BMO Financial Group

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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 on pages 32 and 33 of the BMO 2009 Annual Report, which outlines in detail certain key factors that may affect our 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 statement, 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 and our strategic priorities and objectives, and may not be appropriate for other purposes.

Assumptions about the level of asset sales, expected asset sale prices, net funding cost, credit quality and risk of default and losses on default of the underlying assets of the structured investment vehicles were material factors we considered when establishing our expectations regarding the structured investment vehicles discussed in this document, including the amount to be drawn under the BMO liquidity facilities whether consolidation will be required and the expectation that the first-loss protection provided by the subordinate capital notes will exceed future losses. Key assumptions included that assets would continue to be sold with a view to reducing the size of the structured investment vehicles, under various asset price scenarios, and that the level of defaults 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 defaults and losses on defaults were material factors we considered when establishing our expectation of the future performance of the transactions that Apex Trust has entered into. Key assumptions included that the level of defaults and losses on defaults would be consistent with historical experience. Material factors that were taken into account when establishing our expectations of the future risk of credit losses in Apex Trust 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 that BMO has entered into.

Assumptions about the performance of the Canadian and U.S. economies in 2010 and how that will affect our businesses were material factors we considered when setting our strategic priorities and objectives, and our outlook for our businesses. Key assumptions included that the Canadian and U.S. economies will grow moderately in 2010, and that interest rates will remain low. We also assumed that housing markets will strengthen in Canada and the Unites States. We assumed that capital markets will improve somewhat and that the Canadian dollar will strengthen modestly relative to the U.S. dollar. 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.
Caution Regarding 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 2009 Annual Report to Shareholders which is available on our website at
www.bmo.com/investorrelations.

Non-GAAP results or measures include: revenue presented on a taxable equivalent basis; amounts presented net of applicable taxes; cash earnings per share; cash operating leverage results; measures that use taxable equivalent basis (teb) amounts; cash-based profitability and operating ratios; net economic profit and results and measures that exclude items that are not considered reflective of ongoing operations. For example, core measures and results which exclude the impact of Visa litigation accruals, impaired loans and acquisition integration costs as well as results and measures presented on a basis that exclude the impact of capital markets environment charges. Bank of Montreal provides supplemental information on combined business segments to facilitate comparisons to peers.

PRESENTATION

Cheryl Pate ***- Morgan Stanley - Analyst***

Okay, let's go ahead and get started. Good morning. I am Cheryl Pate, the Canadian banks analyst here at Morgan Stanley. Today, it is my pleasure to welcome Bank of Montreal Financial Group. BMO Financial is Canada's oldest bank and operates in four business segments, Canadian Personal and Commercial banking, US Personal and Commercial banking, Private Client Group and BMO Capital Markets.

BMO is focused on delivering a great customer experience and is well known for their strong credit management. Here to present today for BMO Financial is Bill Downe. Mr. Downe has been the Chief Executive Officer of BMO Financial since March 2007. Prior to his appointment as CEO, Bill was the firm's Chief Operating Officer with responsibility for all of BMO's operating units. Prior to his COO role, Bill served as Deputy Chair of BMO Financial Group and CEO of BMO Nesbitt Burns, in which he oversaw the Investment Banking Group, the Private Client Group and BMO's operations in the United States.

Bill serves as a member of both the International Monetary Conference and the Canadian Council for Chief Executives. Additionally, Bill served as President of the Federal Reserve Board, Federal Advisory Counsel from 2008 to 2009 having been a member since 2006. In the community, Bill has just ended his one-year term as Chairman of the Campaign Cabinet for the United Way of Greater Toronto. So without further ado, Bill.

Bill Downe ***- Bank of Montreal - President and CEO***

Thanks very much, Cheryl, for your introduction and for the opportunity to be here today and good morning to all of you.

Before I begin, I'd like to mention that we are currently in our quiet period. Our first quarter ended January 31st and those results will be released on March 2nd. So my comments and the Q&A discussion will focus on our fiscal 2009 results and our strategy.

Also please note the caution regarding forward-looking statements on slide 1 for your information and further details about such statements are available in BMO Financial Group's public filings. All financial numbers in this presentation unless otherwise noted are in Canadian dollars.

