BMO Financial Group

Q1 2009 CONFERENCE CALL

CORPORATE PARTICIPANTS

Viki Lazaris
BMO Financial Group - SVP IR

Bill Downe
BMO Financial Group - President and CEO

Russ Robertson
BMO Financial Group – Interim CFO

Tom Flynn
BMO Financial Group - Chief Risk Officer

Frank Techar
BMO Financial Group – President & CEO, P&C Canada

CONFERENCE CALL PARTICIPANTS

Andre Hardy
RBC Capital Markets - Analyst

Darko Mihelic
CIBC World Markets - Analyst

Jim Bantis
Credit Suisse - Analyst

Michael Goldberg
Desjardins Securities - Analyst

Mario Mendonca
Genuity Capital Markets - Analyst

Robert Sedran
National Bank Financial - Analyst

Brad Smith
Blackmont Capital - Analyst

Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the 'safe harbor' provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2009 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

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

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; interest rate and currency value fluctuations; changes in monetary policy; the degree of competition in the geographic and business areas in which we operate; changes in laws; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates; operational and infrastructure risks; general political conditions; global capital market activities; the possible effects on our business of war or terrorist activities; disease or illness that impacts on local, national or international economies; disruptions to public infrastructure, such as transportation, communications, power or water supply; and technological changes.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 30 and 31 of BMO's 2008 Annual Report, which outlines in detail certain key factors that may affect BMO's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

In determining that the acquisition of American International Group, Inc.'s Canadian life insurance business is expected to close by June 1, 2009, subject to regulatory approval, we have assumed that our joint plans for the completion of pre-closing activities proceed according to the mutually agreed schedule and that the results of our pre-closing activities are consistent with our expectations. In determining that the acquisition is expected to reduce our Tier 1 and Total Capital Ratios by less than 15 and 25 basis points, respectively, we have assumed that the purchase price will approximate $375 million.

In concluding that mark-to-market adjustments to derivative hedges that do not qualify for hedge accounting are expected to reverse over the life of the hedges with no economic loss, we have assumed that we will hold the derivative instruments until their expiry.

Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured investment vehicles discussed in this document, including the amount to be drawn under the BMO liquidity facilities and the expectation that the first-loss protection provided by the subordinate capital notes will exceed future losses. Key assumptions included that assets would continue to be sold with a view to reducing the size of the structured investment vehicles, under various asset price scenarios, and that the level of defaults and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding continuing difficult market conditions.

Assumptions about the level of defaults and losses on defaults were material factors we considered when establishing our expectation of the future performance of the transactions that Apex Trust has entered into. Key assumptions included that the level of defaults and losses on defaults would be consistent with historical experience. Material factors that were taken into account when establishing our expectations of the future risk of credit losses in Apex Trust included industry diversification in the portfolio, initial credit quality by portfolio and the first-loss protection incorporated into the structure.

Assumptions about the performance of the Canadian and U.S. economies in 2009 and how it would affect our businesses were material factors we considered when setting our strategic priorities and objectives and our outlook for our businesses. Key assumptions included that the Canadian and the U.S. economies would contract in the first half of 2009, and that interest rates and inflation would remain low. Our current expectations are for weaker economic conditions and lower interest rates than we anticipated at the end of fiscal 2008. We also assumed that housing markets in Canada would weaken in 2009 and strengthen in the second half of the year in the United States. We assumed that capital markets would improve somewhat in the second half of 2009 and that the Canadian dollar would strengthen modestly relative to the U.S. dollar. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which we operate, primarily Canada and the United States, are material factors we consider when determining our sustainable effective tax rate.

PRESENTATION

Operator

Good afternoon and welcome to the BMO Financial Group's first quarter 2009 conference call for March 3rd, 2009.

You host for today is Viki Lazaris Senior Vice President of Investor Relations. Ms. Lazaris, please go ahead.

Viki Lazaris - *BMO Financial Group - SVP IR*

Great. Thank you. And good afternoon everyone. Thanks for joining us today. We are in St. John's, Newfoundland where we held our AGM this morning.

Presenting on the call today are Bill Downe, BMO's CEO, Russ Robertson, our Chief Financial Officer, and Tom Flynn our Chief Risk Officer. The following members of the management team are also here this afternoon to answer questions: Tom Milroy, from BMO Capital Markets, Gilles Ouellette from the Private Client Group, Frank Techar, head of P&C Canada, Ellen Costello from P&C US and Barry Gilmour, head of Technology and Operations. After the presentation the management team will be available to answer questions from prequalified analysts. To give everyone an opportunity to participate, we ask that you please ask one or two questions then re-queue. We are planning to keep the call to one hour.

At this time I would like to caution the listeners by stating the following on behalf of those speaking today. Forward-looking statements may be made during this call and there are risks that actual results could differ materially from the forecast, projections or conclusions in the forward-looking statements. Certain material factors and assumptions were applied in drawing the conclusions or making the forecast or projections in these forward-looking statements. You can find additional information about such material factors and assumptions and the material factors that could cause actual results to so differ in our caution regarding forward-looking statements set out forth with in our news release this morning or on the Investor Relations website.

With that said I can hand things over to Bill.

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

Thank you, Viki, and good afternoon everyone. As noted, my comments may include forward-looking statements.

For those of you who already had the chance to review our first quarter numbers, you've doubtlessly recognized the contrasting elements in our results. Clearly the solid performance of our core businesses is not reflected in the Q1 bottom line net income number as reported. Our core businesses are performing very well in today's recessionary economic environment. In particular the Canadian retail business continues to make steady quarter-over-quarter progress in meeting its customer service objectives.

