**BMO Financial Group**

# Second Quarter 2016 Report to Shareholders

## BMO Financial Group Reports Net Income of $973 Million for the Second Quarter of 2016

### Financial Results Highlights:

**Second Quarter 2016 Compared with Second Quarter 2015:**

- **Net income of $973 million, down 3%; adjusted net income[1] of $1,152 million, up 1%**
- **EPS[2] of $1.45, down 3%; adjusted EPS[1,2] of $1.73, up 1%**
- **ROE of 10.1%, compared with 11.4%; adjusted ROE[1] of 12.1%, compared with 13.2%**
- **Provisions for credit losses of $201 million, compared with $161 million**
- **Basel III Common Equity Tier 1 Ratio of 10.0%**
- **Dividend increased by $0.02 or 2% from the preceding quarter to $0.86**

**Year-to-Date 2016 Compared with Year-to-Date 2015:**

- **Net income of $2,041 million, up 2%; adjusted net income[1] of $2,330 million, up 7%**
- **EPS[2] of $3.03, up 3%; adjusted EPS[1,2] of $3.48, up 7%**
- **ROE of 10.5%, compared with 11.6%; adjusted ROE[1] of 12.1%, compared with 12.8%**
- **Provisions for credit losses of $384 million, compared with $324 million**

**Toronto, May 25, 2016** – For the second quarter ended April 30, 2016, BMO Financial Group reported net income of $973 million or $1.45 per share on a reported basis and net income of $1,152 million or $1.73 per share on an adjusted basis. Adjusted net income was up 7% and adjusted EPS was up 8%, excluding a $79 million after-tax write-down of an equity investment.

"BMO delivered good results in the second quarter with adjusted net income of $1.2 billion and adjusted EPS of $1.73, reflecting strong performance in our combined personal and commercial banking business which grew 14% from last year, " said Bill Downe, Chief Executive Officer, BMO Financial Group.

"Year-to-date adjusted net income and EPS were both up 7% driven by diversified loan and deposit growth, good revenue performance and a continued focus on expense control. Canadian and U.S. Personal and Commercial Banking and BMO Capital Markets had positive operating leverage and, in BMO Wealth Management, underlying business growth remained solid.

"In the quarter, we were encouraged to see a more positive tone in the market environment for interest rates, currencies and commodities, while economic fundamentals remain healthy. Our capital position is strong and we are progressing with the work of further differentiating the bank through our digital platforms while driving efficiency and growing customer loyalty as our first priority," concluded Mr. Downe.

Concurrent with the release of results, BMO announced a third quarter 2016 dividend of $0.86 per common share, up $0.02 per share or 2% from the preceding quarter and up $0.04 per share or 5% from a year ago, equivalent to an annual dividend of $3.44 per common share.

Our complete Second Quarter 2016 Report to Shareholders, including our unaudited interim consolidated financial statements for the period ended April 30, 2016, is available online at www.bmo.com/investorrelations and at www.sedar.com.

(1) Results and measures in this document are presented on a GAAP basis. They are also presented on an adjusted basis that excludes the impact of certain items. Adjusted results and measures are non-GAAP and are detailed for all reported periods in the Non-GAAP Measures section, where such non-GAAP measures and their closest GAAP counterparts are disclosed.
(2) All Earnings per Share (EPS) measures in this document refer to diluted EPS unless specified otherwise. EPS is calculated using net income after deductions for net income attributable to non-controlling interest in subsidiaries and preferred share dividends.
Note: All ratios and percentage changes in this document are based on unrounded numbers

### Total Bank Overview

Net income was $973 million for the second quarter of 2016, down $26 million or 3% from the prior year, due to a $132 million after-tax restructuring charge as we accelerate the use of technology to enhance customer experience and focus on driving operational efficiencies. Reported EPS was down 3% year over year.

Adjusted net income was $1,152 million, up $6 million or 1% from the prior year. Adjusted EPS was up 1% year over year. Adjusted net income was up 7% and adjusted EPS was up 8%, excluding a $79 million after-tax write-down of an equity investment, reflecting strong performance in the P&C businesses, including organic growth and the benefit from the acquired BMO Transportation Finance business (BMO TF). Traditional wealth net income was lower than the prior year due to the investment write-down. Insurance income declined from above-trend earnings in the prior year. BMO Capital Markets net income decreased 2% from the prior year as good revenue performance was offset by higher provisions for credit losses and higher expenses. Return on equity was 10.1% and adjusted return on equity was 12.1%. Book value per share increased 8% from the prior year to $55.57 per share. The Basel III Common Equity Tier 1 Ratio was 10.0%.

### Operating Segment Overview

#### Canadian P&C

Net income of $525 million was up $40 million or 8% from a year ago. Revenue was up $67 million or 4% from the prior year due to higher balances across most products and increased non-interest revenue, partially offset by lower net interest margin. Expenses increased $29 million or 4% reflecting investments to support business growth, net of a continued focus on expense management. Year-over-year operating leverage was positive 0.6%. Year-over-year loan growth was 5% and deposit growth was 7%.

In our personal banking business, year-over-year loan and deposit growth was 4% and 7%, respectively. The average number of products held by our customers continues to grow, as we focus on strengthening relationships with our customers. We recently announced that we will offer Apple Pay to our customers, allowing them to make easy and secure purchases with their BMO credit and debit cards.

In our commercial banking business, loans and deposits grew 10% and 6% year over year, respectively. These results reflect our focused investment to increase capacity for our sales force and develop new products and services that meet our customers' needs. We recently started introducing biometric security enhancements to some corporate card customers with MasterCard® Identity Check. Using the mobile application, customers can verify their identity using facial recognition and fingerprint biometrics when making mobile and online purchases.

#### U.S. P&C

Net income of $267 million increased $60 million or 29% and adjusted net income of $279 million increased $59 million or 27% from the prior year. All amounts in the remainder of this section are on a U.S. dollar basis.

Net income of $206 million increased $39 million or 23% from a year ago and adjusted net income of $216 million increased $39 million or 21%, benefiting from the acquired BMO TF business and organic growth.

Revenue of $879 million increased $171 million or 24%, due to the benefits of BMO TF, higher loan and deposit volumes and increased deposit spreads, net of loan spread compression. Adjusted non-interest expense of $545 million increased $92 million or 20%, largely due to the acquisition of BMO TF. Year-over-year adjusted operating leverage was positive 3.7%.

Year-over-year loan and acceptances growth was $9.7 billion or 16%, benefiting from the acquisition of BMO TF and organic commercial loan growth of 13%.

In February, Talk With Our Kids About Money Day, powered by BMO Harris Bank, was awarded the 2015 Wisconsin Financial Literacy Award, for its efforts to work towards educating families, children and communities on financial stability.

During the quarter, BMO Harris Bank introduced two new Smart Branch locations, providing our customers with the best of our innovative technologies in a unique, smaller format that is tailored to their needs.

#### BMO Wealth Management

Net income was $134 million compared to $238 million a year ago. Adjusted net income was $158 million compared to $265 million a year ago. Traditional wealth adjusted net income was $90 million compared with $169 million a year ago, due to a $79 million after-tax write-down of an equity investment. Underlying traditional wealth adjusted results were unchanged with business growth offset by lower year-over-year equity markets. Adjusted net income in insurance was $68 million compared to above-trend results of $96 million a year ago.

Assets under management and administration declined $16 billion or 2% from a year ago to $817 billion, driven by market depreciation, partially offset by favourable foreign exchange movements.

In February 2016, BMO Mutual Funds was awarded the DALBAR Mutual Fund Service Award[1] for the 10th consecutive year. This prestigious award recognizes firms that provide consistent best-in-class service to investors.

[1] The annual DALBAR Mutual Fund Service Award rankings are based on evaluations of telephone service made over the calendar year, measuring a company's quality of performance in product knowledge, professionalism and their ability to provide value-added service.

**BMO Capital Markets**

Net income of $291 million decreased $5 million or 2% from the prior year as good revenue performance was offset by higher provisions for credit losses and higher expenses. Revenue increased $42 million or 4%, excluding the impact of the stronger U.S. dollar. Trading Products reported strong performance primarily from higher client activity, while Investment and Corporate Banking revenue decreased as higher corporate banking related revenue was more than offset by lower net securities gains. Non-interest expenses increased $4 million or 1%, excluding the impact of the stronger U.S. dollar. Year-over-year operating leverage was positive 3.0%.

BMO Capital Markets was recognized for several industry awards during the quarter. *Global Finance* magazine named us the World's Best Metals & Mining Investment Bank for the seventh consecutive year and we were named Best Trade Bank in Canada by *Trade Finance Magazine*. We were also named Canadian Bank of the Year - Deal Value, at the Canadian Dealmakers Awards.

**Corporate Services**

Corporate Services net loss for the quarter was $244 million compared with a net loss of $227 million a year ago. The current quarter reported figures included a $132 million after-tax restructuring charge as we accelerate the use of technology to enhance customer experience and focus on driving operational efficiencies. The prior year included a $106 million after-tax restructuring charge primarily due to restructuring to drive operational efficiencies. Corporate Services adjusted net loss for the quarter was $101 million, compared with an adjusted net loss of $121 million a year ago.

Adjusted results in these Total Bank Overview and Operating Segment Overview sections are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

**Capital**

BMO's Basel III Common Equity Tier 1 (CET1) Ratio was 10.0% at April 30, 2016. The CET1 Ratio decreased by approximately 10 basis points from 10.1% at the end of the first quarter due largely to business growth and changes in book quality, partially offset by retained earnings growth, which was lower than normal given the restructuring charge.

**Provision for Credit Losses**

The total provision for credit losses was $201 million, an increase of $40 million from the prior year primarily due to higher resource-related provisions in BMO Capital Markets.

**Caution**

The foregoing sections contain forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

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**Regulatory Filings**

Our continuous disclosure materials, including our interim filings, annual Management's Discussion and Analysis and audited consolidated financial statements, Annual Information Form and Notice of Annual Meeting of Shareholders and Proxy Circular are available on our website at www.bmo.com/investorrelations, on the Canadian Securities Administrators' website at www.sedar.com and on the EDGAR section of the SEC's website at www.sec.gov.

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**Bank of Montreal uses a unified branding approach that links all of the organization's member companies. Bank of Montreal, together with its subsidiaries, is known as BMO Financial Group. As such, in this document, the names BMO and BMO Financial Group mean Bank of Montreal, together with its subsidiaries.**

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# Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) commentary is as of May 25, 2016. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the period ended April 30, 2016, as well as the audited consolidated financial statements for the year ended October 31, 2015, and the MD&A for fiscal 2015 in BMO's 2015 Annual Report. The material that precedes this section comprises part of this MD&A.

The 2015 Annual MD&A includes a comprehensive discussion of our businesses, strategies and objectives, and can be accessed on our website at www.bmo.com/investorrelations. Readers are also encouraged to visit the site to view other quarterly financial information.

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Bank of Montreal's management, under the supervision of the CEO and CFO, has evaluated the effectiveness, as of April 30, 2016, of Bank of Montreal's disclosure controls and procedures (as defined in the rules of the Securities and Exchange Commission and the Canadian Securities Administrators) and has concluded that such disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting during the quarter ended April 30, 2016, which materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Because of inherent limitations, disclosure controls and procedures and internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements.

As in prior quarters, Bank of Montreal's Audit and Conduct Review Committee reviewed this document and Bank of Montreal's Board of Directors approved the document prior to its release.

## Financial Highlights — Table 1

| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| **Summary Income Statement** | | | | | |
| Net interest income | **2,420** | 2,480 | 2,060 | **4,900** | 4,225 |
| Non-interest revenue | **2,681** | 2,595 | 2,466 | **5,276** | 5,356 |
| Revenue | **5,101** | 5,075 | 4,526 | **10,176** | 9,581 |
| Insurance claims, commissions and changes in policy benefit liabilities (CCPB) | **407** | 366 | 24 | **773** | 771 |
| Revenue, net of CCPB | **4,694** | 4,709 | 4,502 | **9,403** | 8,810 |
| Specific provision for credit losses | **201** | 183 | 161 | **384** | 324 |
| Non-interest expense | **3,312** | 3,270 | 3,112 | **6,582** | 6,118 |
| Provision for income taxes | **208** | 188 | 230 | **396** | 369 |
| Net income | **973** | 1,068 | 999 | **2,041** | 1,999 |
| Attributable to bank shareholders | **973** | 1,060 | 993 | **2,033** | 1,979 |
| Attributable to non-controlling interest in subsidiaries | **-** | 8 | 6 | **8** | 20 |
| Net income | **973** | 1,068 | 999 | **2,041** | 1,999 |
| Adjusted net income | **1,152** | 1,178 | 1,146 | **2,330** | 2,187 |
| **Common Share Data ($ except as noted)** | | | | | |
| Earnings per share | **1.45** | 1.58 | 1.49 | **3.03** | 2.95 |
| Adjusted earnings per share | **1.73** | 1.75 | 1.71 | **3.48** | 3.24 |
| Earnings per share growth (%) | **(2.7)** | 8.2 | (6.9) | **2.7** | (7.2) |
| Adjusted earnings per share growth (%) | **1.2** | 14.4 | 4.9 | **7.4** | - |
| Dividends declared per share | **0.84** | 0.84 | 0.80 | **1.68** | 1.60 |
| Book value per share | **55.57** | 59.61 | 51.65 | **55.57** | 51.65 |
| Closing share price | **81.74** | 75.22 | 78.82 | **81.74** | 78.82 |
| Total market value of common shares ($ billions) | **52.6** | 48.4 | 50.8 | **52.6** | 50.8 |
| Dividend yield (%) | **4.1** | 4.5 | 4.1 | **4.1** | 4.1 |
| **Financial Measures and Ratios (%)** | | | | | |
| Return on equity | **10.1** | 10.9 | 11.4 | **10.5** | 11.6 |
| Adjusted return on equity | **12.1** | 12.1 | 13.2 | **12.1** | 12.8 |
| Adjusted return on tangible common equity | **14.8** | 15.0 | 16.2 | **14.9** | 15.8 |
| Net income growth | **(2.6)** | 6.8 | (7.1) | **2.1** | (6.5) |
| Adjusted net income growth | **0.5** | 13.2 | 4.6 | **6.5** | 0.4 |
| Revenue growth | **12.7** | 0.4 | 3.6 | **6.2** | 8.3 |
| Adjusted revenue growth, net of CCPB | **4.3** | 11.3 | 11.4 | **7.7** | 7.9 |
| Non-interest expense growth | **6.5** | 8.8 | 19.9 | **7.6** | 15.9 |
| Adjusted non-interest expense growth | **5.1** | 8.5 | 13.4 | **6.8** | 12.4 |
| Efficiency ratio, net of CCPB | **70.6** | 69.4 | 69.1 | **70.0** | 69.4 |
| Adjusted efficiency ratio | **60.0** | 62.1 | 64.3 | **61.0** | 61.2 |
| Adjusted efficiency ratio, net of CCPB | **65.2** | 66.8 | 64.7 | **66.0** | 66.6 |
| Operating leverage, net of CCPB | **(2.2)** | 0.5 | (8.5) | **(0.9)** | (8.0) |
| Adjusted operating leverage, net of CCPB | **(0.8)** | 2.8 | (2.0) | **0.9** | (4.5) |
| Net interest margin on average earning assets | **1.61** | 1.58 | 1.48 | **1.59** | 1.50 |
| Effective tax rate | **17.6** | 15.0 | 18.8 | **16.2** | 15.6 |
| Adjusted effective tax rate | **19.6** | 16.2 | 19.8 | **17.9** | 16.6 |
| Return on average assets | **0.57** | 0.59 | 0.62 | **0.58** | 0.61 |
| Provision for credit losses-to-average loans and acceptances (annualized) | **0.23** | 0.21 | 0.20 | **0.22** | 0.21 |
| **Balance Sheet (as at $ millions, except as noted)** | | | | | |
| Assets | **681,458** | 699,293 | 633,275 | **681,458** | 633,275 |
| Net loans and acceptances | **353,779** | 356,343 | 315,856 | **353,779** | 315,856 |
| Deposits | **444,793** | 470,836 | 424,231 | **444,793** | 424,231 |
| Common shareholders' equity | **35,761** | 38,345 | 33,276 | **35,761** | 33,276 |
| Cash and securities-to-total assets ratio (%) | **26.7** | 26.4 | 30.0 | **26.7** | 30.0 |
| **Capital Ratios (%, except as noted)** | | | | | |
| CET1 Ratio | **10.0** | 10.1 | 10.2 | **10.0** | 10.2 |
| Tier 1 Capital Ratio | **11.4** | 11.4 | 11.4 | **11.4** | 11.4 |
| Total Capital Ratio | **13.5** | 13.5 | 13.5 | **13.5** | 13.5 |
| Leverage Ratio | **3.9** | 4.0 | 3.8 | **3.9** | 3.8 |
| CET1 Capital Risk-Weighted Assets ($ millions) | **256,184** | 265,043 | 231,243 | **256,184** | 231,243 |
| **Foreign Exchange Rates** | | | | | |
| As at Canadian/U.S. dollar | **1.2548** | 1.4006 | 1.2064 | **1.2548** | 1.2064 |
| Average Canadian/U.S. dollar | **1.3016** | 1.3737 | 1.2412 | **1.3381** | 1.2163 |

Adjusted results are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Non-GAAP Measures

Results and measures in this MD&A are presented on a GAAP basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with International Financial Reporting Standards (IFRS). References to GAAP mean IFRS. They are also presented on an adjusted basis that excludes the impact of certain items as set out in Table 2 below. Results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements on our U.S. segment are non-GAAP measures (please see the Foreign Exchange section for a discussion of the effects of changes in exchange rates on our results). Management assesses performance on a reported basis and on an adjusted basis and considers both to be useful in assessing underlying ongoing business performance. Presenting results on both bases provides readers with a better understanding of how management assesses results. It also permits readers to assess the impact of certain specified items on results for the periods presented and to better assess results excluding those items if they consider the items to not be reflective of ongoing results. As such, the presentation may facilitate readers' analysis of trends, as well as comparisons with our competitors. Adjusted results and measures are non-GAAP and as such do not have standardized meaning under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from or as a substitute for GAAP results.

**Non-GAAP Measures** **Table 2**

| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| **Reported Results** | | | | | |
| Revenue | **5,101** | 5,075 | 4,526 | **10,176** | 9,581 |
| Insurance claims, commissions and changes in policy benefit liabilities (CCPB) | **(407)** | (366) | (24) | **(773)** | (771) |
| Revenue, net of CCPB | **4,694** | 4,709 | 4,502 | **9,403** | 8,810 |
| Provision for credit losses | **(201)** | (183) | (161) | **(384)** | (324) |
| Non-interest expense | **(3,312)** | (3,270) | (3,112) | **(6,582)** | (6,118) |
| Income before income taxes | **1,181** | 1,256 | 1,229 | **2,437** | 2,368 |
| Provision for income taxes | **(208)** | (188) | (230) | **(396)** | (369) |
| Net Income | **973** | 1,068 | 999 | **2,041** | 1,999 |
| EPS ($) | **1.45** | 1.58 | 1.49 | **3.03** | 2.95 |
| **Adjusting Items (Pre-tax)** | | | | | |
| Amortization of acquisition-related intangible assets (1) | **(40)** | (43) | (40) | **(83)** | (80) |
| Acquisition integration costs (2) | **(24)** | (22) | (11) | **(46)** | (24) |
| Cumulative accounting adjustment (3) | **-** | (85) | - | **(85)** | - |
| Restructuring cost (4) | **(188)** | - | (149) | **(188)** | (149) |
| Adjusting items included in reported pre-tax income | **(252)** | (150) | (200) | **(402)** | (253) |
| **Adjusting Items (After tax)** | | | | | |
| Amortization of acquisition-related intangible assets (1) | **(31)** | (33) | (31) | **(64)** | (62) |
| Acquisition integration costs (2) | **(16)** | (15) | (10) | **(31)** | (20) |
| Cumulative accounting adjustment (3) | **-** | (62) | - | **(62)** | - |
| Restructuring cost (4) | **(132)** | - | (106) | **(132)** | (106) |
| Adjusting items included in reported net income after tax | **(179)** | (110) | (147) | **(289)** | (188) |
| Impact on EPS ($) | **(0.28)** | (0.17) | (0.22) | **(0.45)** | (0.29) |
| **Adjusted Results** | | | | | |
| Revenue | **5,101** | 5,159 | 4,526 | **10,260** | 9,581 |
| Insurance claims, commissions and changes in policy benefit liabilities (CCPB) | **(407)** | (366) | (24) | **(773)** | (771) |
| Revenue, net of CCPB | **4,694** | 4,793 | 4,502 | **9,487** | 8,810 |
| Provision for credit losses | **(201)** | (183) | (161) | **(384)** | (324) |
| Non-interest expense | **(3,060)** | (3,204) | (2,912) | **(6,264)** | (5,865) |
| Income before income taxes | **1,433** | 1,406 | 1,429 | **2,839** | 2,621 |
| Provision for income taxes | **(281)** | (228) | (283) | **(509)** | (434) |
| Net income | **1,152** | 1,178 | 1,146 | **2,330** | 2,187 |
| EPS ($) | **1.73** | 1.75 | 1.71 | **3.48** | 3.24 |

Adjusted results and measures in this table are non-GAAP amounts or non-GAAP measures.

(1) These expenses were charged to the non-interest expense of the operating groups. Before and after-tax amounts for each operating group are provided on pages 16, 17, 18 and 20.

(2) Acquisition integration costs related to F&C are charged to Wealth Management. Acquisition integrated costs related to BMO TF are charged to Corporate Services, since the acquisition impacts both Canadian and U.S. P&C businesses. Acquisition costs are primarily recorded in non-interest expense.

(3) Cumulative accounting adjustment recognized in other non-interest revenue related to foreign currency translation, largely impacting prior periods.

(4) Restructuring charge in Q2-2016, as we accelerate the use of technology to enhance customer experience and focus on driving operational efficiencies. Restructuring charge in Q2-2015, primarily due to restructuring to drive operational efficiencies. Restructuring cost is recorded in non-interest expense.

## Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States *Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2016 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian, U.S. and international economies.

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.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal, tax or economic policy; the level of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks; changes to our credit ratings; general political conditions; global capital markets activities; the possible effects on our business of war or terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; and our ability to anticipate and effectively manage risks associated with all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please see the Enterprise-Wide Risk Management section on pages 86 to 117 of BMO's 2015 Annual MD&A, which outlines certain key factors and risks 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 and risks, 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.

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 Review and Outlook section of our Second Quarter 2016 Report to Shareholders.

## Economic Review and Outlook

After slowing in 2015, Canadian economic growth is expected to pick up modestly to 1.6% in 2016 and 2.1% in 2017 in response to firmer oil prices, increased federal infrastructure spending and a still-low Canadian dollar. Tempering the expansion will be continued weakness in investment in the oil-producing regions and mining sector, though this should lessen as oil prices recover in response to decreased supply and increased demand. Disruptions in oil production and employment caused by the Alberta wildfires will temporarily slow growth in the second quarter, though subsequent rebuilding will support the recovery. GDP growth is expected to improve in most provinces this year, led by an upturn in exports and supported by stable consumer spending and housing markets outside the oil-producing regions. Growing U.S. demand and a modest pickup in the Eurozone economy have lifted exports, with a partial offset from slower growth in China and other emerging-market economies. Despite elevated household debt levels, Canadian motor vehicle sales are at record highs. Housing market activity remains healthy outside the oil-producing provinces, while home prices have accelerated in the Vancouver and Toronto regions. British Columbia and Ontario should continue to lead the nation's economy with growth close to 3% in 2016, while firmer oil prices should encourage a partial recovery in Alberta and Newfoundland & Labrador next year. After depreciating sharply in the past two years, the Canadian dollar reached a ten-month high in April 2016. While the currency will struggle to make further headway if U.S. interest rates rise, it should strengthen moderately alongside firmer oil prices in 2017. The Bank of Canada is projected to keep interest rates unchanged well into 2017 to support the expansion and to reduce the unemployment rate to 7.0% by the end of next year.