My remarks today are going to highlight three things, the change that has been underway at BMO over the past 36 months as we've executed against our strategy; the tangible improvement in both operating performance and financial strength, which are a direct result of those changes. And the fact that we are well positioned for continued success in the future.

Getting started, I'd like to reflect briefly on how I view the coming changes to the global banking industry and what they mean to us at BMO. We are at a moment in time where a bank that is in a strong financial position and has a clear business strategy has the unique opportunity to grow. We at BMO are in this position because of good decision-making and a clear vision of how to compete and how to manage risk.

We are embracing global financial reform because we believe we will thrive in an emerging global market which will define the behavior of the most successful banks. And I might add, it is necessary and it's the right thing to do.

With that, let me start by highlighting BMO Financial Group's market position in the context of North American banking. I would characterize BMO as a well-capitalized strong North American player with concentrations of retail strength in Canada and the US Midwest, and a successful application of the universal banking model.

As you can see from our North American footprint, we have a wealth and capital markets presence across North America. We have deep roots in both of these markets, almost 200 years in Canada and over 125 years in the U.S. Our P&C businesses are entrenched as a part of the fabric of their communities. In personal banking, we have a market share positions of over 11% in Canada and our retail deposit share in the Chicago market is number two.

In Canada, we have a powerhouse commercial banking business with a 20% market share. And given the current environment, we have an opportunity to replicate this success in the US Midwest where our share is lower. And I will have a little bit more to say about this in a few moments.

As measured by market capitalization, BMO today is the ninth largest bank in North America and we are one of the strongest. Our year-end ratio of tangible common equity to risk weighted assets was 9.2% and we serve more than 10 million personal, commercial, corporate and institutional customers operating under a single vision: to be the bank that defines great customer experience.

In fiscal 2009, which ended October 31, BMO's revenues increased 8.4% to $11.1 billion. Net income was $1.8 billion or $3.14 a share on a cash basis including credit losses which as expected were higher for the year.

On an adjusted basis, cash net income was $4.02 a share. Our year-end tier 1 capital ratio was 12.2% and we paid a $2.80 per share dividend during the year extending our payment record to 181 consecutive years.

With credit losses elevated and our dividend maintained at 2008 levels, our 2009 payout was above our medium-term target range. That said, we expect that the payout ratio will come down in the next year. We've demonstrated the capacity to pay our dividend and I'd note that over the past 15 years, our common share dividend has increased at a compound annual rate of 10.8%.

2009 was a year of continued momentum for BMO, a reflection of the strength in our core businesses that has been emerging over a number of quarters and it was achieved despite the issues resulting from the economic environment. Our performance is attributable to the success against five priorities that we established in 2007 and our strategy of differentiating BMO and defining the customer experience.

We are providing a value proposition that is clearly higher touch and rooted in listening to and guiding customers to make sense of their choices. These priorities which I will reference through my remarks are maximizing our earnings growth in our North American P&C businesses by focusing on customer experience and sales force productivity; accelerating the growth of our wealth management business by providing clients with exceptional advice emphasizing retirement and financial planning; delivering strong stable returns in capital markets by providing highly targeted solutions to core clients everywhere we compete from a single integrated platform; growing our businesses in select global markets to meet our customers' expanding needs; and sustaining a culture that focuses on customers, high-performance and our people.

Our success against these priorities is evident across all of our operating groups and let me address each business in turn. Note that BMO employs a methodology for segmented reporting purposes whereby expected credit losses are charged to the operating groups quarterly and the difference between expected loss and actual provisions is charged to corporate. Actual credit losses by operating group are disclosed separately.

I'll begin with P&C Canada which is BMO's largest business and the biggest generator of revenue and net income. The group has over 16,000 employees, serving seven million customers with a national footprint of 900 branches and over 2000 bank machines. In 2009, P&C Canada's earnings increased over 15% to $1.4 Billion representing approximately 47% of the bank's revenues. We are delivering strong results by differentiating our business from our competitors with a clear focus on one vision and one brand promise and it starts with the customer.

Revenue growth was 8% year-over-year while expenses were up 4%. Our cash productivity ratio was 53.9%, a 220 basis point improvement from a year ago and personal loan growth was 4.2% and deposits were up 13.6%.

