BMO Financial Group

Q2 2012 CONFERENCE CALL

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PRESENTATION

Sharon Haward-Laird - BMO Financial Group - Head, IR

Good afternoon everyone and thanks for joining us today. Our agenda for today's investor presentation is as follows. We will begin the call with remarks from Bill Downe, BMO's CEO, followed by presentations from Tom Flynn, the bank's Chief Financial Officer, and Surjit Rajpal, our Chief Risk Officer. After their presentations we will have a short question-and-answer period where we will take questions from pre-qualified analysts. To give everyone an opportunity to participate, please keep it to one or two questions and then requeue. Also with us this afternoon to take questions are BMO's business unit heads; Tom Milroy, from BMO Capital Markets; Gilles Ouellette, from the Private Client Group; Frank Techar, Head of P&C Canada and Mark Furlong, from P&C US.

At this time, I caution our listeners by stating the following on behalf of those speaking today. Forward-looking statements may be made during this call, they are subject to risks and uncertainties. Actual results could differ materially from forecasts, projections, or conclusions in the forward-looking statements. Information about material factors that could cause results to differ and the material factors and assumptions underlying these forward-looking statements can be found in our annual MD&A and our second quarter report to shareholders. With that said I will hand things over to Bill.

Bill Downe - President & CEO, BMO Financial Group

Okay, thank you, Sharon, and good afternoon, everyone. Before I begin, I'd like to note this is Sharon's first call as our new Head of Investor Relations. She's well known to all of us around the table and was most recently Vice President and Deputy General Counsel for our Capital Markets business. Sharon's taking over the IR function from Viki Lazaris, who’s done an outstanding job for BMO and I know Sharon is looking forward to working with all of you to continue in the same fashion. As noted, my comments may include forward-looking statements.

BMO produced another quarter of very strong results bringing $2 billion of net income in the first half of the year. Our businesses are delivering strong operating performance grounded in our consistent focus on customers and their success. We also made a number of strategic investments in our Wealth Management business which I'll touch on later.

Since 2011, with a clearer line of sight around market adjustments and regulatory reform and the objective of continuing to set a new standard for our customers, business models in every part of the Bank have been under review. So is the relationship between revenue and the expenses incurred to generate each dollar earned. And so contributing to our performance is the long-term effort to increase the competitiveness of the Bank and enhance our return on equity, it’s work that is well under way.

We have been and continue to simplify structures and processes everywhere in the Company and we're encouraged by the improvements we're seeing. In fact every month we're becoming a more efficient bank as we simplify processes that deliver exceptional customer experience and generate high quality earnings. This progress is consistent with our long-term productivity plans, which I have referenced in previous calls. Let me take a moment to highlight some of our successes to date.

For many months now, in our P&C Canada business, the overall number of hours worked by customer service representatives have come down. By running better analytics we've maintained service levels while managing the CSR schedule more proactively. Additional customer service representatives are in the branch when more customers are expected and the reverse is the case in periods of low traffic.

In the US, we're establishing a new sales model to serve the mass affluent customer. It will deliver specialized investing and banking support for this important segment at a lower cost than traditional models while improving the customer experience.

Pilot results have shown high double-digit growth rates in investments and very strong loan and deposit balance growth. We're also eliminating costs through a disciplined approach to simplification, delayering and eliminating waste. For example, a year ago we undertook an initiative to simplify our employee grade levels. Two legacy systems became one, simplifying the Bank's grade structure while reducing costs and administration. Actions like these and many other multi-year productivity enhancements will favorably contribute to the Bank's profitability and to our ability to distinguish ourselves in the minds of customers.

In the second quarter, the Bank's reported net income increased 27% year over year to $1 billion or $1.51 per share. Adjusted net income was up 28% to $982 million representing $1.44 per share, 15% ahead of last year. Adjusted revenue[1] growth was also 15% reflecting the lift from acquisitions and organic growth across our businesses. BMO's adjusted ROE[1] improved to 15.4% from 15% in Q1.

Provision for credit loss was down from last year although above Q1 levels. Formations were up primarily in the US and largely reflected the reclassification of individual credits in the acquired performing loan portfolio the impact of which was captured in the credit market close. Surjit will give you more detail on credit later in the call.

BMO enhanced its strong capital position in the quarter and assuming full implementation of Basel III reforms and the full impact of IFRS, our pro forma Basel III common equity ratio was 7.6%.

Turning now to our operating groups. P&C Canada's reported net income for Q2 was $446 million and on an actual loss basis, up 8.5% from last year. Positive operating leverage of 2.3% reflects our efforts around efficiency and disciplined expense management. Commercial loans were up 3.2% year over year driven by core lending in our corporate finance segment; the growth was broad-based across all regions and most sectors.

In response to a slowdown in personal loan growth and elevated consumer leverage, we shifted focus ahead of the market to drive the business. Our intention was to deliver tangible customer benefits by offering more suitable products in a low interest rate environment. This was best illustrated by our five-year fixed rate mortgage, a product that provides borrowers with a faster path to increased home equity and certainty of monthly payments. The success of this approach is profound and has built a new business pipeline. Based on recent data approximately 70% of BMO's current mortgage originations have a 25-year or less amortization period compared to 40% last June which we believe to be industry leading. For BMO, the result has been high credit quality with attractive interest margins.

P&C US reported net income of $122 million in source currency. On an adjusted basis net income was US$137 million. Our commercial business, which we expect to be an important driver of future growth, continues to perform well. Commercial and industrial loans were up US$800 million from the end of Q1 representing a 16% annualized growth rate. The reduction in our commercial real estate portfolio remains ahead of schedule. The deliberate run-off of this portfolio has been offset by the strong performance of our commercial bank and this is going to be more visible in future periods.

Integration of our US banking platform is on track. We're under way with Phase II of the rebranding program in the branches and we're ahead of schedule on synergy realization. On the front line, we've completed significant upgrades to our teller and service delivery platforms to be ready for conversion and these upgrades have given our branches additional efficiency and flexibility in serving customers. We're looking forward to showcasing our US leadership and their businesses to you at our Investor Day on June 26.