U.S. economic growth is projected to slow to 1.8% in 2016 and remain moderate at 2.3% in 2017. Consumer spending has been supported by improvements in household finances and healthy growth in employment, though an upturn in gasoline prices has led to some recent moderation. Low mortgage rates and less restrictive lending standards are supporting the housing market, encouraging a decline in mortgage default rates. However, business investment has been weak, especially in the oil industry, while exports remain depressed due to the past appreciation of the U.S. dollar and sluggish global demand. The unemployment rate is expected to decline to 4.6% by year end, encouraging the Federal Reserve to increase interest rates gradually. Although inflation is expected to increase in response to firmer commodity prices and higher wages, it should remain subdued by global excess capacity.

The pace of expansion in the U.S. Midwest region, which includes the six contiguous states comprising the bank's footprint, should remain modest at approximately 1.5% in 2016 and 1.9% in 2017, reflecting the ongoing weakness in exports, though supported by increased automobile production.

This Economic Review and Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

### Other Value Measures

BMO's total shareholder return for the one-year period ending April 30, 2016, was 8.3%. Our average annual total shareholder returns for the three-year and five-year periods ending April 30, 2016, were 13.6% and 10.4%, respectively.

### Foreign Exchange

The Canadian dollar equivalents of BMO's U.S. segment net income, revenues, expenses, provision for credit losses and income taxes that are denominated in U.S. dollars were decreased relative to the first quarter of 2016 by the weaker U.S. dollar, and were increased relative to the second quarter of 2015 by the stronger U.S. dollar. The average Canadian/U.S. dollar exchange rate for the quarter, expressed in terms of the Canadian dollar cost of a U.S. dollar, decreased by 5% from the first quarter of 2016 and increased by 5% from the second quarter of 2015. The average rate for the year to date increased by 10% from a year ago. Table 3 indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in the rates on our U.S. segment results. At April 30, 2016, the Canadian dollar traded at $1.2548 per U.S. dollar. It traded at $1.4006 and $1.2064 per U.S. dollar at January 31, 2016, and April 30, 2015, respectively. References in this Report to Shareholders to the impact of the U.S. dollar do not include U.S.-dollar-denominated amounts recorded outside of BMO's U.S. segment.

Economically, our U.S. dollar income stream was largely unhedged to changes in foreign exchange rates during the quarter. A portion of BMO Capital Markets U.S. dollar net income for the quarter was hedged. These hedges are subject to mark-to-market accounting, which resulted in nil impact in the second quarter and $3 million after-tax loss for the year to date, which was recorded in our BMO Capital Markets business.

We regularly determine whether to execute hedging transactions to mitigate the impact of foreign exchange rate movements on net income.

This Foreign Exchange section contains forward-looking statements. Please see the Caution Regarding Forward Looking Statements.

**Effects of Changes in Exchange Rates on BMO's U.S. Segment Reported and Adjusted Results** **Table 3**

| | Q2-2016 | | YTD-2016 |
|---|---|---|---|
| (Canadian $ in millions, except as noted) | vs Q2-2015 | vs Q1-2016 | vs YTD-2015 |
| Canadian/U.S. dollar exchange rate (average) | | | |
| Current period | 1.3016 | 1.3016 | 1.3381 |
| Prior period | 1.2412 | 1.3737 | 1.2163 |
| **Effects on U.S. segment reported results** | | | |
| Increased (decreased) net interest income | 45 | (55) | 175 |
| Increased (decreased) non-interest revenue | 29 | (33) | 123 |
| Increased (decreased) revenues | 74 | (88) | 298 |
| Decreased (increased) provision for credit losses | (3) | 3 | (1) |
| Decreased (increased) expenses | (61) | 72 | (229) |
| Decreased (increased) income taxes | (2) | 3 | (17) |
| Increased (decreased) reported net income before impact of hedges | 8 | (10) | 51 |
| Hedging losses in current period, after tax | - | - | (3) |
| Increased (decreased) reported net income | 8 | (10) | 48 |
| **Effects on U.S. segment adjusted results** | | | |
| Increased (decreased) net interest income | 45 | (55) | 175 |
| Increased (decreased) non-interest revenue | 29 | (33) | 123 |
| Increased (decreased) revenues | 74 | (88) | 298 |
| Decreased (increased) provision for credit losses | (3) | 3 | (9) |
| Decreased (increased) expenses | (55) | 66 | (219) |
| Decreased (increased) income taxes | (4) | 5 | (17) |
| Increased (decreased) adjusted net income before impact of hedges | 12 | (14) | 53 |
| Hedging losses in current period, after tax | - | - | (3) |
| Increased (decreased) adjusted net income | 12 | (14) | 50 |

Adjusted results in this section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Net Income

#### Q2 2016 vs Q2 2015

Net income was $973 million for the second quarter of 2016, down $26 million or 3% from the prior year. Adjusted net income was $1,152 million, up $6 million or 1% from the prior year. EPS of $1.45 was down $0.04 or 3% and adjusted EPS of $1.73 was up $0.02 or 1% from the prior year. Adjusted net income was up 7% and adjusted EPS was up 8%, excluding the $79 million after-tax write-down of an equity investment.

The combined P&C banking business net income of $792 million and adjusted net income of $804 million were both up 14%. Canadian P&C results increased 8% as higher balances across most products and increased non-interest revenue was partially offset by lower net interest margin and higher expenses. U.S. P&C adjusted net income increased 27% on a Canadian dollar basis and 21% on a U.S. dollar basis, benefiting from the acquired BMO TF business and organic growth. Traditional wealth adjusted results were impacted by the investment write-down. Underlying traditional wealth adjusted results were unchanged with business growth offset by the impact of lower year-over-year equity markets, and insurance income declined from above-trend results in the prior year. BMO Capital Markets net income decreased as good revenue performance was offset by higher provisions for credit losses and higher expenses. Corporate Services adjusted results improved due to below-trend expenses and higher recoveries of credit losses in the current quarter.

#### Q2 2016 vs Q1 2016

Net income decreased $95 million or 9% from the prior quarter, and adjusted net income decreased $26 million or 2%. EPS decreased $0.13 or 8% and adjusted EPS decreased $0.02 or 1%. Adjusted net income and adjusted EPS were up 4% and 6%, respectively, excluding the investment write-down in the current quarter.

Net income decreased in Canadian P&C due to the impact of two fewer days in the current quarter. U.S. P&C adjusted net income was up, due to improved revenue, including the full quarter benefit of BMO TF, and lower provisions for credit losses. Traditional wealth adjusted net income decreased due to the investment write-down, partially offset by lower expenses, and insurance net income increased due to the negative impact of interest rates and equity markets in the prior quarter. BMO Capital Markets results increased, driven by strong performance in our Trading Products business and lower employee-related expenses, partially offset by lower Investment and Corporate Banking revenue and higher provisions for credit losses. Corporate Services adjusted results declined primarily due to lower revenue and lower recoveries of credit losses, partially offset by below-trend expenses in the current quarter.

#### Q2 YTD 2016 vs Q2 YTD 2015

Net income was $2,041 million, up $42 million or 2%. Adjusted net income was $2,330 million, up $143 million or 7% from a year ago. EPS was $3.03, up $0.08 or 3%, and adjusted EPS was $3.48, up $0.24 or 7%. On an adjusted basis, results improved in both P&C businesses, BMO Capital Markets and Corporate Services. Wealth Management results were impacted by the investment write-down.

Adjusted results in this Net Income section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Revenue

#### Q2 2016 vs Q2 2015

Revenue of $5,101 million increased $575 million or 13% from the second quarter a year ago. On a basis that nets insurance claims, commissions and changes in policy benefit liabilities (CCPB) against insurance revenue (net revenue), revenue of $4,694 million increased $192 million or 4%. Net revenue increased by 5%, excluding the impact of the stronger U.S. dollar and the $108 million pre-tax investment write-down.

Canadian P&C revenue increased 4% due to higher balances across most products and increased non-interest revenue, partially offset by lower net interest margin. U.S. P&C revenue increased by 30% on a Canadian dollar basis and by 24% on a U.S. dollar basis, due to the benefits of BMO TF, higher loan and deposit volumes and increased deposit spreads, net of loan spread compression. Traditional wealth revenue decreased on a net revenue basis, reflecting the investment write-down, lower year-over-year equity markets and the impact of divestitures, partially offset by underlying business growth. Net insurance revenue declined compared to above-trend revenue in the prior year. BMO Capital Markets revenue was up due to strong performance in Trading Products primarily from higher client activity. Investment and Corporate Banking revenue decreased as higher corporate banking related revenue was more than offset by lower net securities gains. Corporate Services adjusted revenue was relatively stable.

Net interest income of $2,420 million increased $360 million or 18% from a year ago, or 15% excluding the impact of the stronger U.S. dollar, primarily due to the benefits of BMO TF, higher net interest margin and organic growth. BMO's overall net interest margin increased by 13 basis points to 1.61%. Net interest margin (excluding trading) increased 6 basis points from the prior year primarily due to the addition of higher-spread BMO TF assets. Average earning assets increased $39.6 billion or 7% to $611.6 billion, including a $12.7 billion increase as a result of the stronger U.S. dollar.

Non-interest revenue decreased $168 million or 7% on a net revenue basis to $2,274 million. Net non-interest revenue decreased by 4%, excluding the impact of the investment write-down and the stronger U.S. dollar, due to lower net securities gains and insurance revenue.

Gross insurance revenue increased $333 million from a year ago, largely due to the impact of lower long-term interest rates increasing the fair value of insurance investments compared to the prior year, partly offset by lower premiums. The increase in insurance revenue was more than offset by higher insurance claims, commissions and policy holder benefit liabilities as discussed on page 10. Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets. The investments which support policy benefit liabilities are predominantly fixed income assets recorded at fair value with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in insurance claims, commissions and changes in policy benefit liabilities.

**Q2 2016 vs Q1 2016**

Reported revenue increased $26 million and adjusted revenue decreased $58 million or 1% from the prior quarter. Reported net revenue decreased $15 million and adjusted net revenue decreased $99 million or 2%. Adjusted net revenue increased by 2%, excluding the investment write-down and the impact of the weaker U.S. dollar, despite two fewer days in the current quarter.

Canadian P&C revenue decreased due to the impact of two fewer days and lower non-interest revenue and net interest margin. U.S. P&C revenue was stable on a Canadian dollar basis and increased 6% on a U.S. dollar basis, due to the full quarter impact of BMO TF, and higher deposit spreads and organic loan volumes, partially offset by fewer days. Traditional Wealth revenue was impacted by the investment write-down, the weaker U.S. dollar and British pound and fewer days. Net insurance revenue increased due to the negative impact of interest rates and equity markets in the prior quarter. BMO Capital Markets revenue was up due to strong performance in our Trading Products business, driven by higher client activity and improved market conditions, partially offset by lower Investment and Corporate Banking revenue. Corporate Services adjusted revenue was lower compared to above-trend revenue in the prior quarter.

Net interest income decreased $60 million or 2%. Net interest income was relatively unchanged, excluding the impact of the weaker U.S. dollar, as the impact of two fewer days in the quarter was largely offset by the inclusion of the full quarter of BMO TF results. BMO's net interest margin increased 3 basis points.  Net interest margin (excluding trading) increased 5 basis points from the prior quarter, due to fewer low-yielding assets and the full quarter impact of BMO TF. Average earning assets decreased $13.3 billion or 2% due to a $15.1 billion reduction as a result of the weaker U.S. dollar.

Non-interest revenue increased $45 million or 2% on a net revenue basis. Adjusted non-interest revenue decreased $39 million or 2% on a net revenue basis. Adjusted net non-interest revenue was essentially unchanged, excluding the impact of the weaker U.S. dollar, as the impact of the investment write-down was offset by higher trading revenue.

Gross insurance revenue increased $100 million from the prior quarter, largely due to the impact of lower long-term interest rates increasing the fair value of insurance investments compared to the prior quarter, partially offset by lower premiums. The increase in insurance revenue was partially offset by higher insurance claims, commissions and changes in policy holder benefit liabilities as discussed on page 10.

**Q2 YTD 2016 vs Q2 YTD 2015**

Year-to-date total revenue increased $595 million or 6% to $10,176 million and adjusted revenue increased $679 million or 7% to $10,260 million. On a net basis, revenue increased $593 million or 7% to $9,403 million and adjusted revenue increased $677 million or 8% to $9,487 million. Adjusted net revenue increased 4%, excluding the impact of the stronger U.S. dollar.

Net interest income increased $675 million or 16% to $4,900 million. Net interest income increased by 12%, excluding the impact of the stronger U.S. dollar, due to the acquisition of BMO TF, higher net interest margin and organic volume growth. BMO's overall net interest margin increased by 9 basis points to 1.59%. Net interest margin (excluding trading) increased 1 basis point from the prior year. Average earning assets increased by $48.7 billion or 9% to $618.3 billion, including a $25.5 billion increase as a result of the stronger U.S. dollar.

Year-to-date non-interest revenue decreased $82 million or 2% to $4,503 million on a net revenue basis, and adjusted net non-interest revenue was essentially unchanged, excluding the impact of the stronger U.S. dollar and the investment write-down.

Net interest income and non-interest revenue are detailed in the unaudited interim consolidated financial statements.

Adjusted results in this Revenue section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

**Net Interest Margin on Average Earning Assets (teb)** (1) **Table 4**

| (In basis points) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| Canadian P&C | **251** | 255 | 254 | **253** | 253 |
| U.S. P&C | **371** | 363 | 346 | **367** | 346 |
| Personal and Commercial Banking | **290** | 290 | 282 | **290** | 281 |
| Wealth Management | **240** | 233 | 231 | **236** | 241 |
| BMO Capital Markets | **61** | 66 | 48 | **64** | 56 |
| Corporate Services (2) | **nm** | nm | nm | **nm** | nm |
| Total BMO net interest margin | **161** | 158 | 148 | **159** | 150 |
| Total BMO net interest margin (excluding trading) | **187** | 182 | 181 | **184** | 183 |
| Total Canadian Retail (3) | **249** | 251 | 250 | **250** | 249 |

(1) Net interest margin is disclosed and computed with reference to average earning assets, rather than total assets. This basis provides a more relevant measure of margins and changes in margins. Operating group margins are stated on a taxable equivalent basis (teb) while total BMO margin is stated on a GAAP basis.

(2) Corporate Services adjusted net interest income is negative in all periods and its variability affects changes in net interest margin.

(3) Total Canadian retail margin represents the net interest margin of the combined Canadian businesses of Canadian P&C and Wealth Management.

nm - not meaningful

### Provisions for Credit Losses

#### Q2 2016 vs Q2 2015

The total provision for credit losses (PCL) was $201 million, an increase of $40 million from the prior year primarily due to higher resource-related provisions in BMO Capital Markets. There was no net change to the collective allowance in the quarter.

Canadian P&C provisions decreased by $16 million to $127 million due to lower provisions in the consumer and commercial portfolios. U.S. P&C provisions of US$39 million increased by US$25 million due to lower recoveries in the current quarter and the addition of BMO TF. BMO Capital Markets provisions of $44 million increased $39 million primarily due to higher resource-related provisions. Corporate Services had higher net recoveries.

#### Q2 2016 vs Q1 2016

Total PCL increased by $18 million due to higher provisions in BMO Capital Markets. Canadian P&C provisions decreased $13 million due to lower provisions in the consumer portfolio and higher recoveries in the commercial portfolio. U.S. P&C provisions decreased by US$8 million due to lower provisions in the consumer portfolio. BMO Capital Markets provisions increased by $36 million primarily due to higher resource-related provisions. Corporate Services PCL increased by $9 million due to lower recoveries.

**Provision for Credit Losses by Operating Group** — **Table 5**

| (Canadian $ in millions) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| Canadian P&C | **127** | 140 | 143 | **267** | 275 |
| U.S. P&C (1) | **51** | 65 | 18 | **116** | 58 |
| Personal and Commercial Banking | **178** | 205 | 161 | **383** | 333 |
| Wealth Management | **2** | 2 | 1 | **4** | 3 |
| BMO Capital Markets | **44** | 8 | 5 | **52** | 14 |
| Corporate Services (1) | **(23)** | (32) | (6) | **(55)** | (26) |
| Provision for credit losses | **201** | 183 | 161 | **384** | 324 |

(1) Beginning in the first quarter of 2016, the reduction in the credit mark that is reflected in net interest income and the provision for credit losses on the purchased performing portfolio are being recognized in U.S. P&C, consistent with the accounting for the acquisition of BMO TF. Results for prior periods have not been reclassified.

**Changes to Provision for Credit Losses** — **Table 6**

| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| New specific provisions | **338** | 309 | 318 | **647** | 625 |
| Reversals of previously established allowances | **(30)** | (39) | (62) | **(69)** | (104) |
| Recoveries of loans previously written-off | **(107)** | (87) | (95) | **(194)** | (197) |
| Provision for credit losses | **201** | 183 | 161 | **384** | 324 |
| PCL as a % of average net loans and acceptances (annualized) | **0.23** | 0.21 | 0.20 | **0.22** | 0.21 |

### Impaired Loans

Total gross impaired loans (GIL) were $2,196 million at the end of the current quarter, up from $2,158 million in the first quarter of 2016 primarily due to increases in BMO Capital Markets GIL related to the oil and gas sector, net of the weaker U.S. dollar. GIL increased from $2,047 million a year ago, also primarily due to increases in BMO Capital Markets GIL.

Factors contributing to the change in GIL are outlined in Table 7 below. Loans classified as impaired during the quarter totalled $718 million, up from $594 million in the first quarter of 2016 and $454 million a year ago primarily due to higher formations in BMO Capital Markets.

**Changes in Gross Impaired Loans (GIL) and Acceptances** (1) — **Table 7**

| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| GIL, beginning of period | **2,158** | 1,959 | 2,195 | **1,959** | 2,048 |
| Classified as impaired during the period | **718** | 594 | 454 | **1,312** | 878 |
| Transferred to not impaired during the period | **(164)** | (136) | (153) | **(300)** | (268) |
| Net repayments | **(201)** | (210) | (177) | **(411)** | (320) |
| Amounts written-off | **(161)** | (142) | (178) | **(303)** | (351) |
| Recoveries of loans and advances previously written-off | **-** | - | - | **-** | - |
| Disposals of loans | **(6)** | - | (22) | **(6)** | (35) |
| Foreign exchange and other movements | **(148)** | 93 | (72) | **(55)** | 95 |
| GIL, end of period | **2,196** | 2,158 | 2,047 | **2,196** | 2,047 |
| GIL as a % of gross loans and acceptances | **0.62** | 0.60 | 0.65 | **0.62** | 0.65 |

(1) GIL excludes purchased credit impaired loans.

For further discussion of risk management practices and key measures, see the Risk Management section.

### Insurance Claims, Commissions and Changes in Policy Benefit Liabilities

Insurance claims, commissions and changes in policy benefit liabilities (CCPB) were $407 million, up $383 million from the second quarter a year ago and up $41 million from the prior quarter, due to the impact of lower long-term interest rates, partly offset by lower premiums.

### Non-Interest Expense

Non-interest expense increased $200 million or 6% to $3,312 million from the second quarter a year ago, mainly due to the restructuring charge. Adjusted non-interest expense increased $148 million or 5% to $3,060 million. Adjusted non-interest expense increased by 3%, excluding the impact of the stronger U.S. dollar, and increased by 1% when also excluding the impact of BMO TF and divestitures, primarily the sale of our U.S. Retirement Services business in the fourth quarter last year.

Reported non-interest expense increased by $42 million or 1% and adjusted non-interest expense decreased by $144 million or 4% from the prior quarter. Adjusted non-interest expense decreased by 2%, excluding the impact of the weaker U.S. dollar, primarily due to $90 million of stock-based compensation for employees eligible to retire that is expensed in the first quarter of each year and the impact of two fewer days in the current quarter, partially offset by the full quarter impact of BMO TF.

Adjusted net operating leverage was negative 0.8% year over year, and positive 1.7%, when excluding the impact of the investment write-down and the stronger U.S. dollar.

The adjusted efficiency ratio improved to 60.0%, and was 65.2% on a net revenue basis.

Non-interest expense for the year to date increased $464 million or 8% to $6,582 million from the prior year. Adjusted non-interest expense increased $399 million or 7% to $6,264 million. Adjusted non-interest expense increased by 3%, excluding the impact of the stronger U.S. dollar, and increased by 1% when also excluding the impact of BMO TF and divestitures, primarily the sale of our U.S. Retirement Services business.

Non-interest expense is detailed in the unaudited interim consolidated financial statements.

Adjusted results in this Non-Interest Expense section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Income Taxes

The provision for income taxes of $208 million decreased $22 million from the second quarter of 2015 and increased $20 million from the first quarter of 2016. The effective tax rate for the quarter was 17.6%, compared with 18.8% a year ago and 15.0% in the first quarter of 2016.

The adjusted provision for income taxes of $281 million decreased $2 million from a year ago and increased $53 million from the first quarter of 2016. The adjusted effective tax rate was 19.6% in the current quarter, compared with 19.8% a year ago and 16.2% in the first quarter of 2016. The higher adjusted tax rate in the current quarter relative to the first quarter of 2016 was primarily due to lower tax-exempt income from securities. On a teb basis, the adjusted effective tax rate for the quarter was 25.8%, compared with 25.0% a year ago and 24.8% in the first quarter of 2016.

Adjusted results in this Income Taxes section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

## Capital Management

### Second Quarter 2016 Regulatory Capital Review

BMO's Basel III Common Equity Tier 1 (CET1) Ratio was 10.0% at April 30, 2016.

The CET1 Ratio decreased by approximately 10 basis points from 10.1% at the end of the first quarter due largely to business growth and changes in book quality, partially offset by retained earnings growth, which was lower than normal given the restructuring charge, and model changes. The CET1 Ratio decreased by approximately 70 basis points from October 31, 2015, mainly due to the acquisition of BMO TF in the first quarter. The impact of foreign exchange movements on the CET1 Ratio was managed, as outlined below.

CET1 Capital at April 30, 2016, was $25.7 billion, down $1 billion from January 31, 2016, mainly due to the impact of a weaker U.S. dollar on accumulated other comprehensive income (AOCI), partially offset by lower capital deductions and higher retained earnings. CET1 Capital was up $0.1 billion from October 31, 2015, mainly due to higher retained earnings and lower capital deductions, largely offset by lower AOCI.

RWA was $256 billion at April 30, 2016, down from $265 billion at January 31, 2016, primarily due to foreign exchange movements and model changes, partially offset by business growth and changes in book quality. RWA was up $17 billion from October 31, 2015, largely due to the acquisition of BMO TF in the first quarter, business growth and changes in book quality, partially offset by foreign exchange movements.

