BMO Financial Group

Q1 2013 CONFERENCE CALL

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By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion below, which outlines in detail certain key factors that may affect Bank of Montreal's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Our first quarter 2013 regulatory capital, risk-weighted assets and regulatory capital ratios have been calculated pursuant to the Capital Adequacy Requirement (CAR) Guideline released by the Office of the Superintendent of Financial Institutions (OSFI) in December 2012 to implement the Basel III Accord in Canada. When calculating the pro-forma impact of Basel III on our regulatory capital, risk-weighted assets (including Counterparty Credit Risk and Market Risk) and regulatory capital ratios in prior periods, we assumed that our interpretation of OSFI's draft implementation guideline of rules and amendments announced by the Basel Committee on Banking Supervision (BCBS), and our models used to assess those requirements, were consistent with the final requirements that would be promulgated by OSFI. We also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios would be adopted by OSFI as proposed by BCBS, unless OSFI had expressly advised otherwise. We also assumed that existing capital instruments that are non-Basel III compliant but are Basel II compliant can be fully included in the relevant pro-forma calculations. We have not recalculated our pro-forma Basel III regulatory capital, risk-weighted assets or capital ratios based on the CAR Guideline and references to Basel III pro-forma items referred to these items as previously estimated. In setting out the expectation that we will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, we have assumed that factors beyond our control, including the state of the economic and capital markets environment, will not impair our ability to do so.

Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality, risk of default and losses on default of the underlying assets of the structured investment vehicle were material factors we considered when establishing our expectations regarding the structured investment vehicle discussed in this interim MD&A, including the adequacy of first-loss protection. Key assumptions included that assets will continue to be sold with a view to reducing the size of the structured investment vehicle, under various asset price scenarios, and that the level of default and losses will be consistent with the credit quality of the underlying assets and our current expectations regarding continuing difficult market conditions.

Assumptions about the level of default and losses on default were material factors we considered when establishing our expectations regarding the future performance of the transactions into which our credit protection vehicle has entered. Among the key assumptions were that the level of default and losses on default will be consistent with historical experience. Material factors that were taken into account when establishing our expectations regarding the future risk of credit losses in our credit protection vehicle and risk of loss to BMO included industry diversification in the portfolio, initial credit quality by portfolio, the first-loss protection incorporated into the structure and the hedges into which BMO has entered.

Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. See the Economic Outlook and Review section of this interim MD&A.

Non-GAAP Measures

Bank of Montreal uses both GAAP and non-GAAP measures to assess performance. Readers are cautioned that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. Reconciliations of GAAP to non-GAAP measures as well as the rationale for their use can be found in Bank of Montreal's First Quarter 2013 Report to Shareholders and Bank of Montreal's 2012 Management's Discussion and Analysis, all of which are available on our website at www.bmo.com/investorrelations.

Examples of non-GAAP amounts or measures include: efficiency and leverage ratios; revenue and other measures presented on a taxable equivalent basis (teb); amounts presented net of applicable taxes; adjusted net income, revenues, provision for credit losses, specific provision for credit losses, expenses, earnings per share, effective tax rate, ROE, efficiency ratio and other adjusted measures which exclude the impact of certain items such as credit-related items on the acquired M&I performing loans, run-off structured credit activities, M&I integration costs, amortization of acquisition-related intangibles, decrease (increase) in collective allowance for credit losses and restructuring costs.

Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good afternoon, and welcome to the BMO Financial Group's Q1 2013 earnings release and conference call for February 26, 2013. Your host for today is Ms. Sharon Haward-Laird, Head, Investor Relations. Ms. Haward-Laird, please go ahead.

Sharon Haward-Laird - *BMO Financial Group - Head of IR*

Thank you operator. 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, I would ask that you 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, Head of P&C US.

On behalf of those speaking today, I note that forward-looking statements may be made during this call. Actual results could differ materially from forecasts, projections or conclusions in these statements. Information about material factors that could cause results to differ, and the material assumptions underlying these forward-looking statements, can be found in our annual MD&A and our first quarter report to shareholders.

With that said, I will now hand things over to Bill.

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

Thank you, Sharon, and good afternoon, everyone. BMO had strong first quarter results. Our focus on customers, efficiency and prudent risk management continues to serve us well. This is reflected in the financial performance, underpinned by good operating group performance, and also in the progress we've made in advancing our strategic agenda.

Reported net income was $1 billion, or $1.53 per share. On an adjusted basis, net income was also $1 billion, $1.52 per share, up 7% from last year. Revenues[1] increased to $3.9 billion. And ROE[1] was 14.8%.

Progress was particularly evident in our US businesses. Personal and Commercial Banking US had very good adjusted earnings and loan growth in the quarter. We focused our collective efforts on growing BMO's customer base and capturing opportunities in our redefined home market. And we've been highly visible in the Midwest, increasing our advertising support post-integration. Wealth management and Capital Markets businesses in the US also had good quarters.

We're seeing the benefits of disciplined expense management, as we continue to focus on efficiencies, and find ways to deliver superior service to our customers, and to drive performance across the bank. Excluding costs related to employees eligible to retire booked in Q1, adjusted operating efficiency improved for the Bank and all the business groups' quarter over quarter.

Core credit performance was good. Provision for credit losses was down sequentially and relatively stable year-over-year.

Our Basel III common equity tier 1 ratio was 9.4%. We increased our quarterly dividend by 3% to $0.74 a share, reflecting our strong capital position and the success of our business strategies.

1 - On a reported basis: EPS of $1.53 down 6%; Revenues increased to $4.1B; ROE was 14.9%

We delivered adjusted earnings[1] of over $1 billion for the third consecutive quarter. We also gained market share against the backdrop of a cooling housing market in Canada, moderate consumer spending, and continued government restraint. The US economy is gradually improving, led especially by a rebound in housing. Looking ahead, we are optimistic about the opportunities for growth, and expect the economy to improve in our markets throughout the year. BMO is very well-positioned in this environment, with a proven strength in commercial banking across our large North American platform.

