Q2 2006 CONFERENCE CALL

BMO CORPORATE PARTICIPANTS

Viki Lazaris
Senior Vice President, Investor Relations

Bill Downe
Chief Operating Officer

Karen Maidment
Chief Financial and Administrative Officer

Bob McGlashan
Executive Vice President and Chief Risk Officer

Gilles Ouellette
President and CEO, Private Client Group

Yvan Bordeau
President and COO, BMO Nesbitt Burns

Frank Techar
President and CEO, Harris Bankcorp

CONFERENCE CALL PARTICIPANTS

Jim Bantis
Credit Suisse - Analyst

Jamie Keating
RBC Capital Markets - Analyst

Rob Wessel
National Bank Financial - Analyst

Michael Goldberg
Desjardins Securities - Analyst

Ian de Verteuil
BMO Nesbitt Burns - Analyst

Steve Cawley
TD Newcrest - Analyst

Mario Mendonca
Genuity Capital Markets - Analyst

Andre Hardy
Merrill Lynch - Analyst

PRESENTATION

Operator

Please be advised that this conference is being recorded. Good afternoon, and welcome to the BMO Financial Group second-quarter 2006 conference call for May 24, 2006. Your host for today is Viki Lazaris, Senior Vice President of Investor Relations. Ms. Lazaris, please go ahead.

Viki Lazaris - ***BMO Financial Group - SVP-Investor Relations***

Good afternoon, everyone. This afternoon's brief overview of our second-quarter results will be provided by Bill Downe, our Chief Operating Officer; Karen Maidment, our Chief Financial and Administrative Officer; and Bob McGlashan, our Chief Risk Officer.

After Bob's presentation, Bill, Karen, Bob and the following members of the management committee will be available to answer your questions -- Yvan Bourdeau from Investment Banking; Gilles Ouellette from the Private Client Group; Frank Techar of the Harris Bank; and Lloyd Darlington, head of Technology and Solutions.

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 would like to hand the floor over to Bill.

Bill Downe - ***BMO Financial Group – Chief Operating Officer***

Thanks, Viki, and welcome to your new role as Head of Investor Relations. We are all looking forward to working with you.

Good afternoon, everyone. Tony Comper has asked me to lead this meeting on his behalf. He is away for a few days on business in China, where BMO continues to make small but significant strategic investments with an eye on long-term returns for our shareholders. As a member of the International Business Leaders Advisory Council for the Mayor of Beijing, Tony is attending a meeting to provide Beijing's leadership with advice on growth opportunities.

Let me remind you that some of my comments will be forward-looking, as noted in the cautionary statement at the beginning of the meeting.

Looking at slide 3, we're very pleased to report that second-quarter earnings increased more than 7% from a year ago. After excluding significant items that increased net income in the second quarter of last year, earnings growth was a very strong 21%.

In keeping with BMO's priority focus on increasing revenue growth throughout the enterprise, business volumes were robust in all three operating groups. The Investment Banking Group delivered record results and the Private Client Group contributed second-best earnings ever, surpassed only by the final quarter of last year, when we recorded significant gains on asset sales. Our P&C businesses continue to generate strong volume growth while investing in strategic initiatives.

As you can see from slide 4, we are on track to achieve the financial targets that we set for the year. We're successfully balancing our commitment to these targets with our determination to invest for future growth.

Turning now to operational matters, I have had the opportunity to gain a more in-depth understanding of our Personal & Commercial businesses in Canada since becoming Chief Operating Officer four months ago. Following the recent announcement of the departure of Rob Pearce, I'm working directly with the management team as interim leader of this group until Rob's successor is announced.

We have strong professional management in all key roles in P&C Canada, we remain committed to our current strategic direction, and are continuing to execute strategies to strengthen customer relationships and increase profitable marketshare growth. We are optimistic about our ability to deliver higher performance.

Turning to slide 5, while margins in P&C Canada continued to come under pressure during the second quarter as expected, we've taken steps to improve margins in the second half of the year. The same three factors are at play that we identified last quarter -- product mix, funding and pricing.

From a product mix perspective, we continue to add more lower-spread lending products, as customer preferences shift from higher-spread variable-rate mortgages to lower-spread fixed mortgages. Our aggressive mortgage pricing to date has produced the desired result of defending marketshare and attracting new customers, opening up new opportunities to cross-sell products from both our Personal & Commercial and Private Client Groups.

During the second quarter, we addressed the margin decline by limiting price discretion for our mortgage salesforce. Given a pipeline of 90-day price commitments in place, we experienced limited benefits during the quarter, but anticipate a more positive impact during the balance of the year. Our low posted pricing approach for three-, five- and seven-year mortgages continued as part of our just completed spring campaign, but with less pricing discretion.

We're also very excited about a simplified Everyday Banking program that was launched on May 1, and are focusing our marketing and sales efforts to promote these streamlined products to our customers.

Moving now to slide 6, Investment Banking, I would like to draw your attention to the broadbased operating strength of this Group, which grew earnings 19% to $245 million from a year ago. Growth was even stronger after excluding the large gain last year on the restructuring of variable interest rate entities. This is a well-diversified group of businesses, which we run to maximize profit throughout the business cycle.

While results in the second quarter benefited from a low effective tax rate, it is important to note the robust revenue growth in a wide variety of Investment Banking Group businesses, including equity and debt underwriting, mergers and acquisitions, commissioned-based businesses and trading. The significant amount of trading revenue was client-driven, due in part to our expertise in the energy sector.

Looking at slide 7, earlier today we announced an increase in common dividends of $0.09 per share, or 17%. This follows an 8% increase last quarter, and brings the total dividend increase to 35% from a year ago. Today, we also increased BMO's dividend payout range to 45% to 55% from 35% to 45%. This increase reflects our confidence in our continued ability to generate earnings and our strong capital position. Our disciplined approach to capital management will allow us to continue to execute our attractive growth strategies and continue our long-standing commitment to enhancing shareholder value.

At the end of the quarter, BMO had approximately $3.4 billion in excess capital over the 8% target. We're confident we have sufficient capital to continue investing in our growing businesses and searching for shareholder-friendly acquisitions.

With that, I will turn it over to you, Karen.

