Q2 2007 CONFERENCE CALL

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PRESENTATION

Operator

Please be advised that this conference call is been recorded. Good afternoon and welcome to the BMO Financial Group's second-quarter 2007 conference call for May 23rd. Your host for today is Viki Lazaris, Senior Vice President of Investor Relations. Ms. Lazaris, please go ahead.

Viki Lazaris - ***BMO Financial Group - IR***

Good afternoon everyone and thank you for joining us. The following members of the management team are here this afternoon -- Bill Downe, President and Chief Executive Officer; Karen Maidment, Chief Financial and Administrative Officer; Bob McGlashan, our Chief Risk Officer; Yvan Bourdeau from BMO Capital Markets; Gilles Ouellette from the Private Client Group; Frank Techar, head of P&C Canada; Ellen Costello from P&C U.S.; and Barry Gilmour, head of Technology and Operations.

After the presentation the management team will be available to answer questions from prequalified analysts. At this time I would like to caution our 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 forecasts, projections or conclusions in the forward-looking statements. Certain material factors and assumptions were applied in drawing the conclusions or making the forecasts or projections in the forward-looking statements.

You may find additional information about such material factors and assumptions and the material factors that could cause actual results to so differ in the caution regarding forward-looking statements set forth in the news release or on our Investor Relations website at BMO.com. With that said I'd like to hand the floor over to Bill.

Bill Downe - ***BMO Financial Group – President & CEO***

Thank you, Viki. As Viki has just explained in detail, my comments may include forward-looking statements. I'll remind you that the purpose of this call is to discuss our second-quarter results. We earned $671 million or $1.29 per share in the quarter and our return on equity was 18.3%, our core operations were very strong. Our results reflected the net impact of the previously announced commodity trading losses. Included in the focus of much of today's discussion will be on the losses which totaled $680 million or $0.64 a share. Of this amount $90 million or $0.18 was recorded in the second quarter and the rest was in the restatement of the first quarter.

Following my comments Karen and Bob will talk about the financial and risk implications of the losses and then I'll conclude with some comments about the strength of the underlying performance in the quarter. There were strong contributions from our core businesses, especially Canadian personal and commercial banking which increased earnings by 24% from a year ago. The improving performance from this group and for many businesses across the enterprise reflects the groundwork we've been laying for higher growth -- and I'm going to come back to this, but let's first deal with the commodity trading loss.

Without repeating all the details let me tell you what happened. The steep level of loss was largely a result of incorrect valuation of the commodity portfolio which masked the rapid escalation of risk and the real cost of the positions. With the benefit of hindsight we could have done a number of things better in the management of this business. Our commodity trading team did not operate according to standard BMO business practices. Leadership oversight of the business was not as disciplined or rigorous as it could have been. In marking to market, or calculating the market value of the portfolio, the business relied on single source independent quotes and it was slow to introduce multi contributor quotes.

While the primary risk controls were consistent with the high standards of BMO, there were not enough secondary checks in place in this particular business. When market based and multi contributor quotes were applied to the portfolio we determined that the book had not been appropriately marked, masking a rapid escalation of risk beyond BMO's risk tolerance. The portfolio contained an unacceptable level of out of the money options, which by their nature are illiquid, at a time when there was a steep decline in the volatility of gas prices.

As a management team we accept full responsibility for these isolated lapses in our high standards of business and market risk management. We're satisfied that these losses were restricted to one business in one location during one time period. It was a unique set of circumstances that added a level of proprietary trading to our energy client business that was neither necessary to serve our clients nor consistent with BMO's risk appetite. We're taking all the necessary actions necessary to put this loss permanently behind us.

I want to make it clear that there's been no change in our appetite for risk. And I'll repeat that, there has been no change in our appetite for risk. I also want to make it clear that as a financial intermediary BMO is in the business of managing risk and that means it is everyone's job to manage risk every day, all of us -- those with formal risk management roles and those who run businesses or work in them.

Let me summarize the key steps we've taken so far to ensure that this remains a one business, one time and one place occurrence. We have systematically reduced the risk in this portfolio from its peak in January. We've commissioned an investigation by the law firm Sullivan & Cromwell into possible irregularities in trading and valuation and this includes a review of the market quotes provided by Optionable Inc. We put in place a more appropriate portfolio valuation methodology, one that uses both market based and multi contributor marks. We've reduced limits and Bob will discuss how we've done that.

We've consolidated the commodity business under the experienced leadership of our other derivatives businesses. We no longer employ two individuals and have assigned a new team of commodity trading professionals who are very effectively managing the portfolio. Consistent with our belief in linking pay to performance we've reduced the incentive compensation pool for 2007 by $120 million primarily in BMO Capital Markets. The allocation of bonuses across the organization this year, as every year, will reflect our results individually and collectively. Our employees should be encouraged that the year is only half over and we're seeing good momentum in virtually every one of our businesses.

So where are we now and where are we going to go from here? In summary, as of April 30th our commodity portfolio is appropriately marked to market based on the completed valuation review. We can now say categorically that this valuation is proper and complete. Given the size and the complexity of the portfolio it could continue to experience paper gains and losses, however, the business is properly valued as a going concern.

Having already reduced the risk in this portfolio we're continuing to reduce the risk every day and with each passing day our comfort with the total level of risk is increasing. A fire sale is not necessary and it's not on. We estimate it will take six to 12 months to drive the portfolio down to the appropriate level of risk for normal course business subject of course to market conditions.

In the future in this portfolio we will only engage in the amount of market-making activity required to support the hedging needs of our oil and gas producing clients. We'll continue to take every additional step we deem necessary on behalf of our shareholders, including possible legal action and any further organizational and personnel changes. Our actions will be informed both by the results of our internal review and the legal review by Sullivan & Cromwell to identify irregularities in trading or valuation. The timeline will be governed in part by the legal process as it unfolds; however the actions that are within our control will be taken promptly.

Finally, without minimizing for a second the gravity of the revenue losses we've incurred, it's important to look at this in the broader context. The losses reduced BMO's Tier 1 capital ratio by just 19 basis points and our earning power for the future is largely unaffected. We continue to believe that the performance of BMO's core businesses will determine the success of this company and be a consequence of the work we're doing across the organization to boost business volumes and market share and increase profitability.

We believe this is how we can make a real difference in driving the value of the Company in the short run and an even greater difference in the long run. And I'll be back shortly to talk about the core business performance and Karen will take us through the numbers.

Karen Maidment - ***BMO Financial Group – Chief Financial & Administrative Officer***

Good afternoon and thanks, Bill. Some of my comments may be forward-looking. I would kindly draw your attention to the caution regarding forward-looking statements. Second-quarter results were $671 million or $1.29 per share, up 3.2% including the commodity trading losses previously announced. These losses are reflected in both Q1 and Q2 which I'll refer to shortly.

I would also like to note that all references to Q1 are on a restated basis unless otherwise indicated. Excluding the commodity trading losses earnings per share were up 17.6% driven by solid operating performance. Revenues grew 9.6% despite the commodity trading losses and expenses that were well-managed growing 5.6% resulting in a cash productivity improvement of 228. Net interest margins appear to be stabilizing and, while the reported income tax rate for the bank was 23.2% for the quarter, excluding the commodities trading loss the rate was close to 25% which is within our expected range of 25 to 28%.