Turning to the operating groups, P&C Canada's adjusted net income[1] for Q1 was $461 million, up 4% from a year ago. Loan growth was robust with the total portfolio up 9%. The lift in commercial lending was the strongest we've seen since 2008. In personal banking, we're seeing the payoff from our focus on sales force productivity, which has improved over the past few years, with our front line selling significantly more. We're booking more appointments and having better quality conversations with our customers. We're generating good results in the areas we're focused on, while continuing to increase customer loyalty that will support future growth.

P&C US adjusted net income[1] was $197 million in source currency, up 25% quarter over quarter, and 13% ahead of last year. As I mentioned earlier, our loan book had very good growth, up $800 million, or approximately 2% from the fourth quarter. We continue to drive good balance sheet momentum in this business. Core C&I loans were up $3.3 billion, or 18%, from a year ago and total deposits have increased by $1.3 billion.

We have strong deposits share in our key Midwest markets that positions us well and provides a source of competitive advantage. Our ongoing campaign to introduce BMO Harris bank across our expanded US footprint is driving customer recognition and producing good results.

Here's some examples of how creative brand support is resonating with customers. In Milwaukee, just a few weeks into our newest advertising campaign, brand awareness at the Bank has increased significantly. In Minneapolis, front line staff are telling us ad recognition has brought customers into branches to open new accounts. And we premiered BMO advertising at the Super Bowl with good coverage in our US regional markets and across Canada.

BMO Capital Markets delivered Q1 adjusted net income[1] of $310 million, with ROE of 21.3%. Results were highlighted by strong revenue growth driven by M&A activity, debt underwriting, and trading revenues. The 56.9% efficiency ratio reflects improved expense management.

Private Client Group produced first-quarter adjusted net income[1] of $169 million. Traditional wealth was up 36%, excluding a gain on strategic investment last year, and insurance rebounded to a more normal level. Results benefited from higher revenue, driven by growth in client assets and focused cost management.

While continuing to post strong financial results, we're making particularly good progress in two areas that are strategically important -- institutional asset management and private banking. Consolidated under one platform, BMO Global Asset Management has traction. We continued to add new asset classes, investment capabilities, and distribution in North America, Asia, Europe, and the Middle East, resulting in continued net asset inflows. We've grown to more than $120 billion in AUM, earning a place in the top 100 worldwide rankings.

In Private Banking, during the quarter we completed the acquisition of a Hong Kong and Singapore-based wealth management provider, and are now operating as BMO Private Bank Asia, providing services to high net worth clients in the Asia-Pacific region.

With experienced private bankers and a well-developed universe of products, our clients will benefit from our investment expertise and an integrated platform that bridges North American and Asian markets. And looking ahead, this corridor creates opportunities for growth.

We also continue to make progress with Capital Markets client coverage efforts in Asia, best demonstrated by recent high-profile advisory mandates and successful transactions completed by our clients.

1 – On a reported basis: earnings over $1B compared to Q4'12 earnings of $1.0B and Q3'12 earnings of $1.0B; P&C Net Income was $458MM, up 4% Y/Y; P&C US net income was US$183MM up 30% Q/Q and 17% Y/Y; BMO CM Net Income of $310MM with ROE of 21.3%; PCG Net Income of $163MM

In sum, we had a strong quarter and demonstrated continued momentum in commercial banking on both sides of the border. Commercial banking is an important contributor to the performance of the Bank, positioning us well in an environment of business expansion. At the same time, we're maintaining prudent risk management and improving efficiency.

And we're seeing the payoff from the investments we've made in our US businesses with operating leverage from an expanded platform.

As we look forward to the rest of the year, we'll continue our focus on delivering industry-leading customer experience, helping businesses expand, and customers control their financial lives, allowing them to make better decisions with better information, and have confidence in the choices they make.

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

Tom Flynn - *BMO Financial Group - CFO*

Thanks, Bill, and good afternoon everyone. I'll start on slide 8.

BMO had a strong first quarter with good operating group results. Reported net income was $1.048 billion. On an adjusted basis net income was $1.041 billion, up 7%[1]. And EPS[1] was $1.52, also up 7%. ROE[1] was 14.8% on a very strong capital position. Each of our businesses showed continued momentum in the quarter. There was strong loan growth in both Personal and Commercial in Canada and in core C&I in the US. And the Private Client Group and Capital Markets had strong quarters. Our retail businesses contributed over 75% of operating group revenues.

As you have seen, beginning this quarter we changed the way we report our operating group segments to reflect provisions for credit losses on an actual loss basis in each segment. Previously we had charged the operating groups with the credit losses on an expected loss basis. This change will help with comparing our segment results to other banks. Prior period results have been restated for the change.

We continue to record all acquisition credit-related items in the corporate segment.

Items removed to arrive at adjusted income were similar in character to prior quarters, and totaled just $7 million. Slide 30 shows details on the adjusting items.

Moving to slide 9, adjusted revenue[1] in Q1 was $3.9 billion, up 3% year-over-year, and slightly down from a fourth quarter that was strong. Adjusted net interest income[1] was up 2% quarter over quarter, benefiting from growth in all operating groups, particularly BMO Capital Markets. Year-over-year net interest income declined 4% due to lower NIM in the P&C businesses, and higher than usual revenue from a strategic investment in PCG last year.

Adjusted NIM[1] excluding trading of 203 basis points, was up 1 basis point from last quarter on better Capital Market results. Adjusted non-interest revenue[1] was up 13% year-over-year on good Capital Market performance and improved insurance revenues. Quarter-over-quarter was down 5% due to lower trading revenue and insurance results. And corporate was also down due to a variety of items, none of which were individually significant.

Turning to slide 10, Q1 adjusted expenses[1] of $2.5 billion include $73 million of compensation for employees eligible to retire, which is expensed in the first quarter of each year. Excluding these costs, adjusted expenses declined 2% quarter-over-quarter. The efficiency ratio improved and operating leverage was positive. Year-over-year adjusted expenses increased largely due to higher employee-related costs, including performance-based compensation given higher revenue.