In line with our strategic priority to maximize earnings in our P&C businesses, we aim to succeed in the Canadian market through the quality and consistency of our customer service and through the productivity of our sales and distribution network. Today, we are better at identifying what customers want and need, and we are getting offers to the market faster and in a more straightforward way.

As an example, we simplified and enhanced our entire suite of credit card products this year including the introduction of a no fee card, delivered more rewards and make it easier for customers to choose the card that meets their needs.

Our distribution investments have been targeted to capitalize on the highest value opportunities. Since 2006, we have built 51 new branches and redeveloped or renovated approximately 170 more. Also, aligned to our brand promise of providing the clarity that our customers want, we are simplifying processes, and leveraging technology to improve the customer experience, to free up front-line capacity and to reduce operating costs.

There are four measures that we use to track progress against our strategy and to compare P&C Canada with our five main competitors; growth in revenue, growth in net income after tax and personal and commercial customer loyalty both measured by net promoter score. We have improved in each of these measures narrowing the gap to exemplar. At the end of 2007, we ranked fifth in both revenue and net income growth. By the end of 2009, we had moved up to second in revenue growth and first in net income growth. And in customer loyalty for both our personal and commercial businesses, we have materially improved our scores and narrowed the gap to exemplar.

With P&C Canada, we built a franchise that sets the tone for our entire Company and reflects how we intend to compete across all our businesses. We are well positioned to continue growing and delivering value to shareholders and customers.

Our U.S. P&C business, Harris, serves more than 1.2 million customers in select Midwest markets. We are based in Chicago which is by far our largest market. We have a comprehensive and increasingly integrated distribution network that includes 280 branches, a dynamic online platform, and more than 650 bank machines. We are ranked in the top three for retail deposit share in most markets where we compete.

Revenues in this business grew steadily in recent years reaching US$973 million in 2009, a 9% increase after adjusting for the impact of impaired loans and proceeds from the Visa IPO in 2008. Cash net income, adjusted for the impact of credit costs and other items, has remained relatively consistent over the past five quarters.

Cost control is an enterprise wide initiative for BMO and a focus across all businesses in the organization. We are committed to expense management and we haven't shied away from tough decisions. This is evident at Harris where we had positive cash operating leverage of 1.6% in 2009 resulting from expense controls and an 11% reduction in active workforce. However, non-performing loans and the cost of managing them have increased and will continue to mute reported profitability.

That said, our results reflect steady progress across a number of performance measures. Our retail net promoter score is high and continued to increase reflecting the renewed customer focus that characterizes all of our businesses. And in 2009, Harris ranked number one in the US Midwest region for customer satisfaction in retail banking under the J.D. Power & Associates award [1].

Deposit growth has been strong and steady in 2009. Harris has maintained its number two rank for retail deposit share in the Chicago metropolitan market and grew 7% while larger banks shrunk.

Harris has benefited from significant internal changes. We have overhauled the operating platform, brought in new leadership and hired new talent. Our particular internal focus right now is on our commercial banking business.

As I noted earlier, our commercial banking share in the US Midwest is lower than it is in Canada and we have a great opportunity to improve. Today our leadership teams at Harris and BMO Capital Markets are working together to reorganize under a more integrated commercial banking strategy, one that best aligns our people and capital for the client potential.

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[1] Harris is ranked “Highest in Customer Satisfaction with Retail banking in the Midwest Region in a Tie”. Visit jdpower.com for more information

This initiative comes at a time when the Chicago market is undergoing enormous change. The competitive dynamic is shifting as a consequence of the number of regulator-initiated consolidations and as a result, we have an opportunity to increase Harris' size and momentum in the market. We intend to leverage our established platform to take advantage of an environment where many traditional competitors are sidelined or distracted.

We are increasing our focus on advisory roles with large corporate clients and we are planning to efficiently address a much larger client base. This initiative is expected to drive our commercial market share, lower costs, and improved returns in the business. It's also expected to help build the pipeline of investment banking opportunities for BMO Capital Markets.

The earnings capacity of Harris' core business will become evident as the economy recovers and the commercial strategy kicks in. Over and above organic growth, Harris is also uniquely positioned to capitalize on the changing competitive environment through acquisition.

Turning now to our Private Client Group, this business provides a broad offering of wealth management insurance to a full range of client segments from mainstream to ultra high net worth as well as institutional markets. With access to BMO's broad client base and distribution network in Canada and the United States, the business also has significant scope for expansion.