On the capital side we generated an ROE of 18.3% and ended the quarter with a strong Tier 1 capital ratio of 9.67%. And as Bob will cover, asset quality remains very strong.

Slide 4 covers the commodity trading losses. The losses of $680 million or $327 million after-tax are broken down including the incentive compensation adjustment. $509 million of the losses or $237 million after-tax and incentive comp or $0.46 a share was recorded in Q1 and $171 million or $90 million after-tax in incentive comp or $0.18 a share was recorded in Q2. Incentive comp was lowered by $87 million in Q1 and

$33 million in Q2 for a total reduction of $120 million, as Bill noted earlier, and the tax rate differences are due to the use of foreign tax credits applied.

When we issued our April 27th press release we were at the very early stages of our investigation of the commodities portfolio. We believed at that time that the broker quotes used to value the portfolio in the first quarter were reliable and that our change in methodology was a change in estimate, therefore no restatement would be required.

As a result of further investigation after April 27th, new information was obtained and we determined a more appropriate market-based methodology should be used for this portfolio and this change together with our increasing concerns about the reliability of the quotes received from our principal broker used in our Q1 valuation led us to conclude that the change should be recognized in both the first and second quarter of '07. The change did not have a material impact on periods prior to the first quarter of 2007.

On slide 5 you can see that quarter-over-quarter EPS has increased $0.63 to $1.31. Of the total increase the commodity loss differential added $0.28, the restructuring charge recorded in Q1 added $0.17, and the majority of the balance or $0.68 is operating growth. On a year-over-year basis operating growth of $0.23 is mostly offset by the commodity trading losses recorded in the second quarter of this year of $0.18 which accounts for the year-over-year change in EPS.

Turning to slide 7, you can see that on slide 7, 8 and 9 we've broken out the core net income and contributions by operating groups. On a quarter-over-quarter basis core net income is up $88 million or 13% despite fewer days in a quarter. And the most notable contributions in the increase are P&C Canada and BMO Capital Markets excluding the commodity trading losses.

On a year-over-year basis, on slide 8, core net income improved $110 million or 17% in which P&C Canada contributed over half of that growth. And finally on slide 9, on a year-to-date basis you can see that core net income increased $177 million or 14%, again with P&C Canada contributing the majority of the growth the increase from corporate services is primarily driven by income taxes and provision for credit losses.

Slide 10 breaks out the contribution to net income by operating group both including the commodity losses and excluding them for your information.

Slide the 11 shows you the revenues. And you can see that revenues are up 22% quarter-over-quarter; this equates to an increase of 4.9% excluding the commodity losses. Year-over-year revenues were up 3%; however, excluding the losses revenues were up strongly year-over-year by 9.6%. P&C Canada showed solid topline growth in each of personal, commercial and the card businesses. P&C loss revenues improved primarily as a result of First National Bank and Trust acquisition. The private Client Group also had strong revenue growth as did BMO Capital Markets adjusting for the commodity loss.

Looking at the components of revenue on slide 12, you can see that our net interest income was $1.25 billion in Q2, up 9% year-over-year and 0.9% quarter-over-quarter. The key message on the slide is that margins are stabilizing in the total Canadian retail as well as at U.S. retail segments. Margins increased slightly in BMO capital markets.

Looking at slide 13, non-interest revenue as reported increased $454 million quarter-over-quarter due to the commodity trading loss, but decreased $36 million year-over-year. Excluding the losses non-interest revenue was up $108 million quarter-over-quarter or 7.8%. We saw increases in security commissions, equity underwriting, and M&A fees where business volumes drove growth. Trading revenues remained strong but flat q-over-q and in P&C Canada we recorded an insurance gain in Q2 on settlement of contracts.

Year-over-year non-interest revenue was up $127 million or 9.3% excluding the commodity losses. There was an increase of securitization revenue partially offset by a reduction in card fee revenue. There were also increases in investment security gains, underwriting and lending fees as well as M&A revenue. And trading revenues, excluding the commodities, remained strong at a similar level to last year and insurance revenue in P&C Canada, as I noticed previously, was up.

Turning to expenses on slide 14 expenses are down 3.5% or $59 million quarter-over-quarter and up $54 million or 3.5% year-over-year. After adjusting for incentive comp associated with the commodities loss the Q1 restructuring charge and the stock based compensation for retirement eligible employees which was booked in Q1, expenses are up approximately 4%.

Turning to slide 16 and 17, we've provided you with an update regarding the restructuring charge of $135 million pretax that we announced in Q1. As Bill mentioned in his comments, we have over 50 initiatives underway in the organization on which we'll continue to focus on improving the efficiency and effectiveness of the organization and we're targeting a run rate savings of approximately $300 million.

This is a very extensive project that began last summer where we looked at nonclient facing activities across the organization with a $2 billion expense base. We looked at benchmarks, best practices of global financial institutions for all these functions and established initiatives to close the gaps to become best in class. And as you can see on the next page, some of the examples of the initiatives which we are implementing right now and will drive that expense reduction.

On slide 18 our Tier 1 capital ratio of 9.67% declined primarily due to growth in risk-weighted assets, but as well as of our target of minimum 8% for a total capital ratio of 11.03%. The Bank's risk-weighted assets were $175 billion in Q2, up $2.1 billion over Q1. The year-over-year increase was driven by growth in loan balances in P&C Canada, higher corporate loans and commitments and higher risk-weighted assets in BMO Capital Markets and an increase in the goodwill reduction as a result of the acquisition of FNBT. These factors are partial offset by a reduction in market risk and 350 million preferred share issue in Q1.

Slide 19 shows our 2007 targets. And given the significance of the commodity trading losses incurred this year it will be extremely challenging to achieve most of our annual financial targets. We'll continue to monitor our performance relative to our annual targets, but we will also monitor performance on a basis that excludes the impact of these commodity losses to provide a check point on the success of growing our business and meeting our strategic objectives. With that I'll turn it over to Bob.

Bob McGlashan *- BMO Financial Group - EVP, CRO*

Thanks, Karen. Good afternoon, everyone. Before I begin I'd like to draw your attention to the caution regarding forward-looking statements on slide 2. Relative to the commodities loss I will speak to the risk management system employed and changes subsequently made. Given the nature of the trading environment though, certain statistics cannot be disclosed for competitive reasons. We use an extensive array of metrics to manage and monitor our commodities book. And there is no single measure that by itself gives you the complete risk picture.

We do not set a limit on every measure we use, but you can see the 11 primary measures that in the past have carried a limit on slide three. Definitions are provided on slide 20 as an appendix. As the commodity business grew, evidenced by the monthly notional outstanding chart on slide 4, among other measures, risk management triggered by the growth reviewed the approach to valuation being utilized including multi contributor data provided a more representative set of price points than independent broker quotes alone.

We engaged a knowledgeable external party who validated the multi contributor approach to valuation of the portfolio as being appropriate. Upon applying multi contributor data it became clear we had a large mark to market gap resulting in the adjustment discussed by Bill and Karen. With the benefit of hindsight had the implementation of the use of multi contributor data occurred sooner corrective actions would've taken place to minimize the loss.

Risk measures and limits were designed to rely on the assumption that the book is appropriately marked to market. And while we're confident that our risk measures and models are properly designed and functioning affectively, we do not require a book this large to support our energy clients' hedging business nor do we need market-making activity at this level to support that business. The business' activity to undertake greater market making has been rolled back to now include only the amount of market-making activity necessary to support our energy clients' hedging requirements.