This progress is driving market share growth and financial performance and is anticipated to be reflected throughout the remainder of the year. Lower revenues in corporate services coupled with increased PCL's, primarily on US real estate muted our first quarter results and the continued strength of our business. In fact, excluding the capital markets environment charges this quarter, we earned $1.09 cash earnings per share. This morning we declared a quarterly dividend of $0.70 unchanged from the first quarter. This represents an annual rate of $2.80 per share. Over 15 years to the end of fiscal 2008 our dividend grew at compound annual rate of 11.3%.

Some people have suggested that given tough economic times today that the rate of growth was perhaps too quick, but few foresaw this economy and hindsight is always informative. Even acknowledging that however, the long-term target payout ratio is just that, long term. The current earnings have been impacted by loan losses that have escalated to much higher levels although still consistent with this stage of the credit cycle. At the same time there's been valuation changes related to the capital markets environment but we recognize the strength in our core businesses and their continuing progress.

As I stated to our shareholders this morning, given our strong capital position, core earnings power, and the importance that our shareholders attach to the dividend, in the absence of a more negative outlook for the economy and of the bank, we believe it is appropriate to pay the current dividend. We will be managing levels of capital utilization and expenses aggressively and continue to grow revenue with a view to returning the payout ratio to within a long-term target.

Let's now turn to the bank's financial results on slide five. Net income for the first quarter of fiscal 2009 was $225 million compared to $255 million in Q1 '08 and $560 million in Q4 '08. In the first quarter we took the view that our priority in this economy was to strengthen our balance sheet and we acted accordingly raising approximately $1.6 billion in tier one capital in the quarter. As a result, our tier one capital ratio at the end of Q1 was 10.2% and our tangible common equity to risk weighted assets ratio was 7.8% among the highest, if not the highest of the Canadian banks. This provides a strong measure of confidence in the bank's resilience while positioning us to take advantage of any opportunities for growth arising in the current environment.

Turning to our operating groups in slide six. P&C Canada reported strong Q1 results both in absolute terms and relative to our peers. Net income was up 12% year-over-year and down 2% versus Q4 '08. Cash productivity was stable at around 56% with positive operating leverage of 3.5% in the quarter. Continued improvement in our net promoter score, an objective measure of customer loyalty and market share figures underline the success of our customer focus strategy. In personal banking, loans increased 21% over Q1 last year with market share up 80 basis points. Deposits rose 3% with market share including term investments up 22 basis points. While mortgage balances were down due to the ongoing run off of the third party portfolio, balances from proprietary channels increased.

In commercial banking, loan growth was 6% over Q1 last year and market share was up 56 basis points. Deposit growth was 7%. Cards and payment revenues were up 24% as balances continued to rise due to volume growth and higher Moneris revenues. We are continuing to make the bank more visible in the marketplace. We have a clearly defined and differentiated brand promise, centered on helping our customers make sense of their finances and we are seeing benefits from this.

P&C US generated Q1 net income of $27 million US and we continue to hold our own in a very challenging environment. Significant deposit growth is proof that the Harris name represents stability in the Chicago market. In addition, we are seeing new customers refinancing their mortgages at Harris and we look forward to serving these customers more broadly in the future. We continue to see elevated loan losses in our P&C US business, market conditions continue to be extremely volatile through the first quarter due to concerns related to the US real estate market and global recessionary pressures. Specific provisions increased approximately $127 million US, $162 million Canadian from a year ago. The majority of which is booked in our corporate segment under our expected loss methodology.

If there's a glimmer of encouragement in all of this, even at these elevated levels we are outperforming our US peers. We continue to view the current environment as a great opportunity for Harris, the natural home for Midwest businesses and individuals to expand its customer base. We will be opportunistic. We are looking for good business at good price and there's no rush to make significant acquisitions in this weak economic environment.

Private Client Group’s business was affected in the quarter, as we expected, by reductions in managed and administered assets. In Q1, net income pf $57 million was down from both comparative quarters. On a positive note, net new client assets are increasing and as expected we are focusing on adjusting spending and resource allocation in the current environment.

In the current quarter we enhanced our wealth management offering by acquiring AIG's Canadian life insurance business. Combined with BMO Nesbitt Burns we can now provide clients with both the investment and tax efficient insurance solution that they need.

In capital markets we posted net income of $179 million after $348 million of capital markets environment charges. This compared to a loss in Q1 last year and net income of $290 million in Q4 '08. We benefited from higher trading revenue as well as strong performance in our interest rate sensitive businesses and higher equity underwriting. This offset softness in M&A and mark-to-market losses on merchant banking.

Q1 results underline the importance of the diversity of this business. Collectively and individually our core businesses are performing well or at least holding their own despite difficult markets. Our job is to manage through these times and position the bank to benefit when the economy emerges from the recession.

In Canada real GDP is now expected to contract 2% in 2009. We remain hopeful however that the current downturn will be milder than the last two recessions. We expect the economy to turn up later this year in response to aggressive monetary easing, sizable fiscal stimulus, the weakness of the Canadian dollar and firming US demand. From a broad economic perspective, we expect the US economy to continue to contract in 2009. Unemployment is expected to climb another two points. A modest recovery could begin at year end in response to the Fed's zero rate policy to direct lending programs, the fiscal stimulus package and more stability in the banking sector; however we don't expect a rapid recovery.

As I said this morning at our AGM just as the economy of the United States has led the world into this correction the size and flexibility of its economy will set the pace for recovery in the rest of the world. As a Canadian bank with a majority of our assets based in North America, we are well positioned to benefit from the recovery as it takes place.