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

Thanks, Bill, and good afternoon. Looking at the financials, we had a good quarter. On a reported basis, net income was $644 million, up $44 million, or 7%, from a year ago. And you recall we did have several significant items in Q2 of '05 which increased net income by $67 million, and these are itemized on slide 29. Adjusting for those items, core net income increased $111 million, or 21%.

When I look at the 7% growth in net income, I think of it in terms of three components. The PCLs brought our earnings down by 7%, in particular because last year we had the release of the general reserve. The tax initiatives that brought our tax rate down actually took earnings up 5%. So on a net basis, we were down 2%.

Core business growth took us up a further 9%, netting out to the 7%. That core business growth was strong, and represented by strong revenue growth of 7.4% after you adjust for Harrisdirect and the impact of Canadian dollar, and on an apples-to-apples basis, expense growth of 5.4%, making a differential of a full 200 basis points.

If we turn to slide 4, you can see that Group net income and all operating groups' performance was up year-over-year, if you exclude the significant items in Q2 of '05. P&C earnings were driven by improved volumes in both Canada and the U.S., partially offset by increases in the provision for expected losses and the investments in our businesses. P&C Canada's earnings were down $4 million, or 1%; but excluding the $20 million tax recovery in Q2 of '05, they were up $16 million, or almost 7%.

P&C Chicagoland Banking was down $3 million, or 12% on a reported basis, due to the increased costs related to acquisitions, new branches and enhancements to our branch technology platform. The Private Client Group continued to achieve very strong year-over-year growth through increased operating revenues across all lines of business, posting earnings of $96 million. And as Bill said, these are the second-best earnings ever in PCG.

The Investment Banking Group, record earnings were up $39 million or 19% year-over-year. And excluding the impact of the $37 million after-tax gain on the restructuring of the variable interest entities last year, they were up $76 million. This is largely a result of strong revenue growth, especially trading revenue, which was up appreciably due to favorable trading conditions and increased client activities associated with higher volatility in the energy prices and a lower tax rate. As Bill mentioned, energy is a sector in which IBG has a well-established enterprise. Corporate results last year included a $25 million litigation provision, or $16 million after-tax.

If you look at slide 5, you can see the year-over-year and quarter-over-quarter change of cash EPS. Year-over-year, the increase in cash EPS was $0.04, or 3%, driven by strong operating growth, primarily in IBG and PCG. If you exclude Harrisdirect from '05, the year-over-year increase in cash EPS is really $0.06, or 5%, and operating growth is $0.22. Quarter-over-quarter, cash EPS increased $0.01, or about 1%. And the benefits of operating growth improvement were mostly offset by higher specific Provision for Credit Losses.

While the Canadian/U.S. dollar exchange rate is a factor when looking at both revenue and expenses, because of the way we manage our business and our quarterly hedging activities, it had very little impact on our bottom line. And you would see that on slide 28, that the bottom-line impact was about $5 million.

Revenue growth is an area of focus, and slide 6 shows the revenue growth on a reported basis of 3% year-over-year. And as I indicated, it's really 7.4% if you factor out the impact of the U.S. dollar and the disposition of Harrisdirect. And that was achieved by very strong growth in IBG and the Private Client Group. But more specifically, P&C Canada increased $54 million, driven by strong volume growth in both personal and commercial products, higher cards and insurance revenue, and increased sales of term investment products and mutual funds, offset by continued spread compression.

The Private Client Group was down $16 million, but up $36 million if you exclude Harrisdirect on broadbased revenue growth. IBG was up $46 million on the higher trading revenue, security commissions and equity and debt underwriting activities. And Chicagoland Banking was down $1 million, but up $18 million if you factor out the impact of the weaker U.S. dollar, driven by loan growth, improved deposit spreads and acquisitions.

Slide 7, you'll see that the total bank margin was 149 basis points in Q2, down 9 basis points from last quarter and 11 from year ago. The quarter-over-quarter decrease was mainly due to IBG, where there were higher asset levels, lower trading net interest income and lower spreads on corporate loans. The lower trading net interest income was offset by a significant increase in trading non-interest revenue.

Looking at it by group, quarter-over-quarter, you'll see that P&C Canada is down 6 basis points due to strong volume growth in mortgages and aggressive pricing in this competitive market, lower spreads on consumer loans due to a shift in consumer preferences and total personal loans growing faster than deposits.

Chicagoland Banking is up 5 basis points due to improved spreads on deposits, partially offset by a decrease in loan spreads caused by competitive pressures.

And the Investment Banking Group's net interest margin fell 8 basis points quarter-over-quarter, 2 basis points as a result of lower-trading net interest income, and the remaining 6 basis points as a result of lower spreads on corporate loans and cash management deposits.

Expenses increased $26 million quarter-over-quarter and decreased $8 million year-over-year, as outlined on slide 8. Excluding the impact of Harrisdirect, and the weaker U.S. dollars, expenses increased $82 million, or 5.4% year-over-year. So again, on an apples-to-apples basis, revenue was up 7.4, expenses up 5.4%.

And expenses were up primarily on sales-related expenditures and investments in our business, front line, technology, and marketing spend. That caused our productivity ratio, as outlined on slide 9, to have an improvement of 170 basis points year-over-year. And on a year-to-date basis, cash productivity improved 125 basis points, in line with our annual target.

Turning to the U.S. performance on slide 10, the results in source currency totaled $100 million, down $9 million quarter-over-quarter and $4 million year-over-year. If you exclude the IBG's $23 million U.S. after-tax gain on the restructuring of the VIEs and the litigation I referred to, results were up $6 million, or 6%. And this increase is principally attributable to stronger commodity derivative trading revenues, which were only partially offset by higher expenses in IBG.

The decrease quarter-over-quarter happened in Chicagoland, where the investment spend that I referred to previously only partially offset by revenue growth, as well as a small decrease in the Private Client Group.

The Tier 1 capital ratio was 10.17%, well above our stated target of a minimum of 8%, while our total capital ratio was 11.72%. The Bank's risk-weighted assets increased $5 billion quarter-over-quarter to 157, principally as a result of higher personal and commercial loans in P&C Canada, and corporate loans, commitments and derivatives in IBG.