While the monthly notional outstanding referenced on slide 4 does not reflect netting of long and short positions, open interest contract does and so provides a better sense of risk. Open interest contracts peaked at 1.4 million contracts in January of '07 and have since been reduced to 1 million. This along with the data provided by the other measures we use show a significant reduction in the risk associated with the book. Since April 30th we've been successful in reducing the book and risk further and will continue to report on our progress during subsequent quarterly calls.

It's important to understand the critical issue here is that our book was not appropriately marked to market. Appropriate valuation would have produced accumulating losses from a decline in implied volatility evident on slide 5 among other market shifts on a daily P&L. This in turn would have initiated stop loss actions before losses could achieve proportions material to the Bank. To that end, implementation of multi contributor data for valuation where exchange prices are not available is a very important change.

In addition, we are placing a number of limits on existing secondary measures for this portfolio, increasing the number of measures with limits from 11 to 18. We've also reduced our existing limits across the board and are establishing an appropriate set of step down targets that will get us to our reduced limits within six to 12 months in a way that will allow the business to continue to provide support for the hedging needs of our energy clients.

Turning to credit performance, as you can see on slide 6, our results continue to be strong with low PCL and historically low levels of gross impaired loans. On slide 7 the provision for credit losses was $59 million, down $7 million from a year ago but up $7 million from the first quarter.

On slide 8 new specific provisions remain low reflecting the continuing benign credit environment.

On slide 9 on a comparative basis Q2 specific PCL represents 12 basis points of average net loan and acceptances including reverse repos while Q1 specific PCL represented 10 basis points and fiscal 2006 11. Specific PCL continues to remain low compared to our 15 year average of 34 basis points and a Canadian peer group average of 56 for the same period.

Slide 10 shows an increase in gross impaired loan formations over the past two quarters. However, gross impaired loans are down from Q1 to 688 million remaining low relative to historical levels.

As shown on slide 11, we now anticipate that specific provisions in fiscal 2007 will be $300 million or less representing 14 basis points of average net loans and acceptances, down from the 2007 target of $400 million or less that was established at the beginning of the year. The reduction in our specific PCL target for 2007 is due to favorable credit performance in the first half of the year and the expectation of an improved economic outlook for the next two quarters from which we had previously anticipated.

Our revised target of $300 million or less remains higher than a fiscal 2006 amount of $211 million though due to an expected increase in the level of new specific provisions for the consumer book due to volume growth and some expected increase in new specific provisions in the commercial and corporate book from current very low levels.

Slide 12 excludes the Q1 commodities mark to market adjustment of $509 million; the remaining $171 million of the $680 million total commodities mark to market adjustment is embedded in the Q2 chart. And while it has reduced the total trading profitability, our Q2 trading and underwriting portfolio otherwise remained relatively stable and profitable during the quarter. With that I'll turn it back to Bill.

Bill Downe - ***BMO Financial Group – President & CEO***

Thanks, Bob. I'd like to reinforce a couple of points. Regarding risk management, my key message is that we're now satisfied that the lapse in our usual high standards of market risk and business management was isolated to one business in one location during one period of time. It also bears repeating that the evident strength of BMO's credit risk management is reflected once again in second-quarter results.

Finally, further to Karen's comment that we are now unlikely to meet most of our performance targets for the year, let me say that we will continue to hold ourselves accountable to those targets and we are determined to regain the lost ground as quickly as we can.

Returning to the core business performance, there were many positives in the quarter. Excluding the net impact of the commodity loss net income was $761 million, $1.47 per share in the quarter, and return on equity was 20.7%. On a similarly adjusted basis revenue increased 9.6% from a year ago, net income grew $110 million or 17% and operating leverage improved 400 basis points.

Earlier in the call I mentioned the strong performance in P&C Canada which delivered solid topline growth in personal, commercial and the card business. This growth was due in part to the addition of sales and service staff in our retail operations as well as the ongoing revitalization of this group's customer orientation and leadership including a number of significant hires in key positions. And while we know there's still work to do, we believe we're making very solid progress.

Personal banking showed growth in most products, particularly higher spread loans and cards as we continue to improve the customer experience and strengthen relationships. Personal loan growth from a year ago was strong at 9.5% and market share improved.

With our intention to hire more dedicated professionals in revenue generating roles such as investment advisors and mortgage specialists, our integrated approach to client service and our broad spectrum of products, we're well positioned for further growth in personal banking. We're also well positioned for further growth in commercial banking where second-quarter results showed good ongoing growth in high spread loans and deposits. Commercial loans grew 6.7% with year-over-year growth in all divisions across the country. And we continue to rank second in Canadian business banking market share, increasing share by 14 basis points from a year ago.

With the recent launch of new commercial centers in the GTA, Montreal and Vancouver and with the consistency of our lending practices we're optimistic about our capacity to generate continued volume and share growth in commercial banking. This is a competitive strength for BMO. In P&C U.S. we successfully converted First National Bank and Trust in Central Indiana to the Harris operating model and brand, and we're pleased that the acquisition contributed positively to quarterly earnings before integration costs this was our most efficient integration to date, the result of investments we've made in infrastructure and our experience in integrating previous acquisitions. It proves we can transfer our expertise outside our home market of Chicago.

This group continues to operate under somewhat difficult economic and market conditions. In this environment we're managing costs by, for example, reducing personnel costs and slowing down new branch openings. But at the same time we're creating future value by increasing the level of referrals and the number of outbound calls. Our U.S. operations anchored by Harris are an integral part of our growth strategy and we're continuing to work toward our goal of becoming the leading personal and commercial bank in the U.S. Midwest.

Private Client Group delivered good volume growth in key businesses during the second quarter as the group continued to earn recognition for its excellent customer service and products. BMO mutual funds increased net sales 22% over the prior year during a record-breaking RSP season. Productivity for this Group is already top tier and we're committed to maintaining that position. It will come by driving revenue growth. We've added 163 front-line employees to the Group from a year ago, directing three-quarters of them to client, service and sales.

Most businesses in BMO Capital Markets also showed good growth. Increases were strong in equity underwriting, mergers and acquisitions, higher revenues -- much higher revenues from corporate banking and that's consistent with the Group's strategy as well as increases in commissions, loan fees, securities and collections on previously impaired loans, equity trading, revenue also increased. The strong positive momentum experienced by most business lines in this Group should carry on for the remainder of the year, particularly in M&A, equity underwriting and loan syndication.

In conclusion then we see many reasons for optimism. We're making good progress on the restructuring announced in the first quarter. As Karen said, the initiatives under way are targeted to reduce run rate expenses by $300 million and we will be at that run rate -- halfway to that run rate rather by the end of fiscal 2007.

We have the highest dividend yield in our peer group, our capital ratios are strong, net interest margins are stable and our credit performance continues to be excellent and there's momentum in our core businesses. The momentum comes from the capable and committed people throughout this organization who are just getting on with the everyday job of making BMO successful. And with that, operator, can we open the line to questions?

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Steve Cawley, TD Newcrest.

Steve Cawley - ***TD Newcrest - Analyst***

The first question I've got for you is on the $300 million of expense reductions. I must have misunderstood the message on your January 31st restructuring because I was really under the impression that we were looking for almost -- taking some of these individuals and placing them in more sales functions. I was really believing that your focus was improving on the customer experience. You're still talking about that, but the $300 million is such a huge number, I have a hard time understanding how you can cut $300 million in costs and improve customer service levels?