Private Client Group posted strong second quarter adjusted net income[1] of $150 million. These results confirm the sound underlying fundamentals of this business which has a proven track record of success. In the quarter we announced an agreement to acquire CTC Consulting strengthening our wealth offering with added research and advisory capabilities as well as penetrating new markets. This is a great fit with our existing business which won the 2012 award for Best Client Service from Private Asset Management Magazine. With this addition, our private banking business has further enhanced its competitive position in the ultra-high-net-worth market in the US.

We also continued to expand in Asia through an agreement to acquire an established private banking business with a presence in Hong Kong and Singapore and this complements our existing offices in Beijing and Hong Kong. Finally, our new regional headquarters in the UAE provides relationship coverage for institutions in the Middle East and North Africa. It brings us closer to the clients we've been serving in the area for decades. Our global asset management business is very well positioned to expand its client base in the region.

1 - Reported revenue growth - 19%; Reported ROE was 16.2%, from 17.2% in Q1; PCG reported Net Income was $145MM

BMO Capital Markets reported good second quarter net income of $225 million up 14% from Q1 and in line with last year. Market uncertainty persists, that said, our diversified portfolio of businesses and broad client base position us well to take advantage of revenue opportunities.

Before turning it over to Tom I'd like to conclude with some thoughts on the economic outlook. There is a notion which is gaining broad acceptance that for the foreseeable future the global economy will be characterized as a two-speed world where the developed economies will show low or even negative growth and the emerging countries will power ahead. In an extension of this view, we see growth in North America continuing to show resilience. Legitimate concern is the slow reduction in the rate of unemployment. However the quality of job creation is improving with healthy growth in the private sector offset by reductions in Public Service employment. This is a pre-condition to reducing fiscal budget deficits and should lead to higher productivity, stable or increasing living standards, and economic growth. Business confidence in North America has moved into positive territory, since the beginning of the calendar year and we're seeing it in the actions of our commercial clients. Without dismissing the large amount of monetary stimulus being provided by central banks and the probability of an extended period of realignment in the EU, we continue to see reasonable expectations for real GDP growth in North America in the order of 2.3% this year and 2.6% in 2013.

And with that, Tom I'll turn it over to you.

Tom Flynn - BMO Financial Group - EVP, CFO

Thanks, Bill, and good afternoon. Some of my comments may be forward-looking. Please note the caution regarding forward-looking statements at the beginning of the presentation.

I'll start on Slide 7. BMO had another strong quarter with good operating group performance. Reported net income of $1.028 billion was up 27% from last year. Adjusted net income was $982 million, up 28% and adjusted EPS[1] was $1.44, up 15%. Adjusted ROE[1] was 15.4% and our capital position strengthened nicely in the quarter.

Looking quickly at operating groups, P&C Canada net income was up 8%. P&C US income more than doubled, lifted by acquisitions. PCG had its best quarter in two years with adjusted net income[1] of $150 million and Capital Markets delivered good earnings in the quarter of $225 million.

Provisions for credit losses[1] were down significantly year over year and up $60 million on an adjusted basis quarter over quarter. And lastly, the tax rate was down in the quarter. Items removed to arrive at adjusted income were similar in character to prior quarters and decreased income by $46 million or $0.07 per share. Slide 11 shows the details on the adjusting items.

Moving now to Slide 8. Adjusted revenue[1] was $3.7 billion up 15% year over year with growth in all retail businesses and the benefit of acquisitions. Quarter over quarter adjusted revenue was relatively unchanged as PCG and Capital Markets revenue growth was offset by the impact of fewer days and reduced margins. As shown in the graph on the right, adjusted total bank margin excluding trading was 210 basis points, down 11 basis points sequentially. Q1 NIM was elevated, as we said, last quarter due to an unusually strong contribution from PCG which had an impact of 3 to 4 basis points. NIM in the P&C businesses was lower in Q2 due to low rates, the competitive environment, and in P&C Canada, some items not expected to repeat next quarter.

Turning now to Slide 9. Adjusted expenses[1] of $2.4 billion were up year over year largely due to acquisitions. Quarter over quarter adjusted expenses declined by approximately 1% due to expense management, fewer days, and compensation costs related to employees eligible to retire booked in Q1.

As shown on Slide 10, capital ratios strengthened in the quarter with the common equity ratio very strong at 9.9% and the Tier 1 ratio at 12%. The capital impact of IFRS of approximately 60 basis points in total is being phased into reported Basel II capital ratios over five quarters, as you know. The impact is approximately 19 basis points to the end of this quarter which is the second quarter of the phase-in period. Our pro forma Basel III common equity ratio strengthened to 7.6% in the quarter. This number includes the full impact of adopting IFRS not the lower phased-in impact. We continue to be in good shape for Basel III.

Moving to Slide 13. P&C Canada net income was $446 million. Year over year net income was up 8% reflecting higher volumes across most products partially offset by lower margins and expenses were flat as we continue to manage

1 - BMO Reported EPS was $1.51; BMO Reported ROE was 16.2%; PCG BMO Reported Net Income was $145MM; Reported PCL up $54MM Q/Q; BMO total reported revenue was $4.0MM; BMO Reported expenses were $2.5MM

productivity. The productivity ratio was 51% and operating leverage was positive 2.3%. We're optimistic about balance growth as we look forward to the second half of the year.

Moving to Slide 14, P&C US adjusted net income[1] was US$137 million. Revenue and net income more than doubled from a year ago reflecting the impact of the acquired business. Revenue of US$738 million declined quarter over quarter primarily due to lower margins, decreased securities gains, and fewer days. NIM was down 8 basis points mainly due to lower loan spreads. Expenses were down sequentially due to a litigation expense booked in Q1; excluding this item expenses would have been approximately flat.

Turning to Slide 15. Private Client Group delivered strong results with adjusted net income[1] of $150 million up 62% from a year ago. Excluding insurance, Private Client Group revenue growth was 18% year over year due to contributions from acquisitions and organic growth. PCG results in the prior year were impacted by unusual earthquake-related reinsurance claims and in Q1 2012, the results were impacted by a reduction in interest rates.

