

C&I Loans Stress Test Modeling Implications

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Modeling Symposium

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Sanjiv Talwar
Head, Risk Capital and Stress Testing
Bank of Montreal Financial Group



Disclaimer: the views expressed in this presentation are those of the author and do not necessarily reflect the views of The Bank of Montreal, or any of its entities.

BMO: Who We Are

Significant Midwest Footprint

BMO Harris Bank

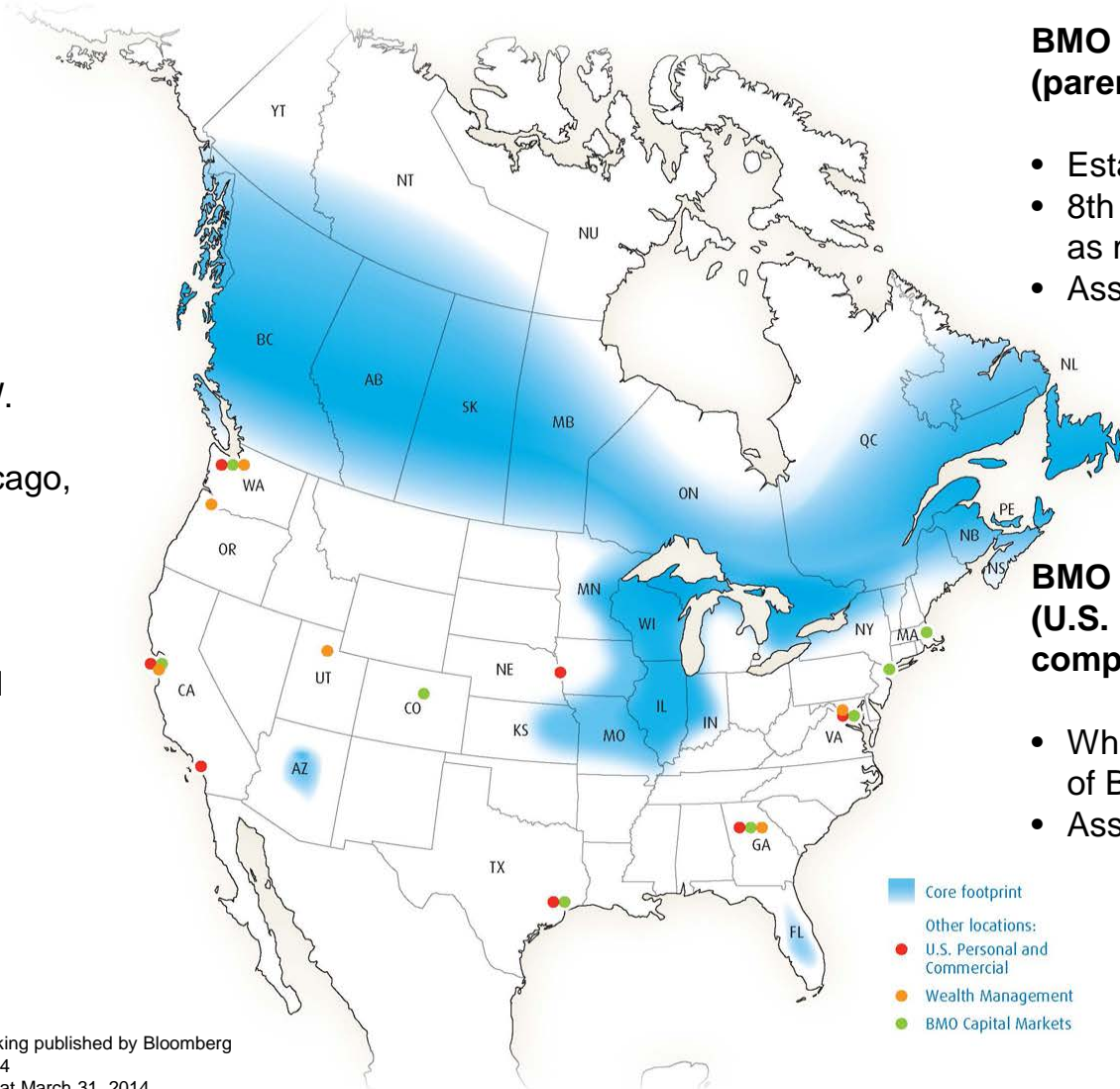
- Founded 1882 as N.W. Harris Bank & Co
- Headquartered in Chicago, IL
 - 600+ branches
 - 1,300+ ABMs
- Personal, commercial, corporate banking and wealth management

BMO Financial Group (parent company)