The bank's Tier 1 and Total Capital Ratios were 11.4% and 13.5%, respectively, at April 30, 2016, consistent with January 31, 2016, as the impact of lower CET1 capital was offset by the impact of lower RWA for both Tier 1 and Total Capital. The Tier 1 and Total Capital Ratios were 12.3% and 14.4%, respectively, at October 31, 2015. The April 30, 2016 Tier 1 and Total Capital Ratios were lower compared with October 31, 2015, primarily due to the acquisition of BMO TF in the first quarter.

BMO's Basel III Leverage Ratio was 3.9% at April 30, 2016, approximately 10 basis points lower than January 31, 2016, due mainly to lower Tier 1 Capital, primarily driven by lower CET1 Capital as discussed above, partially offset by lower leverage exposures mostly due to foreign exchange movements. The Basel III Leverage Ratio was 4.2% at October 31, 2015. The April 30, 2016 Basel III Leverage Ratio was lower compared to October 31, 2015 mainly due to business growth, including the acquisition of BMO TF in the first quarter.

BMO's investments in foreign operations are primarily denominated in U.S. dollars. The foreign exchange impact of U.S.-dollar-denominated RWA and U.S.-dollar-denominated capital deductions may result in variability in the bank's capital ratios. BMO may enter into arrangements to manage the impact of foreign exchange movements on its capital ratios and did so during the second quarter. Any such activities could also impact our book value and return on equity.

### Regulatory Developments

In December 2015, the Office of the Superintendent of Financial Institutions (OSFI) advised Canadian banks that it will be updating the regulatory capital requirements for residential mortgages and home equity lines of credit. The update will be tied to increases in local property prices and/or to house prices that are high relative to borrower incomes. Proposed changes have been released for public consultation and implementation is expected November 1, 2016. In January 2016, the Basel Committee on Banking Supervision (BCBS) issued the final framework for market risk capital requirements, which aims to promote consistent implementation of market risk standards across jurisdictions for implementation in 2019. These changes, along with others such as the Standardized Approach for Counterparty Credit Risk (SA-CCR) for derivatives and the new Securitization Framework, will put some upward pressure on the amount of capital we are required to hold over time.

In December 2015, the BCBS issued an updated proposal on the standardized approach for credit risk, which is currently in the consultation phase and expected to be finalized in 2016. In March 2016, the BCBS issued a consultative document aimed at reducing complexity, improving comparability and addressing variability in capital requirements for credit risk by placing constraints on the use of models. This includes removing the option of a models-based approach for certain exposures, use of parameter floors for some portfolios, and specifying parameters for some models-based approaches. The document also adds further detail on the potential capital floor based on the new Standardized Approach for Credit Risk.

In March 2016, BCBS issued a consultative document on calculating operational risk capital based on a single non-model-based method. Consultation is underway and the BCBS is expected to issue a final proposal in 2016. In April 2016, the BCBS issued the final standard for Interest Rate Risk in the Banking Book, which included a Pillar 2 supervisory approach, enhanced expectations for management and oversight and new disclosure requirements effective the first quarter of fiscal 2018. These changes, along with others as discussed on page 71 of BMO's 2015 Annual Report, could increase the capital we are required to hold depending on how they are implemented.

In January 2016, OSFI issued the draft guideline for Pillar 3 disclosure requirements. The guideline sets out the first phase of a two-phase project by the BCBS to replace the existing Pillar 3 disclosure requirements in the areas of credit risk, counterparty credit risk, market risk and securitization activities. For Canadian Domestic Systemically Important Banks, the draft guideline is expected to be implemented for the reporting period ending October 31, 2017.

On April 20, 2016, legislation required to implement a bail-in regime was tabled by the Canadian government to enhance Canada's bank resolution capabilities in line with international efforts. Once passed, the government will propose regulations that will outline the detailed approach. OSFI will also issue guidelines that set the minimum Higher Loss Absorbency (HLA) level banks will need to maintain. Both are expected this year, with implementation potentially in 2017. We expect a suitable transition period to issue sufficient qualifying bail-in debt to comply with bail-in HLA requirements.

BMO continues to monitor all changes and is involved in consultations.

For a comprehensive discussion of regulatory developments, see the Enterprise-Wide Capital Management section on pages 70 to 75, the Liquidity and Funding Risk section on pages 105 to 110 and the Legal and Regulatory Risk section on pages 114 to 116 of BMO's 2015 Annual Report.

**Other Capital Developments**

During the quarter, 295,825 common shares were issued through the exercise of stock options.

On April 21, 2016, we redeemed all of our outstanding $700 million Series D Medium-Term Notes First Tranche, at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest to the redemption date.

On May 9, 2016, we announced our intention to redeem all of our outstanding $1.5 billion Series G Medium-Term Notes First Tranche on July 8, 2016, at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest to the redemption date.

On May 25, 2016, BMO announced that the Board of Directors had declared a quarterly dividend payable to common shareholders of $0.86 per common share, up $0.02 or 2% from the preceding quarter and up $0.04 per share or 5% from a year ago.

The dividend is payable on August 26, 2016, to shareholders of record on August 1, 2016. Common shareholders may elect to have their cash dividends reinvested in common shares of the bank in accordance with the shareholder dividend reinvestment and share purchase plan.

**Qualifying Regulatory Capital and Risk-Weighted Assets (All-in (1))** **Table 8**

| (Canadian $ in millions) | Q2-2016 | Q1-2016 | Q4-2015 |
|---|---|---|---|
| Gross Common Equity (2) | **35,761** | 38,345 | 36,182 |
| Regulatory adjustments applied to Common Equity | **(10,019)** | (11,579) | (10,554) |
| **Common Equity Tier 1 Capital (CET1)** | **25,742** | 26,766 | 25,628 |
| Additional Tier 1 Eligible Capital (3) | **3,696** | 3,700 | 4,146 |
| Regulatory adjustments applied to Tier 1 | **(215)** | (214) | (358) |
| **Additional Tier 1 Capital (AT1)** | **3,481** | 3,486 | 3,788 |
| **Tier 1 Capital (T1 = CET1 + AT1)** | **29,223** | 30,252 | 29,416 |
| Tier 2 Eligible Capital (4) | **5,589** | 5,689 | 5,218 |
| Regulatory adjustments applied to Tier 2 | **(55)** | (50) | (50) |
| **Tier 2 Capital (T2)** | **5,534** | 5,639 | 5,168 |
| **Total Capital (TC = T1 + T2)** | **34,757** | 35,891 | 34,584 |
| **Risk-weighted assets (5)** | | | |
| CET1 Capital Risk-Weighted Assets | **256,184** | 265,043 | 239,185 |
| Tier 1 Capital Risk-Weighted Assets | **256,553** | 265,381 | 239,471 |
| Total Capital Risk-Weighted Assets | **256,869** | 265,671 | 239,716 |
| **Capital Ratios (%)** | | | |
| CET1 Ratio | **10.0** | 10.1 | 10.7 |
| Tier 1 Capital Ratio | **11.4** | 11.4 | 12.3 |
| Total Capital Ratio | **13.5** | 13.5 | 14.4 |

(1) "All-in" regulatory capital assumes that all Basel III regulatory adjustments are applied effective January 1, 2013, and that the capital value of instruments that no longer qualify as regulatory capital under Basel III rules is being phased out at a rate of 10% per year from January 1, 2013 to January 1, 2022.

(2) Gross Common Equity includes issued qualifying common shares, retained earnings, accumulated other comprehensive income and eligible common share capital issued by subsidiaries.

(3) Additional Tier 1 Eligible Capital includes directly and indirectly issued qualifying Additional Tier 1 instruments and directly and indirectly issued capital instruments, to the extent eligible, which are subject to phase-out under Basel III.

(4) Tier 2 Eligible Capital includes directly and indirectly issued qualifying Tier 2 instruments and directly and indirectly issued capital instruments, to the extent eligible, that are subject to phase-out under Basel III.

(5) Due to the phased-in implementation of the Credit Valuation Adjustment (CVA) which commenced in Q1-2014, the scalars applied to the fully implemented CVA charge for CET1, Tier 1 Capital and Total Capital are 64%, 71% and 77% respectively, resulting in different RWA measures for each of the three tiers of regulatory capital.

**Outstanding Shares and Securities Convertible into Common Shares** **Table 9**

| As at May 18, 2016 | Number of shares or dollar amount (in millions) |
|---|---|
| **Common shares** | 644 |
| **Class B Preferred shares** | |
| Series 14 | $250 |
| Series 15 | $250 |
| Series 16 | $157 |
| Series 17 | $143 |
| Series 25 | $290 |
| Series 27 | $500 |
| Series 29 | $400 |
| Series 31 | $300 |
| Series 33 | $200 |
| Series 35 | $150 |
| Series 36 | $600 |
| **Medium-Term Notes** | |
| Series H - First Tranche (1) | $1,000 |
| Series H - Second Tranche (2) | $1,000 |
| **Stock options** | |
| Vested | 6.9 |
| Non-vested | 4.3 |

(1) Details on the Series H Medium-Term Notes, First Tranche are outlined in Note 15 to the audited consolidated financial statements on page 168 of BMO's 2015 Annual Report.

(2) Details on the Series H Medium-Term Notes, Second Tranche are outlined in Note 8 of the unaudited interim consolidated financial statements.

Details on share capital are outlined in Note 9 to the unaudited interim consolidated financial statements and Note 17 to the audited annual consolidated financial statements on page 170 of BMO's 2015 Annual Report.

### Caution

The foregoing Capital Management sections contain forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

### Eligible Dividends Designation

For the purposes of the *Income Tax Act* (Canada) and any similar provincial and territorial legislation, BMO designates all dividends paid or deemed to be paid on both its common and preferred shares as "eligible dividends", unless indicated otherwise.

## Review of Operating Groups' Performance

### How BMO Reports Operating Group Results

The following sections review the financial results of each of our operating segments and operating groups for the second quarter of 2016.

Corporate Services results prior to 2016 reflected certain items in respect of the 2011 purchased loan portfolio, including recognition of the reduction in the credit mark that is reflected in net interest income over the term of the purchased loans and provisions and recoveries of credit losses on the purchased portfolio. Beginning in the first quarter of 2016, the reduction in the credit mark that is reflected in net interest income and the provision for credit losses on the purchased performing portfolio are being recognized in U.S. P&C, consistent with the accounting for the acquisition of BMO TF, and given that these amounts have reduced substantially in size. Results for prior periods have not been reclassified. Recoveries or provisions on the 2011 purchased credit impaired portfolio continue to be recognized in Corporate Services. Purchased loan accounting impacts related to BMO TF are recognized in U.S. P&C.

Also effective in the first quarter of 2016, income from equity investments has been reclassified from net interest income to non-interest revenue in Canadian P&C, Wealth Management and Corporate Services. Results for prior periods have been reclassified. Restructuring costs and acquisition and integration costs that impact more than one operating group are also included in Corporate Services.

Insurance can experience variability arising from fluctuations in the fair value of insurance assets. The investments which support policy benefit liabilities are predominantly fixed income assets recorded at fair value with changes in the fair values recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in insurance claims, commissions and changes in policy benefit liabilities.

BMO analyzes revenue at the consolidated level based on GAAP revenue reflected in the consolidated financial statements rather than on a taxable equivalent basis (teb). Like many banks, we analyze revenue on a teb basis at the operating group level. This basis includes an adjustment that increases GAAP revenue and the GAAP provision for income taxes by an amount that would raise revenue on certain tax-exempt items to a level equivalent to amounts that would incur tax at the statutory rate. The offset to the group teb adjustments is reflected in Corporate Services revenue and income tax provisions. The teb adjustments for the second quarter of 2016 totalled $120 million, down from $160 million in the first quarter of 2016 and up from $100 million in the second quarter of 2015.

Periodically, certain business lines and units within the business lines are transferred between client and corporate support groups to more closely align BMO's organizational structure with its strategic priorities. In addition, revenue and expense allocations are updated to more accurately align with current experience. Results for prior periods are reclassified to conform to the current organization structure.

| Personal and Commercial Banking (P&C) | | | | | Table 10 |
|---|---|---|---|---|---|
| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
| Net interest income (teb) | **2,098** | 2,131 | 1,849 | **4,229** | 3,716 |
| Non-interest revenue | **718** | 733 | 635 | **1,451** | 1,257 |
| Total revenue (teb) | **2,816** | 2,864 | 2,484 | **5,680** | 4,973 |
| Provision for credit losses | **178** | 205 | 161 | **383** | 333 |
| Non-interest expense | **1,568** | 1,602 | 1,391 | **3,170** | 2,787 |
| Income before income taxes | **1,070** | 1,057 | 932 | **2,127** | 1,853 |
| Provision for income taxes (teb) | **278** | 277 | 240 | **555** | 466 |
| Reported net income | **792** | 780 | 692 | **1,572** | 1,387 |
| Amortization of acquisition-related intangible assets (1) | **12** | 14 | 14 | **26** | 28 |
| Adjusted net income | **804** | 794 | 706 | **1,598** | 1,415 |
| Net income growth (%) | **14.4** | 12.3 | 8.6 | **13.4** | 7.5 |
| Adjusted net income growth (%) | **14.0** | 12.0 | 8.4 | **13.0** | 7.3 |
| Revenue growth (%) | **13.4** | 15.1 | 6.8 | **14.2** | 6.3 |
| Non-interest expense growth (%) | **12.6** | 14.8 | 8.6 | **13.7** | 7.4 |
| Adjusted non-interest expense growth (%) | **12.8** | 14.9 | 8.8 | **13.9** | 7.6 |
| Return on equity (%) | **15.6** | 15.1 | 15.6 | **15.3** | 15.6 |
| Adjusted return on equity (%) | **15.9** | 15.3 | 15.9 | **15.6** | 16.0 |
| Operating leverage (%) (teb) | **0.8** | 0.3 | (1.8) | **0.5** | (1.1) |
| Adjusted operating leverage (%) (teb) | **0.6** | 0.2 | (2.0) | **0.3** | (1.3) |
| Efficiency ratio (%) (teb) | **55.7** | 55.9 | 56.0 | **55.8** | 56.1 |
| Adjusted efficiency ratio (%) (teb) | **55.1** | 55.3 | 55.3 | **55.2** | 55.3 |
| Net interest margin on average earning assets (%) (teb) | **2.90** | 2.90 | 2.82 | **2.90** | 2.81 |
| Average earning assets | **293,741** | 291,923 | 268,950 | **292,822** | 267,150 |
| Average net loans and acceptances | **293,442** | 290,956 | 267,118 | **292,185** | 265,083 |
| Average deposits | **225,475** | 228,660 | 207,728 | **227,085** | 206,369 |

(1) Before tax amounts of: $17 million in Q2-2016; $19 million in Q1-2016; $18 million in Q2-2015; and $36 million for each of YTD-2016 and YTD-2015 are included in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

The Personal and Commercial Banking (P&C) operating group represents the sum of our two retail and business banking operating segments, Canadian Personal and Commercial Banking (Canadian P&C) and U.S. Personal and Commercial Banking (U.S. P&C). The combined P&C banking business net income of $792 million and adjusted net income of $804 million were both up 14% from the prior year. These operating segments are reviewed separately in the sections that follow.

| Canadian Personal and Commercial Banking (Canadian P&C) | | | | | Table 11 |
|---|---|---|---|---|---|
| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
| Net interest income | **1,222** | 1,254 | 1,165 | **2,476** | 2,350 |
| Non-interest revenue | **450** | 471 | 440 | **921** | 883 |
| Total revenue | **1,672** | 1,725 | 1,605 | **3,397** | 3,233 |
| Provision for credit losses | **127** | 140 | 143 | **267** | 275 |
| Non-interest expense | **841** | 872 | 812 | **1,713** | 1,647 |
| Income before income taxes | **704** | 713 | 650 | **1,417** | 1,311 |
| Provision for income taxes | **179** | 184 | 165 | **363** | 323 |
| Reported net income | **525** | 529 | 485 | **1,054** | 988 |
| Amortization of acquisition-related intangible assets (1) | **-** | 1 | 1 | **1** | 2 |
| Adjusted net income | **525** | 530 | 486 | **1,055** | 990 |
| Personal revenue | **1,089** | 1,129 | 1,071 | **2,218** | 2,149 |
| Commercial revenue | **583** | 596 | 534 | **1,179** | 1,084 |
| Net income growth (%) | **8.1** | 5.3 | 1.3 | **6.7** | 2.5 |
| Revenue growth (%) | **4.1** | 6.0 | 4.4 | **5.1** | 3.8 |
| Adjusted non-interest expense growth (%) | **3.5** | 4.5 | 6.2 | **4.0** | 5.9 |
| Non-interest expense growth (%) | **3.5** | 4.5 | 6.2 | **4.0** | 5.9 |
| Adjusted operating leverage (%) | **0.6** | 1.5 | (1.8) | **1.1** | (2.1) |
| Operating leverage (%) | **0.6** | 1.5 | (1.8) | **1.1** | (2.1) |
| Efficiency ratio (%) | **50.3** | 50.6 | 50.6 | **50.4** | 51.0 |
| Net interest margin on average earning assets (%) | **2.51** | 2.55 | 2.54 | **2.53** | 2.53 |
| Average earning assets | **197,598** | 195,881 | 187,778 | **196,730** | 187,477 |
| Average net loans and acceptances | **203,597** | 201,656 | 193,435 | **202,615** | 193,076 |
| Average deposits | **140,112** | 139,456 | 131,213 | **139,781** | 131,329 |

(1) Before tax amounts of: $nil in Q2-2016; $1 million in each of Q1-2016, Q2-2015 and YTD-2016; and $2 million for YTD-2015 are included in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Q2 2016 vs Q2 2015

Canadian P&C net income of $525 million increased $40 million or 8% from a year ago. Revenue increased $67 million or 4% from the prior year due to higher balances across most products and increased non-interest revenue, partially offset by lower net interest margin. Net interest margin was 2.51%, down 3 basis points, primarily due to the low interest rate environment and narrower spreads on variable-rate lending products.

In the personal banking segment, revenue increased $18 million or 2% due to the impact of higher balances across most products, partially offset by lower net interest margin.

In the commercial banking segment, revenue increased $49 million or 9% due to the impact of higher balances across most products and increased non-interest revenue.

Provision for credit losses decreased by $16 million to $127 million due to lower provisions in the consumer and commercial portfolios. Non-interest expense increased $29 million or 4% reflecting investments to support business growth, net of a continued focus on expense management. Year-over-year operating leverage was positive 0.6%.

Average net loans and acceptances increased $10.2 billion or 5% from a year ago. Total personal lending balances (excluding retail cards) increased 4% year over year and commercial loan balances (excluding corporate cards) grew 10%. Average deposits increased $8.9 billion or 7%. Personal deposit balances increased 7% mainly due to growth in term deposits and chequing accounts while commercial deposit balances grew 6%.

### Q2 2016 vs Q1 2016

Net income decreased by $4 million from the prior quarter. Revenue decreased by $53 million or 3% due to the impact of two fewer days in the current quarter and lower non-interest revenue and net interest margin. Net interest margin of 2.51% was down 4 basis points.

Personal revenue decreased $40 million mainly due to the impact of fewer days, lower net interest margin and lower non-interest revenue.

Commercial revenue decreased $13 million mainly due to the impact of fewer days and lower non-interest revenue.

Provision for credit losses decreased $13 million due to lower provisions in the consumer portfolio and higher recoveries in the commercial portfolio. Non-interest expense decreased $31 million or 4% reflecting the impact of a continued focus on expense management, fewer days in the quarter, and stock-based compensation for employees eligible to retire that is expensed in the first quarter of each year.

Average net loans and acceptances increased $1.9 billion or 1%, while average deposits increased $0.7 billion.

### Q2 YTD 2016 vs Q2 YTD 2015

Net income increased $66 million or 7% year to date. Revenue increased $164 million or 5% due to higher balances across most products and increased non-interest revenue.

Provisions for credit losses decreased $8 million, mainly due to lower provisions in the commercial portfolio. Non-interest expense increased $66 million or 4% mainly due to investments to support business growth and higher employee-related costs, net of a continued focus on expense management. Year-to-date operating leverage was positive 1.1%.

Average current loans and acceptances increased $9.5 billion or 5%, while average deposits increased $8.5 billion or 6%.

| U.S. Personal and Commercial Banking (U.S. P&C) | | | | | Table 12 |
|---|---|---|---|---|---|
| (US$ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
| Net interest income (teb) (1) | **673** | 638 | 551 | **1,311** | 1,123 |
| Non-interest revenue | **206** | 190 | 157 | **396** | 307 |
| Total revenue (teb) (1) | **879** | 828 | 708 | **1,707** | 1,430 |
| Provision for credit losses (1) | **39** | 47 | 14 | **86** | 47 |
| Non-interest expense | **558** | 531 | 467 | **1,089** | 938 |
| Income before income taxes | **282** | 250 | 227 | **532** | 445 |
| Provision for income taxes (teb) | **76** | 68 | 60 | **144** | 117 |
| Reported net income | **206** | 182 | 167 | **388** | 328 |
| Amortization of acquisition-related intangible assets (2) | **10** | 9 | 10 | **19** | 21 |
| Adjusted net income | **216** | 191 | 177 | **407** | 349 |
| Net income growth (%) | **23.4** | 13.1 | 16.4 | **18.4** | 10.2 |
| Adjusted net income growth (%) | **21.5** | 11.5 | 14.4 | **16.6** | 8.6 |
| Revenue growth (%) | **24.1** | 14.7 | (0.8) | **19.4** | - |
| Non-interest expense growth (%) | **19.6** | 12.7 | (0.2) | **16.2** | (1.5) |
| Adjusted non-interest expense growth (%) | **20.4** | 13.5 | 0.3 | **16.9** | (0.9) |
| Operating leverage (%) (teb) | **4.5** | 2.0 | (0.6) | **3.2** | 1.5 |
| Adjusted operating leverage (%) (teb) | **3.7** | 1.2 | (1.1) | **2.5** | 0.9 |
| Efficiency ratio (%) (teb) | **63.5** | 64.1 | 65.9 | **63.8** | 65.5 |
| Adjusted efficiency ratio (%) (teb) | **62.0** | 62.5 | 63.9 | **62.3** | 63.6 |
| Net interest margin on average earning assets (%) (teb) | **3.71** | 3.63 | 3.46 | **3.67** | 3.46 |
| Average earning assets | **73,886** | 69,846 | 65,403 | **71,844** | 65,506 |
| Average net loans and acceptances | **69,048** | 64,937 | 59,368 | **66,971** | 59,194 |
| Average deposits | **65,608** | 64,931 | 61,649 | **65,266** | 61,698 |
| (Canadian $ equivalent in millions) | | | | | |
| Net interest income (teb) (1) | **876** | 877 | 684 | **1,753** | 1,366 |
| Non-interest revenue | **268** | 262 | 195 | **530** | 374 |
| Total revenue (teb) (1) | **1,144** | 1,139 | 879 | **2,283** | 1,740 |
| Provision for credit losses (1) | **51** | 65 | 18 | **116** | 58 |
| Non-interest expense | **727** | 730 | 579 | **1,457** | 1,140 |
| Income before income taxes | **366** | 344 | 282 | **710** | 542 |
| Provision for income taxes (teb) | **99** | 93 | 75 | **192** | 143 |
| Reported net Income | **267** | 251 | 207 | **518** | 399 |
| Adjusted net income | **279** | 264 | 220 | **543** | 425 |
| Net income growth (%) | **29.4** | 30.5 | 30.8 | **30.0** | 22.6 |
| Adjusted net income growth (%) | **27.4** | 28.6 | 28.5 | **28.0** | 20.9 |
| Revenue growth (%) | **30.2** | 32.3 | 11.6 | **31.2** | 11.4 |
| Non-interest expense growth (%) | **25.5** | 30.2 | 12.3 | **27.8** | 9.7 |
| Adjusted non-interest expense growth (%) | **26.3** | 31.0 | 12.9 | **28.6** | 10.4 |
| Average earning assets | **96,143** | 96,042 | 81,172 | **96,092** | 79,673 |
| Average net loans and acceptances | **89,845** | 89,300 | 73,683 | **89,570** | 72,007 |
| Average deposits | **85,363** | 89,204 | 76,515 | **87,304** | 75,040 |

(1) Beginning in the first quarter of 2016, the reduction in the credit mark that is reflected in net interest income and the provision for credit losses on the purchased performing portfolio are being recognized in U.S. P&C, consistent with the accounting for the acquisition of BMO TF. Results for prior periods have not been reclassified.