Turning to Slide 16. BMO Capital Markets net income of $225 million was relatively in line with the prior year and up 14% quarter over quarter. Revenue was down a little from stronger levels a year ago. In the quarter, we had solid investment banking activity and lower investment securities gains partially offset by improved trading revenues. Quarter over quarter revenues were up due to a rebound in investment and corporate banking.

Turning now to Slide 17. Corporate had reported net income of $91 million and adjusted net income of $21 million. Year over year adjusted net income[1] was up $47 million. Adjusted revenue was lower mainly due to interest received on a tax settlement a year ago. Adjusted expenses were higher year over year largely due to the impact of the acquired business. Quarter over quarter adjusted net income[1] declined $41 million. Adjusted revenues were consistent while adjusted expenses were higher, mainly due to the timing of benefit costs and technology investment spending. Adjusted provisions were higher under BMO's expected loss provisioning methodology and recoveries were lower on M&I purchased credit impaired loans.

To conclude, we produced another strong quarter and we feel good about how the businesses are positioned looking ahead. With that I'll turn it over to Surjit.

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

Thanks, Tom and good afternoon. Before I begin, I'd like to draw your attention to the caution regarding forward-looking statements at the beginning of this presentation. As in previous quarters, I'll focus my comments on a few key areas of interest.

I'll start with the provision for credit losses. Our total provision for the quarter is $195 million or $151 million on an adjusted basis. In order to provide you with the context on the overall portfolio, I will comment separately on the performance of the acquired versus the legacy portfolios. Over time, as we renew and integrate the acquired portfolio into our practices this distinction will be less relevant.

In the legacy portfolio, the current quarter provision for credit loss is $268 million compared with $233 million in Q1. Capital Markets contributed to the change with a net loss in this quarter compared to net recovery positions in prior quarters. Some variability is not unusual in this portfolio.

As I mentioned last quarter, our legacy portfolio provision is broadly at pre-recession levels, if I could say that. On the purchase credit impaired portfolio, there was a recovery again this quarter of $117 million compared to a recovery of $142 million in the first quarter. The recovery reflects a proactive management of this segment of the purchased portfolio, including active sales. A sizeable portion of this recovery is from the commercial real estate book which has been an area of management focus. We do expect variability in this segment of the portfolio as we work through these loans.

The loan loss in the purchased performing portfolio was $44 million during the quarter primarily in the consumer portfolio. As we noted in the past, there will be timing differences between when losses in the purchased performing portfolio occur and when we recognize the mark through income.

I'll now spend some time on our impaired loan formations. In the legacy portfolio, formations of $455 million this quarter compared to $392 million in Q1. The increase is primarily due to our participation in one Canadian loan and a one-time

1 - P&C US Reported net income was US$122MM; PCG reported net income was $145MM; Corporate year over year reported net income increased $65MM; Corporate quarter over quarter reported net income decreased $132MM

realignment of the timing for recognition of impaired loans in certain segments of the US consumer portfolio. The remainder of the formations of the legacy portfolio was spread across a number of industries. The impaired loan formations for the purchased performing portfolio were $444 million this quarter compared to $232 million in Q1. At acquisition, we recognized the likelihood of impairment in the purchased performing loans and losses on these impaired loans were adequately provided for in the credit mark. We continue to have confidence in our assessment.

Before I close, I want to touch on the Canadian real estate market that has again been in the spotlight over the past few months. We are attentive to the risks in the market and continue to monitor our portfolios closely. We have consistently applied prudent lending standards and practices through the current cycle. Overall we are comfortable with our position. Additional information can be found in our second quarter disclosure document.

In closing, I'm pleased with the results this quarter. The legacy portfolios continue to perform well as the North American economies slowly improve. Our purchased portfolio is performing in line with expectations and we remain comfortable with the mark taken at acquisition. Thank you and we will now turn it over to the operator for the question-and-answer portion of today's presentation.

QUESTION AND ANSWER

Operator

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

Sharon Haward-Laird - BMO Financial Group - Head, IR

Prior to the question period I'd just like to acknowledge that the slides that are showing on the webcast are from last year. We are correcting the problem and anticipate the correct slides will be up in a moment. Once again we apologize for the error.

Operator

Thank you. Peter Routledge, National Bank Financial.

Peter Routledge ***- National Bank Financial - Analyst***

Thanks. A question for Frank just on the P&C Canada performance. We see deposit balances declining but also falling deposit spreads which suggest you've got some price competition, so maybe you can just give us a backdrop on some of the competitive pressures on deposits in your business.

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

Yes, thanks, Peter. Just a couple of comments on the quarter if I can before I get the answer to your question.

Overall we had a good quarter. Revenue growth of 2.4% in this environment feels pretty good and our expenses we managed really tightly. As Tom mentioned no growth year-over-year and a really strong operating leverage.

I think you'll recall last quarter when I talked, I said we are working really hard towards positive operating leverage and look forward to that in the second half of the year and we got there a little faster maybe than I anticipated in Q2, so feel really good about the quarter.

We had good growth across many products and I'm optimistic based on what I'm seeing in the months of March and April relative to some of the growth patterns we're seeing in some of our product categories. So overall a good quarter and we feel like we're on track to have a better second half than a first half.

Relative to your question about deposits and spreads in general, the real issue with deposits is the low interest rate environment and that's just putting continued pressure on our spreads as we earn less on those deposits. And we expect that to continue for at least two or three more quarters.

And in addition to that, the competitive pressures we're really seeing on our term deposits and depending on the product and the term and the channel there is pretty severe competition for term deposits at this point in time so those are the two reasons -- the low interest rate environment and competitive pressure for term.

Peter Routledge *- National Bank Financial - Analyst*

Are you competing on price or are you holding your ground?

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

We're trying to compete selectively, I would say is the strategy based on our share performance. Our share's been declining so maybe others are competing a little more aggressively than we are.

Peter Routledge *- National Bank Financial - Analyst*

Finally, stepping back, if I look on Page 19, I don't want to overstate it, but there is some deterioration, minor deterioration, in some market share line items. And there's a thesis that BMO will struggle in a slow growth environment in Canada, because it's smaller and it will be competing against bigger more aggressive peers. How do you respond to that?