Before I turn to Russ, I want to make it very clear where management's attention lies today. We are continuing to ensure that our strong customer focus which is winning us business at the front line remains front and center throughout the organization. We continue to closely manage risk. We are ensuring that everyone understandings the importance of managing cost in the current environment and we are preparing the bank to capitalize on business expansion coming out of this recession as this could represent a once in a decade growth opportunity.

And with that I'll turn it over to Russ.

Russ Robertson ***- BMO Financial Group - Interim CFO***

Thanks, Bill and good afternoon. As some of my comments are forward-looking, please note the caution regarding forward-looking statements on slide one.

On slide three you can see the reported first quarter earnings were $225 million or $0.39 per share compared to $0.47 last year. On a cash basis, earnings were $0.40 per share and our tier one capital ratio remains strong at 10.21%. While core businesses performed well in this environment, credit costs remained elevated as expected at this point in the cycle and lower revenues in corporate services significantly impacted reported results. On slide four revenue at $2.4 billion was down 13% quarter-over-quarter. Strong performance in P&C Canada and good underlying performance in BMO Capital Markets was offset by capital markets environment charges and lower revenues in corporate services.

Private Client Group results were also negatively impacted by market conditions reflected in reduced brokerage revenues and mutual fund fees due to weak equity markets. Year-over-year revenues increased 21% on a reported basis. P&C Canada revenues were up due to volume growth, improved margins and higher revenue from cards and Moneris. The stronger US dollar increased revenue by $87 million quarter-over-quarter and by $170 million year-over-year. Net interest income was $1.3 billion in Q1 up $117 million year-over-year driven by volume growth in all of the operating groups. Net interest income was down $82 million from Q4 as lower revenues in corporate services more than offset margin increases in P&C and Capital Markets.

The lower corporate revenues we reported this quarter were largely due to the negative carry on asset liability interest rate positions. There was an unprecedented drop in short-term interest rates in the last few months as the US and Canadian central banks dropped their overnight interest rate. In general our customer variable floating rate loans repriced based on prime or one month BA in Canada and one month LIBOR in the US.

Term wholesale funding for our loan book generally reprices based on the swapped three month BA in Canada and three month LIBOR in the US. This negative carry is expected to continue over the next few quarters. However given current market conditions we can see a scenario in the second quarter where corporate revenues will improve approximately $75 million from declining three month BA and LIBOR rates and actions being taken to positively impact our asset and liability positions. The remaining short fall in corporate revenues is driven by mark-to-market losses on hedging activities and the cost of prudent actions taken to further enhance our strong liquidity position. I might add that we continued to manage our liquidity position in a prudent fashion as the majority of our estimated fiscal 2009 funding requirements have now been met. In addition, our liquidity position remains sound as reflected by our cash and securities to total asset ratio and level of core deposits.

Looking more specifically at margins, total bank margin was down 20 basis points quarter-over-quarter. The decrease is largely attributable to higher funding and liquidity costs as just discussed. On a group basis in P&C Canada the increase over both comparative quarters was due to higher volumes in more profitable products, favorable prime rates relative to BA rates, and pricing initiatives in light of rising long term funding costs. As a reminder we booked interest on tax refunds and higher mortgage refinancing fees in Q4 last year.

Margins in P&C US were up eight basis points year-over-year and 5 basis points quarter-over-quarter mainly due to better deposit spreads. In Capital Markets the year-over-year and quarter-over-quarter improvement is attributable to stronger revenue driven by higher spreads in our interest-rate-sensitive businesses where we were able to take advantage of market conditions.

Turning to slide six, non-interest revenue was impacted in the quarter by capital markets environment charges in both Capital Markets and Private Client Group totaling $528 million pre-tax, $359 million after tax, or $0.69 per share. This compares to a prior quarter charge of $45 million pre-tax or $0.06 per share. BMO Capital Markets pre-tax charges totaled $511 million consisting of three charges. First a charge of $214 million pre-tax from mark-to-market valuations on counter party credit exposures on derivative contracts largely as a result of corporate counter party credit spreads widening relative to BMO similar to prior quarters.

Second, a charge of $248 million pre-taxes for exposures related to our credit protection vehicle. The decline in fair value was due to the deterioration in credit quality of the underlying portfolios in the quarter, and increases in credit spreads given current credit conditions. Realized losses will only be incurred should losses on default in the underlying credits exceed the first loss protection on a tranche. The final item a charge of $49 million pre-tax from mark-to-market valuation on our holdings of non-bank sponsored asset backed commercial paper on completion of the Montreal accord on January 21st. We reclassified $14 million of losses from other comprehensive income to securities losses and recorded a further $35 million decline in fair value also against securities losses. Our $323 million of notes are now carried at estimated fair value of $145 million or $0.45 on the dollar.

Our Private Client Group also recorded unrealized charges of $17 million pre-tax related to auction rate securities that were purchased by the bank. This charge relates to decline in fair value between the time we committed to purchase those securities and the time the securities were actually purchased. Obviously these charges and the lower revenue in corporate have a negative impact on our productivity ratio. We do not view the Q1 '09 productivity ratio as indicative of the run rate for the bank. In fact our P&C businesses improved their cash productivity ratios quarter-over-quarter with positive operating leverage.

Turning to slide seven expenses were up 14% from a year ago. The stronger US dollar, the impact of acquired businesses and increased severance costs were two-thirds of the increase. The remaining third of the increase was primarily related to higher salaries and benefits costs and higher business development costs. The quarter-over-quarter increase was 1%. This quarter included a $45 million charge for stock-based compensation cost for employees eligible to retire, which is booked annually in the first quarter. Excluding this charge and the impact of the stronger US dollar expenses are down almost 4%. Expenses in Q1 also include higher severance cost in BMO Capital Markets and higher benefit costs across the groups.