(2) Before tax amounts of: US$13 million in each of Q2-2016 and Q1-2016; US$14 million in Q2-2015; US$26 million for YTD-2016; and US$28 million for YTD-2015 are included in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Q2 2016 vs Q2 2015

Net income of $267 million increased $60 million or 29% and adjusted net income of $279 million increased $59 million or 27%. All amounts in the remainder of this section are on a U.S. dollar basis.

Net income of $206 million increased $39 million or 23% from a year ago and adjusted net income of $216 million increased $39 million or 21%, benefiting from the acquired BMO TF business, which contributed approximately 15% to revenue and adjusted expenses in the quarter, and organic growth.

Revenue of $879 million increased $171 million or 24%, due to the benefits of BMO TF, higher loan and deposit volumes and increased deposit spreads, net of loan spread compression. Net interest margin increased 25 basis points to 3.71%, driven by higher deposit spreads, the acquisition of BMO TF and the recognition of the credit mark on the purchased performing portfolio previously recognized in Corporate Services, partially offset by loan spread compression.

Provisions for credit losses were $39 million, up $25 million due to lower recoveries in the current quarter and the addition of BMO TF. Non-interest expense of $558 million and adjusted non-interest expense of $545 million both increased 20%, largely due to the acquisition of BMO TF.

Average net loans and acceptances increased $9.7 billion or 16% from the prior year to $69.0 billion, due to the acquisition of BMO TF as well as organic commercial loan growth of 13%, partially offset by declines in personal loan volumes including the planned reduction in indirect auto portfolio levels.

Average deposits of $65.6 billion increased $4.0 billion or 6% from the prior year, driven by growth in both personal and commercial volumes. Personal chequing volumes increased $997 million or 6%.

**Q2 2016 vs Q1 2016**

Net income increased $16 million or 7% and adjusted net income increased $15 million or 6% from prior quarter. All amounts in the remainder of this section are on a U.S. dollar basis.

Net income increased $24 million or 13% and adjusted net income increased $25 million or 12% from prior quarter.

Revenue increased $51 million or 6% from the prior quarter due to the full quarter impact of BMO TF, and higher deposit spreads and organic loan volumes, partially offset by two fewer days in the current quarter. Net interest margin increased 8 basis points from the prior quarter driven by increased deposit spreads and the full quarter impact of BMO TF, partially offset by loan spread compression.

Provisions for credit losses declined by $8 million due to lower provisions in the consumer portfolio. Non-interest expense and adjusted non-interest expense both increased 5% due to the full quarter impact of BMO TF.

Average net loans and acceptances increased by $4.1 billion or 6% from the prior quarter, driven by the full quarter impact of BMO TF and organic commercial loan growth, partially offset by declines in personal loan volumes including the planned reduction in indirect auto portfolio levels. Average deposits increased $0.7 billion or 1%.

**Q2 YTD 2016 vs Q2 YTD 2015**

Net income of $518 million increased $119 million or 30% and adjusted net income of $543 million increased $118 million or 28%. All amounts in the remainder of this section are on a U.S. dollar basis.

Net income of $388 million increased $60 million or 18% and adjusted net income of $407 million increased $58 million or 17%, mainly due to the impact of the acquired BMO TF business.

Revenue of $1,707 million increased $277 million or 19%, primarily due to the benefits of BMO TF, organic loan growth and improvements in deposit spreads, partially offset by loan spread compression. Net interest margin increased by 21 basis points to 3.67%, driven by higher deposit spreads, the acquisition of BMO TF and the recognition of the credit mark on the purchased performing portfolio, offset in part by a decline in loan spreads due to competitive pressures.

Provisions for credit losses were $86 million, up $39 million due to higher new provisions, lower recoveries and BMO TF. Non-interest expense of $1,089 million increased $151 million or 16% and adjusted non-interest expense of $1,063 million increased $153 million or 17%, largely due to BMO TF.

Average net loans and acceptances of $67.0 billion increased by $7.8 billion or 13% from prior year, due to BMO TF and organic commercial loan growth, partially offset by declines in personal loan volumes including the planned reduction in indirect auto portfolio levels. Average deposits of $65.3 billion increased $3.6 billion or 6% from prior year, driven by growth in both personal and commercial volumes.

Adjusted results in this U.S. P&C section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

## BMO Wealth Management — Table 13

| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| Net interest income | **149** | 149 | 133 | **298** | 277 |
| Non-interest revenue | **1,248** | 1,288 | 1,055 | **2,536** | 2,693 |
| Total revenue | **1,397** | 1,437 | 1,188 | **2,834** | 2,970 |
| Insurance claims, commissions and changes in policy benefit liabilities (CCPB) | **407** | 366 | 24 | **773** | 771 |
| Revenue, net of CCPB | **990** | 1,071 | 1,164 | **2,061** | 2,199 |
| Provision for credit losses | **2** | 2 | 1 | **4** | 3 |
| Non-interest expense | **816** | 877 | 836 | **1,693** | 1,664 |
| Income before income taxes | **172** | 192 | 327 | **364** | 532 |
| Provision for income taxes | **38** | 44 | 89 | **82** | 135 |
| Reported net income | **134** | 148 | 238 | **282** | 397 |
| Acquisition integration costs (1) | **5** | 9 | 10 | **14** | 20 |
| Amortization of acquisition-related intangible assets (2) | **19** | 19 | 17 | **38** | 34 |
| Adjusted net income | **158** | 176 | 265 | **334** | 451 |
| Traditional Wealth businesses adjusted net income | **90** | 154 | 169 | **244** | 324 |
| Insurance adjusted net income | **68** | 22 | 96 | **90** | 127 |
| Net income growth (%) | **(43.7)** | (6.8) | 24.0 | **(29.0)** | 8.5 |
| Adjusted net income growth (%) | **(40.8)** | (4.9) | 33.9 | **(26.1)** | 18.8 |
| Revenue growth (%) | **17.6** | (19.3) | (1.5) | **(4.6)** | 22.2 |
| Revenue growth, net of CCPB (%) | **(14.9)** | 3.5 | 32.5 | **(6.2)** | 26.0 |
| Non-interest expense growth (%) | **(2.4)** | 5.9 | 32.6 | **1.7** | 30.4 |
| Adjusted non-interest expense growth (%) | **(1.9)** | 6.0 | 29.1 | **2.0** | 27.0 |
| Return on equity (%) | **8.9** | 9.4 | 17.0 | **9.2** | 14.3 |
| Adjusted return on equity (%) | **10.5** | 11.3 | 19.0 | **10.9** | 16.2 |
| Operating leverage, net of CCPB (%) | **(12.5)** | (2.4) | (0.1) | **(7.9)** | (4.4) |
| Adjusted operating leverage, net of CCPB (%) | **(13.0)** | (2.5) | 3.4 | **(8.2)** | (1.0) |
| Efficiency ratio (%) | **58.4** | 61.0 | 70.4 | **59.7** | 56.0 |
| Efficiency ratio, net of CCPB (%) | **82.4** | 81.9 | 71.8 | **82.1** | 75.7 |
| Adjusted efficiency ratio (%) | **56.4** | 58.5 | 67.6 | **57.4** | 53.7 |
| Adjusted efficiency ratio, net of CCPB (%) | **79.5** | 78.5 | 69.0 | **79.0** | 72.6 |
| Assets under management and administration | **816,602** | 863,623 | 832,972 | **816,602** | 832,972 |
| Average earning assets | **25,232** | 25,555 | 23,596 | **25,395** | 23,181 |
| Average net loans and acceptances | **16,064** | 16,206 | 14,202 | **16,137** | 14,024 |
| Average deposits | **29,713** | 28,911 | 27,308 | **29,308** | 26,946 |
| **U.S. Select Financial Data (US$ in millions)** | | | | | |
| Total revenue | **92** | 176 | 185 | **268** | 370 |
| Non-interest expense | **145** | 151 | 163 | **296** | 332 |
| Reported net income | **(39)** | 20 | 15 | **(19)** | 27 |
| Adjusted net income | **(36)** | 24 | 20 | **(12)** | 37 |
| Average earning assets | **3,446** | 3,432 | 3,196 | **3,439** | 3,191 |
| Average net loans and acceptances | **3,151** | 3,147 | 2,931 | **3,150** | 2,892 |
| Average deposits | **5,659** | 5,820 | 6,110 | **5,741** | 6,205 |

(1) F&C acquisition integration costs before tax amounts of: $6 million in Q2-2016; $12 million in Q1-2016; $11 million in Q2-2015; $18 million for YTD-2016; and $24 million for YTD-2015 are included in non-interest expense.

(2) Before tax amounts of: $23 million in Q2-2016; $24 million in Q1-2016; $22 million in Q2-2015; $47 million for YTD-2016; and $44 million for YTD-2015 are included in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Q2 2016 vs Q2 2015

Net income was $134 million compared to $238 million a year ago. Adjusted net income was $158 million compared to $265 million a year ago. Traditional wealth adjusted net income was $90 million compared to $169 million a year ago, due to a $79 million after-tax write-down of an equity investment. Underlying traditional wealth adjusted results were unchanged with business growth offset by lower year-over-year equity markets. Adjusted net income in insurance was $68 million compared to above-trend results of $96 million a year ago.

Revenue was $1,397 million compared to $1,188 million a year ago. Revenue, net of CCPB, of $990 million, declined 15%. Revenue in traditional wealth was $868 million compared to $998 million a year ago, due to the $108 million pre-tax investment write-down, lower year-over-year equity markets and the impact of divestitures, primarily the sale of our U.S. Retirement Services business in the fourth quarter last year, partially offset by underlying business growth. Insurance revenue, net of CCPB, was $122 million compared to above-trend revenue of $166 million in the prior year.

Non-interest expense of $816 million and adjusted non-interest expense of $787 million both decreased 2%, or 3% excluding the impact of the stronger U.S. dollar and British pound, due to the impact of divestitures as noted above, and lower revenue-based costs.

Assets under management and administration declined $16 billion or 2% from a year ago to $817 billion, driven by market depreciation, partially offset by favourable foreign exchange movements.

**Q2 2016 vs Q1 2016**

Net income was $134 million compared to $148 million in the prior quarter. Adjusted net income was $158 million compared to $176 million in the prior quarter. Adjusted net income in traditional wealth increased $15 million, excluding the investment write-down, due to lower expenses. Adjusted net income in insurance was up $46 million due to the negative impact of interest rates and equity markets in the prior quarter.

Net revenue was $990 million compared to $1,071 million in the prior quarter. Revenue in traditional wealth was $868 million compared to $1,007 million in the prior quarter, reflecting the investment write-down, the impact of the weaker U.S. dollar and British pound and two fewer days in the current quarter, partially offset by higher quarter-over-quarter equity markets. Net insurance revenue increased $58 million due to the items noted above. The weaker U.S. dollar and British pound decreased revenue by $15 million.

Non-interest expense of $816 million was down $61 million. Adjusted non-interest expense of $787 million was down $54 million primarily due to stock-based compensation for employees eligible-to-retire that is expensed in the first quarter of each year. The weaker U.S. dollar and British pound decreased adjusted expenses by $18 million.

Assets under management and administration of $817 billion declined $47 billion or 5% from the prior quarter, mainly driven by unfavourable foreign exchange movements.

**Q2 YTD 2016 vs Q2 YTD 2015**

Net income was $282 million compared to $397 million in the prior year. Adjusted net income was $334 million compared to $451 million in the prior year. Adjusted net income in traditional wealth was $244 million compared to $324 million due to the investment write-down, with underlying business growth offset by lower year-over-year equity markets. Adjusted net income in insurance was $90 million compared to $127 million, driven by above-trend results primarily due to higher benefits from changes in our investment portfolio to improve asset-liability management in the prior year.

Net revenue was $2,061 million compared to $2,199 million in the prior year. Revenue in traditional wealth of $1,875 million was up $19 million, excluding the investment write-down, as underlying business growth was partially offset by lower year-over-year equity markets and the impact of divestitures, primarily the sale of our U.S. Retirement Services business. Insurance revenue, net of CCPB, was $186 million compared to $235 million, which was above-trend, as discussed above. The stronger U.S. dollar and British pound increased revenue by $45 million.

Non-interest expense was $1,693 million, an increase of $29 million. Adjusted non-interest expense of $1,628 million increased $32 million, or decreased $9 million excluding the impact of the stronger U.S. dollar and British pound, mainly due to the impact of divestitures as noted above.

Adjusted results in this BMO Wealth Management section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

## BMO Capital Markets — Table 14

| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
|---|---|---|---|---|---|
| Net interest income (teb) | **378** | 429 | 274 | **807** | 662 |
| Non-interest revenue | **692** | 591 | 737 | **1,283** | 1,269 |
| Total revenue (teb) | **1,070** | 1,020 | 1,011 | **2,090** | 1,931 |
| Provision for (recovery of) credit losses | **44** | 8 | 5 | **52** | 14 |
| Non-interest expense | **633** | 661 | 616 | **1,294** | 1,239 |
| Income before income taxes | **393** | 351 | 390 | **744** | 678 |
| Provision for income taxes (teb) | **102** | 91 | 94 | **193** | 162 |
| Reported and adjusted net income | **291** | 260 | 296 | **551** | 516 |
| Trading Products revenue | **730** | 589 | 660 | **1,319** | 1,230 |
| Investment and Corporate Banking revenue | **340** | 431 | 351 | **771** | 701 |
| Net income growth (%) | **(1.7)** | 18.4 | (2.6) | **6.9** | (10.9) |
| Revenue growth (%) | **5.8** | 10.9 | 6.3 | **8.2** | 0.5 |
| Non-interest expense growth (%) | **2.8** | 6.2 | 6.1 | **4.5** | 4.2 |
| Return on equity (%) | **14.7** | 13.2 | 17.9 | **14.0** | 15.8 |
| Operating leverage (%) (teb) | **3.0** | 4.7 | 0.2 | **3.7** | (3.7) |
| Efficiency ratio (%) (teb) | **59.2** | 64.8 | 60.9 | **61.9** | 64.2 |
| Net interest margin on average earning assets (%) (teb) | **0.61** | 0.66 | 0.48 | **0.64** | 0.56 |
| Average earning assets | **251,645** | 257,905 | 235,156 | **254,809** | 236,188 |
| Average assets | **303,132** | 311,775 | 289,591 | **307,501** | 288,409 |
| Average net loans and acceptances | **45,313** | 44,043 | 35,837 | **44,671** | 34,997 |
| Average deposits | **143,560** | 155,964 | 136,155 | **149,830** | 137,471 |
| **U.S. Select Financial Data (US$ in millions)** | | | | | |
| Total revenue (teb) | **281** | 270 | 297 | **551** | 562 |
| Non-interest expense | **216** | 215 | 221 | **431** | 441 |
| Reported net income | **36** | 34 | 51 | **70** | 80 |
| Average earning assets | **77,317** | 78,730 | 74,226 | **78,031** | 75,209 |
| Average assets | **84,712** | 85,970 | 83,504 | **85,348** | 84,380 |
| Average net loans and acceptances | **15,143** | 13,749 | 10,507 | **14,438** | 10,366 |
| Average deposits | **50,112** | 55,769 | 54,394 | **52,972** | 56,533 |

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Q2 2016 vs Q2 2015

Net income of $291 million decreased $5 million or 2% from the prior year as good revenue performance was offset by higher provisions for credit losses and higher expenses. Return on equity was 14.7% compared to 17.9% in the prior year primarily due to higher allocated capital.

Revenue increased $59 million or 6%, or 4% excluding the impact of the stronger U.S. dollar. Trading Products reported strong performance primarily from higher client activity, while Investment and Corporate Banking revenue decreased as higher corporate banking related revenue was more than offset by lower net securities gains.

Provision for credit losses of $44 million increased $39 million, primarily due to higher resource-related provisions. Non-interest expense increased $17 million or 3%. Non-interest expense increased $4 million or 1%, excluding the impact of the stronger U.S. dollar, due to higher employee-related expenses.

### Q2 2016 vs Q1 2016

Net income increased $31 million or 12% from the prior quarter, driven by strong performance in our Trading Products business and lower employee-related expenses, partially offset by lower Investment and Corporate Banking revenue and higher provisions for credit losses.

Revenue increased $50 million or 5%. Revenue increased $71 million or 7%, excluding the impact of the weaker U.S. dollar. Strong performance in our Trading Products business was driven by higher client activity and improved market conditions. In our Investment and Corporate Banking business, higher equity underwriting revenue from an improved issuance environment was more than offset by softer advisory results and lower net securities gains.

Provision for credit losses increased $36 million, primarily due to higher resource-related provisions. Non-interest expense decreased $28 million or 4% from the previous quarter. Non-interest expense decreased $12 million or 2%, excluding the impact of the weaker U.S. dollar, due to stock-based compensation costs for employees eligible to retire that is expensed in the first quarter of each year.

### Q2 YTD 2016 vs Q2 YTD 2015

Net income of $551 million increased $35 million or 7% from the prior year.

Revenue increased $159 million or 8%. Revenue was up $97 million or 5%, excluding the impact of the stronger U.S. dollar, driven by increases in trading revenues, investment banking advisory fees and corporate banking related revenue, partially offset by lower net securities gains.

Provision for credit losses increased $38 million, primarily due to higher resource-related provisions. Non-interest expense increased $55 million or 4%. Non-interest expense increased $3 million, excluding the impact of the stronger U.S. dollar.

| Corporate Services | | | | | Table 15 |
|---|---|---|---|---|---|
| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q2-2015 | **YTD-2016** | YTD-2015 |
| Net interest income before group teb offset (1) | **(85)** | (69) | (96) | **(154)** | (140) |
| Group teb offset | **(120)** | (160) | (100) | **(280)** | (290) |
| Net interest income (teb) (1) | **(205)** | (229) | (196) | **(434)** | (430) |
| Non-interest revenue | **23** | (17) | 39 | **6** | 137 |
| Total revenue (teb) (1) | **(182)** | (246) | (157) | **(428)** | (293) |
| Recovery of credit losses (1) | **(23)** | (32) | (6) | **(55)** | (26) |
| Non-interest expense | **295** | 130 | 269 | **425** | 428 |
| Loss before income taxes | **(454)** | (344) | (420) | **(798)** | (695) |
| Recovery of income taxes (teb) | **(210)** | (224) | (193) | **(434)** | (394) |
| Reported net loss | **(244)** | (120) | (227) | **(364)** | (301) |
| Acquisition integration costs (2) | **11** | 6 | - | **17** | - |
| Cumulative accounting adjustment (3) | **-** | 62 | - | **62** | - |
| Restructuring costs (4) | **132** | - | 106 | **132** | 106 |
| Adjusted net loss | **(101)** | (52) | (121) | **(153)** | (195) |
| **Corporate Services Recovery of Credit Losses** | | | | | |
| Impaired real estate loans | **(4)** | (3) | 18 | **(7)** | 23 |
| Interest on impaired loans | **-** | - | 5 | **-** | 9 |
| Purchased credit impaired loans | **(19)** | (29) | (26) | **(48)** | (55) |
| Purchased performing loans | **-** | - | (3) | **-** | (3) |
| Recovery of credit losses | **(23)** | (32) | (6) | **(55)** | (26) |
| Average loans and acceptances | **81** | 137 | 261 | **109** | 281 |
| Period-end loans and acceptances | **75** | 100 | 206 | **75** | 206 |
| **U.S. Select Financial Data (US$ in millions)** | | | | | |
| Total revenue (teb) (1) | **(36)** | (37) | (35) | **(73)** | (41) |
| Recovery of credit losses (1) | **(17)** | (67) | (33) | **(84)** | (34) |
| Non-interest expense | **79** | 31 | 82 | **110** | 165 |
| Recovery of income taxes (teb) | **(32)** | (2) | (43) | **(34)** | (89) |
| Reported net income (loss) | **(66)** | 1 | (41) | **(65)** | (83) |
| Adjusted total revenue (teb) (1) | **(36)** | (37) | (35) | **(73)** | (41) |
| Adjusted recovery of credit losses (1) | **(17)** | (23) | (4) | **(40)** | (22) |
| Adjusted non-interest expense | **13** | 24 | 41 | **37** | 124 |
| Adjusted net loss | **(25)** | (22) | (33) | **(47)** | (64) |

(1) Beginning in the first quarter of 2016, the reduction in the credit mark that is reflected in net interest income and the provision for credit losses on the purchased performing portfolio are being recognized in U.S. P&C, consistent with the accounting for the acquisition of BMO TF. Results for prior periods have not been reclassified.

(2) Acquisition integration costs related to the acquisition of BMO TF are primarily included in non-interest expense.

(3) Cumulative accounting adjustment recognized in other non-interest revenue related to foreign currency translation, largely impacting prior periods.

(4) Restructuring charges before tax amounts of: $188 million in Q2-2016 as we accelerate the use of technology to enhance customer experience and focus on driving operational efficiencies; and $149 million in Q2-2015, primarily due to restructuring to drive operational efficiencies, are included in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

## Corporate Services

Corporate Services consists of Corporate Units and Technology and Operations (T&O). Corporate Units provide enterprise-wide expertise and governance support in a variety of areas, including strategic planning, risk management, finance, legal and regulatory compliance, marketing, communications and human resources. T&O manages, maintains and provides governance over information technology, operations services, real estate and sourcing for BMO Financial Group.

The costs of providing these Corporate Unit and T&O services are largely transferred to the three client operating groups (P&C, Wealth Management and BMO Capital Markets), and only relatively minor amounts are retained in Corporate Services results. As such, Corporate Services adjusted operating results largely reflect the impact of certain asset-liability management activities, the elimination of taxable equivalent adjustments, the results from certain impaired real estate secured assets and certain purchased loan accounting impacts.

### Q2 2016 vs Q2 2015

Corporate Services net loss for the quarter was $244 million compared with a net loss of $227 million a year ago. The current quarter reported figures included a $132 million after-tax ($188 million pre-tax) restructuring charge as we accelerate the use of technology to enhance customer experience and focus on driving operational efficiencies. The prior year included a $106 million after-tax ($149 million pre-tax) restructuring charge primarily due to restructuring to drive operational efficiencies. Corporate Services adjusted net loss for the quarter was $101 million, compared with an adjusted net loss of $121 million a year ago. Adjusted results improved due to below-trend expenses and higher recoveries of credit losses in the current quarter.