As shown on slide 11, capital ratio strengthened in the quarter. Effective Q1 2013 regulatory capital ratios are determined on a Basel III basis. With a Basel III common equity ratio of 9.4%, BMO's capital position is strong. OSFI's deferral of the

1 – On a reported basis: Net Income of $1,048 down 5% and EPS was $1.53 down 6%, ROE was 14.9; Revenue in Q1 was $4.1B down 1% Y/Y; Net interest Income up 3% Q/Q but down 4% Y/Y; NIM of 185bps up 2bps Q/Q; Non-Interest Revenue up 4% Y/Y but down 8% Q/Q; expenses of $2.6B

effective date for adoption of the credit valuation adjustment RWA improved the ratio by approximately 35 basis points in the quarter.

Moving to slide 12, in Q1, P&C Canada adjusted net income[1] was $461 million, up 4% year-over-year. Results reflect the combination of good volume growth, lower credit provisions, and lower margins. Loan growth was strong in the quarter, with total loans up approximately 9% from last year. There was also good sequential loan growth of over 2% for the third straight quarter. NIM compression moderated this quarter with the decline of 3 basis points being primarily due to changes in mix, including loan growth exceeding deposit growth, and lower deposit spreads in the low rate environment. Lastly, expenses were relatively flat, reflecting active expense management with selective investments being made in the business.

Moving to slide 13, P&C US adjusted net income[1] was US$197 million. Loan loss provisions were down significantly in the quarter to US$33 million. The combination of low credit losses and good non-interest revenue this quarter produced very strong results. Revenue of US$755 million was up 1% quarter over quarter, due to higher gains on the sale of originated mortgages and strong commercial lending fees. NIM was down 9 basis points from Q4, primarily due to lower deposit spreads and changes in mix, as loan growth exceeded deposit growth. Adjusted expenses were down primarily due to synergies net of investment being made in the business. The efficiency ratio[1] improved to 57.1% in the quarter. Loans in source currency were up 2% quarter over quarter. Loan growth exceeded runoff for the first time post acquisition. Core C&I loan growth continued to be strong with balances up 7% quarter over quarter, and 18% year-over-year. And the pipeline remains strong.

Turning to slide 14, BMO Capital Markets delivered very strong results, with net income of $310 million, and ROE of 21.3%. Earnings were up 38% year-over-year, and in line with the good results of the fourth quarter. The performance compared to a year ago reflects good execution, the benefits of diversification, and a better environment. The efficiency ratio improved quarter over quarter and year-over-year to 56.9%.

Turning to slide 15, Private Client Group adjusted net income[1] was $169 million, up 54% year-over-year, and in line with the fourth quarter. These results are consistent with our view of the underlying earnings potential of the business. Revenue was up 12% from a year ago, driven by a bounce back in insurance results largely due to a lower impact from long-term rates. Wealth results from PCG were up 8% year-over-year, and up 36% excluding a gain on a strategic investment a year ago. Assets under management and administration of $479 billion were up nicely; 10%, or $44 billion year-over-year, and 3% or $14 billion quarter-over-quarter.

Turning now to slide 16, Corporate reported a net loss of $65 million, and $95 million on an adjusted basis. Adjusted revenues were down year-over-year and sequentially. Contributing factors included lower securities gains, a higher teb group offset in the current quarter, and a variety of items including treasury-related items, none of which were individually significant. Adjusted recoveries of credit losses were down, reflecting lower recoveries on purchased credit impaired loans. As a reminder, we record all acquired loan credit accounting items in the Corporate segment. Adjusted expenses were higher primarily due to increased benefits costs, including pension costs, timing of technology investment spending, and higher severance.

To conclude, we had a strong start to the year and feel good about our operating group performance and momentum. And with that, I will turn it over to Surjit.

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Thanks, Tom, and good afternoon. It has been another good quarter from a risk perspective. Looking to slide 19, specific provisions, excluding the purchased portfolio, were $155 million, down from $245 million in the prior quarter. This improvement is the result of higher recoveries and reversals and a decline in new reservations. As a reminder, last quarter provisions were elevated based on regulatory guidance relating to certain performing US consumer loans. The improvement we had this quarter was evident across major businesses in both Canada and in the US. Provisions for the purchased performing portfolio at $82 million were up $17 million quarter over quarter after adjusting for last quarter's

1 – On a reported basis: P&C Canada Net income was $458MM up 4% Y/Y; P&C US net income was US$183MM; P&C US efficiency ratio improved to 59.8%; PCG net income $163MM up 56% Y/Y; Corporate revenues were down Y/Y and sequentially

regulatory guidance. As I said in earlier quarters, there will be timing differences between when losses occur and when we recognize income from this portfolio.

We continue our proactive management of the purchased credit impaired portfolio, resulting in a recovery this quarter of $59 million. This portfolio is now down to roughly 40% of its original size. Our strong workout skills and loan sales capability will ensure us a satisfactory resolution to this portfolio. I have mentioned on previous calls we have been managing down this portfolio. And as the portfolio shrinks along with the associated mark, future recoveries will moderate from last year's level.

Total impaired formations at $630 million are slightly lower this quarter after excluding last quarter's $142 million from previously mentioned regulatory guidance.

Looking at the trend on slide 20, it would appear that formations peaked in the second quarter of 2012. Excluding purchased portfolios, total gross impaired loans declined this quarter, as did the ratio of impaired loans to gross loans and acceptances. The ratio now stands at 0.8% versus 1.02% in the first quarter of last year.

In closing, we're encouraged by the reduction in provisions and increase in recoveries. We are comfortable with our risk profile in both Canada and the US. And we believe are well-positioned in the marketplace.

I'll now turn it over to the operator for the question-and-answer portion of today's presentation.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Gabriel Dechaine, Credit Suisse.

Gabriel Dechaine - *Credit Suisse - Analyst*

I just wanted to first ask you about the Canadian retail margin. 3 basis points of decline sequentially, that's less than 50% of what we've seen over the past three quarters. I'm wondering if you think there is a sustainability to that number? What's changed? I think commercial deposit growth was pretty good, and you cited that as a factor to stabilize the margin. If that helped at all. And then also, as the balance sheet makes changes, particularly in mortgages, what's the cross-selling success been? Actually, and I'll throw in my last one here. The assets to capital multiple jumped up a little bit. And you cite Basel III transitional modifications. Is that a BMO specific issue? Can you delve into that a little bit?