- Established 1817
- 8th largest bank in NA as measured by assets¹
- Assets: \$582B²

BMO Financial Corp (U.S. bank holding company)

- Wholly-owned subsidiary of BMO
- Assets: \$115B³



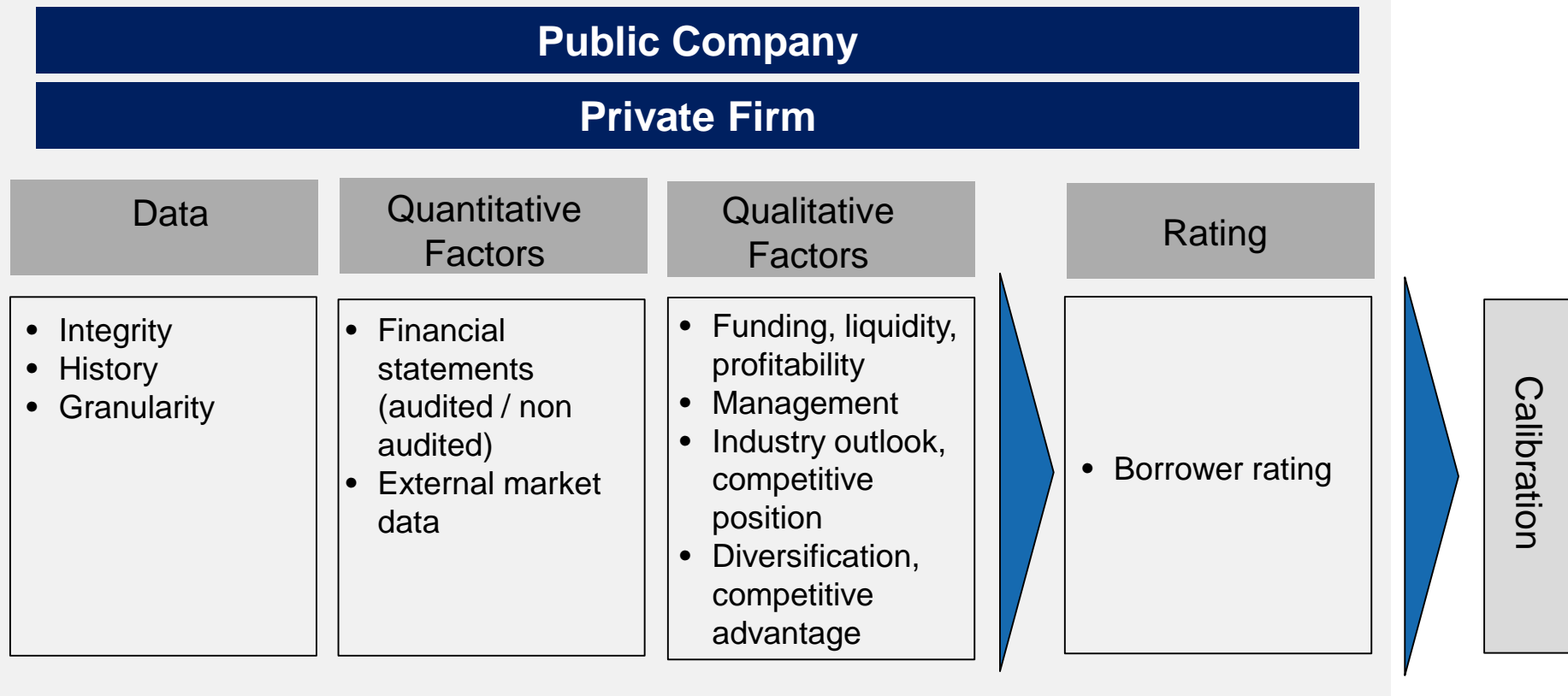
¹ As measured by assets as at April 30, 2014; ranking published by Bloomberg

² BMO Management Reporting, as at April 30, 2014

³ BMO Financial Corp. U.S. Regulatory Filings, as at March 31, 2014

Modeling the C&I Book

Risk rating system is fundamental to stress modeling



Standard practice is annual account review at a minimum
More frequent if change in economic or market conditions

Basel and CCAR Stress Test Modeling Frameworks are Different

Basel

Unconditional loss forecasting

Default rates averaged through the economic cycle

Downturn LGD and EAD

CCAR

Macroeconomic conditional forecasting

Changes in key macroeconomic variables translated to quarterly expected loss rates



Transformation

Economic view (discounted cash flows)
Accounting view (projected cash flows)

RWA Implications

Basel I / BIII Standardized → limited RWA movement
Basel III AIRB → dynamic RWA movement