While speaking about capital, let me reiterate what Bill said about dividends. This was a very important decision and one we gave a lot of thought to. Over the last number of quarters, in speaking with our investors, we have heard how much they value the dividend yield. Also, we have significant growth plans and we know our investors support that.

So we think we really found the right balance in making this change in dividends for $180 million, which is a small amount compared to our total capital base of $16 billion. And then our excess capital is $3.4 billion; I think this allows us to maintain a war chest of well in excess of $3.4 billion for future growth, but also improving the dividend yield for our investors.

Wrapping up on slide 12, and drawing your attention to the caution regarding forward-looking statements, you'll see that we are on track to achieve all five of our financial targets for the year.

Two other things that I would just like to quickly mention. As you know, Bank of Montreal has an equity ownership interest in MasterCard Incorporated, and you might have noticed from our press release that on May 5, MasterCard filed a preliminary prospectus in connection with a proposed IPO in the United States. And a portion of Bank of Montreal's interest in MasterCard is expected to be redeemed as part of the IPO. If the transaction is completed on the terms outlined in the preliminary prospectus, BMO could realize an after-tax gain of approximately CAN$20 million to CAN$30 million on our redeemed interest. The actual gain will vary depending on the pricing and the expenses of the offering, the gross proceeds realized by MasterCard and the number of shares actually redeemed, as well as the exchange rate.

And finally, The Canadian Institute of Chartered Accountants has recently issued draft new guidance on stock-based compensation that will require us to immediately expense stock-based awards to employees who are eligible to retire at the time of the grant. Currently, we expense these awards over the vesting period. We expect to adopt these new rules this year, once they are finalized, on a retroactive basis.

So we do not expect the impact to be material on an annual basis. However, since we grant most stock-option compensation awards in the first quarter of the year, this change will result in increased compensation expense in the first quarter and decreased compensation expense for the remainder of the year. Over to you, Bob.

Bob McGlashan - ***BMO Financial Group - EVP, Chief Risk Officer***

Thanks, Karen, and good afternoon everyone. Before I begin, I too would like to draw your attention to the caution regarding forward-looking statements on slide 2.

As you can see on slide 3, BMO continues to maintain its solid credit performance. And on slide 4, credit quality remain strong, Gross Impaired Loans balances continue at historically low levels, and the increase in GIL formations was due to one large transaction which has subsequently been repaid.

Slide 5 shows PCL increased $14 million quarter-over-quarter. This was due to volume increases in the Consumer and Commercial portfolios, and a nominal onetime charge for losses associated with taking write-offs for U.S. bankruptcies in line with regulatory requirements.

On slide 6, New Specific Provisions remain low and in line with where we are in the credit cycle. On slide 7, Q2-specific PCL represents 14 basis points of average net loans and acceptances, including reverse repos, while Q1 was 12 basis points. Specific PCL remains low compared to our 15-year average of 38 basis points and the Canadian competitor average of 59.

As shown on slide 8, our specific PCL target for fiscal 2006 remains at $325 million or less. This represents 18 basis points of average net loans and acceptances -- again, well below our 15-year average of 38 basis points. Favorable year-to-date results are due to the current stable credit environment. We anticipate a modest increase in New Specific Provisions and lower reversals on recoveries from 2005 levels for the balance of the year.

We continue to closely monitor those industry sectors considered to be of most concern in today's economy, including the airline, auto and forestry sectors, as well as those sectors considered to be particularly sensitive to high energy prices and a strong Canadian dollar. BMO's exposure to these sectors remains well within acceptable levels.

We also remain attentive to those factors that could affect credit quality in the consumer, corporate and commercial portfolios, including continuing high energy costs and the impact of a strong dollar relative to the U.S. dollar on export sectors, and the potential impact of rising interest rates.

On the consumer side, there is a strong correlation between consumer loan losses and the unemployment rate, which is currently low and expected to remain low for the remainder of 2006 and into 2007, and the portfolio is expected to remain stable.

As we reported in the past, slide 9 illustrates our exposure to the auto manufacturing and supply sectors. And of note, there were no significant losses in this sector this quarter or last.

Slide 10 shows our credit protection acquired to hedge our loan book. We are judicious in the use of CDS for loan book hedging and buy protection infrequently and opportunistically, preferring to manage credit risk at origination. And our aggregate portfolio of credit protection has remained stable at $1.3 billion.

Finally, slide 11 shows our trading and underwriting performance as being relatively stable, with the largest P&L loss of $4 million primarily attributable to credit holdbacks. The largest gain was $15 million, mostly due to adjustments in credit holdbacks, with the balance due to regular trading activities.

With that, operator, we can now go to questions.

QUESTION AND ANSWER

Operator

Thank you. We will now take questions from the telephone lines.

Steve Cawley of TD Newcrest.

Steve Cawley *- TD Newcrest - Analyst*

Hi there. First question for Karen. Karen, the tax rate had a very big impact on earnings this quarter relative to -- let's call it the last 6, 7, 8 quarters, the tax rate I think was about 6% less, yet there's very little disclosure on that. Can you talk about the sustainability of this tax rate and what caused it?

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

Sure, Steve. You're right -- the tax rate was lower this quarter than it has been for a number of quarters. There is a series of initiatives that have been underway and that are business-based that we really benefited from this quarter. Nothing specifically to highlight.

I would say the tax gains and the tax rate, some of the initiatives will end up being lumpy and come through. And I think that we were fortunate that the gains came through this quarter in a quarter where the PCLs were rising so much year-over-year because the general allowance was released last year.

So from a tax point of view, the rate for this year -- I think on a year-to-date basis, we're at 26%. We compare it to last year at this time, 28%; so there is about 2% ahead year-over-year. Our sustainable rate is still 29% to 31%, but we always have lots of initiatives in the pipeline.

Steve Cawley *- TD Newcrest - Analyst*

So you don't really give me an answer there. So 29% to 30% is where you still expect to be over the second half of the year, but you never know…

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

…that is sort of our long-term, sustainable rate. It is too hard to predict specifically quarter-by-quarter what the actual rate would be.

Steve Cawley *- TD Newcrest - Analyst*

And in the Investment Banking Division, again, that was just specific initiatives that you had?