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

Well I think two things. It is a fact, we have a smaller distribution network and we're not going to change that overnight but we think we can compete with anybody and selectively we think we're doing that at this point in time. We have a little different point of view and that is that we're not going to sell all products to all people. We're in the business of talking to our customers about products that are in their best interest and I think the best example of that is our mortgage offer that Bill mentioned just a minute ago.

This was good for our customers and its been good for us. And so we're going to see that as we go through the next few quarters and I'm optimistic about that. And I'd also just add to that, we're number two in commercial market share and we've been two for a long time with the distribution network that is arguably smaller. So we think we can compete in any climate and any marketplace, but we're not going to push on products that we don't think are in our customers' best interest.

Peter Routledge *- National Bank Financial - Analyst*

Great, thanks a lot. I appreciate that.

Operator

Darko Mihelic, Cormark Securities.

Darko Mihelic *- Cormark Securities - Analyst*

Hi, thank you. Actually just a follow-up on that, Frank. Why is 2% revenue growth good in this environment?

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

Well I'd like it to be a little higher, Darko, obviously, but I was talking about it from a relative perspective in the last few quarters. But if you go back to what I just said about deposit spreads in this low-rate environment, we're just all under pressure because our deposits are not earning as much for us. And until that changes, the opportunity for us is going to be much more difficult.

And so we're just faced with a situation where we've got to grow our balance sheet faster, competition is strong, and the combination of those two factors leads me to believe that if we can grow our revenues in the low to medium single digits in this environment that I'll take it.

Darko Mihelic ***- Cormark Securities - Analyst***

Okay, fair enough and just want to hammer away on the margin thing. You mentioned there's some small items impacting the quarter that are not expected to recur. What are those items and how much of an impact did they have in the quarter?

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

Yes, if you look at the margin decline this quarter, it was nine basis points and just really simply, four to five basis points of that is what I would consider core. In Q1, as I mentioned, we had a couple of non-core items worth a few basis points that went in our favour.

We talked about that last quarter and in Q2 we had a couple of non-core items worth a few basis points that went against us so the core decline this quarter is four to five basis points. And the decline, as I already mentioned, was primarily due to lower deposit spreads in the low interest rate environment and our loan spreads were relatively stable in Q2.

Even though the competition is fierce, we're holding firm on our loan spreads and we feel pretty good about that. So I'm not going to talk about the non-core items. I think it's just a level that's too granular for the conversation, just suffice it to say that it’s four to five basis points.

When I look out into Q3, I'm expecting that our margin is going to be flat to marginally down from our reported 2.81% this quarter and for the remainder of the year I'm expecting smaller declines than the first half of the year.

Darko, I just might mention relative to our 5-year fixed rate mortgage that Bill mentioned, there might be a question about has that affected our margin and in this quarter, Q2 we've seen less than one basis point as a result of the activity around that mortgage offer.

And relative to the spreads in our overall mortgage book, that offer has carried spreads less than 10 basis points lower than our overall book. So as Bill said, this is profitable business for us. It's not having a material impact on our net interest margin nor do we anticipate it's going to have a material impact in the future.

Darko Mihelic ***- Cormark Securities - Analyst***

Great. Thanks for the color.

Operator

Andre Hardy, RBC Capital Markets.

Andre Hardy *- RBC Capital Markets - Analyst*

Thank you. A quick one for Surjit. Can you help us size your exposure to residential construction in Canada, particularly condo construction?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

Yes, thank you. Our residential high-rise condo exposure is about $600 million.

Andre Hardy *- RBC Capital Markets - Analyst*

With the bulk of that being in Toronto I presume?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

In Toronto and Vancouver. Typically, as I said before, in areas where there's condo construction really, so those two geographies mainly.

Andre Hardy *- RBC Capital Markets - Analyst*

Thank you.

Operator

John Aiken, Barclays.

John Aiken *- Barclays Capital - Analyst*

Good afternoon. Bill, in your opening comments you talked about a strategic review of your business segments and focusing on revenues and the expenses that drive those revenues. Was wondering if you might be able to give us a little bit of color on how regulatory capital fits into that. And under those various frameworks that you've been using, what businesses have I guess more fallen out of favor?

Bill Downe - President & CEO, BMO Financial Group

Well John, thanks for the question. I think the focus is in every one of the businesses and I would say there are no stand-out businesses. When we run the lines of business through the assumptions we have for the future and the impact of regulation, there are no obvious outliers and I think part of the reason for that is the way most of those businesses were being conducted.

They weren't aggressive with respect to the regulatory environment so there are no obvious outliers. But I think that what the analysis is showing us is that in some segments of our business, we're going to have to fix or make changes in the cost structure, the cost to deliver and in that sense business models are going to change.

And I think there's a number of historic examples where that's taken place. If you look at the foreign exchange business, which used to be much more people intensive, the element of online and self-serve for commercial clients through our treasury products is much higher and I think you've seen the same thing with interest rate products. The emerging existence of models that more reflect the direct brokerage model, if you like, for wholesale customers.

I talked about the amount of time that we're spending with our customers in personal banking around value-added activities like financial planning, making better choices around all of the mentions of saving, borrowing and investing. And in that sense, many of the things that are going on in that business are designed to shift more of the available hours to people in the branch to work directly with customers and continue to take as much as possible of the processing out and put it in much more efficient environments.

And we're seeing some great opportunities there. The reorganization of mid offices and back offices in ways that under old business models may not have been necessary. I think across all of our businesses, that type of examination is turning up ways to do things more productively.

And I might add that one of the benefits we've seen is that if it is more productive for us, it's typically more convenient for our customers. We've been able to drive efficiency both to the customer and to ourselves and it's starting to show up in the individual parts of the business. I cited two examples in my opening comments.

John Aiken ***- Barclays Capital - Analyst***

That's great. Thanks, Bill.

Bill Downe - President & CEO, BMO Financial Group

You're welcome.