Bill Downe - ***BMO Financial Group – President & CEO***

Steve, I think you're going right at the heart of the reason why we undertook these changes. One of the things that we've been talking about inside the Company is how much time we spend doing business with each other as opposed to doing business with our customers. And the focus of this effort, and I think it was pretty clear at the time that we announced it, was on duplication of functions. Clearly all those functions are necessary for the good operating of the Company, but we had duplication in lines of business and in the center and we're also looking at ways to more efficiently serve the businesses.

So there is no question that the gains that will come in terms of run rate savings will be applied to continue to expand the sales force and continue to expand the productline. But I think what Karen has done is put a circle around the economic benefit that comes from the job take out that was specified in that release.

Steve Cawley *- TD Newcrest - Analyst*

And the revenues -- you don't expect a negative impact on revenues, you expect the $300 million to be reduced eventually, let's say by the end of '08, and that revenue growth will maintain the pace that you've set in recent quarters?

Bill Downe *- BMO Financial Group – President & CEO*

I think the full run rate benefit will be realized by the end of '09, but none of the changes that were made were made with an expectation that it would impact revenue.

Steve Cawley *- TD Newcrest - Analyst*

Okay, and so is it fair to say that your 150 basis point annual efficiency improvement target seems a bit conservative at this point in time? If you're going to cut costs that drastically and continue to grow your revenues your operating leverage must be pretty good.

Bill Downe *- BMO Financial Group – President & CEO*

We're going to continue to improve our operating leverage and we're taking a number of steps -- we're taking other steps to increase the growth rate of revenue. But I think what it does is it underlines, Steve, our commitment to continue to reduce our expense to revenue ratio as we have been doing over the last five years.

Steve Cawley *- TD Newcrest - Analyst*

Is there a way -- like you offer on slide 17 of Karen's slides a breakdown of the operating groups, where you expect the expense cutting or some of the initiatives that you've got. When you've got the $300 million, is there a way to provide to us where the $300 million -- how it's allocated quantitatively?

Karen Maidment *- BMO Financial Group – Chief Financial & Administrative Officer*

Broadly we can once we get to that place in terms of the run rate. But as I indicated, that sort of in scope costs that were looked at was about $2 billion which is all the nonclient facing activities. And those reductions really will benefit the lines of business to which they relate. So you'll see them in P&C Canada, Capital Markets, P&C U.S. and PCG.

Steve Cawley *- TD Newcrest - Analyst*

But one division -- let's say if we just had all the divisions and we had a sense of how important each one was and in terms of percentage of earnings -- is it fair to allocate them that way thinking, okay, P&C Canada has the most to gain from all of this?

Karen Maidment *- BMO Financial Group – Chief Financial & Administrative Officer*

That would be fair. P&C Canada would have the largest chunk of it because it's the largest division and also it has gone through a lot of change. I don't know, Frank, whether you want to add any color to the type of the initiatives that are underlying it?

Frank Techar - ***BMO Financial Group - Head of P&C Canada***

Steve, I think there are two points. The first one is -- the one that's here on page 17 is we did reduce the size of our headquarters staff by about 20%. We're in the process of executing against those reductions. So that is going to have an impact on our performance going forward. And a number of the other initiatives associated with this have to do with our technology and operations group in support of our business. So the combination of the two we think is material and we think it's going to help us out closing the gap going forward.

Steve Cawley - ***TD Newcrest - Analyst***

Maybe one request, Frank. I'd be really curious moving forward here if you could disclose your customer satisfaction scores, just because that was how you came out in terms of your strategy, how this was your real focus. I'd like to be able to see how that improves over time.

Frank Techar - ***BMO Financial Group - Head of P&C Canada***

What I can tell you, Steve, at this point is we're number four out of five for our personal loyalty scores. We're not disclosing those today, but what I can tell you is over the last six months we've made no improvement relative to the other competitors. We have an awful lot of work underway and I'm optimist for a couple of reasons. The first one is we just have -- we have four months of branch level data relative to our scores and as a result of those four months of data we're putting together detailed action plans at the branch level to close those gaps.

So the way I'd characterize it is I think it's a little bit early, but my expectation is we will be able to disclose where we're starting from and the improvement as we get going.

Steve Cawley - ***TD Newcrest - Analyst***

Thanks very much.

Operator

Darko Mihelic, CIBC World Markets.

Darko Mihelic - ***CIBC World Markets - Analyst***

Hi, thanks. The first question also along the lines of the $300 million reduction. Just to clarify, is that the net bottom-line impact or is that $300 million sort of the targeted but that will be offset by spending on other initiatives just to be clear?

Bill Downe - ***BMO Financial Group – President & CEO***

Well, it is the expense benefit that flows from the initiatives. Clearly the businesses are going to be investing in growth, but we're tracking the $300 million and we'll confirm our progress with respect to the cost takeouts. They're discrete and from our viewpoint we'll be able to see them in the individual businesses.

Darko Mihelic - ***CIBC World Markets - Analyst***

And what base is that off of? What base of run rate right now are we looking at?

Bill Downe - ***BMO Financial Group – President & CEO***

Well, Karen said it applies to about $2 billion of the total expense base and the total expense base is above $6 billion. But it's that non-customer facing portion.

Darko Mihelic - ***CIBC World Markets - Analyst***

Okay, thanks. And I guess a question for Frank with respect to P&C Canada. If I ex out the insurance gain and perhaps the investment securities gain, I get about 6% year-over-year growth in terms of revenue. Is that a number that you think you can -- what is the number that you would be targeting? What is a solid number for you in your mind?

Frank Techar - BMO Financial Group - Head of P&C Canada

I think the way I'd answer is that is 6.5% in Q2 is about the same as we had in Q1. So we think that's good from the perspective that that year-to-date number as a lot higher than 3.8% last year on a comparable basis. So we've made some improvement over last year in the core revenue growth, but it's not what our expectation is going forward. We think a higher number is what's going to be required to close the gap financially relative to the competition.

Darko Mihelic - ***CIBC World Markets - Analyst***

And when would you expect some of that -- some of your initiatives let's say to start to flow through with greater revenue growth?

Frank Techar - ***BMO Financial Group - Head of P&C Canada***

I'd like to be, based on the first couple quarters of the year, to be really optimistic about that because I'm really happy with where we are after six months. But the reality is that 6.5% growth hasn't changed from Q1 to Q2. And until we start to see a bit more momentum in the balance sheet growth, in particular around deposits and mortgages -- until we start to see a bit more balance sheet growth and get the NII line growing a bit more rapidly I'm a little reluctant to get really optimistic about the growth going forward.

So I think Q3 and Q4 are going to be potentially a bit bumpy and we're going to be watching that line closely relative to the momentum from the initiatives that we've got ongoing at this point in time.

Darko Mihelic - ***CIBC World Markets - Analyst***

Okay, fair enough. And then I just have one question on the commodities loss. Noticing that you've given us the graph showing that you pierced your VaR once during the quarter which typically is not a big deal, but would I be correct in assuming that last quarter you pierced it a few times? And I suppose this question is what is OSFI response and what are your dealings with OSFI? Are there perhaps any punitive measures from OSFI on a go forward basis?

Bill Downe - ***BMO Financial Group – President & CEO***

I think the only response I'd make on that is that we've kept OSFI informed through the piece, updated them on information as it has come along and all of our procedures are in line with the expectations I think they have of us going forward.