PCG offers a planning and advice based approach that integrates investments, insurance, specialized wealth management and core banking solutions. Our brand prestige, recognition and trust have contributed to a strong national presence in Canada as well as a growing national presence in the U.S. concentrated on major urban markets.

2009 revenue was just over $2 Billion, reflecting a reduced level of assets under management and administration which is really a function of the 2008 decline in global equity markets. However, with the improvement of markets throughout 2009, the revenue trend reversed in the second half of the year with Q4 improving 5% quarter over quarter.

Private Client Group earned $381 million in the year which was a good result and in line with our expectations. Assets under management and administration finished at $239 billion and resumed growth in the fourth quarter.

In 2009, in line with our priority to accelerate growth by providing clients with the best retirement and financial planning advice, we made a strategic acquisition adding 400,000 insurance clients and 300 new employees under the umbrella of BMO Life Assurance. The business is an excellent addition to our wealth management offering and has substantially accelerated our wealth strategy. We now have a stronger more comprehensive product lineup for our customers, an excellent direct marketing channel and most importantly, access to a managing general agent distribution channel across Canada that has a network of 5,000 advisers.

We are already seeing the impact of BMO's brand on the business and good receptivity in the distribution channel and excellent customer response.

As I highlighted earlier in reviewing our strategic priorities, we are committed to growing our business in select global markets to meet our customers' expanding needs. In 2009, we strengthened our commitment to Asia with the official opening of BMO's expanded China headquarters in Beijing.

China remains a key differentiator for us and a strong option for future growth. The country shows a prolonged trend of wealth accumulation and BMO has an enviable position there. We've built an excellent long-term platform for growth which began with the first recognition of the PRC 20 years ago and this initiative is expected to drive business for all four operating groups.

Our fourth business group, BMO Capital Markets, is probably the one best known to many of you in the room. It provides a full range of products and services to corporate, institutional and government clients. It is our second largest contributor to earnings representing approximately 31% of 2009 revenue.

We operate from 27 offices on five continents including 14 in North America with a full offering. Investment and corporate banking services including equity and debt underwriting, corporate lending and M&A. And Trading products including Treasury and market risk management, foreign exchange and institutional debt and equity research sales and trading.

For the 29th consecutive year, we were ranked number one for Canadian Equity Research by Brendan Wood and our goal is to be a top three provider for Canadian equities worldwide. In the United States, we plan to move up in the rankings. We now have 31 analysts covering 480 U.S. issuers; including inter-listed stocks, we now cover 580 companies that are registered on U.S. exchanges. We are fully integrating our research efforts so that our U.S. investor clients are able to access coverage of 915 companies covered by 62 analysts.

2009 was an excellent year for BMO Capital Markets with revenue reaching $3.5 billion, net income of approximately $1.1 billion and the ROE is 16.4%. Our performance reflects the strong diversified revenue flows of the business. The low interest rate environment coupled with our strong liquidity and capital positions, have allowed us to benefit from interest-rate-related trading opportunities throughout the year.

I should note the net income from this source is expected to moderate but the steady improvement in the North American economy should lead to other capital markets opportunities; most notably, corporate finance and equity underwriting.

We've implemented a comprehensive strategy designed to produce an attractive sustainable risk-return profile for this business with high-quality earnings over the course of the business cycle and a target average ROE in the high teens. Our strategy embraces BMO's company-wide focus on the customer. We are focused on meeting our objective of building client relationships that encompass multiple offerings.

We are optimizing our business to achieve the right scale and risk return profile. We have downsized or exited some businesses while investing in others. We have reduced our off-balance sheet exposures and run rate expenses and we will continue to build strong risk management capabilities through solid internal partnerships and enhanced risk transparency.

Let me now spend a few minutes reviewing credit. Our provision for credit losses in 2009 came in at $1.6 billion and was in line with our expectations. Gross impaired loans remained high reflecting where we are in the cycle. We are actively managing our US book and expect that, as we go through 2010 and 2011, these levels will decline.

Negative migration is moderating and we are confident that the strength of our core business earnings can absorb our credit losses through the cycle. We expect to demonstrate once again in this cycle why we have earned such a strong reputation for credit management in the past. This has long been a core strength of BMO.