Operator

Gabriel Dechaine, Credit Suisse.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Hi, good afternoon. A couple questions here. First, on the recovery on purchase credit impaired loans, how much of that was sold versus resolved in the normal way? And is it possible that we're seeing some sort of adverse selection effects such that the early experience is much more beneficial than what's coming? Like you can't sell the loans that are still impaired that are still on your books now?

Second one is on expense guidance. If I strip out M&I it looks like 2% year-over-year expense growth for the total bank. Is that a sustainable level or are you targeting even lower than that?

And last one I'll just sneak this one in here, but Other Real Estate Owned expenses in the US, how big of a number is that in the US and where do you see that trending over the next 12 months or so?

Bill Downe - President & CEO, BMO Financial Group

I'll suggest Surjit take number one and number three together.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Sure.

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

So the recoveries that we've had from our portfolio are largely a result of very proactive management and resolution of that portfolio which has included some level of loan sales but I wouldn't suggest that that's a very big piece of it. We have been mindful in our strategy of value maximization as well as taking into account our client relationships as well in managing that portfolio.

So to answer your question, I don't have a specific number for loan sales and nor do I want to share that exact number on the loan sales element of it, but it's a small percentage. Most of it is through, as I said, working through with clients and getting paid off prior to maturity.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Okay, but I guess to the same point, though, is it possible that the early experience is just you're going through the easier stuff now or is that not the case?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

Not necessarily. For example, when we sell, we are not necessarily selling the easier part. We are putting it together with a difficult part to sell or in some cases -- in fact right now we tried to sell some of the more difficult parts. So I don't think you can make a generalization of the best part is being sold at this stage.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Okay.

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

And that's why I call this a value maximization strategy. We are under no pressure to sell if we can work it out, and so the timing will depend on that strategy.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Okay. So there's no expectation of a big drop off I guess in the recoveries in the next few quarters?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

I wouldn't say there's any expectation of a big drop off, nor will there be a lift off because it will all depend on how well and how quickly we manage through this portfolio.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Got you. And the OREO?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

Could you repeat the question on the OREO?

Gabriel Dechaine ***- Credit Suisse - Analyst***

The costs of Other Real Estate Owned, US banks break that out. I'm just wondering if you can quantify that and where you see it heading over the next 12 months.

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

We have a really small OREO book.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Okay.

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

And we constantly look at what we should, whether it's worth our while to hold on or to sell expeditiously. I don't have the cost numbers off hand but suffice it to say there's always a cost associated with keeping that portfolio on the books, but the portfolio is small so the costs are not material.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Got it.

Tom Flynn - BMO Financial Group - EVP, CFO

And on the question on expense growth, you said year-over-year excluding M&I you thought was up around 2%. As Bill said in response to the last question and in his comments, we're focused on managing expenses and managing productivity. You saw that clearly in the P&C Canada results this quarter with good operating leverage at 2.2% [sic] and the productivity ratio down to 51% and the expenses flat year-over-year with revenue growth being produced. So I'd say that we're happy with the numbers this quarter.

We're focused on both managing expenses in the short-term but also getting after more fundamental process improvements that will take some time and if revenue is growing like we've seen for the last little while, we would be looking to manage expense growth down in the very low single digit level.

Gabriel Dechaine ***- Credit Suisse - Analyst***

Thank you very much.

Operator

John Reucassel, BMO Capital Markets.

John Reucassel ***- BMO Capital Markets - Analyst***

Thanks. A question for Tom or Bill. Just to clarify, in your Annual Report you talked about 8% to 10% EPS growth. If we try and establish a base for that, would that include or exclude these purchase credit impaired loans that you are getting over the last couple quarters if you're looking at over the medium term?

Tom Flynn - BMO Financial Group - EVP, CFO

It's Tom, John. It would include the recoveries there because we include the recoveries in our adjusted earnings and the guidance was off of an adjusted earnings kind of a number. And as you said in posing the question, the guidance is medium-term guidance, not guidance related to any particular shorter-term period like the first couple of quarters of this year.

John Reucassel ***- BMO Capital Markets - Analyst***

Okay so just again it would be on the $1.44 or whatever that adjusted number ultimately ends up being for 2012? The medium-term guidance?

Tom Flynn - BMO Financial Group - EVP, CFO

Correct, and when we issued the guidance, we issued it off of the results that we reported last quarter looking ahead to a three year-ish term, so I think the short answer to your question is yes. The longer answer is that's a little precise granulizing off one quarter which isn't to take away from how we feel about the quarter but just to reinforce it, it's a mid-term target.

John Reucassel ***- BMO Capital Markets - Analyst***

Okay, and then just one last on clarification. On Slide 20 and Slide 21 for Mark, there is a bunch of slides here with tables or with loans and deposits and I'm just trying to get an understanding of what you would consider core loans and core deposits. It looks like loans in US P&C were down US$1.5 billion from the first quarter and if I look at your run-off loans they were down about US$200 million. Is that saying that the core loan growth was down US$1 billion or so in the second quarter versus the first quarter?

Mark Furlong - BMO Financial Group - President & CEO, BMO Harris Bank

So you're getting that US$1.5 billion from Page 8 of the supplemental?

John Reucassel ***- BMO Capital Markets - Analyst***

Supplemental. That's right. Taking the average. I know these are ending balances on Slide 20 and Slide 21, but I'm taking the average from Page 8 of the supplement.

Mark Furlong - BMO Financial Group - President & CEO, BMO Harris Bank

So on Page 8 at the top that's Canadian and there's exchange rate differences in there. I think Tom Flynn would take that one. If you want me to talk about Slide 20 and Slide 21 and if you want Tom Flynn to follow-up he will do the other piece.

So what's on Page 20, so that is the commercial portfolio. I'd say pretty much as we thought that core C&I portfolio is showing very robust growth. It has been across the geographies, across industries; no one has overtaken any of the others so it has been very robust growth. Commercial real estate, as you can see there, down a little bit and I suspect that will come down a little bit maybe again although it will stabilize. Feel really good about that core C&I portfolio.