### Q2 2016 vs Q1 2016

Corporate Services net loss for the quarter was $244 million compared with a net loss of $120 million in the prior quarter. Corporate Services adjusted net loss for the quarter was $101 million, compared with an adjusted net loss of $52 million in the prior quarter. Adjusted results declined primarily due to lower revenue and lower recoveries of credit losses, partially offset by below-trend expenses in the current quarter.

**Q2 YTD 2016 vs Q2 YTD 2015**

Corporate Services net loss for the year to date was $364 million, compared with a net loss of $301 million a year ago. Corporate Services adjusted net loss for the year to date was $153 million, compared with an adjusted net loss of $195 million a year ago. Adjusted results improved mainly due to below-trend expenses and higher recoveries of credit losses, partially offset by lower revenues in the current year.

Adjusted results in this Corporate Services section are non-GAAP amounts or non-GAAP measures. Please see the non-GAAP Measures section.

| Summary Quarterly Earnings Trends | | | | | | | | Table 16 |
|---|---|---|---|---|---|---|---|---|
| (Canadian $ in millions, except as noted) | **Q2-2016** | Q1-2016 | Q4-2015 | Q3-2015 | Q2-2015 | Q1-2015 | Q4-2014 | Q3-2014 |
| Total revenue (1) | **5,101** | 5,075 | 4,982 | 4,826 | 4,526 | 5,055 | 4,640 | 4,735 |
| Insurance claims, commissions and changes in policy benefit liabilities (CCPB) (1) | **407** | 366 | 265 | 218 | 24 | 747 | 300 | 520 |
| Revenue, net of CCPB | **4,694** | 4,709 | 4,717 | 4,608 | 4,502 | 4,308 | 4,340 | 4,215 |
| Provision for credit losses – specific | **201** | 183 | 128 | 160 | 161 | 163 | 170 | 130 |
| Provision for credit losses – collective | **-** | - | - | - | - | - | - | - |
| Non-interest expense | **3,312** | 3,270 | 3,093 | 2,971 | 3,112 | 3,006 | 2,887 | 2,756 |
| Income before income taxes | **1,181** | 1,256 | 1,496 | 1,477 | 1,229 | 1,139 | 1,283 | 1,329 |
| Provision for income taxes | **208** | 188 | 282 | 285 | 230 | 139 | 213 | 203 |
| Reported net income (see below) | **973** | 1,068 | 1,214 | 1,192 | 999 | 1,000 | 1,070 | 1,126 |
| Adjusted net income (see below) | **1,152** | 1,178 | 1,264 | 1,230 | 1,146 | 1,041 | 1,111 | 1,162 |
| Basic earnings per share ($) | **1.46** | 1.59 | 1.83 | 1.81 | 1.49 | 1.47 | 1.57 | 1.68 |
| Diluted earnings per share ($) | **1.45** | 1.58 | 1.83 | 1.80 | 1.49 | 1.46 | 1.56 | 1.67 |
| Adjusted diluted earnings per share ($) | **1.73** | 1.75 | 1.90 | 1.86 | 1.71 | 1.53 | 1.63 | 1.73 |
| Net interest margin on average earning assets (%) | **1.61** | 1.58 | 1.53 | 1.52 | 1.48 | 1.51 | 1.57 | 1.55 |
| PCL as a % of average net loans and acceptances (annualized) | **0.23** | 0.21 | 0.15 | 0.20 | 0.20 | 0.21 | 0.23 | 0.18 |
| Effective income tax rate (%) | **17.6** | 15.0 | 18.8 | 19.3 | 18.8 | 12.2 | 16.6 | 15.3 |
| Adjusted effective income tax rate (%) | **19.6** | 16.2 | 18.9 | 19.4 | 19.8 | 12.6 | 16.8 | 15.6 |
| Canadian/U.S. dollar exchange rate (average) | **1.30** | 1.37 | 1.32 | 1.27 | 1.24 | 1.19 | 1.11 | 1.08 |
| Operating group reported net income: | | | | | | | | |
| Canadian P&C | **525** | 529 | 561 | 556 | 485 | 503 | 526 | 524 |
| U.S. P&C | **267** | 251 | 208 | 222 | 207 | 192 | 169 | 162 |
| Personal and Commercial Banking | **792** | 780 | 769 | 778 | 692 | 695 | 695 | 686 |
| Wealth Management | **134** | 148 | 243 | 210 | 238 | 159 | 225 | 189 |
| BMO Capital Markets | **291** | 260 | 241 | 272 | 296 | 220 | 190 | 305 |
| Corporate Services | **(244)** | (120) | (39) | (68) | (227) | (74) | (40) | (54) |
| BMO Financial Group net income | **973** | 1,068 | 1,214 | 1,192 | 999 | 1,000 | 1,070 | 1,126 |
| Operating group adjusted net income: | | | | | | | | |
| Canadian P&C | **525** | 530 | 562 | 557 | 486 | 504 | 527 | 525 |
| U.S. P&C | **279** | 264 | 222 | 235 | 220 | 205 | 182 | 175 |
| Personal and Commercial Banking | **804** | 794 | 784 | 792 | 706 | 709 | 709 | 700 |
| Wealth Management | **158** | 176 | 271 | 233 | 265 | 186 | 252 | 211 |
| BMO Capital Markets | **291** | 260 | 242 | 273 | 296 | 220 | 190 | 305 |
| Corporate Services | **(101)** | (52) | (33) | (68) | (121) | (74) | (40) | (54) |
| BMO Financial Group adjusted net income | **1,152** | 1,178 | 1,264 | 1,230 | 1,146 | 1,041 | 1,111 | 1,162 |

(1) Commencing in Q1-2015, insurance claims, commissions and changes in policy benefit liabilities are reported separately. They were previously reported as a reduction in insurance revenue in non-interest revenue. Prior period amounts and ratios have been reclassified.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

BMO's quarterly earnings trends were reviewed in detail on pages 66 and 67 of BMO's 2015 Annual Report. Readers are encouraged to refer to that review for a more complete discussion of trends and factors affecting past quarterly results including the modest impact of seasonal variations in results. Table 16 outlines summary results for the third quarter of fiscal 2014 through the second quarter of fiscal 2016. The table reflects changes in IFRS that are outlined in Note 1 to the audited annual consolidated financial statements on page 140 of BMO's 2015 Annual Report.

Periodically, certain business lines and units within the business lines are transferred between client and corporate support groups to more closely align BMO's organizational structure with its strategic priorities. Comparative figures have been reclassified to conform to the current presentation.

### Canadian P&C

Canadian P&C delivered strong net income performance throughout 2014, moderating in the first half of 2015, with better net income growth in the second half of 2015. There were higher provisions for credit losses in the first half of 2016, up from below-trend provisions in the second half of 2015. Revenue growth has been driven by higher balances and non-interest revenue. Expenses have grown as a result of continued investments to support business growth, net of a continued focus on disciplined expense management.

### U.S. P&C

Results improved in the fourth quarter of 2014 through the second quarter of 2016 as a result of disciplined expense management in a challenging interest rate environment. Growth in 2016 largely reflects the acquisition of BMO TF.

### Wealth Management

Wealth Management's results in the last two quarters were below-trend, impacted by lower fee-based revenue from lower year-over-year equity markets. Results in the current quarter were also impacted by the investment write-down. Traditional wealth operating results have benefitted from the acquired F&C business since the second half of 2014 and from a gain on the sale of our U.S. Retirement Services business in the last quarter of 2015. Quarterly results in the insurance businesses have been subject to variability, resulting primarily from impacts of interest rates and equity markets, as well as methodology and actuarial assumptions changes.

### BMO Capital Markets

Strong performance in the third quarter of 2014 was followed by slower market activity in the fourth quarter, while the first quarter of 2015 was impacted by unfavourable credit and funding valuation adjustments. The second and third quarters of 2015 reflected improved performance in both our Trading Products and Investment and Corporate Banking businesses, with reduced activity in certain markets in the fourth quarter of 2015 and in the first quarter of 2016 due to more difficult market conditions. The second quarter of 2016 reflected strong performance in our Trading Products business, partially offset by increased provisions for credit losses.

### Provisions for Credit Losses

BMO's PCL measured as a percentage of loans and acceptances has been stable in recent quarters, and increased in the second quarter of 2016.

### Corporate Services

Adjusted quarterly net income can vary from quarter to quarter and is impacted by the variability associated with benefits from the purchased loan portfolio. Beginning in the first quarter of 2016, the reduction in the credit mark that is reflected in net interest income and the provision for credit losses on the purchased performing portfolio are being recognized in U.S. P&C, consistent with the accounting for the acquisition of BMO TF. Results for prior periods have not been reclassified.

### Foreign Exchange

The U.S. dollar strengthened significantly since 2014, with the exception of a slight weakening in the third quarter of 2014 and the second quarters of 2015 and 2016. A stronger U.S. dollar increases the translated value of U.S.-dollar-denominated revenues, expenses, provisions for (recoveries of) credit losses, income taxes and net income. It also reduces our return on equity.

### Provision for Income Taxes

The effective income tax rate can vary, as it depends on the timing of resolution of certain tax matters, recoveries of prior periods' income taxes and the relative proportion of earnings attributable to the different jurisdictions in which we operate.

Adjusted results in this Summary Quarterly Earnings Trends section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

### Caution

This Summary Quarterly Earnings Trends section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

## Balance Sheet

Total assets of $681.5 billion at April 30, 2016, increased $39.6 billion from October 31, 2015, including a $12.1 billion decrease as a result of the weaker U.S. dollar, excluding the impact on derivative financial assets. Derivative financial assets increased $2.3 billion and derivative financial liabilities increased $3.3 billion, primarily due to the increase in the fair value of foreign exchange contracts resulting from increased client activity.

The following discussion excludes changes due to the weaker U.S. dollar. Net loans increased $24.4 billion primarily due to organic increases in loans to businesses and governments in the operating groups, and the acquired BMO TF business. Securities borrowed or purchased under resale agreements increased $15.8 billion, driven by client activities in BMO Capital Markets. Securities increased by $9.4 billion primarily due to higher trading securities. Other assets, excluding derivative financial assets, increased by $2.0 billion. The above increases were partially offset by a $2.2 billion decrease in cash and cash equivalents and interest bearing deposits with banks primarily due to cash used in acquiring the BMO TF business.

Liabilities increased $40.5 billion from October 31, 2015, including an $11.4 billion decrease as a result of the weaker U.S. dollar, excluding the impact on derivative financial liabilities, and an increase in derivative financial liabilities of $3.3 billion as discussed above.

The following discussion excludes changes due to the weaker U.S. dollar. Securities lent or sold under repurchase agreements increased $20.8 billion related to client activities in BMO Capital Markets. Deposits increased $15.7 billion, driven by a $9.4 billion increase in deposits by individuals, a $3.5 billion increase in deposits by banks and a $2.8 billion increase in business and government deposits, reflecting higher levels of wholesale and customer deposits. Securities sold and not yet purchased increased $6.3 billion due to client activities. Other liabilities increased $4.8 billion due primarily to treasury activities. Acceptances increased by $0.8 billion.

Total equity decreased $0.9 billion from October 31, 2015. Total shareholders' equity decreased $0.4 billion primarily due to the decrease in accumulated other comprehensive income, partially offset by an increase in retained earnings. Accumulated other comprehensive income on translation of net foreign operations decreased $0.9 billion net of hedging impacts primarily due to the weaker U.S. dollar. Non-controlling interest in subsidiaries decreased $0.5 billion due to the redemption of Capital Trust Securities.

Total shareholders' equity decreased $2.6 billion from January 31, 2016, primarily due to the decrease in accumulated other comprehensive income, partially offset by an increase in retained earnings. Accumulated other comprehensive income on translation of net foreign operations decreased $2.4 billion net of hedging impacts primarily due to the weaker U.S. dollar. Non-controlling interest in subsidiaries was relatively unchanged.

Contractual obligations by year of maturity are outlined in Note 15 to the unaudited interim consolidated financial statements.

### Transactions with Related Parties

In the ordinary course of business, we provide banking services to our key management personnel, joint ventures and associates on the same terms that we offer to our customers for those services.

The bank's policies and procedures for related party transactions did not materially change from October 31, 2015, as described in Note 29 to the audited consolidated financial statements on page 197 of BMO's 2015 Annual Report.

### Off-Balance Sheet Arrangements

BMO enters into a number of off-balance sheet arrangements in the normal course of operations. The most significant of these are Credit Instruments, Structured Entities and Guarantees, which are described on page 77 of BMO's 2015 Annual Report. We consolidate all of our Structured Entities, except for certain Canadian customer securitization vehicles, structured finance vehicles, capital and funding vehicles and various BMO managed and non-managed investment funds. There have been no changes of substance during the quarter ended April 30, 2016.

### Accounting Policies and Critical Accounting Estimates

Significant accounting policies are described in our 2015 annual MD&A and in the notes to our audited consolidated financial statements for the year ended October 31, 2015 and in Note 1 to the unaudited interim consolidated financial statements for the quarter ended January 31, 2016, together with a discussion of certain accounting estimates that are considered particularly important as they require management to make significant judgments, some of which relate to matters that are inherently uncertain. Readers are encouraged to review that discussion on pages 78 to 80 and 141 to 143 in BMO's 2015 Annual Report.

### Future Changes in Accounting Policies

BMO monitors the potential changes proposed by IASB, and analyzes the effect that changes in the standards may have on BMO's financial reporting and accounting policies. New standards and amendments to existing standards, which are effective for the bank in the future, can be found in Note 1 to the audited annual consolidated financial statements on pages 143 and 144 of BMO's 2015 Annual Report, and in Note 1 to the unaudited interim consolidated financial statements for the quarters ended January 31, 2016 and April 30, 2016. We will be adopting IFRS 9 Financial Instruments (IFRS 9) effective November 1, 2017. IFRS 9 addresses classification and measurement, impairment and hedge accounting. In December 2015, the BCBS released its *Guidance on credit risk and accounting for expected credit losses,* which provides additional guidance on the application of IFRS 9 for banking institutions.

Additional information can be found on pages 80 and 81 of BMO's 2015 Annual Report. We are currently assessing the impact of this new standard on our future financial results, however we expect that the collective allowance will increase as a result of the new standard. Any increase in collective allowance on transition will be recorded in retained earnings.

### Select Financial Instruments

Pages 76 and 77 of BMO's 2015 Annual Report provide enhanced disclosure relating to select financial instruments that, commencing in 2008 and based on subsequent assessments, markets regard as carrying higher risk, including information on sectors of interest: oil and gas and mining. BMO's oil and gas outstanding loans continue to be approximately 2% and loans in respect of the mining sector continue to be less than 1% of total loans. Readers are encouraged to review that disclosure to assist in understanding the nature and extent of BMO's exposures.

The Financial Stability Board (FSB) issued a report encouraging enhanced disclosure related to financial instruments that market participants had come to regard as carrying higher risk. An index of where the disclosures recommended by the Enhanced Disclosure Task Force (EDTF) of the FSB are located is provided on our website at www.bmo.com/investorrelations.

We follow a practice of reporting on significant changes in select financial instruments since year end, if any, in our interim MD&A. There have been no changes of substance from the disclosure in our 2015 Annual Report.

### Other Regulatory Developments

We continue to monitor and prepare for regulatory developments, including those referenced elsewhere in this Report to Shareholders and the recent regulatory development set out below.

**Federal Budget.** The Federal Budget tabled on March 22, 2016 will impact the banking industry in Canada and included proposals for Bank Act amendments to modernize the financial consumer protection framework. As mentioned on page 12 in the Capital Management section, in April 2016, legislation required to implement a bail-in regime was tabled by the Canadian government to enhance Canada's bank resolution capabilities in line with international efforts.

For a comprehensive discussion of regulatory developments, see the Enterprise-Wide Capital Management section starting on page 70, the Liquidity and Funding Risk section starting on page 105, and the Legal and Regulatory Risk section starting on page 114 of BMO's 2015 Annual Report.

## Risk Management

Our risk management practices and key measures have not changed significantly from those outlined on pages 86 to 117 of BMO's 2015 Annual Report.

## Market Risk

### Linkages between Balance Sheet Items and Market Risk Disclosures

Table 17 below presents items reported in our Consolidated Balance Sheet that are subject to market risk, comprised of balances that are subject to either traded risk or non-traded risk measurement techniques.

**Linkages Between Balance Sheet Items and Market Risk Disclosures** **Table 17**

| | As at April 30, 2016 | | | | As at October 31, 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Subject to market risk | | | | Subject to market risk | | | |
| (Canadian $ in millions) | Consolidated Balance Sheet | Traded risk (1) | Non-traded risk (2) | Not subject to market risk | Consolidated Balance Sheet | Traded risk (1) | Non-traded risk (2) | Not subject to market risk | Main risk factors for non-traded risk balances |
| **Assets Subject to Market Risk** | | | | | | | | | |
| Cash and cash equivalents | 36,111 | - | 36,111 | - | 40,295 | - | 40,295 | - | Interest rate |
| Interest bearing deposits with banks | 7,386 | 962 | 6,424 | - | 7,382 | 1,212 | 6,170 | - | Interest rate |
| Securities | | | | | | | | | |
| Trading | 78,960 | 71,690 | 7,270 | - | 72,460 | 65,066 | 7,394 | - | Interest rate, credit spread, equity |
| Available-for-sale | 49,690 | - | 49,690 | - | 48,006 | - | 48,006 | - | Interest rate, credit spread |
| Held-to-maturity | 8,401 | - | 8,401 | - | 9,432 | - | 9,432 | - | Interest rate |
| Other | 1,145 | - | 1,145 | - | 1,020 | - | 1,020 | - | Equity |
| Securities borrowed or purchased under resale agreements | 81,890 | - | 81,890 | - | 68,066 | - | 68,066 | - | Interest rate |
| Loans (net of allowance for credit losses) | 341,688 | - | 341,688 | - | 322,717 | - | 322,717 | - | Interest rate, foreign exchange |
| Derivative instruments | 40,585 | 38,311 | 2,274 | - | 38,238 | 35,924 | 2,314 | - | Interest rate, foreign exchange |
| Customer's liabilities under acceptances | 12,091 | - | 12,091 | - | 11,307 | - | 11,307 | - | Interest rate |
| Other assets | 23,511 | - | 8,693 | 14,818 | 22,958 | - | 8,195 | 14,763 | Interest rate |
| Total Assets | 681,458 | 110,963 | 555,677 | 14,818 | 641,881 | 102,202 | 524,916 | 14,763 | |
| **Liabilities Subject to Market Risk** | | | | | | | | | |
| Deposits | 444,793 | 11,156 | 433,637 | - | 438,169 | 9,429 | 428,740 | - | Interest rate, foreign exchange |
| Derivative instruments | 45,979 | 43,735 | 2,244 | - | 42,639 | 39,907 | 2,732 | - | Interest rate, foreign exchange |
| Acceptances | 12,091 | - | 12,091 | - | 11,307 | - | 11,307 | - | Interest rate |
| Securities sold but not yet purchased | 27,071 | 27,071 | - | - | 21,226 | 21,226 | - | - | |
| Securities lent or sold under repurchase agreements | 59,193 | - | 59,193 | - | 39,891 | - | 39,891 | - | Interest rate |
| Other liabilities | 48,656 | - | 48,359 | 297 | 44,320 | - | 44,218 | 102 | Interest rate |
| Subordinated debt | 4,643 | - | 4,643 | - | 4,416 | - | 4,416 | - | Interest rate |
| Total Liabilities | 642,426 | 81,962 | 560,167 | 297 | 601,968 | 70,562 | 531,304 | 102 | |

Certain comparative figures have been reclassified to conform with the current period's presentation.

(1) Primarily comprised of BMO's balance sheet items that are subject to the trading and underwriting risk management framework and fair valued through profit or loss.

(2) Primarily comprised of BMO's balance sheet items that are subject to the structural balance sheet and insurance risk management framework, or are available-for-sale securities.

### Trading, Underwriting and Non-Trading (Structural) Market Risk

Total Trading VaR increased over the quarter, driven primarily by interest rates and equity, owing to the recent impact of more volatile historical data used for VaR calculation, changes in select base market rates and higher client facilitation activities. Total Trading Stressed VaR increased over the quarter from changes in select base market rates and higher client facilitation activities.

There were no significant changes in our structural market risk management framework during the quarter.

Structural economic value exposure to rising interest rates primarily reflects a lower market value for fixed-rate loans. Structural economic value sensitivity to falling interest rates primarily reflects the impact of minimum modeled client deposit rates. Structural economic value sensitivity remained largely unchanged during the quarter. Structural economic value sensitivity to both rising and falling interest rates changed relative to October 31, 2015, primarily owing to the introduction of a new Canadian deposit model in the first quarter which reflects greater value for certain deposits as rates rise and the impact of minimum modeled client deposit rates as rates fall. Structural earnings exposure to falling interest rates primarily reflects the risk of fixed- and floating-rate loans repricing at lower rates and the more limited ability to reduce deposit pricing as rates fall. Structural earnings benefit to rising interest rates primarily reflects the benefit of widening deposit spreads as interest rates rise. Structural earnings sensitivity remained largely unchanged during the quarter. The increase in the exposure to falling rates relative to October 31, 2015, primarily reflects the greater extent to which U.S. short-term interest rates can now fall after the increase in U.S. short-term rates in December 2015.

BMO's market risk management practices and key measures are outlined on pages 100 to 104 of BMO's 2015 Annual Report.

**Total Trading Value at Risk (VaR) Summary** (1) **Table 18**

| | For the quarter ended April 30, 2016 | | | | As at January 31, 2016 | As at October 31, 2015 |
|---|---|---|---|---|---|---|
| (Pre-tax Canadian $ equivalent in millions) | **Quarter-end** | **Average** | **High** | **Low** | Quarter-end | Quarter-end |
| Commodity VaR | **(0.6)** | **(0.5)** | **(1.4)** | **(0.3)** | (0.5) | (0.4) |
| Equity VaR | **(7.6)** | **(7.6)** | **(9.9)** | **(5.2)** | (5.9) | (6.9) |
| Foreign exchange VaR | **(0.3)** | **(0.9)** | **(2.1)** | **(0.3)** | (0.7) | (2.6) |
| Interest rate VaR | **(13.8)** | **(12.2)** | **(16.2)** | **(8.2)** | (8.8) | (10.5) |
| Credit VaR | **(2.3)** | **(2.9)** | **(4.5)** | **(1.7)** | (4.0) | (2.7) |
| Diversification | **8.9** | **9.2** | **nm** | **nm** | 8.4 | 9.8 |
| Total Trading VaR | **(15.7)** | **(14.9)** | **(18.8)** | **(10.6)** | (11.5) | (13.3) |

(1) One-day measure using a 99% confidence interval. Losses are in brackets and benefits are presented as positive numbers.

nm - not meaningful

**Total Trading Stressed Value at Risk (SVaR) Summary** (1) (2) **Table 19**

| | For the quarter ended April 30, 2016 | | | | As at January 31, 2016 | As at October 31, 2015 |
|---|---|---|---|---|---|---|
| (Pre-tax Canadian $ equivalent in millions) | **Quarter-end** | **Average** | **High** | **Low** | Quarter-end | Quarter-end |
| Commodity SVaR | **(0.9)** | **(0.9)** | **(1.2)** | **(0.8)** | (1.0) | (0.7) |
| Equity SVaR | **(14.5)** | **(12.9)** | **(15.7)** | **(10.2)** | (10.4) | (17.6) |
| Foreign exchange SVaR | **(1.0)** | **(1.6)** | **(3.9)** | **(0.6)** | (1.4) | (2.2) |
| Interest rate SVaR | **(20.6)** | **(15.9)** | **(20.6)** | **(11.6)** | (12.7) | (10.4) |
| Credit SVaR | **(3.9)** | **(5.5)** | **(9.2)** | **(2.8)** | (9.0) | (5.2) |
| Diversification | **17.2** | **16.3** | **nm** | **nm** | 17.1 | 15.0 |
| Total Trading SVaR | **(23.7)** | **(20.5)** | **(24.3)** | **(16.2)** | (17.4) | (21.1) |

(1) One-day measure using a 99% confidence interval. Losses are in brackets and benefits are presented as positive numbers.