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

Right, specific business-based initiatives.

Steve Cawley *- TD Newcrest - Analyst*

Okay. Question for Bill. You mentioned that you were going through the strategy in Canada on the retail and commercial bank, and that you were looking for -- you were evaluating the strategic direction and always looking for profitable market share growth.

In the past -- let's call it prior to let's say about two, three quarters ago, the market share was falling for BMO, yet the profits were still climbing because of the overall growth in the market. The direction changed a little bit, where the bank was tired of losing market share, and we have seen now that the margins have fallen. Is it possible in this market to have profitable market share growth?

Bill Downe *- BMO Financial Group - Chief Operating Officer*

Steve, I think that is an appropriate question to ask. As I said, there are a number of factors that go into that, and one of them is mix. And clearly the mix of products -- different products come in with different margins -- the mix of products has had an impact. So the growth of the mortgage business, which is a relationship business, does have an impact on bringing the average spread down on the book.

At the same time, it's a way to originate new relationships. And in defense of market share, which we don't intend to concede, it is an important way to start that process. But what has to come on the back of it is an increase in the opening of deposit accounts and higher-spread loan products. So it's entirely driven by the expectation that those client relationships are going to be expanded.

Steve Cawley *- TD Newcrest - Analyst*

And you don't, you say, intend to concede market share, and I suspect the others don't either. On the deposit front, it seems like there was a bit of a drift-off this quarter, but it is a little bit lumpy. Can you talk specifically about the deposit market right now and what is going on in it?

Bill Downe *- BMO Financial Group - Chief Operating Officer*

I can't talk with the depth of knowledge about pricing in the deposit market that Rob would if he was here today. But I will say that the focus in the front line has got to be through account opening, because that does drive new deposits.

And if you look at the initiatives that have been underway in the last 24 months, a lot of them have actually been rolling out towards that objective. So the technology at the front line, the sales technology at the front line, gives our front-line people a much better view of the customer when they come in, so they have the opportunity to explore those opportunities.

And then we have also been going through a process of refreshing our branches, which in the case of this year, we have accomplished about a 69% refresh rate, which is really a big overhaul of the branch system. And we expect to have 80% of them done by the end of the year.

Also, we been going through a process of replacing our banking machines; and year-to-date, we have replaced 900 banking machines and we expect to have 71% or 80% of them done by the end of the year. And the target is to get to 1760 replaced.

All of these things are designed to make us more competitive, both in acquiring new accounts and then moving into a broader cross-section of product. So there is a very specific intent, not only to defend market share but to grow it.

Steve Cawley *- TD Newcrest - Analyst*

Do you think the Bank needs a new direction on the retail front in Canada? Does it need to define itself any differently?

Bill Downe *- BMO Financial Group - Chief Operating Officer*

Well, I think the steps I have just outlined for you will define us differently.

Steve Cawley *- TD Newcrest - Analyst*

Thanks for your time.

Operator

Jim Bantis from Credit Suisse.

Jim Bantis *- Credit Suisse First Boston - Analyst*

Good afternoon. Just want to go back on the dividend policy. And I appreciate your answers with respect to the rationale for such a sizable increase. But Karen, I want to go back to this $3.4 billion excess capital, and pegging at 8%, the market is obviously looking at the other banks having Tier 1 ratios averaging around 10% or higher.

And I want to envision perhaps a period on how you would get to 8%, and maybe you could tie it together with your expectations for acquisitions in the U.S. in terms of Harris. Has the size of the acquisitions that you are looking for increase? I mean, are we talking about $3.4 billion right now?

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

Jim, first of all, there is no change in our acquisition strategy or our acquisition appetite. Here, really what from a capital management point of view, at some point, you need to say that we have enough excess capital, and the rate of which we are going to accumulate that excess capital can be slowed. So we believe we will still be able to accumulate excess capital to support the acquisition strategy and the organic growth that is in our business plans.

But from a capital management and a capital management discipline, we think that we are sitting on quite a bit of excess capital. And frankly, I think all of the Canadian banks are sitting on more excess capital than any other banks, I believe, in the world.

So at this point, as we were looking at sort of our philosophy around capital management, and also, hearing our shareholders loud and clear, who really clearly do value the dividend yield, particularly in this interest rate environment, we think that, as I said, we have struck a nice balance in that we will be able to maintain the $3.4 billion to support the growth, and it will still grow, albeit at a slower rate, and we will be able to significantly enhance the yield for our shareholders.

Were you asking how we calculated the 3.4? Or you follow that?

Jim Bantis *- Credit Suisse First Boston - Analyst*

No, I follow that. You're just setting a new bar with respect to the payout ratio at a time when earnings are at cyclically high levels. I mean, capital market earnings are high and loan loss provisions are low, and obviously that is not going to be sustainable. But you have set a peg, and I'm curious to see why buybacks weren't part of the discussion as well.

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

Well, we thought about the pros and cons of buybacks, and as you know, that we have a buyback program in place that is really set to offset the dilution from the stock options, and it's about 3% of our outstandings.

But we also recognized if we did a large share buyback program, that would use the capital that we want to use to support our growth strategy. And so, the rationale for choosing dividends was to maintain some capital to support the acquisition strategy, particularly in the U.S., while increasing the dividend yield.

Jim Bantis *- Credit Suisse First Boston - Analyst*

Karen, could you remind us of the size of acquisitions that the Bank would consider in terms of doing in the U.S. And maybe if Frank is on the line, there was a transaction in the marketplace, basically in your backyard, in terms of MB Financial and First Oak.

And without commenting on that specific transaction, Frank, is the style of the First Oak or the nature of that size in terms of the number of branches something you would consider looking at? And was pricing consistent with respect to recent transactions in the marketplace?

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

I will just speak really quickly to the overall comment and Frank can jump in. First of all, we will not speak about specifics. But we will continue to look at acquisitions, and the smaller ones, which we consider build-out-type acquisitions, we will continue to do. The larger ones are more much more difficult to make sure that you get the right strategic, financial and cultural fit. And so we will still look for them, but certainly the probability of larger ones is smaller than the continued smaller build-out-type acquisitions. And Frank, can you jump in?