Overall, we expect provisions to remain elevated in 2010. However, we see credit stabilizing and our outlook for this year could have a little upside.

We continue to maintain a very strong balance sheet. As I highlighted earlier, our year-end Tier one capital ratio was 12.2%, our tangible common equity to risk weighted assets ratio was 9.2%.

Until there is regulatory certainty with respect to global capital standards, excess capital will weigh on our ROE. That said, we wouldn't apologize for building levels of capital that we consider prudent, given the uncertainty of the markets in the last couple years.

Obviously the U.S. banking industry remains challenged. The pace of closures has been the fastest in 17 years and the restructuring process is just ramping up. While we still don't know exactly what the final language and mechanisms of regulatory reform will look like, I am confident in saying that they will give rise to potential opportunities for banks that have strong balance sheets, good core business performance and a firm foothold in attractive U.S. regional markets, like BMO Financial Group.

We are looking at all opportunities in the market today and expect more to emerge. And as we've recently demonstrated, we have an opportunistic strategy to strengthen our business through a number of transactions:

As I referenced earlier, our insurance acquisition significantly expanded our scale and insurance capabilities.

We recently strengthened P&C's North American corporate card business with the acquisition of Diners Club North America, to combine enhanced reporting with MasterCard acceptance for commercial customers and this now makes us the fifth largest commercial card issuer in North America.

We've been in the municipal bond business since the founding of Harris Bank and in 2008, we completed an acquisition that makes BMO Capital Markets the sixth largest bank-qualified municipal bond dealer in the United States, and the largest in Illinois.

In 2009, we became the first Canadian bank to launch ETFs. We recruited a top management team to secure expertise and knowledge in this space and, to date, we have launched 22 new funds.

Finally, we recently expanded our existing securities lending business acquiring a specialized team from one of our long-term clients.

More broadly, as we look ahead, we are excited about the platform we have established and the opportunities that it presents.

We have a clear North American growth strategy supported by a strong customer base. We have a growing global presence to support those customers and new ones. Our financial position is very strong providing significant flexibility. Our risk management is proactive, independent and disciplined. And have a strong commitment to all stakeholders including customers, shareholders and employees.

Before I invite your questions, I'd like to conclude with a final thought. The gains we have made in our core businesses over the past three years reflect the fact that we have supported our customers. This success is attributable to the fifth strategic priority: a commitment to sustain a culture that focuses on customers, high-performance, and our people.

There is a huge amount of energy that we've put behind the customer promise and it's more than I can recall in the time that I've been with the company. It is coming through both in customer and employee feedback and most importantly, it's coming through in our core earnings and we are well positioned to generate superior performance.

Thank you for your attention. Cheryl, I am happy to take questions.

QUESTION AND ANSWER

Cheryl Pate *- Morgan Stanley - Analyst*

Well, I'll go ahead and kick off the questions and then we will open it up to the floor. Bill, I know one topic that is sort of top of investors' minds these days is the regulatory front. I'd be interested in hearing your initial thoughts on some of the new Basel proposals. Canadian banks in general have been held to an assets to capital multiple as part of the regulatory environment and have managed quite well through the current credit cycle. Maybe we can spend a little bit of time on the leverage ratio in particular.

Bill Downe *- Bank of Montreal - President and CEO*

Yes, I think the debate about global regulatory reform as I said in my comments, is a healthy one. We have come through a period where a great deal of confusion in the market has come from just a lack of understanding of risk and return. And the fundamentals of banking I think are coming back to the floor and that is where the debate in this whole regulatory environment is emerging from.

This year, with the impact of the G20 agreement, which I believe is necessary on a global basis, we are actually going to see a much more transparent comparison of banks and bank capital between Europe and North America. I think that's going to be very helpful to investors.

In thinking about the management of the bank, and this goes back to the early '90s when we saw a very serious credit impact of real estate revaluations, principally in the United States, we've taken a philosophy of combining the science of portfolio management - understanding what contribution to risk is and the allocation of capital using expected loss in the measurement of businesses period to period - but retaining some of the basic common sense standards around credit extension.

So you mentioned leverage ratio. I think maintaining a leverage ratio is a sensible thing to do. I think it's served both Canadian and US commercial banks extremely well and I think it will be beneficial to see it applied in other jurisdictions.