(2) Stressed VaR is produced weekly.

nm - not meaningful

**Structural Balance Sheet Earnings and Value Sensitivity to Changes in Interest Rates** (1) (2) (3) (4) (5) **Table 20**

| | Economic value sensitivity (Pre-tax) | | | Earnings sensitivity over the next 12 months (Pre-tax) | | |
|---|---|---|---|---|---|---|
| (Canadian $ equivalent in millions) | **April 30, 2016** | January 31, 2016 | October 31, 2015 | **April 30, 2016** | January 31, 2016 | October 31, 2015 |
| 100 basis point increase | **(405.8)** | (395.8) | (647.6) | **201.5** | 197.3 | 220.7 |
| 100 basis point decrease | **(222.2)** | (227.9) | 107.3 | **(186.4)** | (196.6) | (95.3) |

Certain comparative figures have been reclassified to conform with the current period's presentation.

(1) We restated our structural earnings sensitivities to be pre-tax in Q1-2016 and positions for fiscal 2015 have been restated for comparative purposes.

(2) Earnings and value sensitivities to falling interest rates assume Canadian and U.S. central banks do not decrease overnight interest rates below nil. The scenarios with decreasing interest rates therefore limit the decrease in both Canadian and U.S. short-term interest rates to 50 basis points for shorter terms (2015-50 basis points for CAD and 25 basis points for U.S.). Longer-term interest rates do not decrease below the assumed level of short-term interest rates.

(3) Certain non-trading AFS holdings are managed under the bank's trading risk framework.

(4) Losses are in brackets and benefits are presented as positive numbers.

(5) For BMO's Insurance businesses, a 100 basis point increase in interest rates at April 30, 2016, results in an increase in earnings before tax of $101 million and an increase in economic value before tax of $600 million ($101 million and $587 million, respectively, at January 31, 2016; $94 million and $511 million, respectively, at October 31, 2015). A 100 basis point decrease in interest rates at April 30, 2016, results in a decrease in earnings before tax of $98 million and a decrease in economic value before tax of $724 million ($101 million and $710 million, respectively, at January 31, 2016; $93 million and $612 million, respectively, at October 31, 2015). These impacts are not reflected in the table above.

### Liquidity and Funding Risk

Liquidity and funding risk is managed under a robust risk management framework. There were no material changes in the framework during the quarter.

BMO's liquid assets are primarily held in our trading businesses, as well as in supplemental liquidity pools that are maintained for contingent liquidity risk management purposes. Liquid assets include unencumbered, high-quality assets that are marketable, can be pledged as security for borrowings and can be converted to cash in a time frame that meets our liquidity and funding requirements. BMO's liquid assets are summarized in Table 21.

In the ordinary course of business, BMO may encumber a portion of cash and securities holdings as collateral in support of trading activities and our participation in clearing and payment systems in Canada and abroad. In addition, BMO may receive liquid assets as collateral and may re-pledge these assets in exchange for cash or as collateral for trading activities. Net unencumbered liquid assets, defined as on-balance sheet assets such as BMO-owned cash and securities and securities borrowed or purchased under resale agreements, plus other off-balance sheet eligible collateral received, less collateral encumbered, totalled $182.8 billion at April 30, 2016, compared with $202.0 billion at January 31, 2016. The decrease in unencumbered liquid assets was primarily due to the impact of the weaker U.S. dollar. Net unencumbered liquid assets are primarily held at the parent bank level, at our U.S. legal entity BMO Harris Bank, and in our broker/dealer operations. In addition to liquid assets, BMO has access to the Bank of Canada's lending assistance programs, the Federal Reserve Bank discount window in the United States and European Central Bank standby liquidity facilities. We do not consider central bank facilities to be a source of available liquidity when assessing BMO's liquidity position.

In addition to cash and securities holdings, BMO may also pledge other assets, including mortgages and loans, to raise long-term secured funding. Table 22 provides a summary of total encumbered and unencumbered assets.

**Liquid Assets** **Table 21**

| | As at April 30, 2016 | | | | | As at January 31, 2016 |
|---|---|---|---|---|---|---|
| (Canadian $ in millions) | Carrying value/on balance sheet assets (1) | Other cash & securities received | Total gross assets (2) | Encumbered assets | Net unencumbered assets (3) | Net unencumbered assets (3) |
| Cash and cash equivalents | 36,111 | - | 36,111 | 1,885 | 34,226 | 36,927 |
| Deposits with other banks | 7,386 | - | 7,386 | - | 7,386 | 7,433 |
| Securities and securities borrowed or purchased under resale agreements | | | | | | |
| Sovereigns / Central banks / Multilateral development banks | 119,817 | 15,736 | 135,553 | 92,849 | 42,704 | 57,152 |
| Mortgage-backed securities and collateralized mortgage obligations | 20,581 | 1,588 | 22,169 | 5,689 | 16,480 | 17,260 |
| Corporate debt | 20,688 | 6,854 | 27,542 | 1,696 | 25,846 | 24,871 |
| Corporate equity | 59,000 | 20,975 | 79,975 | 43,875 | 36,100 | 38,432 |
| Total securities and securities borrowed or purchased under resale agreements | 220,086 | 45,153 | 265,239 | 144,109 | 121,130 | 137,715 |
| NHA mortgage-backed securities (reported as loans at amortized cost) (4) | 22,750 | - | 22,750 | 2,693 | 20,057 | 19,913 |
| Total liquid assets | 286,333 | 45,153 | 331,486 | 148,687 | 182,799 | 201,988 |
| Other eligible assets at central banks (not included above) (5) | 113,188 | - | 113,188 | 550 | 112,638 | 110,715 |
| Undrawn credit lines granted by central banks | - | - | - | - | - | - |
| Total liquid assets and other sources | 399,521 | 45,153 | 444,674 | 149,237 | 295,437 | 312,703 |

(1) The carrying values outlined in this table are consistent with the carrying values in BMO's balance sheet as at April 30, 2016.

(2) Gross assets include on-balance sheet and off-balance sheet assets.

(3) Net unencumbered liquid assets are defined as on-balance sheet assets, such as BMO-owned cash and securities and securities borrowed or purchased under resale agreements, plus other off-balance sheet eligible collateral received, less encumbered assets.

(4) Under IFRS, NHA mortgage-backed securities that include mortgages owned by BMO as the underlying collateral are classified as loans. Unencumbered NHA mortgage-backed securities have liquidity value and are included as liquid assets under BMO's liquidity and funding management framework. This amount is shown as a separate line item, NHA mortgage-backed securities.

(5) Represents loans currently lodged at central banks that could potentially be used to access central bank funding. Loans available for pledging as collateral do not include other sources of additional liquidity that may be realized from the loan portfolio, including incremental securitization, covered bond issuances and Federal Home Loan Bank (FHLB) advances.

| **Asset Encumbrance** (Canadian $ in millions) | | | | | **Table 22** |
|---|---|---|---|---|---|
| | | **Encumbered (2)** | | **Net unencumbered** | |
| As at April 30, 2016 | **Total gross assets (1)** | **Pledged as collateral** | **Other encumbered** | **Other unencumbered (3)** | **Available as collateral (4)** |
| Cash and deposits with other banks | **43,497** | **-** | **1,885** | **400** | **41,212** |
| Securities (5) | **287,989** | **117,038** | **29,764** | **8,647** | **132,540** |
| Loans | **318,938** | **51,809** | **550** | **153,941** | **112,638** |
| Other assets | | | | | |
| Derivative instruments | **40,585** | **-** | **-** | **40,585** | **-** |
| Customers' liability under acceptances | **12,091** | **-** | **-** | **12,091** | **-** |
| Premises and equipment | **2,230** | **-** | **-** | **2,230** | **-** |
| Goodwill | **6,149** | **-** | **-** | **6,149** | **-** |
| Intangible assets | **2,178** | **-** | **-** | **2,178** | **-** |
| Current tax assets | **736** | **-** | **-** | **736** | **-** |
| Deferred tax assets | **3,115** | **-** | **-** | **3,115** | **-** |
| Other assets | **9,103** | **-** | **-** | **9,103** | **-** |
| Total other assets | **76,187** | **-** | **-** | **76,187** | **-** |
| Total assets | **726,611** | **168,847** | **32,199** | **239,175** | **286,390** |

| | | Encumbered (2) | | Net unencumbered | |
|---|---|---|---|---|---|
| As at January 31, 2016 | Total gross assets (1) | Pledged as collateral | Other encumbered | Other unencumbered (3) | Available as collateral (4) |
| Cash and deposits with other banks | 46,394 | - | 2,034 | 402 | 43,958 |
| Securities (5) | 290,583 | 105,818 | 27,137 | 8,364 | 149,264 |
| Loans | 322,139 | 44,083 | 738 | 166,603 | 110,715 |
| Other assets | | | | | |
| Derivative instruments | 49,233 | - | - | 49,233 | - |
| Customers' liability under acceptances | 11,345 | - | - | 11,345 | - |
| Premises and equipment | 2,339 | - | - | 2,339 | - |
| Goodwill | 6,787 | - | - | 6,787 | - |
| Intangible assets | 2,306 | - | - | 2,306 | - |
| Current tax assets | 735 | - | - | 735 | - |
| Deferred tax assets | 3,360 | - | - | 3,360 | - |
| Other assets | 9,692 | - | - | 9,692 | - |
| Total other assets | 85,797 | - | - | 85,797 | - |
| Total assets | 744,913 | 149,901 | 29,909 | 261,166 | 303,937 |

(1) Gross assets include on-balance sheet and off-balance sheet assets.
(2) Pledged as collateral refers to the portion of on-balance sheet assets and other cash and securities received that is pledged through repurchase agreements, securities lent, derivative contracts, minimum required deposits at central banks and requirements associated with participation in clearing houses and payment systems. Other encumbered assets include assets which are restricted from use for legal or other reasons, such as restricted cash and short sales.
(3) Other unencumbered assets include select liquid asset holdings that management believes are not readily available to support BMO's liquidity requirements. These include cash and securities of $9.0 billion as at April 30, 2016, which include securities held in BMO's insurance subsidiary and credit protection vehicle, significant equity investments, and certain investments held in our merchant banking business. Other unencumbered assets also include mortgages and loans that may be securitized to access secured funding.
(4) Loans included as available as collateral represent loans currently lodged at central banks that could potentially be used to access central bank funding. Loans available for pledging as collateral do not include other sources of additional liquidity that may be realized from the loan portfolio, including incremental securitization, covered bond issuances and FHLB advances.
(5) Includes securities, securities borrowed or purchased under resale agreements and NHA mortgage-backed securities (reported as loans at amortized cost).

BMO's Liquidity Coverage Ratio (LCR) is summarized in Table 23. The average month-end LCR for the quarter ended April 30, 2016 of 123% is calculated as the ratio of the stock of High-Quality Liquid Assets (HQLA) to total net stressed cash outflows over the next 30 calendar days. The average LCR ratio is down from 127% last quarter mainly due to a decrease in HQLA. While banks are required to maintain an LCR greater than 100% in normal conditions, banks are also expected to be able to utilize their HQLA in a period of stress, which may result in an LCR below 100% during that period. BMO's HQLA are primarily comprised of cash, highly-rated debt issued or backed by governments, highly-rated covered bonds and non-financial corporate debt and non-financial equities that are part of a major stock index. Net cash flows include outflows from deposits, secured and unsecured wholesale funding, commitments and potential collateral requirements offset by permitted inflows from loans, securities lending activities and other non-HQLA debt maturing over a 30-day horizon. OSFI prescribed weights are applied to cash flows and HQLA to arrive at the weighted values and the LCR. The LCR is only one measure of a bank's liquidity position and does not fully capture all of the bank's liquid assets or the funding alternatives that may be pursued in a period of stress. BMO's total liquid assets are shown in Table 21.

The Net Stable Funding Ratio (NSFR) was finalized by the Basel Committee on Banking Supervision in 2015 and is expected to come into force on January 1, 2018. The NSFR is a regulatory measure that compares the assumed stability of a bank's funding profile relative to the assumed liquidity value of a bank's assets. OSFI is expected to issue a consultative paper outlining the domestic implementation of the NSFR during 2016. We are assessing the impact of this change which has the potential to increase funding costs in certain businesses depending on the final rules. Additional information on Liquidity and Funding Risk Governance can be found starting on page 105 of BMO's 2015 Annual Report.

| **Liquidity Coverage Ratio** (Canadian $ in billions) | | **Table 23** |
|---|---|---|
| For the quarter ended April 30, 2016 | **Total unweighted value (average) (1) (2)** | **Total weighted value (average) (2) (3)** |
| **High-Quality Liquid Assets** | | |
| Total high-quality liquid assets (HQLA) | * | **122.4** |
| **Cash Outflows** | | |
| Retail deposits and deposits from small business customers, of which: | **146.3** | **8.5** |
| Stable deposits | **87.3** | **2.6** |
| Less stable deposits | **59.0** | **5.9** |
| Unsecured wholesale funding, of which: | **137.4** | **77.1** |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | **54.7** | **13.6** |
| Non-operational deposits (all counterparties) | **56.0** | **36.8** |
| Unsecured debt | **26.7** | **26.7** |
| Secured wholesale funding | * | **10.6** |
| Additional requirements, of which: | **126.6** | **24.4** |
| Outflows related to derivatives exposures and other collateral requirements | **16.4** | **5.1** |
| Outflows related to loss of funding on debt products | **3.1** | **3.1** |
| Credit and liquidity facilities | **107.1** | **16.2** |
| Other contractual funding obligations | **0.8** | **-** |
| Other contingent funding obligations | **321.1** | **5.5** |
| Total cash outflows | * | **126.1** |
| **Cash Inflows** | | |
| Secured lending (e.g. reverse repos) | **102.0** | **13.9** |
| Inflows from fully performing exposures | **10.0** | **6.7** |
| Other cash inflows | **6.1** | **6.1** |
| Total cash inflows | **118.1** | **26.7** |
| | | **Total adjusted value (4)** |
| Total HQLA | | **122.4** |
| Total net cash outflows | | **99.4** |
| Liquidity Coverage Ratio (%) | | **123** |

| For the quarter ended January 31, 2016 | Total adjusted value (4) |
|---|---|
| Total HQLA | 135.8 |
| Total net cash outflows | 107.3 |
| Liquidity Coverage Ratio (%) | 127 |

* Disclosure is not required under the LCR disclosure standard.
(1) Unweighted values are calculated at market value (for HQLA) or as outstanding balances maturing or callable within 30 days (for inflows and outflows).
(2) Average calculated based on month-end values during the quarter.
(3) Weighted values are calculated after the application of the weights prescribed under the OSFI Liquidity Adequacy Requirements (LAR) Guideline for HQLA and cash inflows and outflows.
(4) Adjusted values are calculated based on total weighted values after applicable caps as defined by the LAR Guideline.

### Funding Strategy

Our funding philosophy requires that secured and unsecured wholesale funding used to support loans and less liquid assets must be longer term (typically maturing in two to ten years) to better match the term to maturity of these assets. Wholesale secured and unsecured funding for liquid trading assets is generally shorter term (maturing in one year or less), is aligned with the liquidity of the assets being funded, and is subject to limits on aggregate maturities that are permitted across different time periods. Supplemental liquidity pools are funded with a mix of wholesale term funding.

BMO maintains a large and stable base of customer deposits that, in combination with our strong capital base, is a source of strength. It supports the maintenance of a sound liquidity position and reduces our reliance on wholesale funding. Customer deposits totalled $268.9 billion at April 30, 2016, down from $282.7 billion at January 31, 2016, primarily due to the impact of the weaker U.S. dollar. BMO also receives deposits to facilitate certain trading activities, receives non-marketable deposits from corporate and institutional customers and issues structured notes primarily to retail investors. These deposits and notes totalled $39.5 billion as at April 30, 2016.

Total wholesale funding outstanding, largely consisting of negotiable marketable securities, was $167.1 billion at April 30, 2016, with $48.0 billion sourced as secured funding and $119.1 billion sourced as unsecured funding. Wholesale funding outstanding decreased from $171.4 billion at January 31, 2016, primarily due to the impact of the weaker U.S. dollar. The mix and maturities of BMO's wholesale term funding are outlined in Table 24. Additional information on deposit maturities can be found in Note 15 of the unaudited interim consolidated financial statements. BMO maintains a sizeable portfolio of unencumbered liquid assets, totalling $182.8 billion as at April 30, 2016, that can be monetized to meet potential funding requirements, as described on page 30.

Diversification of our wholesale funding sources is an important part of our overall liquidity management strategy. BMO's wholesale funding activities are well-diversified by jurisdiction, currency, investor segment, instrument and maturity profile. BMO maintains ready access to long-term wholesale funding through various borrowing programs, including a European Note Issuance Program, Canadian, Australian and U.S. Medium-Term Note Programs, Canadian and U.S. mortgage securitizations, Canadian credit card and HELOC securitizations, covered bonds and Canadian and U.S. senior (unsecured) deposits.

BMO's wholesale funding plan ensures sufficient funding capacity is available to execute business strategies. The funding plan considers expected maturities, as well as asset and liability growth projected for our businesses in our forecasting and planning process, and assesses funding needs against available potential funding sources. The funding plan is reviewed annually by the Risk Review Committee and is regularly updated during the year to incorporate actual results and updated forecast information.

**Wholesale Funding Maturities** (Canadian $ in millions) (1) **Table 24**

| As at April 30, 2016 | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Subtotal less than 1 year | 1 to 2 years | Over 2 years | Total |
|---|---|---|---|---|---|---|---|---|
| Deposits from banks | 9,148 | 667 | 3 | 25 | 9,843 | - | - | 9,843 |
| Certificates of deposit and commercial paper | 12,053 | 21,114 | 13,491 | 8,891 | 55,549 | 1,365 | - | 56,914 |
| Bearer deposit notes | 1,168 | 788 | 1,090 | 265 | 3,311 | - | - | 3,311 |
| Asset-backed commercial paper (ABCP) | 1,429 | 1,908 | 1,127 | 333 | 4,797 | - | - | 4,797 |
| Senior unsecured medium-term notes | - | 4,010 | 2,713 | 3,898 | 10,621 | 12,768 | 16,112 | 39,501 |
| Senior unsecured structured notes (2) | 25 | 63 | 132 | 600 | 820 | 165 | 2,588 | 3,573 |
| Covered bonds and securitizations | | | | | | | | |
| Mortgage securitizations | 10 | 1,000 | 360 | 1,148 | 2,518 | 2,969 | 12,492 | 17,979 |
| Covered bonds | - | - | - | 2,510 | 2,510 | 596 | 11,688 | 14,794 |
| Credit card securitizations | 847 | 664 | - | 1,135 | 2,646 | 652 | 1,058 | 4,356 |
| Subordinated debt (3) | - | - | - | 570 | 570 | - | 5,350 | 5,920 |
| Other (4) | - | - | - | 627 | 627 | 5,490 | - | 6,117 |
| Total | 24,680 | 30,214 | 18,916 | 20,002 | 93,812 | 24,005 | 49,288 | 167,105 |
| Of which: | | | | | | | | |
| Secured | 2,286 | 3,572 | 1,487 | 5,753 | 13,098 | 9,707 | 25,238 | 48,043 |
| Unsecured | 22,394 | 26,642 | 17,429 | 14,249 | 80,714 | 14,298 | 24,050 | 119,062 |
| Total (5) | 24,680 | 30,214 | 18,916 | 20,002 | 93,812 | 24,005 | 49,288 | 167,105 |

(1) Wholesale unsecured funding refers to funding through the issuance of marketable, negotiable instruments. Wholesale funding excludes repo transactions and bankers' acceptances, which are disclosed in the contractual maturity table in Note 15 of the unaudited interim consolidated financial statements, and excludes ABCP issued by certain ABCP conduits that are not consolidated for financial reporting purposes.
(2) Primarily issued to institutional investors.
(3) Includes certain subordinated debt instruments reported as deposits or other liabilities for accounting purposes. Subordinated debt is reported in this table in accordance with recommended Enhanced Disclosure Task Force disclosures.
(4) Refers to Federal Home Loan Banks advances.
(5) Total wholesale funding consists of Canadian-dollar-denominated funding of $53.9 billion and U.S.-dollar and other foreign-denominated funding of $113.2 billion as at April 30, 2016.

## Credit Rating

The credit ratings assigned to BMO's short-term and senior long-term debt securities by external rating agencies are important in the raising of both capital and funding to support our business operations. Maintaining strong credit ratings allows us to access capital markets at competitive pricing levels. Should our credit ratings experience a material downgrade, our costs of funding would likely increase significantly and our access to funding and capital through capital markets could be reduced. A material downgrade of our ratings could have additional consequences, including those set out in Note 8 on page 156 of BMO's 2015 Annual Report.

The credit ratings assigned to BMO's senior debt by rating agencies are indicative of high-grade, high-quality issues. The ratings as at April 30, 2016, were as follows: DBRS (AA); Fitch (AA-); Moody's (Aa3); and Standard & Poor's (A+). S&P and Fitch have a stable outlook. Moody's and DBRS have a negative outlook in response to the federal government's proposed bail-in regime for senior unsecured debt.

We are required to deliver collateral to certain counterparties in the event of a downgrade to our current credit rating. The incremental collateral required is based on mark-to-market exposure, collateral valuations, and collateral threshold arrangements, as applicable. As at April 30, 2016, the bank would be required to provide additional collateral to counterparties totalling $246 million, $767 million and $991 million under a one-notch, two-notch and three-notch downgrade, respectively.

## Insurance Risk

There were no significant changes in the risk management practices or risk levels of our insurance business during the quarter. BMO's insurance risk management practices are outlined on page 114 of BMO's 2015 Annual Report.

## Information and Cyber Security Risk

There were no significant changes in our information and cyber security risk management practices during the quarter from those described in the Cyber Security Risk section on page 87 and in the Operational Risk section on page 111 of BMO's 2015 Annual Report.

## Select Geographic Exposures

Select geographic exposures were disclosed and discussed on pages 98 and 99 of BMO's 2015 Annual Report. Our exposure to European countries, as at April 30, 2016, is set out in the tables that follow. Our net portfolio exposures are summarized in Tables 25 and 26 for funded lending, securities (inclusive of credit default swaps (CDS) activity), repo-style transactions and derivatives. Our exposures have decreased compared with January 31, 2016, primarily related to the impact of the stronger Canadian dollar, and were relatively stable compared with October 31, 2015.