Frank Techar *- BMO Financial Group - President & CEO-Harris Bankcorp, Inc.*

Yes, Jim, our objective in this marketplace in Chicago hasn't changed. We still think we are 20 to 40 branches shy of kind of having an ideal market coverage. And so, we are still looking for small acquisitions, small, medium-sized acquisitions in this market.

And the one that just crossed the wires was one of those that was available. We weren't particularly interested in it because of a number of factors, including the makeup of the portfolio. But that does not signal in any way that we have changed our intent and have changed our view with respect to growing in this market.

Jim Bantis *- Credit Suisse First Boston - Analyst*

Thanks very much.

Operator

James Keating from RBC Capital Markets.

James Keating - ***RBC Capital Markets - Analyst***

Good afternoon, all. My question is directed for Bill, if I may. It relates to the retail side again, and following up on, I guess on Steve's questions. I am wondering if you can just talk a bit about the spread implications of the new fee structure or revenue implications of the new fee structure.

I'm also curious; I was quite intrigued by your comments about how the rate guarantees are holding up the benefits of the discretionary pricing on the mortgage side, Bill. And I'm curious about if it had immediate impact, if you have done any calculations as to what the incremental impact might have been? Just trying to recalibrate what we are looking forward to this quarter.

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

Well, we said in the first-quarter call that the spread impact was around 8 basis points and it was about 6 in this quarter. The comment I made about the flowthrough is there were commitments in the pipeline that are clearing the pipeline and should be cleared through this quarter.

So while the pricing discretion which has been taken away from the field will have the impact that we have spoken to, you also have to recognize that there is the rotation from floating-rate into fixed-rate product, which will have tighter margins. So the impact of our pricing decisions through the spring campaign will largely be over at the end of this quarter. The impact of spread tightening in the market as a whole will continue to be evidenced.

James Keating - ***RBC Capital Markets - Analyst***

And so, Bill, on that, if 6 basis points this quarter, arguably it's feasible to think about it as being half of the spread compression and still sort of hangover due to this, and hopefully that part of it at least could dissipate. If spreads were down…

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

…I don't have that precision, but it is not unreasonable.

James Keating - ***RBC Capital Markets - Analyst***

That's fair. Okay. And the other thing I'm curious about, had a similar situation where a discount broker recently changed pricing on its core account structure. And it was interesting, management in that case went through what the hard downside was; that is, they sort of went through their book and just repriced everything as if everyone got the benefit of new pricing.

And if I'm reading correctly on the Everyday Banking fee structure, arguably, that sort of thing could happen as well. And of course it wouldn't; there would be other offsetting benefits. But I'm just curious if you have done that exercise and if you have a feel for what the worst-case scenario is, I guess. But basically what you're working against and how much infill you need from new business coming in the door or cross-selling benefits of goodwill on that package?

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

We are not projecting a negative impact from the process that all, Jamie. In fact, we think that it's been engineered in a way that is essentially neutral. What it does do is it hugely streamlines the offering. So, number one, it is much -- from my perspective, it looks like it's much more customer friendly.

From the perspective of the front-line salesforce, it is much simpler to sell. So it has gone from a menu that perhaps had 100 choices on it, if you wanted to look at it that way, to basically six buckets that are much easier for the salesforce to understand and much easier for them to present on a customer-friendly basis.

James Keating - ***RBC Capital Markets - Analyst***

That's very helpful. Thank you for both answers, Bill. Bill, maybe one more quick question, if I'm still on here. IBG, you mentioned the significant portion of trading revenue that's client-based, which I kind of hope is true. I just wonder if you could and a little more color to that? Is there any way to come up with how much of it is client-based or talk about that? Is it improving the client-based portion?

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

I will let Yvan speak to level of degree. But this is a question that has come up on previous calls, specifically related to trading revenue. And you know, if you look at the quality of our trading revenue relative to contribution, there obviously has to be a big emphasis on client-related business because of the quality of the earnings.

And I think the example that Yvan spoke to in the last quarter, which is the most obvious, is in the commodities business, we have had a long-standing presence with clients in the oil and gas business. And it has really been six to seven years of very hard work that has established that client base. There have been, obviously, periods of terrific volatility in the natural gas business and in crude oil. We have been able to take advantage of those because of very strong client flows.

And Yvan, I don't know whether you want to comment on degree or whether we have that.

Yvan Bourdeau - ***BMO Financial Group – President & COO, BMO Nesbitt Burns***

The only thing I would add, Bill, is I'd use the example of commodities, as you just mentioned, which is a classic example that illustrates that our basic philosophy on the trading floor is whenever we can, we try to build commercial flows, i.e. client flows, that will enable us to have sustained results and also spread business that would be much more difficult to obtain when we deal strictly with professional counterparties.

In the case of commodities specifically, six or seven years ago, we had a program in place whereby we would introduce more and more of our capacity and capabilities to the traditional producer of gas and oil that we had developed over the years.

But in tandem with this, because they represent one side of the business, we have also put a program in place so that we would develop also relationship on the buy-side utilities and so on. So therefore, we would develop natural two-way flows that would come through our desk, and therefore we truly act as an intermediary in this particular case.

So if you look in Q1 and Q2, which were particularly volatile in oil and gas, the desk did extremely well in that volatility environment, and the primary reason was because we were able to capture a lot of commercial flows.

James Keating - ***RBC Capital Markets - Analyst***

Thank you, gentlemen.

Operator

Rob Wessel, National Bank Financial.

Rob Wessel - ***National Bank Financial - Analyst***

Good afternoon. I just have, I hope, three quick ones. The first one I wanted to ask about -- and I guess this is more for Frank, but it's also a general question -- had to do with P&C Chicagoland. The Bank has talked about realizing the benefits of the charter consolidation and how there was some hope that this would result in some improved efficiencies, if you will, or at least at minimum, slower expense growth.

But if we look -- certainly if we look at the supplemental on page 8, it doesn't look like expense growth has been particularly admirable, I guess if you will. And not only that, Harris, or P&C Chicagoland appears to have generated its lowest net income since I guess the middle of '04, and I just wanted to know if you could address that.