Darko Mihelic - ***CIBC World Markets - Analyst***

And so I guess in closure on that, no expectations of a change in terms of your market risk methodologies?

Bill Downe - ***BMO Financial Group – President & CEO***

No, the methodologies are solid. The change that we have made fundamentally is the one that I mentioned in my comments with respect to valuation.

Darko Mihelic - ***CIBC World Markets - Analyst***

Okay, great. Thanks. I'll re-queue. Thank you.

Operator

Andre Hardy, RBC Capital Markets.

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

A question for Frank and a question on trading. Frank, you're obviously getting out of the broker network on the mortgage side. Are you able to isolate your market share losses related to that versus your branch market share? And then I have a question on trading.

Frank Techar - ***BMO Financial Group - Head of P&C Canada***

Yes, we actually can do that, Andre. And if you look at the performance in the past quarter, our share year-over-year went down about 100 basis points. About half of that is coming from our proprietary channels and about half of it's coming from third-party and from our broker network. So the part where we're -- we anticipated was the share loss from third party and broker. The part we're working on really hard is the share loss from our bankers and our branches and our mortgage specialists.

And I can tell you that with our spring campaign we've seen authorizations and approvals over the last couple of months that are higher than they were last year coming out of those proprietary channels. So the work we've done over the last couple months I think is going to start to show up and higher balances on the mortgage line and that's the one that we are trying to turn around.

So our expectation is it's going to take us 12 to 24 months to get the share level going to where it was a few quarters ago, but we are intent on turning that around.

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

And would you expect a similar time period on the deposit side to turn things around?

Frank Techar - ***BMO Financial Group - Head of P&C Canada***

Well, deposits we're actually hopeful we're going to make a dent a little sooner than that. And we've got a number of things going on from a customer experience perspective. We're looking at everything from account opening processes to help in that regard to new offers in the marketplace that are going to drive volume and we're close to coming out to the marketplace and we're optimistic about that.

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

And on the trading side, is it possible to isolate how much of the losses were due to a miss mark verses market movements that went the wrong way? And my second question related to trading is how much of the entire trading book is validated by sources that are -- I think you referred to them as multi source sources? I'm not using the right expression, but more than one source?

Bill Downe - ***BMO Financial Group – President & CEO***

Andre, I'll let Yvan answer your first question. With respect to your second one, this is the only business that we don't have visible market prices for. In the OTC market for natural gas futures we have to rely on either a multiple contributor or a broker quote in order to get a price and then Yvan can speak to the first question.

Yvan Bourdeau - ***BMO Capital Markets - CEO***

What I would say of the revaluation, as you probably understand, incorporates market dynamics such as volatility and liquidity that may exist in the marketplace. So it's very difficult to actually desegregate and assign a dollar value to each of them. But I think it's fair to say that the reduction in implied volatility over Q1 created a great deal of the embedded loss that was identified when the book was properly marked to market. So I cannot provide you with a specific number, Andre, but I would say the revaluation of the portfolio represented the most significant factor in the loss that was incurred in Q1 and Q2.

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

Okay, thank you.

Bill Downe - ***BMO Financial Group – President & CEO***

Andre, a quick correction. Bob just pointed out to me that in the credit default swap market there are multi contributor prices.

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

Thanks.

Operator

Ian de Verteuil, BMO Capital Markets.

Ian de Verteuil - ***BMO Capital Markets - Analyst***

My first question is from page 25 of the supp. pack. There was $30 million interest income on impaired loans this quarter. Is that recapture that came into the income statement? And if so, what segment would it have flown through?

Bill Downe - ***BMO Financial Group – President & CEO***

There's no meaningful recapture. There was a couple of small transactions that were sold into the market place with a nominal recovery of PCL.

Ian de Verteuil - ***BMO Capital Markets - Analyst***

So that 13 million-- I'm on page 25 -- what does it relate to?

Bill Downe - ***BMO Financial Group – President & CEO***

Just give me a minute and let me (multiple speakers)

Ian de Verteuil - ***BMO Capital Markets - Analyst***

Let me go on and give you some time to get that. The second one is page 33, the interest rate gap position. I never know whether I'm the only one who looks at this page or not. But it continues to look as if the Bank is taking a pretty big bet that interest rates are going to decrease and it looks as if the after-tax impact of a 100 basis point rise in rates would be negative $100 million after-tax to the Bank. I don't perceive the Bank as one that takes a lot of bets on interest rate, so I'm surprised to see that number which seems to climb and has continued to climb over the last several quarters. Yvan, I don't know if you can help, are you truly taking a structural bet on the market here?

Yvan Bourdeau - ***BMO Capital Markets - CEO***

Let me comment from several perspectives. First of all from a Canadian perspective and a U.S. perspective and also from different groups within the Company. If you look on page 33, and I'll first focus my comments on the Canadian dollar balance sheet, you will see that within the one year bucket quarter-over-quarter and in fact throughout the last four quarters there's been a reduction in the asset sensitive position that we have. But the counterpart of this, if you look at the one to five years there's been an increase in the asset sensitive position from 7.6 let's say at the end of the last quarter to 8.6 this quarter.

And the main factor behind this in fact is not related to BMO Capital Market, it's related to P&C where the growth and term mortgages as being at such a fast rate that it has not been fully matched in terms of funding also on a term basis. So that's what created this increase in asset sensitivity in the one- to five-year bucket.

And one more comment that I would make though, if you were to look historically as to the risk profile of the overall company, given where we are currently in the interest cycle it would be actually, be at a reasonable or at a lower level just because the yield curve environment, both in Canada and the U.S. incidentally, is not all that conducive for us to put in place on carry position.

And having said so you will notice that there was an increase in the U.S. balance sheet in the one- to five-year from 7.6 -- from 4.2 let's say, two quarters at the end of fiscal '06 to 7.6 and it has flattened or reduced a little bit this quarter and that was basically investment in treasuries in the U.S. and other type of investment securities as we were able to purchase attractive yields versus the overnight Fed fund.

So there's been a slight increase in the risk profile in that area. But as I said, we feel that the risk reward associated with that increase in the risk profile is warranted.

Ian de Verteuil - ***BMO Capital Markets - Analyst***

To the bank is taking more interest rate risk?

Yvan Bourdeau - ***BMO Capital Markets - CEO***

Well, if you look at the one- to five-years you would conclude this, that over the last six to nine months we have increased our risk profile. But as I said, it is in the one- to five-year bucket and it's a very liquid area and we feel that the asset that we were able to put on the books an attractive yield versus at the rate which we can fund them and therefore we felt comfortable with the risk profile associated with that.

Bob McGlashan - ***BMO Financial Group - EVP, CRO***

Ian, it's Bob. I'm have to get back to you off-line afterwards; I don't have an answer for you on the $30 million, but I will do that quickly after the call.

Ian de Verteuil - ***BMO Capital Markets - Analyst***

Thank you.

Yvan Bourdeau - ***BMO Capital Markets - CEO***

If I can add maybe one relative to your first question, Ian. I think you were asking in terms of recoveries, loan recoveries. Is this what you were asking?

Ian de Verteuil - ***BMO Capital Markets - Analyst***

Yes, I thought it was on page 25.

