C&I Loans
Stress Test Modeling Implications

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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 assets\(^1\)
- Assets: $582B\(^2\)

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

- Wholly-owned subsidiary of BMO
- Assets: $115B\(^3\)

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\(^1\) 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

### Public Company

#### Data
- Integrity
- History
- Granularity

#### Quantitative Factors
- Financial statements (audited / non audited)
- External market data

#### Qualitative Factors
- Funding, liquidity, profitability
- Management
- Industry outlook, competitive position
- Diversification, competitive advantage

#### Rating
- Borrower rating

### Private Firm

#### Data
- Integrity
- History
- Granularity

#### Quantitative Factors
- Financial statements (audited / non audited)
- External market data

#### Qualitative Factors
- Funding, liquidity, profitability
- Management
- Industry outlook, competitive position
- Diversification, competitive advantage

#### Rating
- Borrower rating

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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

Measures

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