**European Exposure by Country and Counterparty** (1) (Canadian $ in millions) **Table 25**

As at April 30, 2016

| | Funded lending (2) | Securities (3)(4) | | | | Repo-style transactions and derivatives (5)(6) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country | Total | Bank | Corporate | Sovereign | Total | Bank | Corporate | Sovereign | Total | Total Net Exposure |
| **GIIPS** | | | | | | | | | | |
| Greece | - | - | - | - | - | - | - | - | - | - |
| Ireland (7) | 16 | - | - | - | - | - | 9 | - | 9 | 25 |
| Italy | 1 | - | - | - | - | - | - | - | - | 1 |
| Portugal | - | - | - | - | - | - | - | - | - | - |
| Spain | 71 | - | - | - | - | 2 | - | - | 2 | 73 |
| **Total – GIIPS** | **88** | **-** | **-** | **-** | **-** | **2** | **9** | **-** | **11** | **99** |
| **Eurozone (excluding GIIPS)** | | | | | | | | | | |
| Germany | 84 | 41 | 30 | 1,129 | 1,200 | 32 | 3 | 3 | 38 | 1,322 |
| Netherlands | 538 | 465 | 13 | 126 | 604 | 26 | 25 | - | 51 | 1,193 |
| Other (8) | 292 | 12 | - | 259 | 271 | 17 | 4 | 3 | 24 | 587 |
| **Total – Eurozone (excluding GIIPS)** | **914** | **518** | **43** | **1,514** | **2,075** | **75** | **32** | **6** | **113** | **3,102** |
| **Rest of Europe** | | | | | | | | | | |
| Denmark | 5 | 285 | - | 47 | 332 | 5 | - | - | 5 | 342 |
| Norway | 18 | 829 | - | - | 829 | - | - | 2 | 2 | 849 |
| United Kingdom | 345 | 58 | 58 | 316 | 432 | 1,016 | 24 | 87 | 1,127 | 1,904 |
| Other (8) | 97 | 100 | 1 | 127 | 228 | 7 | 1 | - | 8 | 333 |
| **Total – Rest of Europe** | **465** | **1,272** | **59** | **490** | **1,821** | **1,028** | **25** | **89** | **1,142** | **3,428** |
| **Total – All of Europe (9)** | **1,467** | **1,790** | **102** | **2,004** | **3,896** | **1,105** | **66** | **95** | **1,266** | **6,629** |

As at January 31, 2016

| | Funded lending (2) | Securities (3) | | | | Repo-style transactions and derivatives (5)(6) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country | Total | Bank | Corporate | Sovereign | Total | Bank | Corporate | Sovereign | Total | Total Net Exposure |
| Total – GIIPS | 90 | - | - | - | - | 15 | 3 | - | 18 | 108 |
| Total – Eurozone (excluding GIIPS) | 739 | 617 | 21 | 2,076 | 2,714 | 102 | 17 | 7 | 126 | 3,579 |
| Total – Rest of Europe | 770 | 1,519 | 51 | 1,083 | 2,653 | 1,241 | 129 | - | 1,370 | 4,793 |
| Total – All of Europe (9) | 1,599 | 2,136 | 72 | 3,159 | 5,367 | 1,358 | 149 | 7 | 1,514 | 8,480 |

As at October 31, 2015

| | Funded lending (2) | Securities (3) | | | | Repo-style transactions and derivatives (5)(6) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country | Total | Bank | Corporate | Sovereign | Total | Bank | Corporate | Sovereign | Total | Total Net Exposure |
| Total – GIIPS | 73 | - | - | - | - | 8 | 24 | - | 32 | 105 |
| Total – Eurozone (excluding GIIPS) | 640 | 535 | 14 | 1,801 | 2,350 | 93 | 36 | 8 | 137 | 3,127 |
| Total – Rest of Europe | 523 | 1,217 | 49 | 946 | 2,212 | 736 | 16 | 1 | 753 | 3,488 |
| Total – All of Europe (9) | 1,236 | 1,752 | 63 | 2,747 | 4,562 | 837 | 76 | 9 | 922 | 6,720 |

Refer to footnotes in Table 26.

**European Lending Exposure by Country and Counterparty** (1) (Canadian $ in millions) **Table 26**

| | Lending (2) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Funded lending as at April 30, 2016 | | | As at April 30, 2016 | | As at January 31, 2016 | | As at October 31, 2015 | |
| Country | Bank | Corporate | Sovereign | Commitments | Funded | Commitments | Funded | Commitments | Funded |
| **GIIPS** | | | | | | | | | |
| Greece | - | - | - | - | - | - | - | - | - |
| Ireland (7) | - | 16 | - | 25 | 16 | 28 | 18 | 27 | 8 |
| Italy | 1 | - | - | 1 | 1 | 1 | 1 | 2 | 2 |
| Portugal | - | - | - | - | - | - | - | - | - |
| Spain | 60 | 11 | - | 102 | 71 | 77 | 71 | 75 | 63 |
| **Total – GIIPS** | **61** | **27** | **-** | **128** | **88** | **106** | **90** | **104** | **73** |
| **Eurozone (excluding GIIPS)** | | | | | | | | | |
| Germany | 19 | 64 | 1 | 143 | 84 | 82 | 74 | 79 | 72 |
| Netherlands | 40 | 498 | - | 643 | 538 | 422 | 317 | 346 | 245 |
| Other (8) | 111 | 181 | - | 463 | 292 | 561 | 348 | 623 | 323 |
| **Total – Eurozone (excluding GIIPS)** | **170** | **743** | **1** | **1,249** | **914** | **1,065** | **739** | **1,048** | **640** |
| **Rest of Europe** | | | | | | | | | |
| Denmark | 5 | - | - | 5 | 5 | 4 | 4 | 6 | 6 |
| Norway | 18 | - | - | 18 | 18 | 25 | 25 | 26 | 26 |
| United Kingdom | 30 | 315 | - | 751 | 345 | 933 | 497 | 459 | 387 |
| Other (8) | 24 | 73 | - | 325 | 97 | 509 | 244 | 287 | 104 |
| **Total – Rest of Europe** | **77** | **388** | **-** | **1,099** | **465** | **1,471** | **770** | **778** | **523** |
| **Total – All of Europe (9)** | **308** | **1,158** | **1** | **2,476** | **1,467** | **2,642** | **1,599** | **1,930** | **1,236** |

(1) BMO has the following indirect exposures to Europe as at April 30, 2016:
– Collateral of €1.5 billion to support trading activity in securities (€23 million from GIIPS) and €123 million of cash collateral held.
– Guarantees of $1.3 billion ($21 million to GIIPS).

(2) Funded lending includes loans (primarily trade finance).

(3) Securities include cash products, insurance investments and traded credit.

(4) BMO's total net notional CDS exposure (embedded as part of the securities exposure in this table) to Europe was $165 million, with no net single-name* CDS exposure to GIIPS countries as at April 30, 2016 (*includes a net position of $132 million (bought protection) on a CDS Index, of which 20% is comprised of GIIPS domiciled entities).

(5) Repo-style transactions are primarily with bank counterparties for which BMO holds collateral ($14 billion for Europe as at April 30, 2016).

(6) Derivatives amounts are marked-to-market, incorporating transaction netting where master netting agreements with counterparties have been entered into, and collateral offsets for counterparties where a Credit Support Annex is in effect.

(7) Does not include Irish subsidiary reserves we are required to maintain with the Irish Central Bank of $78 million as at April 30, 2016.

(8) Includes countries with less than $300 million net exposure, with $19 million exposure to the Russian Federation as at April 30, 2016.

(9) Of our total net direct exposure to Europe, approximately 95% was to counterparties in countries with a rating of Aaa/AAA from at least one of Moody's and S&P.

## Caution

This Risk Management section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

# Consolidated Statement of Income

| (Unaudited) (Canadian $ in millions, except as noted) | For the three months ended | | | | | For the six months ended | |
|---|---|---|---|---|---|---|---|
| | **April 30, 2016** | January 31, 2016 | October 31, 2015 | July 31, 2015 | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| **Interest, Dividend and Fee Income** | | | | | | | |
| Loans | **$ 3,085** | $ 3,066 | $ 2,866 | $ 2,842 | $ 2,717 | **$ 6,151** | $ 5,555 |
| Securities | **413** | 423 | 417 | 417 | 409 | **836** | 871 |
| Deposits with banks | **53** | 61 | 51 | 47 | 45 | **114** | 92 |
| | **3,551** | 3,550 | 3,334 | 3,306 | 3,171 | **7,101** | 6,518 |
| **Interest Expense** | | | | | | | |
| Deposits | **711** | 689 | 641 | 664 | 664 | **1,400** | 1,376 |
| Subordinated debt | **48** | 46 | 41 | 42 | 44 | **94** | 88 |
| Other liabilities | **372** | 335 | 341 | 373 | 403 | **707** | 829 |
| | **1,131** | 1,070 | 1,023 | 1,079 | 1,111 | **2,201** | 2,293 |
| **Net Interest Income** | **2,420** | 2,480 | 2,311 | 2,227 | 2,060 | **4,900** | 4,225 |
| **Non-Interest Revenue** | | | | | | | |
| Securities commissions and fees | **229** | 227 | 227 | 224 | 225 | **456** | 450 |
| Deposit and payment service charges | **278** | 280 | 280 | 276 | 262 | **558** | 521 |
| Trading revenues | **323** | 227 | 206 | 269 | 319 | **550** | 512 |
| Lending fees | **214** | 211 | 191 | 195 | 181 | **425** | 351 |
| Card fees | **104** | 108 | 126 | 114 | 114 | **212** | 220 |
| Investment management and custodial fees | **381** | 391 | 384 | 398 | 391 | **772** | 770 |
| Mutual fund revenues | **337** | 346 | 349 | 355 | 353 | **683** | 673 |
| Underwriting and advisory fees | **177** | 166 | 146 | 207 | 182 | **343** | 353 |
| Securities gains, other than trading | **6** | 36 | 12 | 50 | 70 | **42** | 109 |
| Foreign exchange, other than trading | **17** | 60 | 31 | 46 | 33 | **77** | 95 |
| Insurance revenue | **543** | 443 | 388 | 342 | 210 | **986** | 1,032 |
| Investments in associates and joint ventures | **(63)** | 59 | 56 | 45 | 52 | **(4)** | 106 |
| Other | **135** | 41 | 275 | 78 | 74 | **176** | 164 |
| | **2,681** | 2,595 | 2,671 | 2,599 | 2,466 | **5,276** | 5,356 |
| **Total Revenue** | **5,101** | 5,075 | 4,982 | 4,826 | 4,526 | **10,176** | 9,581 |
| **Provision for Credit Losses** | **201** | 183 | 128 | 160 | 161 | **384** | 324 |
| **Insurance Claims, Commissions and Changes in Policy Benefit Liabilities** | **407** | 366 | 265 | 218 | 24 | **773** | 771 |
| **Non-Interest Expense** | | | | | | | |
| Employee compensation | **1,904** | 1,904 | 1,721 | 1,726 | 1,843 | **3,808** | 3,634 |
| Premises and equipment | **605** | 556 | 585 | 519 | 533 | **1,161** | 1,033 |
| Amortization of intangible assets | **110** | 111 | 110 | 105 | 100 | **221** | 196 |
| Travel and business development | **161** | 150 | 177 | 148 | 138 | **311** | 280 |
| Communications | **80** | 74 | 80 | 76 | 83 | **154** | 158 |
| Business and capital taxes | **12** | 14 | 13 | 10 | 10 | **26** | 22 |
| Professional fees | **125** | 138 | 153 | 141 | 149 | **263** | 301 |
| Other | **315** | 323 | 254 | 246 | 256 | **638** | 494 |
| | **3,312** | 3,270 | 3,093 | 2,971 | 3,112 | **6,582** | 6,118 |
| **Income Before Provision for Income Taxes** | **1,181** | 1,256 | 1,496 | 1,477 | 1,229 | **2,437** | 2,368 |
| Provision for income taxes | **208** | 188 | 282 | 285 | 230 | **396** | 369 |
| **Net Income** | **$ 973** | $ 1,068 | $ 1,214 | $ 1,192 | $ 999 | **$ 2,041** | $ 1,999 |
| Attributable to: | | | | | | | |
| Bank shareholders | **973** | 1,060 | 1,206 | 1,185 | 993 | **2,033** | 1,979 |
| Non-controlling interest in subsidiaries | **-** | 8 | 8 | 7 | 6 | **8** | 20 |
| **Net Income** | **$ 973** | $ 1,068 | $ 1,214 | $ 1,192 | $ 999 | **$ 2,041** | $ 1,999 |
| **Earnings Per Share (Canadian $)** | | | | | | | |
| Basic | **$ 1.46** | $ 1.59 | $ 1.83 | $ 1.81 | $ 1.49 | **$ 3.04** | $ 2.96 |
| Diluted | **1.45** | 1.58 | 1.83 | 1.80 | 1.49 | **3.03** | 2.95 |
| Dividends per common share | **0.84** | 0.84 | 0.82 | 0.82 | 0.80 | **1.68** | 1.60 |

The accompanying notes are an integral part of these interim consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current period's presentation.

# Consolidated Statement of Comprehensive Income

| (Unaudited) (Canadian $ in millions) | For the three months ended | | | | | For the six months ended | |
|---|---|---|---|---|---|---|---|
| | **April 30, 2016** | January 31, 2016 | October 31, 2015 | July 31, 2015 | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| **Net Income** | **$ 973** | $ 1,068 | $ 1,214 | $ 1,192 | $ 999 | **$ 2,041** | $ 1,999 |
| **Other Comprehensive Income (Loss), net of taxes** | | | | | | | |
| Items that may be subsequently reclassified to net income | | | | | | | |
| Net change in unrealized gains (losses) on available-for-sale securities | | | | | | | |
| Unrealized gains (losses) on available-for-sale securities arising during the period (1) | **85** | (6) | (164) | 6 | (6) | **79** | (8) |
| Reclassification to earnings of (gains) in the period (2) | **(3)** | (17) | (2) | (27) | (22) | **(20)** | (36) |
| | **82** | (23) | (166) | (21) | (28) | **59** | (44) |
| Net change in unrealized gains (losses) on cash flow hedges | | | | | | | |
| Gains (losses) on cash flow hedges arising during the period (3) | **(289)** | 269 | 47 | 168 | (282) | **(20)** | 313 |
| Reclassification to earnings of (gains) losses on cash flow hedges (4) | **5** | (14) | (10) | (13) | (9) | **(9)** | (34) |
| | **(284)** | 255 | 37 | 155 | (291) | **(29)** | 279 |
| Net gains (losses) on translation of net foreign operations | | | | | | | |
| Unrealized gains (losses) on translation of net foreign operations | **(2,801)** | 1,623 | (35) | 1,866 | (1,128) | **(1,178)** | 1,356 |
| Unrealized gains (losses) on hedges of net foreign operations (5) | **353** | (124) | (58) | (349) | 103 | **229** | (75) |
| | **(2,448)** | 1,499 | (93) | 1,517 | (1,025) | **(949)** | 1,281 |
| Items that will not be reclassified to net income | | | | | | | |
| Gains (losses) on remeasurement of pension and other employee future benefit plans (6) | **(153)** | (169) | 108 | 106 | 212 | **(322)** | (14) |
| Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value (7) | **(196)** | 84 | 73 | 46 | (17) | **(112)** | 1 |
| | **(349)** | (85) | 181 | 152 | 195 | **(434)** | (13) |
| **Other Comprehensive Income (Loss), net of taxes** | **(2,999)** | 1,646 | (41) | 1,803 | (1,149) | **(1,353)** | 1,503 |
| **Total Comprehensive Income (Loss)** | **$ (2,026)** | $ 2,714 | $ 1,173 | $ 2,995 | $ (150) | **$ 688** | $ 3,502 |
| Attributable to: | | | | | | | |
| Bank shareholders | **(2,026)** | 2,706 | 1,165 | 2,988 | (156) | **680** | 3,482 |
| Non-controlling interest in subsidiaries | **-** | 8 | 8 | 7 | 6 | **8** | 20 |
| **Total Comprehensive Income (Loss)** | **$ (2,026)** | $ 2,714 | $ 1,173 | $ 2,995 | $ (150) | **$ 688** | $ 3,502 |

(1) Net of income tax (provision) recovery of $(34), $(2), $62, $1, $13 for the three months ended, and $(36), $nil for the six months ended, respectively.
(2) Net of income tax provision of $0, $9, $1, $9, $3 for the three months ended, and $9, $14 for the six months ended, respectively.
(3) Net of income tax (provision) recovery of $98, $(106), $(26), $(60), $105 for the three months ended, and $(8), $(102) for the six months ended, respectively.
(4) Net of income tax provision (recovery) of $(2), $4, $3, $5, $0 for the three months ended, and $2, $6 for the six months ended, respectively.
(5) Net of income tax (provision) recovery of $(118), $43, $19, $124, $(40) for the three months ended, and $(75), $24 for the six months ended, respectively.
(6) Net of income tax (provision) recovery of $55, $62, $(25), $(34), $(84) for the three months ended, and $117, $8 for the six months ended, respectively.
(7) Net of income tax (provision) recovery of $70, $(30), $(26), $(17), $6 for the three months ended, and $40, $0 for the six months ended, respectively.

The accompanying notes are an integral part of these interim consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current period's presentation.

# Consolidated Balance Sheet

| (Unaudited) (Canadian $ in millions) | As at | | | | |
|---|---|---|---|---|---|
| | **April 30, 2016** | January 31, 2016 | October 31, 2015 | July 31, 2015 | April 30, 2015 |
| **Assets** | | | | | |
| **Cash and Cash Equivalents** | **$ 36,111** | $ 38,961 | $ 40,295 | $ 48,722 | $ 40,403 |
| **Interest Bearing Deposits with Banks** | **7,386** | 7,433 | 7,382 | 8,022 | 7,256 |
| **Securities** | | | | | |
| Trading | **78,960** | 75,488 | 72,460 | 81,286 | 82,031 |
| Available-for-sale | **49,690** | 52,321 | 48,006 | 47,981 | 49,340 |
| Held-to-maturity | **8,401** | 9,325 | 9,432 | 9,830 | 10,015 |
| Other | **1,145** | 1,367 | 1,020 | 1,012 | 1,060 |
| | **138,196** | 138,501 | 130,918 | 140,109 | 142,446 |
| **Securities Borrowed or Purchased Under Resale Agreements** | **81,890** | 83,603 | 68,066 | 74,684 | 64,576 |
| **Loans** | | | | | |
| Residential mortgages | **106,641** | 107,026 | 105,918 | 104,547 | 101,839 |
| Consumer instalment and other personal | **63,831** | 65,886 | 65,598 | 65,702 | 64,273 |
| Credit cards | **7,918** | 7,896 | 7,980 | 8,004 | 7,896 |
| Businesses and governments | **165,192** | 166,141 | 145,076 | 141,941 | 132,153 |
| | **343,582** | 346,949 | 324,572 | 320,194 | 306,161 |
| Allowance for credit losses | **(1,894)** | (1,951) | (1,855) | (1,811) | (1,758) |
| | **341,688** | 344,998 | 322,717 | 318,383 | 304,403 |
| **Other Assets** | | | | | |
| Derivative instruments | **40,585** | 49,233 | 38,238 | 48,068 | 39,831 |
| Customers' liability under acceptances | **12,091** | 11,345 | 11,307 | 10,796 | 11,453 |
| Premises and equipment | **2,230** | 2,339 | 2,285 | 2,279 | 2,274 |
| Goodwill | **6,149** | 6,787 | 6,069 | 6,111 | 5,646 |
| Intangible assets | **2,178** | 2,306 | 2,208 | 2,227 | 2,136 |
| Current tax assets | **736** | 735 | 561 | 600 | 596 |
| Deferred tax assets | **3,115** | 3,360 | 3,162 | 3,248 | 3,174 |
| Other | **9,103** | 9,692 | 8,673 | 9,193 | 9,081 |
| | **76,187** | 85,797 | 72,503 | 82,522 | 74,191 |
| **Total Assets** | **$ 681,458** | $ 699,293 | $ 641,881 | $ 672,442 | $ 633,275 |
| **Liabilities and Equity** | | | | | |
| **Deposits** | | | | | |
| Banks | **$ 35,132** | $ 36,255 | $ 32,609 | $ 35,260 | $ 32,979 |
| Businesses and governments | **255,026** | 278,467 | 258,144 | 267,505 | 250,623 |
| Individuals | **154,635** | 156,114 | 147,416 | 144,852 | 140,629 |
| | **444,793** | 470,836 | 438,169 | 447,617 | 424,231 |
| **Other Liabilities** | | | | | |
| Derivative instruments | **45,979** | 52,619 | 42,639 | 50,011 | 44,237 |
| Acceptances | **12,091** | 11,345 | 11,307 | 10,796 | 11,453 |
| Securities sold but not yet purchased | **27,071** | 24,208 | 21,226 | 27,813 | 25,908 |
| Securities lent or sold under repurchase agreements | **59,193** | 49,670 | 39,891 | 47,644 | 42,039 |
| Current tax liabilities | **45** | 128 | 102 | 195 | 211 |
| Deferred tax liabilities | **253** | 248 | 265 | 177 | 188 |
| Other | **48,358** | 43,365 | 43,953 | 45,072 | 44,170 |
| | **192,990** | 181,583 | 159,383 | 181,708 | 168,206 |
| **Subordinated Debt** | **4,643** | 5,250 | 4,416 | 4,433 | 4,435 |
| **Equity** | | | | | |
| Preferred shares | **3,240** | 3,240 | 3,240 | 2,640 | 2,640 |
| Common shares | **12,370** | 12,352 | 12,313 | 12,296 | 12,330 |
| Contributed surplus | **298** | 298 | 299 | 302 | 303 |
| Retained earnings | **19,806** | 19,409 | 18,930 | 18,281 | 17,765 |
| Accumulated other comprehensive income | **3,287** | 6,286 | 4,640 | 4,681 | 2,878 |
| Total shareholders' equity | **39,001** | 41,585 | 39,422 | 38,200 | 35,916 |
| Non-controlling interest in subsidiaries | **31** | 39 | 491 | 484 | 487 |
| **Total Equity** | **39,032** | 41,624 | 39,913 | 38,684 | 36,403 |
| **Total Liabilities and Equity** | **$ 681,458** | $ 699,293 | $ 641,881 | $ 672,442 | $ 633,275 |

The accompanying notes are an integral part of these interim consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current period's presentation.