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

Gabriel, it's Frank. I'll start. And since you took the liberty of asking three questions, I'm going to take the liberty of maybe answering more than what you asked. We had a solid quarter in P&C Canada. Our net income, as you saw, was up 4% this quarter. And we continue to have the confidence in our strategy. There's no doubt it's a challenging environment. But we are continuing to build a better business in P&C Canada. And I think you will have noticed that the balance sheet growth this quarter is very strong. Our consumer loan growth was up 9.5%. Our large commercial business is strengthening. Deposit growth was up 6.3%, the strongest we've seen in a year. And loan growth was 9.4%, which is the strongest, as Bill mentioned, that we've seen since 2008. On top of that, mutual fund growth was 12.8%. And as you point out, our margin declines are moderating. So, consistent with what I've said in previous quarters, we expect to see continuing moderate declines in NIM over the next few quarters given the environment that we're operating in. And the reason we are seeing moderation is the mix is changing in the balance sheet. We are seeing more growth in loans with higher spreads. And we would expect that to continue in future quarters.

Relative to cross sell, I think I've mentioned this in previous quarters, our five-year fixed 25-year mortgage product was very successful last year in bringing new customers into the Company. And in fact, for every one that took that product last year, about 40% of them were new customers to BMO. And for those new customers coming into BMO, we sold in excess of two other products to them. So we know that is one thing that's contributing to the growth that we're seeing overall in the balance sheet. And as we continue to bring those customers in, I have a huge amount of confidence in our sales capabilities and our branches at this point.

Tom Flynn - *BMO Financial Group - CFO*

It's Tom. I'll answer the asset to capital multiple question. The multiple that we're showing on our slide 11 is the Basel III multiple. We're transitioning in under the rules, which means that we're including all of our capital with the non common capital being subject to the phase-out rules that are applicable under Basel III. The ratio moved up a bit in the quarter, and that's a function of having asset growth in the quarter, and also one redemption of a capital security. So I'd say nothing unusual in terms of the movement, and nothing unusual in terms of how we will look at that ratio versus others.

Gabriel Dechaine - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Sumit Malhotra, Macquarie Capital Markets.

Sumit Malhotra - *Macquarie Capital Markets - Analyst*

My questions are for Surjit. If we start with the purchased credit impaired portfolio, last quarter you answered one of my questions on the call by saying you would think $200 million to $250 million would be an estimate for what we could expect in recoveries from that portfolio. But there was no real basis behind that estimate. Three months later I'm sure you've had a chance to think about that estimate. And was hoping you could give us an update on what you're seeing there, taking into account those statements that the book is down to 40% of the original level.

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Yes. Let me start out by saying the reason I said there was not much of a basis is because the strategy that we are adopting is one of value maximization. And I didn't want to give you a number and then put myself under pressure to deliver a number, because we'd like to get the best we can for this portfolio. My guidance has not changed. I still believe that the number I gave you before would hold. And that's about it, really.

Sumit Malhotra - *Macquarie Capital Markets - Analyst*

Let's stay with credit for a second. Because I think we can agree that there's been differing treatment on how people look at the earnings results, whether the purchased credit impaired should be core or not. Let's not go into that. So if I look at the provisions, the adjusted provisions, as you called them, ex of the PCI recovery, still a pretty substantial decline, on both a quarter-over-quarter, year-over-year basis. I think it's $90 million sequentially. So when I hear your comments on the core part of the portfolio, with provisions down in each of your segments, formations relatively stable, am I right to say it doesn't seem like you're of the view that there's going to be a material change in the non-PCI portion of your credit portfolio in terms of losses.

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Let's examine the numbers a little carefully. Because you're right in focusing on the non-PCI purchased portfolios. When you look at our current quarter, most of our provisions relate to the consumer book. Because we've had very good recoveries and repayments, as well as lower provisions in our commercial and corporate books, particularly in the US. And if you look at the chart you'll see negative numbers over there. Now, while the economic environment continues to improve, you do know that when you're talking about commercial or corporate, given the nature of that business, it always introduces an element of variability. So the sense I can give you is that we certainly are having a much better year than last year when it comes to PCLs for our core book, if I can call it that. And we will definitely do better than last year. But there will be quarter-to-quarter variability. And at 24 basis points I think we had a good quarter last quarter. And I would expect that, if the market doesn't deteriorate, we will have good quarters going forward.

Sumit Malhotra - *Macquarie Capital Markets - Analyst*

Thanks for your time.

Operator

John Aiken, Barclays.

John Aiken - *Barclays Capital - Analyst*

With your outlook for both the interest rates from the fed and the Bank of Canada remain stable through the remainder of the year, is there anything that we can actually do to stem the margin compression? Or are we going to continue to see this tick down on both sides of the border?

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

John, it's Frank. I'll just reiterate what I said a minute ago. In Canada, at least the P&C business, no change from what we've seen in the past. We expect continuing moderate declines in NIM over the next few quarters. Without a change in rates, I think we're in that environment for the foreseeable future.

John Aiken - *Barclays Capital - Analyst*

Thanks, Frank.

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

This is Mark Furlong. On the US side, as we talked last quarter, we said we expected about a 5 basis point decline due to the low interest rates on deposits. And we're still sticking with that. 2 basis points was really related to conversion, just machinations you go through in resetting some of the stuff we were doing. That won't repeat. And then the other 2 basis points was extremely strong C&I loan growth. And when you look at the portfolio, the new business we're generating had spreads that are under our current margins. So necessarily that would have a little bit of drag on the margin. But we see that as a positive because that's growing relationships and growing the business. So there's give and take to that. And if that's the driver the rest of the year, that's probably a pretty good driver of growth for the business.