We have been active in examining all our costs from discretionary through all our processes and by looking at ways to streamline the organization. Our focus is on simplifying our business by looking at our layers of management and any undue complexity. This is consistent with our focus on our customers and we are also targeting taking the necessary steps in fulfilling customer needs. We believe a lot of efficiency can be created through simplification and also by managing attrition.

On slide nine you'll see that our risk weighted assets were $193 billion and our tier one capital ratio was 10.21% for the quarter. Our tier one capital ratio remains strong increasing 44 basis points over Q4 primarily due to the net capital issuance during the quarter. We also adopted a new Basel II requirement on November 1st, 2008 whereby investments in non-consolidated entities and substantial investments, excluding insurance subsidiaries, are deducted 50% from tier one capital and 50% from tier two capital. The impact for BMO was minimal reducing tier one capital by approximately ten basis points. The foregoing capital ratios do not reflect the acquisition of AIG's Canadian insurance business announced in January. This acquisition is expected to reduce tier one by less than 15 basis points and the total capital ratio by less than 25 basis points. Approvals are proceeding on course and the acquisition likely will close before June the 1st.

Increasingly the ratio of tangible common equity to risk weighted assets is becoming the preferred measure of capital adequacy. Canadian banks have strong tangible common equity to RWA ratios and at 7.8% BMO's ratio is one of the strongest.

To conclude the reported earnings reflect the difficult conditions in the credit and capital markets environments. Our core businesses delivered good revenue growth with a focus on cost management. We are pleased to report our tier one ratio grew to 10.21% and our balance sheet and liquidity positions are strong. Finally as highlighted in our press release we have shown adjusted earnings per share of $1.09 after adding bank the capital markets environment charges. I think the $1.09 is a reasonable proxy of core earnings. We anticipate that our negative carry on funding will moderate which will offset any softening in trading revenues.

With that I will turn things over to Tom.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Thanks Russ and good afternoon. Before I begin I draw your attention to the caution regarding forward-looking statements. I'll start with the key risk messages for the quarter.

First, as expected given the weak economic conditions, loan losses remained elevated in the quarter. We expect this to continue with performance through 2009 and '10 ultimately depending on how the economy and the housing market in the US perform. Second, in general our credit portfolios are performing in a solid fashion considering the environment. We have continued to outperform in retail credit and Canadian commercial and corporate portfolios have held up well. As I will talk about later, the US developer book is showing signs of strain given the state of the US housing market. Lastly, capital market conditions led to some mark-to-market volatility in our results as Russ has commented on. It is worth noting that our strategy for managing our off balance sheet vehicles remains on track.

I will start now on slide three. We provide a break down of our loan portfolio as context for the discussion on credit conditions. Note that the US loan book represents less than one third of BMO's total loan portfolio. The graph on the right gives a mix of our Canadian loan book; 57% of assets in this portfolio are stable consumer loans. Of this total 88% is secured. On the commercial side 94% of advances are secured. Our US portfolio mix is 40% consumer with the commercial and capital market exposures making up the larger portion.

Slide four provides details of our US loan book which we have shown before. The US consumer portfolio is fairly evenly spread across first mortgages, home equity and auto loans. Each of the portfolios here have experienced a pick up in loss rates given the environment, although these are not large in the context of the overall bank. Of the three, the home equity portfolio has shown the most stress. US commercial real estate portfolio represents a small portion of the total loan book. It is approximately $4.1 billion in total or 2.6% of the total bank loan balance. Within this sector developer exposure is $1.3 billion. We continue to actively monitor and manage this part of the portfolio.

On slide five, the graph on the left shows that impaired loan formations during the quarter totaled $712 million, a 12% decrease over the last quarter. The geographic and industry segmentation show that the majority of formations are from the US and within that the developer portfolio is experiencing the most strain. Manufacturing portfolios also have some pressure. We did not have any large single name formations during the first quarter.

On the right side you can see that gross impaired loan balances totaled $2.7 billion at the end of the quarter with the US representing the majority of this amount. Drilling down, the sector segmentation shows that the largest concentrations are in the commercial real estate sector. Within Canada you can see that the consumer lending segment which has been fairly stable continues to be the largest component of the impaired loan balance at 43%. Manufacturing represents the largest commercial component at 24%. The manufacturing impaired accounts are widely spread across a number of industries.

Slide six provides a review of our total provision for credit losses segmented across lines of business. The specific provision for credit loss was $428 million in the quarter, higher than Q4 which was $315 million. The Canadian consumer business showed an increase largely due to a credit card fraud that impacted banks in many different countries, while our Canadian commercial business was stable. In our US consumer line of business the provision was slightly lower than last quarter.

Our US commercial business had increase in provisions largely as a result of the developer segment which has been impacted by the state of the US housing market and actions we are taking to manage our exposure in this area. This quarter's provision for US commercial is above the anticipated run rate for this segment for the balance of the year. US capital market segment also had higher provisions with the increase being driven by commercial real estate and manufacturing sectors. The commercial and corporate provisions this quarter were broadly based rather than concentrated in a small number of accounts.

Turning to slide seven, you can see a segmentation of the provision by geography and sector. Within Canada the provision was $111 million, the consumer segment continues to be the largest part of that amount. The US provision was $317 million, US commercial exposures to the real estate market and to a lesser degree manufacturing account for the majority of the US provisions.