Frank Techar - ***BMO Financial Group - President & CEO-Harris Bankcorp, Inc.***

Yes, Rob, this quarter, obviously, is one that doesn't look great. We were anticipating that from an expense perspective, this situation was going to happen as a result of the overhanging acquisition integration activities that we needed to do. Unfortunately, in Q2, it happened at a point in time where we got a short quarter relative to days, and the revenues were down a bit in this quarter. And so we had a situation that we got a bit of a double whammy.

If you look at the year-over-year increase in expenses of about $15 million, the majority of that increase is as a result of the acquisition of Villa Park, the integration of NLSB, which happened in Q2, 10 new branches that opened over the course of the last year, and the investment in our branch technology platform, which is really necessary to continue the expansion from an acquisition perspective. It really has to do with improving our infrastructure and our teller software. It is not really a lot of value-add around the sales management process.

So we just had a number of things happen in Q2 associated with those investments, and it happened in a period where the revenue was down as a result of the short quarter.

The expectation going forward is, Q3 we have Mercantile to integrate, and we need to finish our investment in the technology platform. And so, going through the end of the year, the expectation is it's going to be a tough few quarters on the expense side again.

And coming out of the next couple of quarters, my expectation is we're going to go back to a core run rate expense level, and we're going to be able to demonstrate that all of those synergies, as a result of the acquisitions that we have made, have flown through to the bottom line.

Rob Wessel - ***National Bank Financial - Analyst***

As well as the charter consolidation?

Frank Techar - ***BMO Financial Group - President & CEO-Harris Bankcorp, Inc.***

Absolutely. The charter consolidation was a necessary first step. We would not have been able to have done this technology platform upgrade, and we really could not have done the integration to both NLSB or Mercantile as efficiently as we are doing them, had we not done that first.

Rob Wessel - ***National Bank Financial - Analyst***

I'm sorry, Frank, just to clarify. You have already realized some of the benefits of the charter consolidation and this is the other items, or not yet realized it and this is other items?

Frank Techar - ***BMO Financial Group - President & CEO-Harris Bankcorp, Inc.***

We have realized some of the benefits from the charter consolidation and more to come as we continue with the rework of the platform.

Rob Wessel - ***National Bank Financial - Analyst***

You know, not to beat you up Frank, but I guess I would have thought that given the difficult interest rate environment, that the slow growth in earnings from P&C Chicagoland would have come from challenging revenue growth, primarily from a flatter yield curve or net interest income.

But it seems to be that your revenue growth is, I guess, flat. But the expenses seem to be not running away -- I know that is overstating it -- but they certainly seem to be creeping up. And so I guess it just seems to be going a little bit backwards to me.

Frank Techar - ***BMO Financial Group - President & CEO-Harris Bankcorp, Inc.***

Well, we are actually feeling really, really good about a number of things in this quarter. You mentioned the interest rate environment, and over the last couple of quarters our margin has stabilized. So while we are not anticipating a huge amount of upside going forward as a result of some of the signals the Fed has given us, we are still feeling really good in our ability to continue to generate volumes, and manage that margin such that we still think revenue is going to be going in the right direction going forward.

And as we come through these integration activities, we think we're going to have a nice differential on the revenue and expense growth perspective going forward.

Rob Wessel - ***National Bank Financial - Analyst***

Okay. I guess the next question is for Yvan and perhaps Bill. If you go to page 10 of the supplemental and you go away down to average loans and acceptances, it looks like there has been a solid uptick in loans; certainly quarter-over-quarter almost $53 billion, up from 49.3, and it doesn't look like that's -- or only a small component of that is acceptances. So that is probably a 7%, or 6 or 7 or 8% growth sequentially.

I guess my question is - is there something in there? Have you started to loan money on the corporate side maybe a bit more aggressively, or is there timing, is there something lumpy there? Because that strikes me as a noteworthy increase in what is maybe one of the higher risk loan categories.

Yvan Bourdeau - ***BMO Financial Group - President & COO, BMO Nesbitt Burns***

Yes, Rob, I will give you some figures that I have used in the past, and you will see that in fact we are penetrating the U.S. And as a result of this, there is some tangible illustration that comes through the level of our balances. So if I just take our U.S. franchise, and the numbers I will give you first are in U.S. dollars, as of the end of this quarter we had $13 billion in balances. If you compare that to the end of the second quarter last year, we were at 11.4. So we actually grew the balances by $1.6 million or an increase of 14%. And in terms of Canadian dollar, we have increased by about just under $1 billion, which is an increase of 6%.

If you were to look as well at the level of authorization that we have achieved over the last 12 months, you would see that, in fact, our commitments and our authorization have increased close to 22%. And obviously, what is happening is that as we are penetrating the market, we are adding new clients and we are adding new facilities. And for existing clients in some cases we have increased the facilities.

So as the market continues to improve, and I think it will in the U.S. in the midmarket, we believe that our balances will continue in the same pattern. And that pattern -- I think I have been mentioning that for the last three quarters have been on an uptick for about nine months now.

In Canada, the story is slightly different. The balances year-over-year are basically flat. By the same token, the spread that that we are earning in Canada is also flat, which is also good news. So we are not experiencing any further compression on that front. So I think that is what you're seeing in the number that you were mentioning earlier.

Rob Wessel - ***National Bank Financial - Analyst***

Okay, and on to Karen. Karen, unrealized securities gains are now negative, and the Bank reported about $30 million or so this quarter. Should we assume, or is it an accurate way to think about this, that securities gains going forward should basically hover in and around zero, given that unrealized are negative, or is that not the correct way to think about it?

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

It is not the totally correct way to think about it. Those security gains -- the unrealized gains -- you're right -- are pretty minimal right now. They do fluctuate with interest rates and other changes in the market. And it is not our intention to sell them at any particular time. But when opportunities arise, we do realize on them. So the security gains have been lower than they were a number of years ago, but I would not assume they will be at the zero level.

Rob Wessel - ***National Bank Financial - Analyst***

Okay, and then a question for Bob on slide 8 of the investor presentation. The last bullet point on the far right, I just wanted clarification to the modest increase in New Specific Provisions from fiscal 2005 levels. Are we meant to interpret that the next two quarters will have higher provisions over the last two quarters of last year? Or are we to interpret this as provisions for fiscal '06 will be slightly higher than fiscal '05?