The run-off portfolio that you see in the third chart there on the left hand corner, that's about 80% commercial real estate and that will continue probably to push its way down. But feel really good about what's going on there. I'd also mention that in this quarter, a lot of our commercial bankers, business bankers, small business bankers, they did some of the conversion of the underwriting process so forms and process from prior pre-merger to BMO, so a fair amount of distraction.

Despite that distraction they actually doubled the loan pipeline for commercial in the quarter. So a lot of work that went into the first quarter obviously benefited the second quarter so I feel very good about where that portfolio and where that business stands today.

On the bottom, I should say on Page 21 on the personal portfolio, I think all these are core portfolios here. There is some run-off embedded in those pieces that we're no longer originating but all are I think important to the future.

The mortgage portfolio shrunk about US$300 million, but we're selling about 70% of that portfolio today, so just the amortization of that portfolio is overcoming the small piece that we're putting into portfolio. We're selling 70% because spreads widen and by the way selling it service-retained and that is a better economic picture in kind of a 5-year plus NPV than it would be retaining all those.

Home equity, I think that is just a consumer deleveraging and I think that we probably get run-off on that for a few more quarters and I think we'll see some stabilization. Indirect auto, that portfolio is growing and that's the portfolio that you put on your books is incremental assets relative to other opportunities given the spread that you can get in that business.

Business banking and small business, a little bit of shrinkage there. Might see a little bit of that for another quarter or two but that portfolio also stabilizing. As I said in commercial, despite the business bankers and small business bankers being distracted this quarter in a fair amount of conversion to the BMO credit underwriting system, they also doubled their pipeline in the course of going from end of first quarter to the end of second so I also feel very good about what's going on in the business banking portfolio.

So let me stop there. That gives you a perspective of what's going on in the loan portfolio and Tom will answer the first question you had on the difference between the top chart Canadian dollars to the bottom chart US dollars.

Tom Flynn - BMO Financial Group - EVP, CFO

Just very quickly on Page 8 of the sup pack we showed the P&C US segment. The top chart is in Canadian dollars. It shows the average loans down about $1.4 billion. The bottom chart has US dollars and the loans are down just US$200 million and Mark has given the color around that, but a portion of the decline related to the currency and the better numbers to look at are the US dollars.

John Reucassel ***- BMO Capital Markets - Analyst***

Great. Thank you very much.

Operator

Michael Goldberg, Desjardins Securities.

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

Thank you, my first question is for Bill. At $0.70 your payout is in the lower half of both reported and adjusted earnings per share. So why no dividend increase yet and just as a clarification, is the payout objective on reported or adjusted earnings? And then I'll come with my second question.

Bill Downe - President & CEO, BMO Financial Group

The target is on reported in the long run, Michael and over time these numbers are going to converge when we have the integration behind us. And not to be repetitive, we're looking forward to continued top-line and bottom-line growth and we're now in the middle of the range using a four-quarter view of payout relative to earnings and I remain positive and optimistic with respect to the future.

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

So why would the Board have held back at this point now that you're at that mid-point from moving ahead with the dividend?

Bill Downe - President & CEO, BMO Financial Group

Michael, honestly, I answer this question every quarter. I try to answer it consistently in the same way and I don't have much more to add.

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

Okay, my second question is about US loan quality and it's certainly encouraging to see the release of the original mark on performing M&I loans and recoveries on the non-performing loans, but at the same time, Marshall and Ilsley, the purchased non-performing loan formations rose significantly during the quarter. When do you expect these formations to tail off and what's the prognosis for recently classified loans that gives you comfort that the remaining mark is adequate?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

That's a good question, Michael. Let me give you a little bit of background into what these formations are. The formations that we've had this quarter relate to small accounts, accounts that generally are smaller than $5 million. And what we had done at the time of acquisition was some of these smaller accounts were assessed on a sample basis.

And what we did was we looked at the sample and it indicated a higher probability of impairment that was being recognized by M&I and at that time we factored that into the determination of our credit mark. So anything that we are moving now to impaired is more than adequately protected by the credit mark, so in some ways -- and I don't want to sound glib -- but in some ways it's a relabeling exercise. It's not going to have any impact on the performance.

Now, your question in terms of when is this going to stop; We have reviewed a lot, most of the accounts now that were done on a sample basis so even the very small accounts we've started looking at and have looked at more specifically as opposed to as on a sample basis and my expectation is that this is going to moderate. And as I said before, this is no reflection on the quality. The quality is exactly where we expected it to be because that was reflected in the credit mark. Does that satisfy your question?

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

So just to clarify then, what you're saying is that in going from a smaller sample to a larger sample, that accounts for the bulk of the increase in the purchase loan formations?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

No, let me clarify. The very small loans were valued on a statistical basis, let me put it that way, as opposed to as on a specific basis. A small account, let's say a $500,000 account, wasn't looked at. You couldn't look at thousands of $500,000 accounts in setting the mark, so that part of what we look at on a sample basis and the mark was applied to it statistically. And that statistical mark that was applied was based on the fact that we recognized that the impairments would be higher and that was factored into our computation of the credit mark.

So as we go through these accounts on a specific basis, looking at them name by name, we are comfortable that those that have migrated to the label of formation for the most part have been dealt with this quarter, so I would think that this will moderate in the next quarter.

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

Okay, thank you.

Operator

Robert Sedran, CIBC.

Robert Sedran ***- CIBC World Markets - Analyst***

Good afternoon. Just want to come back to the issue of margin for a moment. Frank, I want to make sure I understood you correctly because I guess there were some unusual items that artificially depressed the margin this quarter. But then your forward-looking statement was, well I guess you are not allowed to make those, but the comment you made about Q3 basically said flat to down.

So it sounds like margin pressure is accelerating just generally versus flattish for the past four or five quarters and now it's starting to pick up a little bit. Is that a correct view and is it still the deposit side that's going to be the problem?