On slide eight we provide a view on our retail credit performance relative to peers in Canada. The key point here is that BMO's consumer loss rate continues to be better than peers. Our losses are the lowest of the peer group across the key products and for mortgages where losses are just a few basis points we are right in line. On slide nine you will see that in the US it's a similar story. While losses have increased given the environment, we have a strong position relative to peers

Slide ten provides an update on some topical issues. First as shown in prior quarters we have modest exposure to US subprime mortgages. This amount is largely unchanged from last quarter as is the delinquency level. Second our US securitization conduit continues to be managed down and credit has performed in line with expectations. Over 90% of the assets are internally rated investment grade. Although there has been some migration within some of the portfolios, we have not brought any pools onto our balance sheet over the last three quarters.

Next on the credit protection vehicle Apex, we continue to view the risk of substantial realized loss beyond the mark-to-market charges we have taken to be low, given the protection we have and the quality of vendor line credit portfolio. We provided detailed information on this last quarter and have updated the key information in the chart here. As Russ mentioned the charges in the quarter reflect a combination of wider credit spreads and credit migration in the portfolios.

Turning to the structured investment vehicles, as you know we provide senior ranked funding to facilitate the orderly wind up of the SIV's. We continue to expect that the subordinate capital notes will protect our senior funding from loss and view to the market value of the underlying assets as being impacted by market illiquidity. There has not been a significant change in the overall situation here during the quarter.

That concludes my presentation and we can now move to the Q&A.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions) The first question is from Andre Hardy from RBC Capital Markets. Please go ahead.

Andre Hardy ***- RBC Capital Markets - Analyst***

Thank you. The first one is probably for Tom. When I look at your specific allowances relative to gross impaired's, they are at about 15% and if we go back a few years, those used to be over 30. So what's changed in the mix of impaired loans that give you so much confidence that you'll recover about 85% of what you've lent?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

I'll give you a bit of a detailed answer to that question. The total allowance for credit losses is sitting at about 65%. That includes the general allowance. And as you know, the total allowance ratio trends down during a recession and we are seeing that again in this recession. Our specific coverage ratio would be around 15%. Our impaired loans which total about $2.7 billion include approximately $800 million of corporate and commercial loans where we have classified the accounts as impaired but we do not expect to take a loss. And if you exclude those amounts the specific cover ratio would move up to about 20%.

In addition, this quarter and last year we've taken significant write-offs against our impaired loans. This quarter we wrote off about $330 million against commercial and corporate loans and in '08 we wrote off $540 million. Write-offs have the effect of reducing the coverage ratio because you write-off both the provision that you have and the impaired loan and so they have a downward effect on the ratio. So I think you need to consider write-offs as you assess the adequacy of the specific.

And the last thing I'd say is that we have a very active and I think robust process for arriving at our specific provisions in the allowance. We have a bottom up process where the credit people that are involved in managing our impaired accounts estimate the amount of impairment that we have and we take the impairment that comes up from that process. It's a rigorous process. We run through all the impaired commercial and corporate accounts at least quarterly. And we've got good confidence in the teams of people that we have managing the process. So we are comfortable that overall the allowance that we have is adequate for the impaired loan balance that we've got.

Andre Hardy *- RBC Capital Markets - Analyst*

Okay. Would it be fair to say that because more of it is real estate backed, there's more security and you should recover more? Is that part of the equation as well or am I wrong there?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

I don't think that is a significant portion of the equation. The majority of the impaired loans that is real estate related would relate to our US developer book. That book is secured, which is a factor, and we've been also active in writing down those balances, which would reduce the coverage ratio.

Andre Hardy *- RBC Capital Markets - Analyst*

Okay. I just have another one. Treasury obviously got hurt with what happened in the interest rate environment. Capital Markets had a big gain by the sounds of it related to interest rates. Were those truly independent events or what we are seeing is immense distortion because of how you allocate interest expenses and revenues?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

I would say they are, to a large degree, independent events. In the Capital Markets business as has been said, we had a position that benefited from the positive slope of the yield curve. And in our corporate area, we were negatively impacted by the very significant decline in short-term interest rates during the quarter. To give you some numbers. BA's declined by 175 basis points in the quarter. LIBOR by 350 basis points and those declines really were precipitated by the fall out from the Lehman collapse. That sharp decline in short term rates had a negative impact on corporate revenue given our asset liability book.

Andre Hardy *- RBC Capital Markets - Analyst*

Thank you.

Operator

Thank you. The next question is from Darko Mihelic from CIBC World Markets. Please go ahead.

Darko Mihelic *- CIBC World Markets - Analyst*

Hi. Thank you. My question relates to Apex, and what it revolves around is the continually declining attachment point for tranche one and presumably the similar impact that that is having on the attachment point for all the other tranches. So it seems as though it is creating sort of a bit of a vicious cycle that as you have downgrades or default activity within one tranche, it lowers the attachment point for all of the other tranches. So I guess what is the worse case scenario we can look at? How low can your attachment point go as a result of deterioration in say tranche one and two. And further to that, now that you have actually drawn on the liquidity, what would it take to actually have a provision against that liquidity line?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Okay, it's Tom Flynn. I'll take a crack at that. I think the first point to make is that the attachment points for the different tranches are independent, and so we have had a decrease in the attachment point on the weakest tranche, as you pointed out, but that does not cause any of the other attachment points to decrease. So they are independent events. The decrease in the quarter reflected deterioration in the portfolio.

The way we mark this position to market, the marks are sensitive to the weakest tranches because that is where we have the most risk. And so we had a fairly healthy write-down this quarter, or mark down, and that reflected the reduction in the protection on the one tranche that we talked about. We have funded a portion of the senior funding facility, and there's no expectation that we will have provision against that facility, given the first lost protection that is in place and also the other investors who hold senior notes in the vehicle.