Yvan Bourdeau - ***BMO Capital Markets - CEO***

So just to mention that this quarter in BMO Capital Markets, we have normally each quarter some recoveries that take place from impaired loans, but in Q2 of '07 we have an increase that was above our average that we'd receive normally. So we were I'm sure out of the 25 the greater proportion of that contribution came from us.

Karen Maidment - ***BMO Financial Group – Chief Financial & Administrative Officer***

Yes, Ian. It's Karen. On our press release on page 21 we mentioned it as one of the items related to BMO Capital Markets. So I expect the majority of it relates to that business.

Ian de Verteuil - ***BMO Capital Markets - Analyst***

So it actually was – a fair amount of recapture this quarter.

Karen Maidment - ***BMO Financial Group - Chief Financial & Administrative Officer***

Yes.

Yvan Bourdeau - ***BMO Capital Markets - CEO***

Yes, that's correct.

Ian de Verteuil - ***BMO Capital Markets - Analyst***

Thank you.

Operator

Jim Bantis, Credit Suisse.

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

Good afternoon. I just have a couple of quick questions here. With respect to the 1000 fewer full-time positions that you are targeting, at what percentage are you at right now in terms of achieving that goal?

Karen Maidment - ***BMO Financial Group - Chief Financial & Administrative Officer***

In terms of FTE reductions?

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

That is right.

Karen Maidment - ***BMO Financial Group - Chief Financial & Administrative Officer***

In terms of the FTEs that have been informed about reduction it's about a third.

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

Karen, do you expect to be at 100% by the end of the year?

Karen Maidment - ***BMO Financial Group - Chief Financial & Administrative Officer***

By the end of January.

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

By the end of January.

Karen Maidment - ***BMO Financial Group - Chief Financial & Administrative Officer***

Yes.

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

Great, thank you. A question for Yvan, when I look at the capital markets revenue particularly the M&A advisory and underwriting fees ramping up 40%, is a bulk of that coming from Canada or are you seeing some progress in terms of the U.S. operations in terms of adding to that line item?

Yvan Bourdeau - ***BMO Capital Markets - CEO***

The contribution or the increase in contribution from an M&A perspective came from both areas. I would say Canada contributed slightly more but there is no question that we are making definite inroads in the U.S. and the U.S. M&A group has actually contributed in Q1 and in Q2.

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

Yvan, is most of it expected coming from the energy and mining sector or are we seeing some outside of those two prominent spaces?

Yvan Bourdeau - ***BMO Capital Markets - CEO***

In the U.S. it is much more diversified than this. In Canada you would certainly have a concentration in the sectors that you just mentioned but in the U.S. would be for instance with our fixed group, would be with our food group, would be with the energy as well so it is much broader and the diversified group as well. So in the U.S. it is much broader than it would be here in Canada.

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

Great, thank you. I just have got one last question for Ellen. Lots of noise in the Chicago marketplace with respect to B of A originally acquiring or trying to acquire LaSalle and now others are involved but what could you kind of describe the situation for us, what does it mean for Harris? Is there something you can take advantage of? Is this a negative? Maybe your thoughts on the whole prospects in the marketplace?

Ellen Costello - ***Harris Bankcorp, Inc. - CEO***

I think history shows us, Jim, that disruption creates opportunity and that's how we're looking at it. It's happening at a time when we're really trying to ramp up our business banking franchise and are actively out there talking to customers trying to take advantage of that opportunity. And in fact, we're celebrating our 125th anniversary this year as a long-standing player in the Chicago market which also bodes well for us.

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

Ellen, you had mentioned that -- history is an example that you're referring to. Can you give me something that you're -- you're tying towards the Chicago area. Was there something in terms of Banc One in the past and JPMorgan that you were able to successful take share away from others during periods of disruption?

Ellen Costello - ***Harris Bankcorp, Inc. - CEO***

We have found that our community banking focus and the fact that we're consistently in the market over long periods of time does help when there are times of change. And when the Banc One and Chase change happened we did see some movement of customers both on the business banking, small-business and retail side.

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

Great, thank you.

Bill Downe - ***BMO Financial Group – President & CEO***

Jim, I might add that there are two elements to this whole question. One is the period when it's not determined what's going to happen. And I think in that particular period it's actually a lack of focus that will emerge in the marketplace that we can take opportunity of. After a transaction is done, and clearly something is going to come out of this -- the second stage is the rebranding process because the rebranding process is always very tricky.

And I can go back to just about 10 years ago when Bank of America bought Continental Illinois which is a very visible brand in the Chicago market. And they made some commitments about Chicago being a headquarters for a portion of their business. They weren't able to sustain that and so the history of big takeovers in the Chicago market is that unless you're very, very careful with the brand the customer base doesn't stick.

And that's one of the success stories in the marketplace is Harris Bank because BMO Financial Group has maintained an identity through a transition period that is very specifically recognized in the market. So we're always aware of any move that a competitor might make and I think the initial announcement, there was quite a bit of questioning about what will the impact be on you and I think we just have to stay focused on our customers.

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

Bill, I appreciate the color that you've just given. Would the enterprise wide restructuring initiatives kind of prevent you from taking advantage of that disruption in the marketplace at all?

Bill Downe - ***BMO Financial Group – Presdient & CEO***

No, I don't think so. There clearly has been a slowdown in economic growth in the Midwest and a slowdown in the housing market. On the commercial banking side, the largest portion of La Salle's business is commercial banking. We're strong in commercial banking but it is under represented in our Harris business. I think that's where the growth opportunity is. And as I said earlier, the focus on the cost take out has been in the noncustomer facing positions and things like slowing the opening of new branches until market growth picks back up. So I think we're going to be able to take full advantage of the opportunities that present themselves.

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

Great. Thanks very much.

Operator

Michael Goldberg, Desjardins Securities.

Michael Goldberg *- Desjardins Securities - Analyst*

I had a couple of questions. First of all, you noted that the gross impaired loan formations have been trending up. Do you expect this trend to continue? And is it reasonable to look at this growth occurring in line with loan growth over a cycle?

Bob McGlashan *- BMO Financial Group - EVP, CRO*

Thanks, it's Bob. I do expect to see the formations of gross impaired loans continue to trend up, it's not dramatic, but I certainly would expect to see that happen. It absolutely is correlated to the size of the balance sheet as well. So to the extent that we are seeing growth across the book we're going to see that book also continue to grow. In terms of where we are in the cycle, which I think you were referring to, that's also what you would expect to begin to see leading towards a bit of a downturn in the credit cycle.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Now this quarter it looks like you're sales and repayments actually spiked up from very low levels that they had been at and you talked about having some recoveries this quarter. Was it one or a small number of significant loans where this occurred during the quarter?

Bob McGlashan *- BMO Financial Group - EVP, CRO*

Sorry, I didn't catch the very first part. What was it that you said that you were referring to that changed?

Michael Goldberg *- Desjardins Securities - Analyst*

During the quarter the sales and repayments of impaired loans spiked up. They've been near zero the past couple of quarters and it looks like they were over $100 million this quarter, largely offsetting the increase in gross formations. So what I was wondering about was whether that was one or a few significant loans where those sales and repayments had occurred?