Bob McGlashan - ***BMO Financial Group - EVP, Chief Risk Officer***

What we're really saying here is that we expect to see a bit of a ramp-up in the second half of the year from where we have been in the first half of the year, but nothing massive here. It should be relatively modest at most to see any deterioration in the aggregate PCL number.

Rob Wessel - ***National Bank Financial - Analyst***

So '06 should be slightly higher than '05?

Bob McGlashan - ***BMO Financial Group - EVP, Chief Risk Officer***

Yes.

Rob Wessel - ***National Bank Financial - Analyst***

Okay, great. Thank you very much.

Operator

Mario Mendonca, Genuity Capital Markets.

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

Good afternoon. You talked about removing some of the discretion of the branch -- at the branch level. If you look at some recently released OSFI data, it shows that around March 2006, mortgage loan growth seemed to fall off a fair bit. I mean, it had been strong up until then. Removing that discretion, did that ultimately have an effect on the growth in that area?

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

I don't have the statistics in front of me, and I cannot tell you specifically that it has. I don't believe that it has. The consequence of removing the discretion has been very carefully managed so that there is an escalation process in place. So if it relates to a client where there is a mortgage opportunity, a mortgage rollover, we are very carefully managing it, and we have not seen a detrimental impact in the volume of business in P&C in the quarter as the consequence of that.

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

It's Karen. We can also look at that OSFI data and take it offline. Because I am not exactly sure what you're looking at.

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

Okay. A quick question for you then on something not mortgage-related, just personal loans. Because it would seem that personal loan growth really started to pick up in the quarter; again, it seemed like it was in the second half of the quarter. Was there any sort of change from BMO's perspective on the loan side, ignoring mortgages for now?

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

I think as Bill mentioned, we have a welcome offering program, where when customers set up new accounts, we offer other products, including personal loans. And it has certainly been one of the areas we have been focusing on. And we're pleased to see the results in the growth of the personal loans.

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

At the very end of the quarter, or I guess at the very beginning of the third quarter, you raised your mortgage rates substantially; they're back in line with the Group. Given the nature of this industry, is there any reason to believe -- any reason not to believe that BMO's loan growth could just almost immediately trail off? To the extent that the lower mortgage rates and the discretion were a part of BMO's ability to capture market share, any reason why we should not believe that totally reverses itself going forward?

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

I don't believe it. I think that the focus since the beginning of the year on the origination of new business on the sales force and all of the things that are supporting it are designed to grow the business.

The mortgage program, which you referred to, was scheduled to run for the spring. I was a spring mortgage campaign, and it was initially scheduled to run through the end of the month, and it's really followed that pattern. So it is not a shift.

From our perspective, it was a strategy that we followed; it has run its course. And we are continuing to invest a great deal of time and energy in the front line and the focus on sales. And I will go back to what I said at the beginning of the call, with an intent to defend profitable market share.

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

I guess I can take it from this whole series of questions that you really would not expect BMO's loan growth to slow in the second half of the year then? The trends we saw in the first half of the year seem very, do they seem sustainable then for you?

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

We are working very hard to grow our loan business and our deposit business.

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

Okay, thanks very much.

Operator

Andre Hardy from Merrill Lynch.

Andre Hardy - ***Merrill Lynch - Analyst***

Two questions. First, just for Karen. On page 18 of the supplementary package, the securitization revenues declined a fair bit, mostly related to mortgages. Just wondering if that has to do with rising rates and you not being able to realize the same kind of gains that you are used to.

And the second question is for Yvan Bourdeau. Given the volatility that we have seen in capital markets in the last two weeks, particularly commodities, you mentioned you don't have too many proprietary positions, but can you talk about customer behavior in those two weeks, please?

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

Andre, regarding the securitizations, you're right, it was related to mortgages. We securitized about $1 billion in the quarter, and in the rising rate environment, took a modest loss on that. We still think that it is a cost-effective source of funding because it's still 15 to 20 basis points different from wholesale. So it did have an impact on the quarter's numbers, modestly.

Yvan Bourdeau - ***BMO Financial Group - President & COO, BMO Nesbitt Burns***

From my perspective, Andre, yes, there was some volatility in the marketplace. Interestingly, if you look on the sell side, the producer, when we saw some dip taking place, I think it was probably an indication on their part that a reduction in the price could happen. And therefore, as we saw when the price did firm up again, there was an interest on their part to hedge a little bit more than they had done in the past.

The reverse is always the same thing on the buy side. You can imagine that when the price was softening after some months of relatively constant high prices, then on the buy side there was definitely an interest. And we saw an increase in interest in hedging themselves and buying into softer prices.

And once again, I think I would say, looking as long as the volatility remains where it is, I would say given the expertise that we have in this field and the way we service our clients, that I would expect to that our performance would continue to be similar and sustained.

Andre Hardy - ***Merrill Lynch - Analyst***

Okay. So what you're telling me is I don't have to worry about proprietary losses, and there has been more activity?

Yvan Bourdeau - ***BMO Financial Group - President & COO, BMO Nesbitt Burns***

No, you don't have to worry about proprietary losses.

Andre Hardy - ***Merrill Lynch - Analyst***

Thank you.

Operator

Michael Goldberg, Desjardins Securities.

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

Thanks very much. Three quick questions, first for Bob. You mentioned that the higher gross formations were due to one large credit in particular, since repaid. How much -- how big was that amount?

Bob McGlashan - ***BMO Financial Group - EVP, Chief Risk Officer***

Thanks, Michael. It was $71 million; it was in the forest products industry.

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

Okay. And turning to the investment spending that has been taking place on the infrastructure, I guess you don't have to refresh your branches and replace your ABMs every year. So can you quantify the amount of extra investment spending that has been taking place so far this year, and what you think it would amount to for the full year?

Bill Downe - ***BMO Financial Group - Chief Operating Officer***

If you look at the NIX line in personal & commercial banking, it is included in there. Year-to-date, we're about two-thirds of the way through with respect to what we have been doing. It is not a huge number, but it has been a focus of the management of personal & commercial banking. And with respect to the ABMs, I can look at Lloyd Darlington, who probably can speak specifically.

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

The cost has been about $100 million, and we amortize that over about 10 years -- 7 to 10 years. So that gives you a feel for that.