Darko Mihelic *- CIBC World Markets - Analyst*

So the attachment points that are dropping, they are independent of one another. Does the fact that the…does it perhaps have any impact on the detachment point? It would seem to be that it should …

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

No. The attachment points and the detachment points for each tranche are independent of the other tranches. There are some credits that are in both tranches. There isn't a significant amount of overlap, but there is some. So there can be a degree of correlation, but they're independent.

Darko Mihelic *- CIBC World Markets - Analyst*

What stage does the attachment point, I mean for right now you are comfortable with this portfolio and one of the things you continue to cite is the fact that you have such great subordination of risk or in other words a high attachment point. But at what level do you become concerned, I mean these attachment points keep dropping?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Well, last quarter we provided additional detail on this vehicle and we summarized it here. And we said that two of the tranches have lower level of first loss protection and our exposure to those two tranches is $450 million, and we have more risk against those two tranches. The other tranches have first loss protection in excess of 13.5%. And we said then and we remain today very confident that we won't have realized losses on those other tranches.

Darko Mihelic *- CIBC World Markets - Analyst*

If those other tranches got to 10%, would you start to worry?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Well, higher is clearly better, but the level of corporate default that would need to occur given that the majority of this portfolio is investment grade in order for us to have realized losses on those trancheesthat have 13% plus first loss protection would be beyond loss rates that have been experienced historically. So, fundamentally, we are comfortable with the position that we have there.

Darko Mihelic *- CIBC World Markets - Analyst*

Okay. Thank you.

Operator

Thank you. The next question is from Jim Bantis from Credit Suisse. Please go ahead.

Jim Bantis *- Credit Suisse - Analyst*

Hi. Good afternoon. When I look on slide six of Bill's opening comments we talk about 21% personal loan growth in the past year and a significant gain in market share of up 80 basis points. Maybe Tom or -- we can talk maybe about -- sorry I'm just trying to think of the risk associated with ramping up this loan growth ahead of the deterioration that we've seen in terms of unemployment, bankruptcy. Maybe you can give us a little bit of background whether this was secure or unsecure and the nature of the lending in that regards?

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

Jim, it's Bill. I am going to start because there's clearly an element of mix in the growth, and Frank is going to take over and provide a little more commentary because we have looked carefully at the underlying risk and what we might see as emerging trends from there. But I think one of the things right off the bat that will turn out to have been to our benefit was exiting the mortgage broker channel in Canada when we did. Our experience in the US was that experienced losses were much higher in that channel. You have less visibility of the clients and you have less of the relationship. So I think that shift will be beneficial to us. And at a very high level what we are seeing in terms of delinquencies in Canada, while they are certainly a little bit higher than they have been, they are still at levels even at a relative basis within the Canadian market that we find encouraging. And Frank I'll let you expand if you'd like.

Frank Techar *- BMO Financial Group – President & CEO, P&C Canada*

Okay, Jim, just a couple of points. Some of which have already been said. The percentage of secured loans in our portfolio is 88% and that's been relatively consistent over time. So we are comfortable with the structure of the assets that we are putting on the books. The other thing I would just say is we have not changed our underwriting standards over this period of time. We have been as you know focused quite heavily on changing the experience in our branches and changing the offers that we have with our customers, and I think that has had an impact on the growth as well.

But clearly, clearly the intent over time has been to change the mix in the balance sheet. And as Bill mentioned, our mortgage growth has not been strong but we have improved the quality of the assets we believe over time as a result of focusing on some of these other product categories. And I think you've seen the result of that in the increased margin that was up strongly in this particular quarter.

So we like the quality of the assets that we have. And as Tom showed on one of the other slides we continue to be first in losses in all consumer lending categories and our expectation is that that is not going to change as we go through any changes that might occur in the cycle.

Jim Bantis *- Credit Suisse - Analyst*

Got it. So thank you. So when I look at this growth number of 21% Frank, it includes the residential mortgages?

Frank Techar *- BMO Financial Group – President & CEO, P&C Canada*

It does not, Jim.

Jim Bantis ***- Credit Suisse - Analyst***

Oh, it does not. So when we talk about being 88% secured in terms of the portfolio mix and this contributing to the ratio this would include auto loans and other loans that have collateral against it?

Frank Techar ***- BMO Financial Group – President & CEO , P&C Canada***

That is correct.

Jim Bantis ***- Credit Suisse - Analyst***

Got it, okay. So I'll follow up offline and maybe just with respect to Tom, you highlighted a credit fraud event that impacted other banks as well as yourself. Could you quantify the amount that it related to PCL's this quarter?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Yes. The amount was around $25 million.

Jim Bantis ***- Credit Suisse - Analyst***

What was the nature of the breakdown in the risk management system that relates to this event?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

It was not a breakdown of the risk management system. One of the parties that we do business with was the victim of a fraud, and banks that did business with this third party including ourselves had losses as a result. And so we were on the receiving end of an event that a company we do business with had.

Jim Bantis ***- Credit Suisse - Analyst***

Understood. Difficult to manage against fraud.

Operator

Thank you. The next question is from Michael Goldberg from Desjardins Securities. Please go ahead.

Michael Goldberg ***- Desjardins Securities - Analyst***

Thanks. I would like to get comparable numbers with the fourth quarter impact of asymmetric hedges. First of all, the hedge against your own loan portfolio and secondly the impact of a lower value of your own issued debt. So the first one was $133 million in the fourth quarter, and the second was $89 million in the fourth quarter. What are the comparable numbers for the first quarter?

Russ Robertson - BMO Financial Group - Interim CFO

It's Russ Robertson speaking, Michael. With respect to the CDS, the gains of $133 million, the comparable number in Q1 is $48 million. The other one $89 million, which number are you referring to?

Michael Goldberg *- Desjardins Securities - Analyst*

That was the benefit to your earnings of your -- of your own issued liabilities going down in value. Your HFT liabilities.