John Aiken - *Barclays Capital - Analyst*

Mark, on the C&I growth, the margins you're pulling in, is that competitive pressures, just the environment? And on the competitive side, are you seeing competitors actually do anything on the covenant light side that's giving you pause?

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

Our spreads in commercial were stable this quarter. And it's just that they're not at the 400 basis point level of the current margin right now. So that just gives you a sense of what's going on competitively, at least where we have chosen to compete. From a competition standpoint, I think if you are in like the large leverage loan deals, I think there's some pretty ferocious competition to take big holds from a pricing and structure standpoint. But that's not really where we compete. We've been in that true middle-market space. And there may be more competition that moves its way down there at some point in time, it's certainly competitive today, but the weakness in structure and going to the floor on pricing hasn't gotten there yet.

John Aiken - *Barclays Capital - Analyst*

Great. Thanks, Mark.

Tom Flynn - *BMO Financial Group - CFO*

It's Tom Flynn, John. I'd just add one thing to the NIM discussion. We do think it's notable that this quarter the adjusted NIM for the Bank consolidated, excluding trading, was actually up 1 bp quarter over quarter. And that reflected the retail performance that we've talked about but also Capital Markets being up nicely in the quarter, which was partially driven by corporate lending activity in the US, and partly by the AFS security portfolio.

Operator

Robert Sedran, CIBC.

Robert Sedran - *CIBC World Markets - Analyst*

Surjit, I'd like to come back to Sumit's issue or question on the loan loss line. In answering his question, you noted that commercial recoveries were a significant factor. But if I look at slide 19, the personal side was also down in pretty much every bucket that you list there, as well. So it sounds like what you're saying is perhaps this quarter was a little on the low side from a provisioning level, but last year was perhaps a little on the high side from what we can expect going forward. Is it fair to assume something in the low 30s from a provisioning ratio is about what we should be expecting this year, with some variability obviously around that?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Yes, I would say so. I think, as I said, if we look at the average for last year, we had 42 basis points. And I think to make that assumption if the economy holds, I think is not an unreasonable assumption.

Robert Sedran - *CIBC World Markets - Analyst*

You can count me among those that's happy to see the back side of expected loss methodology. But if we were on that methodology, what expectations might that have kicked out for the Q1 numbers? Would they be similar to what we ultimately saw? Or would they have been higher than what we ultimately saw?

Tom Flynn - *BMO Financial Group - CFO*

It's Tom. A couple things in reaction to that. The expected loss numbers historically through time didn't change much quarter over quarter. And the biggest change was in Q1 of each year when we looked at things in greater detail. And so it's really impossible to answer your question precisely because we have moved on. But I would take a look at the fourth quarter of last year as the best indication of what we think makes sense from an EL perspective.

Robert Sedran - *CIBC World Markets - Analyst*

Thank you.

Operator

Mario Mendonca, Canaccord Genuity.

Mario Mendonca - *Canaccord Genuity - Analyst*

First on loans, commercial loans in the US are obviously improving and showing growth, we see it this quarter particularly, but also last quarter. It seems like it coincides with perhaps slower growth in IBG or in wholesale lending. Is there any change in classification that would cause those two to go hand-in-hand, slower growth in IBG offset by better growth in commercial, particularly in the US?

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

This is Mark Furlong. Let me start out. I'll do the P&C side. We're not competing in the same space. So the growth in the P&C business is really, just like last quarter across every geography and it's across all of our specialty segments. And it is really truly broad-based, particularly the last two quarters. And I think it's absolutely unrelated to anything going on in any other segment. I'd say a little pickup, of course, you'd see at year end related to changes in tax rules and changes in dividend rules, and things like that. But it was so broad-based. And it was not weighted toward acquisition or leverage that, really, this is the long-term efforts of sustained calling and service. And a little bit of expansion by existing customers. And all those pieces to build up to that loan growth.

Mario Mendonca - *Canaccord Genuity - Analyst*

So maybe, just to follow-up, then, on the wholesale side, assuming it's entirely -- there's no connection there, why do you figure what appeared to be some very healthy growth in IBG may have tapered off in the last couple quarters?

Tom Milroy - *BMO Financial Group - President & CEO, BMO Capital Markets*

First of all, we think it continues to be pretty prospective but we've seen a lot of refinancing that have gone into the market. But we continue to do business. And as you see, it's basically flat quarter over quarter. And so we would expect, if our view of what's happening in the economy is correct Mario, I think we'd expect to see more financing and more growth in that loans as we go forward to 2013.

Mario Mendonca - *Canaccord Genuity - Analyst*

Okay. And then just for perfect clarity, then, for Tom Flynn. The Bank hasn't changed the definition of where you would book the loan, then? Nothing's changed in the last couple quarters?

Tom Flynn - *BMO Financial Group - CFO*

I was wondering if that was where you were going.

Mario Mendonca - *Canaccord Genuity - Analyst*

That's what I was doing, yes.

Tom Flynn - *BMO Financial Group - CFO*

The answer to the question is no. There's no reclass between Capital Markets and P&C US.

Mario Mendonca - *Canaccord Genuity - Analyst*

That's very helpful. And then, just finally, back to the PCLs for a moment. Surjit, in the US, 25 basis points of PCLs. Am I thinking about it correctly to say that part of the reason why the PCLs are light, or look really low, the ratio looks low now, is because the deal was only a year or year-and-a-half ago since you fair valued those assets? And that over time we'd expect that PCLs' ratio to migrate back up to, in the US specifically, 40, 50 basis points? Is that a reasonable expectation?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

It really depends. You're talking about the acquired portfolio now?

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

No. I'm talking about excluding anything -- actually, you're right. I'm talking about the entire US business. But I don't want to take into account anything to do with recoveries. I'm just saying the pure PCLs that are emerging from your US P&C business.

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

Okay. I wanted to be clear whether you were talking about the combined business.

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

I am.

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

I don't look at it so much on a combined basis. Because, even if you look at it on a combined basis, over time the businesses are getting fully harmonized from a risk perspective. So I would think that the long-term trend would be lower than the one you indicated. I think it will be more like 40, 45 basis points. It's not going to be that high. It's not going to be in the 50s. The environment is improving and if it improves faster I think we'd see better results there.