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

Okay. And finally, Karen, your comments about the tax initiative adding about 5% to earnings -- and I presume that you are talking about earnings before the special items last year -- implies about $27 million. Is that about the right amount?

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

What we are doing is taking that 7% reported change in net income and breaking it down into its components.

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

Right.

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

And so, if that is your question, that is yes, what I was doing.

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

I guess what I am getting at is I'm taking $67 million off the 600 to get to 533, and adding 5% to that.

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

I will give you a shout after the call and work through the numbers with you.

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

Okay. Do you expect any additional benefit of tax-related transactions in upcoming periods?

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

Yes, we are always managing our tax rate and looking for opportunities related to our business to do it on a tax-effective basis. And so we will always look for opportunities, but it is hard to predict quarter-to-quarter what the impact will be.

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

Also, I don't recall BMO actually participating previously in these types of transactions, so is this something new that is being ramped up or has been ramped up more recently?

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

No. In fact, as I said, we have been doing a lot of tax planning for a number of years. And if you look at the rate year-to-date, it's 26% compared to 28% last year. So you can see -- and I think the year before it was 29%, and the year before that was 32%. So we are working to conduct our business on the most tax effective basis possible.

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

Just so I have the understanding correct, these aren't initiatives that BMO is undertaking on its own, it seems to me. These our client driven transactions that are taking place that manifest themselves in a lower tax rate for the Company? Is that correct?

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

We look at client-driven transactions and try to do them on a tax effective basis. We also look at funding and other types of opportunities and try to make sure they are done on a tax effective basis. So again, just regular tax planning.

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

Okay, does the impact show up only on the income tax line on the income statement? Or does it show up in any other revenue and expense lines of these tax initiatives or tax-related transactions?

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

It is all on the tax line. You will notice that our revenue, we show it on a tax-equivalent basis as well. But it is all put through the tax line.

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

And it is only in the tax line?

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

That's right.

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

Okay, thanks very much.

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

The only other tax items on our financial statements relate to the hedging of the U.S. investments, which are recorded -- the tax gains or losses on those hedges are recorded in the shareholders' equity of the balance sheet. But that would be consistent with past and industry practices.

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

I was actually wondering whether it could show up at all in the form of a higher interest expense offset somewhere else, but…

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

…no, all of the income tax is in the tax line.

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

Okay, that's great.

Operator

Ian de Verteuil from BMO Nesbitt Burns.

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

First question for Karen. Karen, it relates to the MasterCard issue. As I read the prospectus, it looked as if the existing shareholders were selling about half their position. Would that means that, assuming that the issue price held up in the long-term, there would be an equivalent amount of unrealized gain reported in further quarters?

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

You're right, about half is where people are sort of landing in terms of liquidating versus holding the shares. I think those shares actually won't be trading securities, so I don't think they will be marked to market going forward. So what the gain that we will record once the IPO is complete will be our share on an after-tax basis of the shares that are disposed of where we receive the cash.

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

But because of the unique share structure, the residual piece you own, you won't show as unrealized?

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

Right.

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

But there will be -- assuming the share price holds, there would be an equivalent amount of residual gain?

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

Yes, and it would be unrealized. We would be able to show that as our unrealized gain.

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

Okay. A second question relates to the Private Client Group. Gilles, again, a great quarter. Congratulations. It looked like there was a lot of noise in this quarter. There were investment securities gains related to redemption of seed capital in the mutual funds. There was incremental expenses with Harris Insight that looks as if there was some sale or transfer of Harrisdirect funds.

How should I think about the quarter in terms of a clean quarter, and why did the assets under management in the Group go down this quarter? I would have thought they would have been up.

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

I will speak to the P&L impact, which I think you can think of almost as a wash. There were some administration fees related to the Harris Insight Funds and there were some seed capital gains, but they pretty much netted out in terms of the U.S. operation of PCG. In terms of assets under management, which area are you…

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

…I'm looking at Page 9 of the supp-pack. If you look at assets under management went from $93.6 billion to $90.1 billion.

Gilles Ouellette - ***BMO Financial Group - President & CEO-Private Client Group***

This is quarter-over-quarter or sequentially?

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

Sorry, sequentially, yes. And I was surprised in the text it had mentioned about a final transfer of assets in Harrisdirect. I don't know if that had anything to do with it.

Gilles Ouellette - ***BMO Financial Group - President & CEO-Private Client Group***

Well, that might. I mean, year-over-year, Ian, our assets are up 16% -- this is assets under administration and assets under management. And the only thing I can think of here is that this could be the residual Harrisdirect funds that we're -- we're managing a bunch of money market funds for Harrisdirect, which left when we sold to E*TRADE. That is the only thing I can think of. But year-over-year, our asset growth is about 16%.

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

So the changes that have gone on with respect to fee mix and those types of things, do those -- I guess what's the strategy behind it, Gilles, and is there long-term benefit or is it just positioning the business better?

Gilles Ouellette - ***BMO Financial Group - President & CEO-Private Client Group***

The relationship we have with Phoenix is more like a strategic alliance. We were strong in money management and weak in distribution. They're strong in distribution, and we can help them on the money management side. So we decided to form a relationship. They are going to sell the funds for us, and we are going to manage them. And I think it's going to work for both parties.

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

And does that -- when does this start and when do you think we'll see -- presumably we'll see it through good, better asset -- even better asset growth in the U.S.?

Gilles Ouellette - ***BMO Financial Group - President & CEO-Private Client Group***

Well, the transaction just closed last week. So we should probably start looking around the fourth quarter, I would think.

Ian de Verteuil - ***BMO Nesbitt Burns - Analyst***

Okay, thank you.

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

In my presentation in the appendix on slide 21, you will see that we have included the assets under management and administration, and we adjusted them for the sale of Harrisdirect and FX. And you can see that assets under management grew 16%, as well as assets under administration, once you do those adjustments. So hopefully that will help.

Operator

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

Viki Lazaris - ***BMO Financial Group - SVP-Investor Relations***

Thank you for joining us today. If you have any further questions, please either call the Investor Relations Group or send us an e-mail at www.bmo.com/investor relations. Thank you and have a great afternoon.