Russ Robertson *- BMO Financial Group - Interim CFO*

That was $22 million.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. And a more general question for Bill. Under what circumstances would you reduce the dividend?

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

Well, Michael, I think I was pretty clear this morning in the comments that I made at the annual meeting. And the reason I was as full in my commentary is I know that many of the retail shareholders are so interested in the topic. And it comes back every time to the confidence we have in the core earnings of the bank, and unless we see a big downward change in the trajectory of the economy and that's always a possibility or something that's related specifically to the bank, I think our comfort level is really defined by the core strength of the earnings.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay.

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

I mean I think what you are asking me is to draw a line, and I think it would be a very difficult thing to do in an environment such as the one we are operating in.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. And getting back to the $712 million of gross formations, how much of that would have been secured by hard assets?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

It's Tom Flynn, Michael. I don't have a precise number for you there but the vast majority of our portfolio as you know is secured -- it would be in excess of 80%. And I have no reason to think that the ratio wouldn't be similar for the assets that were captured by the formation number.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Can you get back to me on that?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Sure.

Michael Goldberg *- Desjardins Securities - Analyst*

Thank you.

Operator

Thank you. The next question is from Mario Mendonca from Genuity Capital Markets. Please go ahead.

Mario Mendonca *- Genuity Capital Markets - Analyst*

A quick question on Apex as well. I am beginning to understand, Tom and this is coming from all your, the very good detail you provided us, that real actual losses are still somewhat remote. But it seems to me that the accounting could still get a little bit messy here. And what I'm getting at is the $815 million, the note, the medium term note the subordinated one, it's written down by about 50% right now.

So based on what happens to credit spreads it's conceivable that that note could -- the whole $2.2 Billion could go away at some point if credit spreads move high enough. Could you help me understand what the consequences would be? And again I appreciate it's more from an accounting perspective, but what the consequences would be to BMO if that note went away given that BMO has the majority of the senior and it's actually being drawn now?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Yes. I'll try to address that. We are exposed to $815 million of the $2.2 billion of notes that the trust has issued. And we also have a $1 billion senior funding facility. We take marks on the $815 million. As you know the marks are a function of credit spreads and the performance of the underlying portfolio. And if credit spreads continue to widen and if there was migration in the portfolio, we would have additional marks. But there wouldn't be any necessary consequence from that. We would take the mark that it was appropriate to take. We would reduce the carrying value of the notes, but nothing from an accounting perspective.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Can I clarify. If that note is written to zero through, the $2.2 billion, then all that is left is the senior and BMO has the majority of the senior. So does BMO at that point not have to consolidate this whole exposure? Specifically BMO has entered into credit default swaps with the swap counterparties and to offsetting swaps with Apex, does that entire structure then essentially make it on to BMO's balance sheet when you are just left with the senior notes?

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

I guess a couple of things. The first would be that we wouldn't expect the notes to go to zero. If they did go to zero -- which would be hard to imagine --

Mario Mendonca *- Genuity Capital Markets - Analyst*

But, they are down by 50% Tom...

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

Yes, if they did go to zero, we would not consolidate the vehicle because we don't have the majority of the expected loss because we only hold about 37% of the $2.2 billion in notes that Apex has issued.

Mario Mendonca - ***Genuity Capital Markets - Analyst***

But that -- sorry, the reason I'm struggling with this is we just assumed that the $2.2 billion is written off to zero so all that is left is the senior and BMO has a majority of the senior. So I am not sure why you would refer to the 2.2 in explaining why this wouldn't be consolidation if the 2.2 has just been written off?

Tom Flynn - ***BMO Financial Group - Chief Risk Officer***

If we were taking mark-to-market charges and wrote it down, we would just write-down the notes. The accounting is based on the expected realized credit losses. And as we've said, we don't expect the realized credit losses to consume the amount of notes that have been issued by Apex.

Mario Mendonca - ***Genuity Capital Markets - Analyst***

Okay. Sort of a different question. On the PCLs, there's the increase you've shown us and that was again very good disclosure there on the presentation where you showed the increase in the PCLs. They seem to be tracking that 30 to 89 day bucket that, and again this is not something that you provide in your supplemental, but more FDIC, the FDIC provides this disclosure, that 30 to 90 day bucket in the US is moving fairly quickly. I guess what I am getting at is to what extent do we look to that 30 to 89 day bucket, which is I think up to almost $800 million now? Is that a decent trend we can look at to gauge how PCLs will emerge in subsequent quarters or does it sort of go into that bucket then come out so it really doesn't play much of a role?

Tom Flynn - ***BMO Financial Group - Chief Risk Officer***

I think you'd have to look at the relationship over time between that bucket and the actual specific provisions that we are taking, and the two would for sure be correlated. But there's not a direct drive relationship and some of the loans that move into a delinquent status would pay up and go back to a regular performing loan. So, I'd say there's a correlation but not a hard driving relationship.

Mario Mendonca - ***Genuity Capital Markets - Analyst***

I'll stop soon. If there's a correlation there and if that 30 to 89 day bucket doubles which is essentially what happened in this quarter, does that mean that PCL's could double then because of that increase or are you saying the slope of that relationship is not one, essentially? Is that what you are telling us?

Tom Flynn - ***BMO Financial Group - Chief Risk Officer***

Yes. The slope would not be one. On page six of the slides that I used, you can see that our consumer provisions were actually down a little bit this quarter compared to Q4 for the US business. And so I think it's a fine thing to watch. It will give you sense of what is going on in the portfolio, and over time there would be a correlation but it wouldn't be one approaching one at all.

