13% and our expenses actually came off in spite of the fact there's revenue-based cost in this.

We've had some real benefits from the work we've done in the last couple of years, and we expect to get more of this going forward because, as you know, around BMO it's been a big emphasis the last couple of years.

---

**Doug Young – *Desjardins Capital Markets – Analyst***

So just to follow-up. I understand the UK pound being down impacts the AUM. Does that not impact your revenue and your earnings as well, or have you hedged out any of your currency exposure that you're benefiting from?

---

**Gilles Ouellette – *Bank of Montreal, Co-Head of Wealth Management***

We're dealing with the issue of why the AUM hasn't moved up but the revenues have. And it's the book that's been impacted by the pound. But we're having the same impact on revenue. In constant currency the revenues are higher by something if the order of 3% more than what you see there, as are the costs also.

So how would I explain it -- it's the book that's being impacted more than the revenue. The earnings are getting the benefit from revenues and from the cost reductions.

---

**Doug Young – *Desjardins Capital Markets – Analyst***

Tom, you're not hedging out any currency exposures here, are you?

---

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

We're not. We don't hedge either the U.S. dollar or the pound.

---

**Doug Young – *Desjardins Capital Markets - Analyst***

Okay. Thank you.

---

**Jill Homenuk – *Bank of Montreal – Head of Investor Relations***

Thanks everyone for joining us on the call today.

We look forward to talking to you in May.