Bob McGlashan *- BMO Financial Group - EVP, CRO*

We had two sales of assets out of the impaired loan book and then we had a number that we just managed to work our way through. So there's nothing dramatic there. In aggregate it was more than enough to offset the formations this quarter. But there was no specific sector, no particularly large transaction that I could point to.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Now turning to the trading loss, I'm a little bit confused about one aspect of it. In the second press release that BMO put out you said given the size and complexity of the portfolio it could experience subsequent significant gains and losses due to repositioning. However, the ultimate realization over time isn't expected to generate a large economic gain or loss. You also said that you had reduced your risk by a third in the portfolio, so you still had two-thirds of the remaining risk. I guess what I'm getting at is of the $680 million loss is there a portion that's provisioned for future losses? And if so, how much?

Bob McGlashan *- BMO Financial Group - EVP, CRO*

The book has been remarked to market, so it reflects the current market and the write-down is a reflection of the miss marking of the book. I think the point that I made at the beginning is it's marked appropriately for a going concern business and that means that like any other portfolio in an actively run business it will be subject to value movements up and down. I think that's the bottom line.

Michael Goldberg *- Desjardins Securities - Analyst*

Right, but is there -- in addition to that is there any provision for possible future losses on the portfolio that's been netted against it?

Bob McGlashan *- BMO Financial Group - EVP, CRO*

No.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. You also mentioned that there were foreign tax credits that were applied to the restated Q1 numbers. How much were those tax credits and would they have been otherwise applicable sometime in the future?

Karen Maidment *- BMO Financial Group - Chief Financial & Administrative Officer*

They were just -- between $30 million and $40 million and, no, they would not have been. So they became applicable because of this loss and that's why we attributed them to the loss.

Michael Goldberg *- Desjardins Securities - Analyst*

Can you just explain how that happened and why they would be applicable under these circumstances but not under other circumstances?

Karen Maidment *- BMO Financial Group - Chief Financial & Administrative Officer*

I'm happy to talk to you later about it, but it's just the application of the tax credits and what you can apply them against. And because of the loss we were able to use them, they would have otherwise expired.

Michael Goldberg *- Desjardins Securities - Analyst*

Okay. Finally, I guess you're one of a couple of banks that's taken a pretty strong stance against external mortgage brokers. Can you explain this stance and can you explain what impact it's had so far?

Bill Downe *- BMO Financial Group – President & CEO*

The decision we took to stop selling our mortgages through the broker channel is really founded in a couple of things. And the first one was the spreads are a lot lower than mortgages that we originate through our proprietary channel. And we were not successful over time in converting those customers into customers with deeper relationships with us. We just -- I think over time recognize that the amount of management time and attention and effort that it takes to do that was undermining our ability to take care of our primary customers coming through our branch channel, so that's one point.

The second point is that our customers were confused because we were offering BMO mortgages through two separate channels at different prices and the channel conflict, not only with our customers but with our employees, was causing again a lot of distraction in our ability to go to market in an effective way. Those are the two primary reasons and so we've just decided that if we're going to invest we're going to invest in our proprietary channels, we're going to run one business through our branch network and through our mortgage specialist salesforces and that's what we're in the process of repositioning.

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

So do you rule out altogether pursuing mortgages originated through the broker channel?

Bill Downe - ***BMO Financial Group – President & CEO***

Yes.

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

Okay, thank you.

Operator

Sumit Malhotra, Merrill Lynch.

Sumit Malhotra - ***Merrill Lynch - Analyst***

Good afternoon. A little bit surprised to see the size of the credit default book down so sharply considering how much success you're having on both the corporate -- specifically the corporate lending side, commercial as well. Your CDS book down about 60% from the end of fiscal 2006. From a risk management perspective won't this be more expensive to pick up later in the cycle if you're selling some of these positions out now?

Bob McGlashan - ***BMO Financial Group - EVP, CRO***

It will. I'll just reiterate some messages I've delivered over a series of quarters in terms of the way we go about managing our credit book and the way we use credit derivatives. For credit risk management we were extremely selective about where we would use a credit derivative. And it would not be a primary approach for us, for example, to underwrite a large amount and then offset it with a credit derivative. We by far prefer to underwrite the amount that we're happy to hold and then manage the position going forward.

When we choose to put a credit derivative in place it's because we are unable to do what I just described and we're forced for some reason to hold more than we want to. It doesn't happen very often. So typically we manage our credit risk at origination and are very comfortable doing that. We have a loss history that suggests that we are good at it. And coughing up the spread on the asset to hedge it with credit derivatives is not very economic.

Sumit Malhotra - ***Merrill Lynch - Analyst***

So a real balance sheet example here, it looks like communications you had a hedge or a protection of $41 million was your notional at Q1, it's zero this quarter. At the same time it looks like a big cable impairment came off your books this quarter. Is this something that's part and parcel now that the health of the loan has improved, you no longer need the protection and it gets blown out?

Bob McGlashan - ***BMO Financial Group - EVP, CRO***

Yes, that can happen sometimes. Certainly when we look at these individually as opposed to sectorially. So if we don't feel we need the coverage any longer then we would certainly liquidate it.

Sumit Malhotra - ***Merrill Lynch - Analyst***

Okay, very quickly for you as well, Bob. In talking to some of your competitors on their trading risk management it seemed like most banks are setting up liquidity reserves, volatility reserves, some kind of reserve provision if you will for their trading portfolios in some of these positions. My question for you -- this was announced April 27th, right at the end of Q2, is this something that you have as well on your trade floor, a risk management type of provision that's set up for some of these volatility liquidity issues? If yes, are the losses given here in terms of commodity trading net of those reserves?

Bob McGlashan - ***BMO Financial Group - EVP, CRO***

The answer is yes, we do do that. And in this particular case in the commodities book it is net. It was a relatively small number, so the mark to market adjustment is the 680.

Sumit Malhotra - ***Merrill Lynch - Analyst***

And the very small number that you referenced, that was the reserve you had set-aside for your trading book?

Bob McGlashan - ***BMO Financial Group - EVP, CRO***

No, for commodities.

Sumit Malhotra - ***Merrill Lynch - Analyst***

Okay, thanks.

Operator

Mario Mendonca, Genuity Capital Markets.

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

Just a very quick clarification. When you first talked about the restructuring the impression I got, and it sounds like Steve and perhaps others got the same impression, is that the cost cuts were really -- it was really more of allocating expenses from non-client facing to client facing that at the end of the day there really wasn't much sort of net cost savings. Bill, I'm getting the impression from you and it was when you were answering Darko's question that there is a net number, a net contribution to the bottom line, but I couldn't get a sense for what that was. Could you maybe just repeat your answer to Darko?

Bill Downe - ***BMO Financial Group – President & CEO***

As I recall, and I am going to go on memory here, what we were specific about at the time was that we wouldn't see the savings fall directly to the bottom line because we were in the process of looking at revenue growth as a primary objective of the businesses. That said and the reason why we're being as clear as we are is that we're not going to muddle the expense savings with investments on the revenue side. And so we're going to be clear about the achievement of those expense savings and each one of the businesses as they did today will talk about the investments they're making on the revenue side.

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

Maybe the appropriate question for me to ask if you can give us a sense of what the $300 million is in terms of savings? Can you give us a sense for what the new investments are?

Karen Maidment - ***BMO Financial Group - Chief Financial & Administrative Officer***

The examples of the savings are listed on page 17, so the types of things that have generated the savings. Part of those savings are really going to help us achieve our targets going forward and part of those savings get reinvested in the business. Much of the reinvestment right now is FTEs in the sales related offices of P&C Canada and PCG. So it's really a redeployment in some ways you can think of -- some of the savings will go to the bottom line, some of the savings will be reinvested to support additional sales personnel.