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

You sort of answered the question when you say you're harmonizing the credit culture. So we wouldn't see something that we might have seen in the US for other companies. I think you've nailed the question there. Thank you.

Operator

Brad Smith, Stonecap Securities.

Brad Smith - ***Stonecap Securities Inc. - Analyst***

Just on that last comment about the US economy, I noticed that impaired loan levels in the consumer portfolios, both the residential mortgage and the installment in other consumer loans, were up quite substantially sequentially. I was wondering if you might be able to share with us the geographical location of those changes. And then square that with the reduction that we see continuously in your allowance levels.

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

I don't have a geographic breakdown that I can share with you. But I can tell you that the ACL numbers that you're looking at, perhaps you're looking at, do not include the credit mark on the purchased performing portfolio.

Brad Smith - ***Stonecap Securities Inc. - Analyst***

Sorry. Surjit, I'm looking at impaired loans. I'm not looking at a PCL.

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

You're looking at impaired loans?

Brad Smith - ***Stonecap Securities Inc. - Analyst***

In consumer impaired loans, $937 million in the quarter at the end, on page 38, in the sup. pack. up from $856 million. And what I would really like to know is a geographical breakdown of that. I think most of your peer banks provide that.

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

I do not have the geographic mix with me. But I can give you a flavor for what's happening in the US. In the US, last quarter we did have a large number of performing loans that we put into impaired as a consequence of regulatory guidance. And if I recall right, that number was $142 million. So you have seen that $142 million of performing loans embedded in that number. And that's why it seems elevated. But I don't have the breakdown for you.

Brad Smith - ***Stonecap Securities Inc. - Analyst***

Right. And the same thing happened the quarter before, I take it, because it went to $856 million from $712 million.

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

Yes. You recall -- I think if you go back in time, some of the impairments that you had in the US were really, I think I described them as label changes because as we were reviewing the smaller accounts, which already had a mark against them, we had moved them to impaired once we took a look at them through our processes. And so really it didn't have an impact on any factor from a loss perspective, because the mark was more than adequately covered.

Brad Smith - ***Stonecap Securities Inc. - Analyst***

Can I ask you to venture where that number will be next quarter when we sit here? Will it be higher or lower?

Surjit Rajpal - ***BMO Financial Group - Chief Risk Officer***

No. I think the trend is positive. Absolutely positive. I think, given where we are, I would suggest that the number is coming down. Which is why, when I spoke, I said the formation seems to have peaked a few quarters back. They're coming down nicely.

Brad Smith - *Stonecap Securities Inc. - Analyst*

Okay. But, to be clear, the trend is not positive. It's 50% higher in that portfolio, in the consumer portfolio, than it was a year ago. So I don't understand how that becomes a positive trend.

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

It's a bigger portfolio now from a dollars perspective.

Brad Smith - *Stonecap Securities Inc. - Analyst*

Okay. Thank you.

Operator

Andre Hardy, RBC Capital Markets.

Andre Hardy - *RBC Capital Markets - Analyst*

You show in your US P&C business expenses declining sequentially and year-over-year. Can you update us on how much of your synergies have been achieved related to the M&I transaction? And then how much is left to go from the current run rate?

Tom Flynn - *BMO Financial Group - CFO*

It's Tom. We had a similar question in Q4 and we said that around two-thirds or a little over two-thirds of the synergies were baked into the Q4 run rate. And the answer this quarter would be that the number would be approaching the 75% level. And by the end of the year we would expect to be above the 90% level. And so we're continuing to make progress on the integration. We completed the large systems conversion in the fourth quarter. And have supported that with the brand change that we've talked about, advertising to make people aware of the new name. But the synergies are coming in pretty much on expectation.

Andre Hardy - *RBC Capital Markets - Analyst*

And integration costs will continue to cause noise going forward, or is that all behind?

Tom Flynn - *BMO Financial Group - CFO*

It's not all behind. You saw the number in the current quarter. There is still work going on. So the number will trail down through time but it's not done as of the end of this quarter.

Andre Hardy - *RBC Capital Markets - Analyst*

And am I right to say that the number is now in excess of what you originally targeted on integration costs?

Tom Flynn - *BMO Financial Group - CFO*

It's not in excess of the update on the target that we gave in the last quarter. And I think it is above the estimate that we had when we announced the transaction. But the synergies, as you know, are now $400 million versus $250 million that we talked about when we announced. So the ratio between synergies and one-time costs, we think, is still good. But we said in Q4 that the one-time costs would be around, in NIX, $650 million. We're now a little above $600 million and we're likely to go a little above the $650 million number through time.

Andre Hardy - *RBC Capital Markets - Analyst*

Okay. Thank you very much.

Operator

Michael Goldberg, Desjardins Securities.

Michael Goldberg - *Desjardins Securities - Analyst*

I'm following up on a couple of other questions. How long should we expect that the net interest revenue releases related to the purchased credit portfolio will continue at an elevated level? And how long will the integration costs continue at an elevated level also, where they seemed to largely offset each other this quarter. And I have a couple of other questions.

Tom Flynn - *BMO Financial Group - CFO*

It's Tom. The amortization of a portion of the credit mark will continue, probably for about the next two years. It will decline through time. It bumps up in certain quarters because of repayments of loans. And we had some of that this quarter. So it's hard to predict exactly when it will be unusually high because it's a function of the repayment activity. But I'd expect the number to trend down through time over the course of the next year, year and a half.

Michael Goldberg - *Desjardins Securities - Analyst*

So by the end of 2014 pretty much done?

Tom Flynn - *BMO Financial Group - CFO*

Yes. And then on the integration expenses, similar story, shorter tail. We think the expenses will continue over the next few quarters. But they should be pretty small by the end of the year.

Michael Goldberg - *Desjardins Securities - Analyst*

Okay. Turning to your personal demand and notice deposits, they were up more than $6 billion in the quarter or 8% from year end. Where did this increase come from?

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

This is Mark Furlong. We have a $1 billion-plus gain in just the commercial business alone in the US.