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

Just in answer to the second part of your question, the deposit side is still going to be the problem at least until we go into 2013. Let me see if I can do this another way. Q1, our margin was 2.90%. Non-core items were positive in the quarter to the tune of a couple of basis points. The 2.81% in this quarter, again we had a couple of non-core items that in this case were negative to us for a couple of basis points so if you backed those out we would be at 2.83%-ish. And what I'm saying is for Q3, my expectation is we're going to be flat to the 2.81%, so we're continuing to see from a core perspective two or three to four basis points of spread compression in our margin as we look out over the next couple of quarters.

Robert Sedran ***- CIBC World Markets - Analyst***

Okay.

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

I don't know how much more precise I can get.

Robert Sedran *- CIBC World Markets - Analyst*

No, that's helpful. I was trying to understand that it felt like another four or five basis points coming this quarter, but I understand your comment now. And on the US side, is it -- Mark, I guess it's hard to read anything into the margin because you're sort of simultaneously growing and shrinking different parts of the loan book and so ultimately business mix is as big a driver as anything when we see the margin moving there?

Mark Furlong - BMO Financial Group - President & CEO, BMO Harris Bank

I try and give that answer here too but nobody is believing it. So let me go with, I mean that is actually what's happening. But I think that we're probably a little closer to stable now, because I think some of the run-off has slowed down quite a bit. There's certainly some good intense pressure out there on spreads as you know in the US market with the lack of broad asset growth going on.

So that said I think that the quarters where we have eight or nine basis point drops, I don't think that's what I see in the next two or three quarters. The band is probably two to four one way or the other probably a little more downward pressure than upward, but you could get a little interest recovery here that neutralizes that or something like that, so I think the band's a little tighter the next couple quarters.

Robert Sedran *- CIBC World Markets - Analyst*

Okay, and just a quick one for Surjit. Is there a quick explanation for why the interest rate VaR on Slide 27 seemed to bounce around a little bit in April?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

Yes. The explanation for that is in March, what we did was we enhanced our model to be more responsive to sudden increases in volatility. That's in keeping with the Market Risk Amendment. And in April, what we did was we made further improvements to the margin in preparation for the implementation of the debt specific risk charge and synchronized some data sources, so those are the two things that caused it. So in some ways, I think we've said it was basically model enhancements that caused it.

Robert Sedran *- CIBC World Markets - Analyst*

So you can't really compare the first half of that line to the second half?

Surjit Rajpal - BMO Financial Group - EVP & Chief Risk Officer

It smoothens out. As you know, it dipped and then ran back out.

Robert Sedran *- CIBC World Markets - Analyst*

Yes. Okay, thank you.

Operator

Sumit Malhotra, Macquarie Capital Markets.

Sumit Malhotra ***- Macquarie Securities - Analyst***

Thanks, good afternoon. I'll try and get through this quickly. First off, back on Slide 20 and Slide 21, in the presentation for Mark Furlong -- first off thanks for the increased disclosure on how much of the commercial portfolio is actually in run-off, that's helpful.

But looking at the personal balances, the mortgages and home equity loans, you gave some explanations in a previous answer but when I look at the results and hear the conference calls from some of your regional peers, it certainly sounds like the housing refinance trade has been very beneficial to residential real estate related loan growth. Why are you not seeing the same phenomenon at this point?

Mark Furlong - BMO Financial Group - President & CEO, BMO Harris Bank

We are seeing a little bit of that and mortgage revenues are up US$8 million or US$9 million in the quarter. We're also converting from one system in one market to the Harris system so instead, you don't do all of the conversions at conversion date; you do some during the process, so we obviously have some distraction internally. But that reduces risk at the back end when we come to conversion date so there's a little bit of that ongoing but we are seeing some contraction.

We have a pipeline like everyone else. The pipeline is full and we're continuing to hire mortgage bankers to fulfill that pipeline. We've seen a little bit of spread widening in terms of what we sell, and remember we're selling about 70% of what we originate, so you just don't put as much on the balance sheet. And again, why we are selling is the spreads on what we can sell are wider than the return we would get if you use that five or six year NPV.

So that's why I think the mortgage balance -- if we just portfolio it, of course they would grow but we don't see that as the right return at this point in time. So that's the mortgage side. The home equity side, the stuff I've looked at from our peers, it doesn't seem that most of their portfolios are growing. In fact, it seems several of them are shrinking, but you may have some data that proves that to be otherwise. We are originating on the home equity side, but the portfolio is still coming down a little bit.

Sumit Malhotra ***- Macquarie Securities - Analyst***

And the second one related to the US bank either for yourself or for Tom Flynn. Expenses in the segment. If I remember last quarter, Tom gave some detail on the litigation provision that was in the US$15 million to US$20 million range so if I was looking at this on a apples-to-apples basis, expenses were down slightly.

I believe you previously mentioned to us that the next significant phase of the integration will be later this year. When that occurs, if I look at the $$470 million or so in expenses this quarter, do we see a defined step down or is it more that you're expecting expenses to stay rather stable while revenue starts to pick up?

Tom Flynn - BMO Financial Group - EVP, CFO

Firstly just on the quarter-over-quarter expenses, in Q1 we did have a litigation expense and if you back that out, expenses were basically flat for the P&C US segment quarter-over-quarter. Looking ahead on the synergy side, we've talked about doing the large systems conversion for the integration in the fall and after that the synergies will accelerate. Takes a little while for you to, number one, complete the conversion, number two, have the reductions in the staffing levels that follow and then, number three, have those fully baked into the run rate numbers.

And so you'll see a little bit of a pick up in the fourth quarter but a bigger pick up and really the more meaningful pick up starting in Q1 of next year and that will be a step function change. We've talked about synergies in total more than $300 million with $100 million-plus coming this year and the balance being fully in the run rate by the end of next year. So that's the big picture. And there will be a sharp pick up, some of which will show up in the segment and some of which will show up in corporate early next year.

Sumit Malhotra ***- Macquarie Securities - Analyst***

Last question for Tom Milroy. Pretty good quarter for your group and obviously the world feels a lot different since the end of April or maybe from when April started in terms of conditions. Trying to make this quick. The mining franchise for BMO has long been a source of pride and clearly we've had some difficult conditions in that particular sector.

Can you talk about, especially when we look at the underwriting advisory business, how important mining has been to the revenue you've been able to produce and what your outlook is in that business in the second half of the year?