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

I guess what I'm trying to get at is what's the bottom line? How much is being reinvested and how much are you allowing to fall to the bottom line? Is that something you're prepared to talk about?

Karen Maidment - ***BMO Financial Group - Chief Financial & Administrative Officer***

Not right now.

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

Okay. Yvan, when you were answering Ian's question about the interest rate risk, you were talking about the one- to five-year. Is it fair to say that -- the flip side to that is what's happening in say the zero- to one-year or the zero- to three-month where the excess of liabilities over assets has grown for some time? Is that sort of the flip side of what you were describing?

Yvan Bourdeau - ***BMO Capital Markets - CEO***

Yes, that's right, we funded short.

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

And I guess what I'm getting at -- is it fair to say that you're actually taking a bit of that trade off the books right now?

Yvan Bourdeau - ***BMO Capital Markets - CEO***

There are two elements to answering that question. In the U.S. book particularly you can see a fair amount of reduction in the zero to three months, from January to April, and that's because some short-term money market assets matured and we didn't renew them. So that explains the reason why we didn't require as much funding. And if you look in the Canadian matrix at the top, the zero to three months actually moved from 2.2 to 3.5 and that funds under the increase in the one to five years.

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

In looking at this book going forward, what sort of -- I'm trying to think of an appropriate spread to look at. Right now I've just sort of been paying attention to the two-year or three-month spread in the U.S. Maybe what is -- could you give us a sense for what the duration of the assets are so I have a better sense of what the income part is?

Yvan Bourdeau - ***BMO Capital Markets - CEO***

On the short end we have really two books which is short and medium. On the short end of the book the duration would be at this point in time around 10 to 12 months asset wise. And then on the medium-term would be about just under three years.

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

Thank you very much. That was helpful.

Operator

Shannon Cowherd, Citigroup.

Shannon Cowherd - ***Citigroup - Analyst***

Good afternoon. Just to follow-up on Harris, will the advantage of focus of Harris be the business banking platform, did I understand that correctly, as this M&A activity unfolds in the region? And given the prices paid, please elaborate on the possibility of selling Harris, how the proceeds might be utilized and the possibility of acquiring another franchise in the U.S. And could you also discuss your appetite for acquisitions outside of North America?

Bill Downe - ***BMO Financial Group – President & CEO***

That's a big order. The focus on commercial is on organic growth in the commercial. So we have been making acquisitions that are personal and commercial, some of them a little more heavily weighted to commercial, some of them a little more heavily weighted to personal. So I wouldn't say that the acquisition strategy will be to change the mix at all. We were speaking to the opportunity in the marketplace with one large competitor in the commercial market area perhaps being in a period of transition for awhile.

As far as acquisitions go, we continue to evaluate acquisitions. We have a history of successful integration. And one of the things that we've demonstrated with the First National Bank in Indiana is that the streamlining of the platform that we've completed in the last couple of years has allowed us to move forward with confidence that we can bring acquisitions in very quickly. And as Ellen said, in this particular case we've been able to bring the integration costs down so they're significantly less than they would have been in previous transactions and we've been able to bring them on much faster.

As far as your question about the importance of Harris as part of the core businesses of the BMO Financial Group, the value of Harris under our ownership has increased systematically as we've acquired bank branches and built out the system and we continue to believe that we can add value -- significant value by doing that. There will be opportunities for us to improve the expense to revenue ratio and the return on equity as we bring more banks on to a common platform.

And so we're looking for an improvement in the reported -- external reported performance of the Bank, but we also see it as an opportunity just to continue to build value in the franchise. And we're quite encouraged actually by the transaction that BofA is attempting to do in Chicago as it just confirms the value of what we've been doing.

Shannon Cowherd - ***Citigroup - Analyst***

I guess what I was trying to get an understanding of is if Bank of America gets LaSalle or RBS, if you could sort of elaborate on what your defensive or offensive strategy would be. Like what areas would you compete and that you thought you'd be able to compete effectively on?

Bill Downe - ***BMO Financial Group – President & CEO***

We're a high service relationship based business in the Harris and we would continue to focus on that. We clearly have a large market presence in the wealth area, private banking is a very strong part of the heritage of Harris Bank and we'll continue to grow the personal banking and the commercial banking. We have begun to see some real benefits in the overlap between the commercial banking business and BMO Capital Markets, the opportunity for us to do more capital formation and M&A business. So it's the core businesses of BMO in a market where we have a brand and a name that's very well-known.

Shannon Cowherd - ***Citigroup - Analyst***

Could you address the last part of the question, acquisitions outside of North America, specifically outside of Canada and the contiguous U.S.?

Bill Downe - ***BMO Financial Group – President & CEO***

Our focus in all of our businesses in North America, and the only exception on a small basis really has been in China where we do have active businesses, although they're small -- and we made an acquisition in a mutual fund company about four or five years ago that has worked out well, but I think you have to focus on North America.

Shannon Cowherd - ***Citigroup - Analyst***

Thank you.

Operator

Brad Smith, Blackmont Capital.

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

Thanks. Just two quick questions. First of all, just Ellen, getting back to you, you were talking about the disruption creating opportunity. I was just curious, the MAF Bancorp transaction that was announced recently with NCC acquiring that, would that be one of those opportunities? And what was it about MAF that didn't appeal to or didn't fit with the Harris strategy?

Ellen Costello - ***Harris Bankcorp, Inc. - CEO***

Thanks for the question, Brad. We're always looking at everything in the marketplace. It sometimes comes to a circumstance where one buyer is a better fit for the other and I think this is one of them where the overlap would have been less within that city than ourselves and that price reflected it.

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

So you're suggesting that pricing -- you were sensitive to pricing on that?

Ellen Costello - ***Harris Bankcorp, Inc. - CEO***

We always look at three factors -- the cultural fit, is it a community-based bank, what's the risk culture and also the price. I'd say the other two are more important than the price but price is a factor.

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

Terrific, thanks. And Bill, just over to you quickly. On the commodity portfolio, going forward have you been able to take any action to sort of collar or put some boundaries on the portfolio's valuation going forward? Was I correct in reading the press release that the mark to market was to April 30th? And has there been any change since then in the mark to market on the portfolio? Thanks.

Bill Downe - ***BMO Financial Group – President & CEO***

Our confidence in the mark to market is the same today as it was on April 30th and we continue to make progress every day in the management of the business. So it's two plusses to your question.

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

One last question. Can you give us a sense for what the basis of the portfolio is? In terms of what the underlying is or what have you? I really don't have a sense for -- when you talk about the loss amount I don't have a sense for on what base that loss occurred on?

Bill Downe - ***BMO Financial Group – President & CEO***

It would be extremely difficult to sum it up. I think the disclosure we've made of the extent of the portfolio, the matching of it to our existing business. And I think one of the comments was a net reduction of about a third in the size of the book. And from my perspective, if I were to go back -- if I were to go back more than a year ago that is about a size of the business that would relate to our natural relationship with oil and gas producers. So that's another third if you're asking for ballpark.

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

Okay, thanks so much.

Operator

Thank you. I would now like to turn the meeting back over to Ms. Lazaris for closing remarks.

Viki Lazaris - ***BMO Financial Group - IR***

Thank you, operator. Thank you for joining us today and if you have any further questions, please call the Investor Relations Group. Have a great afternoon.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you very much for your participation and wish you a great day.