Michael Goldberg - *Desjardins Securities - Analyst*

I said personal.

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

Oh, on the personal side. We had $200 million on the personal side in the US. Frank and Tom probably made up the rest of it.

Michael Goldberg - *Desjardins Securities - Analyst*

Can you elaborate? $6 billion is a big increase. You ended the year at about $78 billion. Just a sec -- let me check here. Yes, you ended the year at about $79 billion of personal demand and notice. And you were at over $85 billion at the end of the first quarter. So where did that come from?

Tom Flynn - *BMO Financial Group - CFO*

Michael, we'll take that off-line and get back to you on it, all right? [1]

Michael Goldberg - *Desjardins Securities - Analyst*

Okay. And my last question, you had a high level of cured sales and repayments this quarter. Was this one or two big loans that got fixed and came out? Or was it across the board? And was there any unusual interest recapture?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

This was spread over a large number of loans. In Capital Markets it's a little lumpy. While there were a large number of loans, there are obviously larger recoveries, as well. But I would suggest -- this is where I'm telling you the trend is a lot better because we are seeing recoveries in a large number of small loans on the commercial side. So that's where I take my comfort from in terms of the outlook, as well.

Michael Goldberg - *Desjardins Securities - Analyst*

Okay. And any meaningful interest recapture?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

I don't know offhand, but there always is an element of that.

1 - In Q2 2013, there will be certain reclassifications within total deposits

Michael Goldberg - *Desjardins Securities - Analyst*

Okay. Can you let me know?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Sure. We can get back to you on that.

Michael Goldberg - *Desjardins Securities - Analyst*

Okay. Thank you.

Operator

Peter Routledge, National Bank Financial.

Peter Routledge - *National Bank Financial - Analyst*

First, just a quick question for Surjit, and related to Brad's question. Retail formations are up -- I don't have a question about the US -- In Canada, are there any signs of deteriorating credit quality -- retail credit quality?

Surjit Rajpal - *BMO Financial Group - Chief Risk Officer*

Not at the moment. There is a lot of concern that you keep reading about. But as of now, a lot of personal, it depends on the employment rate. And the unemployment rate is pretty good at 7%. It's come down. So we haven't seen anything yet that would cause me concern.

Peter Routledge - *National Bank Financial - Analyst*

Okay. And then, Bill, you're sitting at 9.4% on the CET1 ratio. You got the NCIB approved. Quick question -- maybe it's not a quick answer -- but what's the probability that an acquisition opportunity might interrupt your planned share buybacks?

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

I'd say in the short run it's pretty low. Just the dynamics of the market. Sellers are feeling better about the future. And even if they would intend to do a transaction at some point down the road, I think the tendency will be to delay. That certainly would be in personal and commercial banking. Smaller probability in the wealth area, is about the same as it always has been.

Peter Routledge - *National Bank Financial - Analyst*

Okay. Thank you.

Operator

Darko Mihelic, Cormark.

Darko Mihelic - *Cormark Securities - Analyst*

Two questions. First one is for Frank. Frank, I've seen some rival banks raise fees for deposit accounts and a whole bunch of little transactions. Wondering if you can comment on whether or not any of that is in the future for BMO, if it would be material. And then my second question is also on the buyback but I'll take a slightly different approach to it. There's a sentence in there with respect to your -- it's on page 17 of your shareholder report -- says the Bank will only initiate any purchases into the bid after consulting with OSFI. I find that a peculiar sentence. And maybe it's just me, and I could be reading into it too much. But I thought in the past if you had it approved, you can just set up a formulaic buyback and go on. What's the need for a consultation with OSFI? And what is it that they would have to say on the matter after they've already approved your NCIB?

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

Darko, it's Frank. Just on the first one quickly, where I was looking at our fee schedules relative to the competition, I'd say the opportunities that exist are pretty small at this point in time. We'll be opportunistic but it's not going to play a big role in our revenue growth going forward over the course of 2013.

Tom Flynn - *BMO Financial Group - CFO*

And it's Tom. On the buyback question, we've got the approval for the program in its totality. But in the current environment, in the new environment, I'd say it's customary to keep an active dialogue with your principal regulator on capital-related matters. And that would include checking in through the course of a year on intentions with respect to a buyback. And so we don't think there's anything unusual about that. We think it's a reflection of a heightened focus on capital. And the new way of doing things.

Darko Mihelic - *Cormark Securities - Analyst*

So, Tom, it doesn't mean that you decide to buy back -- every day you are phoning up OSFI for permission.

Tom Flynn - *BMO Financial Group - CFO*

No. It's meant to acknowledge that it's not a once-and-done, but certainly not an everyday kind of discussion or anything close to that either.

Darko Mihelic - *Cormark Securities - Analyst*

Thank you.

Operator

Steve Theriault, Bank of America Merrill Lynch.

Steve Theriault - *BofA Merrill Lynch - Analyst*

A couple questions for Mark Furlong. Mark, I heard that there was some pulling forward of demand on C&I lending towards the end of the year, potentially due to some tax fears coming into the year end. Was that the case? And if so, how much pull forward was there? And if not, has the pipeline just grown to the level where this level of growth is sustainable going forward?

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

There was some pulled forward. I don't think there's any doubt about that, that some of the transactions that occurred near year end pulled a little bit forward. But the pipelines are still full. And as I mentioned earlier, I can't recall whose question I was answering, but the growth was really broad-based across the portfolio. So it wasn't really all acquisition related. It was new customers and just expansion things going on with existing customers. So it was a variety of areas. But one piece was some financing for some acquisitions, so that would be the normal part.