Mario Mendonca - ***Genuity Capital Markets - Analyst***

So consumer was down but commercial was up by what three times, it was about three times higher? That's the one that is sort of driving that bucket, is what I am getting at.

Tom Flynn - ***BMO Financial Group - Chief Risk Officer***

Okay. I thought it was retail bucket that you were referring to.

Mario Mendonca *- Genuity Capital Markets - Analyst*

No. It's a commercial bucket.

Tom Flynn *- BMO Financial Group - Chief Risk Officer*

OK, my comments related to there being a correlation but not a driving connection would remain the case. The bulk of that big increase that we had in the commercial business in the US was tied to the developer portfolio. And there we have the portfolio being impacted by the state of the housing market and during the quarter we did a lot of work on managing loans that were either impaired or in need of attention. And that work I think resulted in a level of specifics for that category that is higher than what we expect on a run rate basis for the balance of the year.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Thanks very much.

Operator

Thank you. The next question is from Robert Sedran from National Bank Financial. Please go ahead.

Robert Sedran *- National Bank Financial - Analyst*

Hi. Good afternoon. Bill I just wanted to touch on the issue of capital allocation. You mentioned the benefit of hindsight. When I look at the target pay-out ratio range, and I know you are above it now, but when earnings growth resumes and let's assume that -- the world does play out as you are expecting and the pay-out ratio starts to comes down, are you still comfortable that 45 to 55 is an appropriate range for a cyclical industry? Or are you likely to favor something in the 35 to 45 range once the earnings are there and allocate more either to buy-backs or acquisitions or something else going forward? Do you think that 45 to 55 is still the right number?

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

Rob, that is such a hypothetical. The range was established at a time when you looked at acquisition values, we were parsing through acquisition candidates going right to the final round and the value gap we saw in so many cases was just too great. And the capital of the bank was starting to build faster than we saw reinvestment opportunities. So I think it would depend on the environment and the values that could be realized. I think once again this is a hypothetical. But if you were in a hypothetical situation where earnings came back to higher levels, we felt there were good acquisition targets, I think we would make it clear to our shareholders of our intention to make a change at that time and then operate within it.

Robert Sedran *- National Bank Financial - Analyst*

Okay. Thank you.

Operator

Thank you. The next question is from Brad Smith from Blackmont Capital. Please go ahead.

Brad Smith ***- Blackmont Capital - Analyst***

Thanks very much. My question relates to the financial institutions exposures that you have. I noted in the annual report when you published it, that you had about $24 billion worth of exposures there, and I see again referenced to your exposures in your note to shareholders this quarter of 18. I was just wondering if I can get a little bit of a breakdown on the $23.8 billion of financial institution exposures in your commercial corporate book? In terms of bank versus nonbank or any other insight that you can provide. It just seems that is a rather large amount relative to the overall book, and so I just wanted to get some clarification. It's also grown quite rapidly is the thing that has attracted me to that.

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

Brad, we have provided a breakdown on that in the past and Tom has a chart that he can refer to and give you a little sense of it.

Brad Smith ***- Blackmont Capital - Analyst***

Okay. Great. Thanks.

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

It's Tom Flynn, Brad. A couple of points. The first that I would make is that the funding that we are providing to the SIVS is included in the financial institutions buckets as is the position that we have in Apex. So if you take those two things out the total exposure goes from $24 billion, $25 billion down to about $17 billion. And almost all of the growth that occurred year-over-year relates to funding the SIVS and to Apex. So I'll speak off sort of the reduced $16 billion, $17 billion number.

Within that I would say number one that the portfolio is very highly diversified across both sectors and individual names. We don't have any individual names in excess of $400 million and only have two or three that would be in excess of $300 million. Banks would represent around $3 billion to $4 billion of that amount, we are well diversified. Eastern European banks have been topical recently and our nontrade related exposure to Eastern European banks would be under $150 million and our total including trade finance where we are secured would be under $400 million. So we don't have big exposures there.

We do include our exposures to prime brokerage and hedge fund in this category. They are very small. In aggregate they are under a billion dollars and we have not had any issue with those portfolios over the last year and they are managed on what we think is a pretty conservative basis. And I think I'd leave it at that. I mean it's a large portfolio, but it is highly diversified across industries and individual names.

Brad Smith ***- Blackmont Capital - Analyst***

Okay. And I noted that there was -- I'm not sure if you provide this in your quarterly or not but can you give us any color on the impairs related to that line item?

Tom Flynn ***- BMO Financial Group - Chief Risk Officer***

Yes. The impaireds include just a couple of items from memory. We had last year an exposure to a company that was in the business of buying distressed mortgages, and that was classified as financial institutions because it was a bit of an investment company. That amount is down to $140 million today, and then we had one small bank exposure that was about $40 million that we put into impaired a quarter or two ago.

Brad Smith ***- Blackmont Capital - Analyst***

Terrific. Thanks very much .

Operator

Thank you. There are no further questions.

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

Okay, since we've gotten through the questions, before I turn it back to Viki, I really don't have closing comments that I'd like to make today other than to say I know you have had a full day with two banks releasing, and there has been also quite a bit of commentary through the course of the annual meeting, but please if you have follow ups, we'll be around tomorrow and you can circle back there.

As I reflect on where we stand and really what has transpired over the last 24 months, I take enormous confidence from the strength of the capital base of the bank, the level of the liquidity, the flexibility that we have to deal with opportunities and challenges in 2009, and take enormous confidence from the fundamentals of the core operating businesses. And with that Viki I'll turn it over to you to close.

Viki Lazaris *- BMO Financial Group - SVP IR*

Great. Thank you very much everyone for joining us this afternoon and if you have any further questions please call the IR team. We'll be around. Thanks a lot. Have a great day.