Tom Milroy - BMO Financial Group - CEO, BMO Capital Markets

Absolutely. Let me start by saying that you're right. We did have a good quarter. We feel very positive about it. In terms of the mining, the mining has been an important part of our franchise, but it's just only one component of it. And I would actually expand that to say the mining and the other resource businesses have, like the other Canadian banks, it's a big part of our markets so it's a big piece of it.

That being said, I think we benefit from both the existing business we have in Canada which is fairly diversified and then the US business that we have. So while it's a material part, it isn't the only part. And while we've seen especially in the metals area, we've seen some deterioration in the commodity prices and we continue to see a desire for people to do transactions so we're somewhat optimistic about what may come out of that going forward.

In terms of the overall outlook, I think you're right in recognizing that markets of late have been a little volatile and really in response to the euro zone crisis and weaker data relating to the US economic recovery. That being said we think we're really well positioned and as recent experience has shown us as market conditions improve we'll be able to deliver good results.

Operator

Steve Theriault, Bank of America.

Steve Theriault ***- BofA Merrill Lynch - Analyst***

Thanks, first just a quick follow-up for Frank; you gave great information earlier on a number of fronts. When I look at mortgage loan growth, it does still look on the weaker side at about 2.5% but you are at almost 5% for the total consumer book, so what's doing particularly well there? Is it the HELOC book at the end of the day?

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

Yes, just if you go back over the last year, our consumer lending products have been growing pretty rapidly and our share has been expanding over that period as well. There's three product categories that we would have in there. One would be our auto loans, two would be our HELOC loans, and third would be our unsecured lines of credit.

If you just look over that period of time, both auto and home equities have been growing pretty strongly; unsecured lines of credit have been shrinking, partially because of management action, partially because of consumer preference.

So we're still seeing nice growth, but as I said earlier on the call, we're not talking to our customers nearly as strongly about home equity products at this point in time because we just don't see them as being the right ones for them in this market environment and we've been putting our time and energy and attention focused on fixed-rate shorter-amortization mortgage products.

And to some degree, these products have been substitutions over time. So that's where the growth has come historically in our consumer lending book and it's slowed rather materially from what it was a year ago.

On the mortgage front, we haven't seen the growth yet but all I can tell you is if you look at March and April, we're starting to see momentum pick up as a result of the offers we've had in the marketplace and some of the other things that we're engaged in with the business so I'm optimistic that the mortgage growth is going to start to improve as we go through the second half of the year.

Steve Theriault ***- BofA Merrill Lynch - Analyst***

Great. Thanks for that, and then for Gilles if I could, before I wrap up here, interest rates have come down quarter-to-date as we're all aware. If the quarter ended today, can you give us any sense of what hit the insurance business would take? Would it be somewhere in the range of the $45 million or $50 million we saw in Q1? And then last quarter I think there was a $20 million gain in the non-insurance component but you matched that earnings of $98 million again this quarter. Can you talk a bit about what drove the earnings for us, please?

Gilles Ouellette - BMO Financial Group - President and CEO, PCG

The bulk of the earnings growth in the second quarter came from the brokerage businesses being stronger. As you know, a large part of our revenues come from fees, and the markets were stronger in the second quarter than they were in the first quarter and also in transactions. The business is pretty straightforward. With respect to the interest rates, interest rates this month are off but not to the extent that you'd mentioned. But this wouldn't be the first quarter where things change very quickly from the one week to the next, so--

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Steve Theriault ***- BofA Merrill Lynch - Analyst***

That's fair enough.

Gilles Ouellette - BMO Financial Group - President and CEO, PCG

Okay, thanks, Steve.

Steve Theriault ***- BofA Merrill Lynch - Analyst***

Okay, thank you.

Operator

Mario Mendonca, Canaccord Genuity.

Mario Mendonca ***- Canaccord Genuity - Analyst***

Good afternoon. A question for Frank. Commercial mortgage growth in Canada was particularly good, especially given where it has been over the last few quarters. A few quarters ago you talked about the Bank possibly seeing slower commercial loan growth relative to your peers because of the Bank's exposure to commercial real estate. What specifically drove the growth in commercial this quarter and is it something we can expect to continue?

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

Yes, on the commercial side, Mario, we're still in the same position we were a year ago relative to commercial real estate. We're approaching that segment very cautiously. I'd say that just relative to your general question, commercial loan growth of 3.2% in this quarter should be the low point for us.

Our lending pipelines are up significantly over last year and as I said relative to the mortgage business sequentially, the March and April year-over-year loan growth rates were stronger than January and February. So we're starting to see momentum build in the commercial loan book and relative to any particular area or segment, it's broad-based but not focused on commercial real estate.

Mario Mendonca ***- Canaccord Genuity - Analyst***

What I was getting at by the improvement and I think you kind of addressed it by referring to March and April was the quarter-over-quarter in commercial was better than I've seen in three quarters.

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

Yes.

Mario Mendonca ***- Canaccord Genuity - Analyst***

So that's consistent I presume with what you're suggesting about March and April then?

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

Yes, we're starting to see momentum pick up.

Mario Mendonca ***- Canaccord Genuity - Analyst***

It's not commercial real estate?

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

It's not commercial real estate.

Mario Mendonca ***- Canaccord Genuity - Analyst***

Thanks very much.

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

Thanks.

Operator

Thank you. Now I'd like to turn the meeting back over to Mr. Bill Downe.

Bill Downe - President & CEO, BMO Financial Group

Well thank you very much, everyone. We recognize that we were the only bank reporting today and were able to go a little bit longer and I appreciate your staying with us. To wrap up, we delivered $2 billion in adjusted net income[1] in the first half of 2012 and in the context of slow economic growth we're pleased by the performance of our operating groups, which are executing effectively against their strategic agendas.

Matching customer needs to the most efficient ways we can meet them is a top priority for BMO and fundamental to the continued expansion of our top line. Each of our businesses continue to be well positioned and we remain confident in our ability to produce consistent, profitable, long-term growth.

Thank you for participating and we look forward to seeing you on June 26.