And then sustainability going forward, the pipelines are still pretty strong. And they're strong broadly across the portfolio. So it's hard to pin it into any one quarter, but if you said, look out into the rest of 2013, how do you feel about loan growth, the answer is, I feel really good about loan growth. And broadly across the commercial portfolio and broadly across geographies. And I'd say it's that result of we've had about two years together, the pre-integration, then integration, post closing, timeframe. And the teams really worked together well. And they are very seasoned and they've seen been through several cycles. So we expect them to be successful and I think we're seeing some of the results of that. It's hard to pick any one quarter but overall feel very good about where we are at, and very good about what the future holds.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay. That's helpful. The other question I wanted to ask was on expenses. If I go back, Mark, to the investor day last year, in the slides, you target mid-to-low 50s for US P&C efficiency ratio. You've got the majority of the synergies now in the run rate. You've cracked the 60% level for efficiencies. So the question is, are you targeting something in the 53% to 55% range over the next two or three years? Or is this a longer dated target? Or am I missing anything here?

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

We targeted the low to mid 50%s. But part of that has to be, it's not just driving expenses up [sic]. Part of that is the revenue growth. So there's two sides to the equation. But we do feel like we can get far more efficient. And we do feel like a big piece of that is on the revenue side. And we're beginning to see a little bit of that right now. But, yes, we're not going to change those numbers. That's where we have to be to be competitive from a profitability standpoint long term.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Thanks for that.

Operator

Sumit Malhotra, Macquarie Capital Markets.

Sumit Malhotra - *Macquarie Capital Markets - Analyst*

A couple questions on the buybacks. Let me just ask this one directly. With the NCIB now approved, and with the capital ratio strengthening again over 9%, even after the eventual deduction, the CVA, do you plan to start the repurchase activity imminently? Or is it still something that you're putting on hold until later in the year?

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

No, we intend to have it in effect from this point forward.

Sumit Malhotra - *Macquarie Capital Markets - Analyst*

So theoretically, now that results are out, you can be in the market buying back stock tomorrow if you wanted?

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

We could.

Sumit Malhotra - *Macquarie Capital Markets - Analyst*

Okay. Thanks.

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

I could link Outlook and you could take a look at my diary, to pick a point…I was being facetious. It is approved and we're going to move ahead with it.

Sumit Malhotra - *Macquarie Capital Markets - Analyst*

Not to put -- obviously, it's not the biggest thing in the world. But I think your commentary last quarter was that it seemed to indicate it might wait a little bit. But that was probably caution on your part until it was approved. So we're there now. Thanks for your time.

Operator

Gabriel Dechaine, Credit Suisse.

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

Just one on the US expenses, and another on the US margins. US expenses, they were down 7% year-over-year. What would that decline have been if you hadn't reinvested in various growth initiatives? And what are those growth initiatives?

Mark Furlong - ***BMO Financial Group - President & CEO P&C Banking US***

Let me think. If we hadn't reinvested, the growth initiatives are continuing to build out commercial banking, continuing to build out our mortgage platform and build out our mortgage capability. Those are probably the two just single biggest, on their own. Then the third piece is not so expense related. It's the premier banking program, which you talked about, which is the partnership between my business and Gilles' business. And that's more fee income related. But there's a few people related. There would be no material P&L related to that. So while we added a few personnel, that's not going to have a material impact in the averages for the quarter. And we'll have a few personnel adds for things like that through the rest of the year. But particularly focused in the mortgage side of the business and in the commercial banking side, where the growth opportunity sits today.

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

Is this hiring people?

Mark Furlong - ***BMO Financial Group - President & CEO P&C Banking US***

Yes, hiring people.

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

Branding?

Mark Furlong - ***BMO Financial Group - President & CEO P&C Banking US***

We will have that, too. To give you a perspective, the last 12 months we mailed 7 million pieces of paper to customers 7 million mailings. And about 80% of that was into the former M&I franchise. The advertising and branding campaign that launched mid-November, and has created all this brand awareness, will continue in various phases throughout the rest of the year. But that's been planned into our run rate and our thinking about efficiency ratio and expenses and all that. So, of course, that will continue just because that's part of running the business. But I don't think there is any unusual expenses you should expect or think is going to happen, other than the trends you're looking at.

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

I'm trying to get a sense for how much of the synergies are being reinvested percentage-wise. Or dollar-wise, whatever. Dollar-wise is probably easier.

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

I don't know that I have a really good answer for you. I'm sure we'll add over the course of the year 150 to 200 people, predominantly in sales or sales support roles in P&C US, if you went from very beginning to very end. And so I suppose that average is 100-ish, or something like that. We don't really look at it like that. It was more so how do we build out the business correctly in every one of the markets we're in, relative to the size we're in those markets? I know that doesn't quite get to your answer. So, some small amount of the synergies are reinvested.

Gabriel Dechaine - *Credit Suisse - Analyst*

Okay. And then just on the margins, you talk about the C&I growth, and loan growth outpacing deposits. Were you a bit caught off guard by the loan growth? So, hadn't pressed on the gas as much on the deposit gathering. And is that something you can rectify going forward to smooth out your funding gap?

Mark Furlong - *BMO Financial Group - President & CEO P&C Banking US*

I think that's possible. The way we look at the deposit side is, if you looked at core checking year-over-year, consumer's up about $1.2 billion. If you look at the commercial side, it's up over $3 billion. So commercial has grown 18% in DDA. And interestingly enough, the commercial portfolio has grown 18% year-over-year. So we really think those two are matching each other very well.

On the personal side, we've brought down some of the higher costing money market and CD products over the course of the year. And that's just excess funds, gradually bringing down pricing, the normal stuff that you'd see in a portfolio. But we still have significant excess funding, and think we have a pretty good sense of elasticity of deposit pricing on that customer base. So we think we can move that back if, in fact, that's what we want to do. And so we feel pretty good about both of them. I wouldn't be surprised if we have another quarter or so where we actually bring down deposits based on pricing. If that's the right thing to do based on what our views are on the near-term pricing that's going on in the market. I think we probably have a little more flexibility there than maybe some would give us credit.

Gabriel Dechaine - *Credit Suisse - Analyst*

Thank you.

Operator

Thank you. This concludes today's question-and-answer session. I would now like to turn the meeting back over to Ms. Haward-Laird.

Sharon Haward-Laird - *BMO Financial Group - Head of IR*

Thank you, operator. Thank you, everyone, for joining us today. If you have any further questions, we'd be pleased to take them in the Investor Relations department. Thanks, and have a good afternoon.