In Europe, it is going to be very difficult to get to that kind of a framework in the short-term. So I think that we have to recognize this process is going to be spread out over two or three years. The advantage that I think we have is we start with a strong capital base on those measurements but we also have run the bank with an adherence to fundamentals and that shows up in the way that credit is granted.

In the Canadian market, we have the benefit of a very stable portion of our balance sheet constituted of home mortgages. And because under the home mortgage scheme, anything that is in excess of an 80% loan to value has to be insured, high ratio mortgages provide a good opportunity for new entrants to the market without providing additional risk to the banking system.

And while house prices in Canada have been quite high in recent periods, the leverage level of the Canadian consumer is actually quite low. So there’s higher net worth in households.

We have taken some proactive steps with respect to credit in the last 18 months and I think it's going to be a differentiator. In the area of high ratio mortgages, we've spent a lot of time counseling customers and I'm happy to say that 80% of the insured mortgages that we have written have five-year fixed terms. And we've actually put a lot of effort into helping our customers think through the implications of what will happen when interest rates rise.

18 months ago, we stopped providing automated approvals for revolving credit to people who opened high rate mortgages and that's not something that is common across the market. We continue to look at net worth in all consumer loan applications and that is something that 20 years ago I think was common to all banks. It isn't really a test that is used in most processes today but I think in times of instability, it's the capacity of the customer to make those payments and my view is that people who can afford to make their payment even if the value of their property drops, have a vested interest in maintaining both the relationship with the bank and their own credit standing.

So I think that there is a combination of the science that we all use in portfolio management and common sense in banking that is what is creating this debate between legislators and regulators. And I think it is a healthy debate and I think that we are well served by it.

Cheryl Pate *- Morgan Stanley - Analyst*

Great. Okay, let's open up to the floor for questions.

Unidentified Audience Member

Does Canada have the same delinquency on home mortgages that the United States does? I just don't know.

Bill Downe *- Bank of Montreal - President and CEO*

It's a fraction.

Unidentified Audience Member

Why is that the case? Is it character? Is it lending standards? Is it a combination of things? What is it?

Bill Downe ***- Bank of Montreal - President and CEO***

I think it's lending standards. I think lending standards have been maintained in a competitive market where there are six banks, five large banks, who have had a similar history of sticking to the fundamentals, a high reliance on the front-line officers to be involved in the credit process. I think that the discipline around high ratio mortgages by law having to be insured by the government has put a regulatory cap if you like on leverage. And then I think just temperamentally, there probably is a cultural difference in the amount of debt that is reflected in what essentially is a growing consumer society but a more moderate use of debt. I might say that you see regional differences in the US as well in attitudes about leverage and earnings. The Midwest is temperamentally pretty closely aligned with Canada.

Unidentified Audience Member

Congratulations on your performance. – Can you put into sentences your advice on how they are going to solve our problem in our residential home mortgages. If you had to advise our institutions here or our government, what is your best advice to solve our problem here?

Bill Downe ***- Bank of Montreal - President and CEO***

That's a dangerous question. Just keep up the good work. I think the housing market is going to benefit from two things. I think the making home affordable program which gives the opportunity for borrowers to come in and if they have the capacity to stay in their home and pay their mortgage to get amended terms is progressive. It's one that we work closely with customers when they have the capacity.

I think the fundamental issue is borrowers who are in a house that they simply can't afford, so the borrower is in the wrong home. I think a resolution process for that has to happen and foreclosures, as difficult as they are for both the lender and the borrower, the foreclosure process has to operate efficiently for the market to return to health. So that buyers come back into the market and housing reaches a state of equilibrium.

I am pretty optimistic about the US housing market reaching a state of equilibrium if only because the rate of homebuilding has slowed so greatly and there is a natural absorption of new home capacity that takes place every year and I think we're getting back to a supply and demand balance.

There is a little bit of an overhang of adjustable rate mortgages that I think has to be digested but 2010 and 2011 will probably see a pretty reasonable return to balance. That seems like a heck of a long time looking forward. A year or two in the review mirror is just a moment in time.

Cheryl Pate ***- Morgan Stanley - Analyst***

Great, so we are out of time for the formal presentation but we will be moving up to the Kennedy one room for the breakout session.