# Consolidated Statement of Changes in Equity

| (Unaudited) (Canadian $ in millions) | For the three months ended April 30, 2016 | April 30, 2015 | For the six months ended April 30, 2016 | April 30, 2015 |
|---|---|---|---|---|
| **Preferred Shares** | | | | |
| Balance at beginning of period | **$ 3,240** | $ 3,040 | **$ 3,240** | $ 3,040 |
| Redeemed during the period | **-** | (400) | **-** | (400) |
| Balance at End of Period | **3,240** | 2,640 | **3,240** | 2,640 |
| **Common Shares** | | | | |
| Balance at beginning of period | **12,352** | 12,373 | **12,313** | 12,357 |
| Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan | **-** | - | **-** | 57 |
| Issued under the Stock Option Plan | **18** | 15 | **57** | 31 |
| Repurchased for cancellation | **-** | (58) | **-** | (115) |
| Balance at End of Period | **12,370** | 12,330 | **12,370** | 12,330 |
| **Contributed Surplus** | | | | |
| Balance at beginning of period | **298** | 303 | **299** | 304 |
| Stock option expense/exercised | **-** | (1) | **(2)** | 1 |
| Other | **-** | 1 | **1** | (2) |
| Balance at End of Period | **298** | 303 | **298** | 303 |
| **Retained Earnings** | | | | |
| Balance at beginning of period | **19,409** | 17,489 | **18,930** | 17,237 |
| Net income attributable to bank shareholders | **973** | 993 | **2,033** | 1,979 |
| Dividends – Preferred shares | **(35)** | (31) | **(76)** | (64) |
| – Common shares | **(541)** | (515) | **(1,081)** | (1,033) |
| Common shares repurchased for cancellation | **-** | (171) | **-** | (354) |
| Balance at End of Period | **19,806** | 17,765 | **19,806** | 17,765 |
| **Accumulated Other Comprehensive Income (Loss) on Available-for-Sale Securities** | | | | |
| Balance at beginning of period | **(98)** | 140 | **(75)** | 156 |
| Unrealized gains (losses) on available-for-sale securities arising during the period (1) | **85** | (6) | **79** | (8) |
| Reclassification to earnings of (gains) in the period (2) | **(3)** | (22) | **(20)** | (36) |
| Balance at End of Period | **(16)** | 112 | **(16)** | 112 |
| **Accumulated Other Comprehensive Income on Cash Flow Hedges** | | | | |
| Balance at beginning of period | **867** | 711 | **612** | 141 |
| Gains (losses) on cash flow hedges arising during the period (3) | **(289)** | (282) | **(20)** | 313 |
| Reclassification to earnings of (gains) losses in the period (4) | **5** | (9) | **(9)** | (34) |
| Balance at End of Period | **583** | 420 | **583** | 420 |
| **Accumulated Other Comprehensive Income on Translation of Net Foreign Operations** | | | | |
| Balance at beginning of period | **5,572** | 3,674 | **4,073** | 1,368 |
| Unrealized gains (losses) on translation of net foreign operations | **(2,801)** | (1,128) | **(1,178)** | 1,356 |
| Unrealized gains (losses) on hedges of net foreign operations (5) | **353** | 103 | **229** | (75) |
| Balance at End of Period | **3,124** | 2,649 | **3,124** | 2,649 |
| **Accumulated Other Comprehensive (Loss) on Pension and Other Employee Future Benefit Plans** | | | | |
| Balance at beginning of period | **(259)** | (516) | **(90)** | (290) |
| Gains (losses) on remeasurement of pension and other employee future benefit plans (6) | **(153)** | 212 | **(322)** | (14) |
| Balance at End of Period | **(412)** | (304) | **(412)** | (304) |
| **Accumulated Other Comprehensive Income on Own Credit Risk on Financial Liabilities Designated at Fair Value** | | | | |
| Balance at beginning of period | **204** | 18 | **120** | - |
| Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value (7) | **(196)** | (17) | **(112)** | 1 |
| Balance at End of Period | **8** | 1 | **8** | 1 |
| **Total Accumulated Other Comprehensive Income** | **3,287** | 2,878 | **3,287** | 2,878 |
| **Total Shareholders' Equity** | **$ 39,001** | $ 35,916 | **$ 39,001** | $ 35,916 |
| **Non-controlling Interest in Subsidiaries** | | | | |
| Balance at beginning of period | **39** | 483 | **491** | 1,091 |
| Net income attributable to non-controlling interest | **-** | 6 | **8** | 20 |
| Dividends to non-controlling interest | **-** | - | **(10)** | (27) |
| Redemption of capital trust securities | **-** | - | **(450)** | (600) |
| Other | **(8)** | (2) | **(8)** | 3 |
| Balance at End of Period | **31** | 487 | **31** | 487 |
| **Total Equity** | **$ 39,032** | $ 36,403 | **$ 39,032** | $ 36,403 |

(1) Net of income tax (provision) recovery of $(34), $13, $(36), $nil for the three and six months ended, respectively.
(2) Net of income tax provision of $0, $3, $9, $14 for the three and six months ended, respectively.
(3) Net of income tax (provision) recovery of $98, $105, $(8), $(102) for the three and six months ended, respectively.
(4) Net of income tax provision (recovery) of $(2), $0, $2, $6 for the three and six months ended, respectively.
(5) Net of income tax (provision) recovery of $(118), $(40), $(75), $24 for the three and six months ended, respectively.
(6) Net of income tax (provision) recovery of $55, $(84), $117, $8 for the three and six months ended, respectively.
(7) Net of income tax recovery of $70, $6, $40, $0 for the three and six months ended, respectively.

The accompanying notes are an integral part of these interim consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current period's presentation.

# Consolidated Statement of Cash Flows

| (Unaudited) (Canadian $ in millions) | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| **Cash Flows from Operating Activities** | | | | |
| Net Income | **$ 973** | $ 999 | **$ 2,041** | $ 1,999 |
| Adjustments to determine net cash flows provided by (used in) operating activities | | | | |
| Impairment write-down of securities, other than trading | **3** | 4 | **7** | 5 |
| Net (gain) on securities, other than trading | **(9)** | (74) | **(49)** | (114) |
| Net (increase) decrease in trading securities | **(5,374)** | 5,817 | **(7,295)** | 4,277 |
| Provision for credit losses | **201** | 161 | **384** | 324 |
| Change in derivative instruments – (increase) decrease in derivative asset | **12,714** | 26,250 | **(1,890)** | (7,875) |
| – increase (decrease) in derivative liability | **(10,626)** | (22,356) | **3,387** | 11,086 |
| Amortization of premises and equipment | **95** | 96 | **190** | 188 |
| Amortization of other assets | **59** | - | **100** | - |
| Amortization of intangible assets | **110** | 100 | **221** | 196 |
| Net (increase) decrease in deferred income tax asset | **(21)** | 133 | **(46)** | 8 |
| Net increase (decrease) in deferred income tax liability | **12** | 30 | **(4)** | 7 |
| Net (increase) decrease in current income tax asset | **(148)** | (69) | **(264)** | 103 |
| Net (decrease) in current income tax liability | **(79)** | (48) | **(52)** | (26) |
| Change in accrued interest – (increase) decrease in interest receivable | **(98)** | 30 | **(84)** | 76 |
| – increase (decrease) in interest payable | **105** | 30 | **37** | (65) |
| Changes in other items and accruals, net | **(1,690)** | (2,902) | **(914)** | 2,042 |
| Net increase (decrease) in deposits | **(1,478)** | 6,713 | **13,735** | 14,175 |
| Net (increase) in loans | **(11,541)** | (3,544) | **(14,722)** | (5,830) |
| Net increase (decrease) in securities sold but not yet purchased | **3,901** | (3,601) | **6,396** | (1,729) |
| Net increase (decrease) in securities lent or sold under repurchase agreements | **13,898** | (5,934) | **20,986** | 25 |
| Net (increase) in securities borrowed or purchased under resale agreements | **(3,968)** | (771) | **(15,706)** | (8,004) |
| Net Cash Provided (Used in) by Operating Activities | **(2,961)** | 1,064 | **6,458** | 10,868 |
| **Cash Flows from Financing Activities** | | | | |
| Net increase (decrease) in liabilities of subsidiaries | **3,131** | (9) | **3,122** | (18) |
| Proceeds from issuance (maturity) of Covered Bonds | **2,148** | - | **2,334** | 2,748 |
| Proceeds from issuance (repayment) of subordinated debt | **(700)** | (500) | **300** | (500) |
| Redemption of preferred shares | **-** | (400) | **-** | (400) |
| Redemption of capital trust securities | **-** | - | **(450)** | (600) |
| Proceeds from issuance of common shares | **18** | 14 | **57** | 32 |
| Common shares repurchased for cancellation | **-** | (229) | **-** | (469) |
| Cash dividends paid | **(580)** | (550) | **(1,137)** | (1,039) |
| Cash dividends paid to non-controlling interest | **-** | - | **(10)** | (27) |
| Net Cash Provided by (Used in) Financing Activities | **4,017** | (1,674) | **4,216** | (273) |
| **Cash Flows from Investing Activities** | | | | |
| Net (increase) in interest bearing deposits with banks | **(498)** | (1,147) | **(198)** | (744) |
| Purchases of securities, other than trading | **(5,881)** | (4,108) | **(13,527)** | (8,387) |
| Maturities of securities, other than trading | **1,115** | 937 | **2,973** | 2,056 |
| Proceeds from sales of securities, other than trading | **4,631** | 3,102 | **8,666** | 6,438 |
| Premises and equipment – net (purchases) | **(105)** | (93) | **(178)** | (103) |
| Purchased and developed software – net (purchases) | **(94)** | (74) | **(189)** | (153) |
| Acquisitions | **-** | - | **(12,078)** | - |
| Net Cash (Used in) Investing Activities | **(832)** | (1,383) | **(14,531)** | (893) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | **(3,074)** | (1,964) | **(327)** | 2,315 |
| Net increase (decrease) in Cash and Cash Equivalents | **(2,850)** | (3,957) | **(4,184)** | 12,017 |
| Cash and Cash Equivalents at Beginning of Period | **38,961** | 44,360 | **40,295** | 28,386 |
| **Cash and Cash Equivalents at End of Period** | **$ 36,111** | $ 40,403 | **$ 36,111** | $ 40,403 |
| **Supplemental Disclosure of Cash Flow Information** | | | | |
| Net cash provided by operating activities includes: | | | | |
| Amount of interest paid in the period | **$ 1,049** | $ 1,091 | **$ 2,172** | $ 2,344 |
| Amount of income taxes paid in the period | **$ 242** | $ 134 | **$ 626** | $ 340 |
| Amount of interest and dividend income received in the period | **$ 3,536** | $ 3,240 | **$ 7,067** | $ 6,557 |

The accompanying notes are an integral part of these interim consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current period's presentation.

# Notes to Consolidated Financial Statements

April 30, 2016 (Unaudited)

## Note 1: Basis of Presentation

Bank of Montreal ("the bank") is a chartered bank under the *Bank Act (Canada)* and is a public company incorporated in Canada. We are a highly diversified financial services company and provide a broad range of personal and commercial banking, wealth management and investment banking products and services. The bank's head office is 129 rue Saint Jacques, Montreal, Quebec. Its executive offices are 100 King Street West, 1 First Canadian Place, Toronto, Ontario. Our common shares are listed on the Toronto Stock Exchange and the New York Stock Exchange.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board using the same accounting policies as disclosed in our annual consolidated financial statements for the year ended October 31, 2015, and as noted in Note 1 to our first quarter unaudited interim consolidated financial statements. These condensed interim consolidated financial statements should be read in conjunction with the notes to our annual consolidated financial statements for the year ended October 31, 2015 as set out on pages 140 to 201 of our 2015 Annual Report. We also comply with interpretations of International Financial Reporting Standards ("IFRS") by our regulator, the Office of the Superintendent of Financial Institutions of Canada ("OSFI"). These interim consolidated financial statements were authorized for issue by the Board of Directors on May 25, 2016.

### Future changes in IFRS

In April 2016, the IASB issued clarifications to IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), which provides additional clarity on revenue recognition related to identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property. We will be adopting IFRS 15 effective for our fiscal year beginning November 1, 2018. We are currently assessing the impact of the standard on our future financial reporting.

## Note 2: Securities

### Unrealized Gains and Losses

The following table summarizes the unrealized gains and losses on available-for-sale securities:

| (Canadian $ in millions) | | | | **April 30, 2016** | | | | October 31, 2015 |
|---|---|---|---|---|---|---|---|---|
| | **Amortized cost** | **Gross unrealized gains** | **Gross unrealized losses** | **Fair value** | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Issued or guaranteed by: | | | | | | | | |
| Canadian federal government | **7,460** | **73** | **8** | **7,525** | 7,906 | 78 | 14 | 7,970 |
| Canadian provincial and municipal governments | **5,107** | **82** | **17** | **5,172** | 4,890 | 68 | 33 | 4,925 |
| U.S. federal government | **4,234** | **52** | **6** | **4,280** | 1,750 | 9 | 5 | 1,754 |
| U.S. states, municipalities and agencies | **5,246** | **84** | **6** | **5,324** | 6,026 | 65 | 6 | 6,085 |
| Other governments | **4,909** | **17** | **4** | **4,922** | 5,404 | 11 | 3 | 5,412 |
| Mortgage-backed securities and collateralized mortgage obligations – Canada (1) | **3,004** | **17** | **8** | **3,013** | 2,994 | 22 | 12 | 3,004 |
| Mortgage-backed securities and collateralized mortgage obligations – U.S. | **8,912** | **55** | **11** | **8,956** | 9,165 | 35 | 12 | 9,188 |
| Corporate debt | **8,877** | **83** | **7** | **8,953** | 7,909 | 61 | 15 | 7,955 |
| Corporate equity | **1,471** | **104** | **30** | **1,545** | 1,648 | 117 | 52 | 1,713 |
| Total | **49,220** | **567** | **97** | **49,690** | 47,692 | 466 | 152 | 48,006 |

(1) These amounts are supported by insured mortgages.

# Note 3: Loans and Allowance for Credit Losses

### Allowance for Credit Losses ("ACL")

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level that we consider adequate to absorb credit-related losses on our loans and other credit instruments. The portion related to other credit instruments is recorded in other liabilities in our Consolidated Balance Sheet.

A continuity of our allowance for credit losses is as follows:

| (Canadian $ in millions) | Residential mortgages | | Credit card, consumer instalment and other personal loans | | Business and government loans | | Total | |
|---|---|---|---|---|---|---|---|---|
| For the three months ended | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| Impairment Allowances (Specific ACL), beginning of period | **71** | 83 | **132** | 104 | **226** | 268 | **429** | 455 |
| Amounts written off | **(9)** | (15) | **(164)** | (172) | **(77)** | (87) | **(250)** | (274) |
| Recoveries of amounts written off in previous periods | **3** | 8 | **44** | 40 | **60** | 47 | **107** | 95 |
| Charge to income statement (Specific PCL) | **9** | 13 | **132** | 137 | **60** | 11 | **201** | 161 |
| Foreign exchange and other movements | **(10)** | (12) | **(13)** | 9 | **(24)** | (50) | **(47)** | (53) |
| Specific ACL, end of period | **64** | 77 | **131** | 118 | **245** | 189 | **440** | 384 |
| Collective ACL, beginning of period | **98** | 86 | **746** | 697 | **873** | 855 | **1,717** | 1,638 |
| Charge (recovery) to income statement (Collective PCL) | **(15)** | (3) | **(51)** | (18) | **66** | 21 | **-** | - |
| Foreign exchange and other movements | **(6)** | (3) | **(23)** | (11) | **(55)** | (30) | **(84)** | (44) |
| Collective ACL, end of period | **77** | 80 | **672** | 668 | **884** | 846 | **1,633** | 1,594 |
| Total ACL | **141** | 157 | **803** | 786 | **1,129** | 1,035 | **2,073** | 1,978 |
| Comprised of: Loans | **112** | 134 | **803** | 786 | **979** | 838 | **1,894** | 1,758 |
| Other credit instruments | **29** | 23 | **-** | - | **150** | 197 | **179** | 220 |

| (Canadian $ in millions) | Residential mortgages | | Credit card, consumer instalment and other personal loans | | Business and government loans | | Total | |
|---|---|---|---|---|---|---|---|---|
| For the six months ended | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| Impairment Allowances (Specific ACL), beginning of period | **69** | 88 | **113** | 99 | **210** | 237 | **392** | 424 |
| Amounts written off | **(24)** | (32) | **(331)** | (342) | **(126)** | (161) | **(481)** | (535) |
| Recoveries of amounts written off in previous periods | **10** | 11 | **80** | 79 | **104** | 107 | **194** | 197 |
| Charge to income statement (Specific PCL) | **19** | 24 | **281** | 272 | **84** | 28 | **384** | 324 |
| Foreign exchange and other movements | **(10)** | (14) | **(12)** | 10 | **(27)** | (22) | **(49)** | (26) |
| Specific ACL, end of period | **64** | 77 | **131** | 118 | **245** | 189 | **440** | 384 |
| Collective ACL, beginning of period | **111** | 83 | **714** | 678 | **835** | 781 | **1,660** | 1,542 |
| Charge (recovery) to income statement (Collective PCL) | **(33)** | (8) | **(34)** | (22) | **67** | 30 | **-** | - |
| Foreign exchange and other movements | **(1)** | 5 | **(8)** | 12 | **(18)** | 35 | **(27)** | 52 |
| Collective ACL, end of period | **77** | 80 | **672** | 668 | **884** | 846 | **1,633** | 1,594 |
| Total ACL | **141** | 157 | **803** | 786 | **1,129** | 1,035 | **2,073** | 1,978 |
| Comprised of: Loans | **112** | 134 | **803** | 786 | **979** | 838 | **1,894** | 1,758 |
| Other credit instruments | **29** | 23 | **-** | - | **150** | 197 | **179** | 220 |

Interest income on impaired loans of $21 million and $36 million was recognized for the three and six months ended April 30, 2016, respectively ($17 million and $42 million for the three and six months ended April 30, 2015, respectively).

Certain comparative figures have been reclassified to conform with the current period's presentation.

### Renegotiated Loans

The carrying value of our renegotiated loans was $881 million as at April 30, 2016 ($730 million as at October 31, 2015), with $393 million classified as performing as at April 30, 2016 ($361 million as at October 31, 2015). Renegotiated loans of $5 million and $41 million were written off in the three and six months ended April 30, 2016 ($42 million in the year ended October 31, 2015).

### Purchased Performing Loans

On December 1, 2015, we acquired GE Capital Transportation Finance ("BMO TF") which added $10,688 million of performing loans net of an $81 million credit mark and a $41 million interest rate premium to our Consolidated Balance Sheet. The acquired loans are accounted for consistently with our existing purchased performing loans.

The amounts below reflect the acquired loan accounting impact on both the existing portfolio and BMO TF.

For performing loans with fixed terms, the future credit mark is fully amortized to net interest income over the expected life of the loan using the effective interest method. The impact to net interest income for the three and six months ended April 30, 2016 was $5 million and $7 million, respectively ($7 million and $15 million for the three and six months ended April 30, 2015, respectively). The incurred credit losses are re-measured at each reporting period, with any increases recorded as an increase in the collective allowance and the provision for credit losses. Decreases in incurred credit losses are recorded as a decrease in the collective allowance and the provision for credit losses until the accumulated collective allowance for these loans is exhausted. Any additional decrease will be recorded in net interest income.

The impact of the re-measurement of incurred credit losses for performing loans with fixed terms for the three and six months ended April 30, 2016 was a recovery of $27 million and $11 million, respectively, in the collective provision for credit losses and $9 million and $19 million in net interest income, respectively ($2 million recovery and $15 million expense in the collective provision for credit losses and $nil and $nil in net interest income, respectively, for the three and six months ended April 30, 2015).

For performing loans with revolving terms, the incurred and future credit marks are amortized into net interest income on a straight line basis over the contractual terms of the loans. The impact on net interest income of such amortization for the three and six months ended April 30, 2016 was $2 million and $3 million, respectively ($4 million and $8 million, respectively, for the three and six months ended April 30, 2015).

As performing loans are repaid, the related unamortized credit mark remaining is recorded as net interest income during the period in which the payments are received. The impact on net interest income of such repayments for the three and six months ended April 30, 2016 was $9 million and $22 million, respectively ($5 million and $28 million, respectively, for the three and six months ended April 30, 2015).

For all performing loans, the interest rate premium is amortized to net interest income over the expected life of the loan using the effective interest rate method. The impact to net interest income of amortization and repayments for the three and six months ended April 30, 2016 is an expense of $14 million and $28 million, respectively ($12 million and $22 million expense for the three and six months ended April 30, 2015, respectively).

Actual specific provisions for credit losses related to these performing loans will be recorded as they arise in a manner that is consistent with our policy for loans we originate. The total specific provision for credit losses for purchased performing loans for the three and six months ended April 30, 2016 was $10 million and $10 million, respectively ($3 million and $3 million recovery for the three and six months ended April 30, 2015).

As at April 30, 2016, the amount of purchased performing loans on the balance sheet was $11,099 million ($4,993 million as at October 31, 2015). As at April 30, 2016, the credit mark remaining on performing term loans and revolving loans was $279 million and $64 million, respectively ($258 million and $75 million, respectively, as at October 31, 2015). Of the total credit mark for performing loans of $343 million, $187 million represents the credit mark that will be amortized over the remaining life of the portfolio. The remaining balance of $156 million represents the incurred credit mark and will be re-measured each reporting period.

**Purchased Credit Impaired Loans (“PCI loans”)**

On December 1, 2015, we recorded $105 million of purchased credit impaired loans, net of a $19 million credit mark, related to our acquisition of BMO TF. The acquired assets are accounted for consistently with our existing PCI loans. The amounts below reflect the acquired loan accounting impact on both the existing portfolio and BMO TF.

Subsequent to the acquisition date, we regularly re-evaluate what we expect to collect on the PCI loans. Increases in expected cash flows will result in a recovery in the specific provision for credit losses and either a reduction in any previously recorded allowance for credit losses or, if no allowance exists, an increase in the current carrying value of the PCI loans. Decreases in expected cash flows will result in a charge to the specific provision for credit losses and an increase in the allowance for credit losses. The impact of these evaluations for the three and six month periods ended April 30, 2016 was a $19 million and $48 million recovery in the specific provision for credit losses, respectively ($26 million and $55 million of recovery, respectively, for the three and six months ended April 30, 2015).

As at April 30, 2016, the amount of PCI loans remaining on the balance sheet was $310 million ($383 million as at October 31, 2015). As at April 30, 2016, the remaining credit mark related to PCI loans was $6 million ($nil at October 31, 2015).

**FDIC Covered Loans**

Certain acquired loans are subject to a loss share agreement with the Federal Deposit Insurance Corporation (“FDIC”). Under this agreement, the FDIC reimburses us for 80% of the net losses we incur on the covered loans.

For the three and six months ended April 30, 2016, we recorded net recoveries of $7 million and $13 million, respectively (net provisions of $21 million and $32 million, respectively, for the three and six months ended April 30, 2015). These amounts are net of the amounts expected to be reimbursed by the FDIC on the covered loans.

## Note 4: Risk Management

We have an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across our organization. The key risks related to our financial instruments are classified as credit and counterparty, market, and liquidity and funding risk.

### Credit and Counterparty Risk

Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation. Credit risk arises predominantly with respect to loans, over-the-counter derivatives, and other credit instruments. This is the most significant measurable risk that we face.

### Market Risk

Market risk is the potential for adverse changes in the value of our assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, and credit spreads, and includes the risk of credit migration and default in our trading book. We incur market risk in our trading and underwriting activities and structural banking activities.

### Liquidity and Funding Risk

Liquidity and funding risk is the potential for loss if we are unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Managing liquidity and funding risk is essential to maintaining the safety and soundness of the enterprise, depositor confidence and stability in earnings. It is our policy to ensure that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress.

## Note 5: Transfer of Assets

We sell Canadian mortgage loans to third-party Canadian securitization programs, including the Canadian Mortgage Bond program, and directly to third-party investors under the National Housing Act Mortgage-Backed Securities program. We assess whether substantially all of the risk and rewards of the loans have been transferred to determine if they qualify for derecognition.

The following table presents the carrying amount and fair value of transferred assets that did not qualify for derecognition and the associated liabilities:

| (Canadian $ in millions) | | **April 30, 2016 (1)** | | October 31, 2015 |
|---|---|---|---|---|
| | **Carrying amount of assets** | **Associated liabilities** | Carrying amount of assets | Associated liabilities |
| Residential mortgages | **6,425** | | 7,458 | |
| Other related assets (2) | **11,220** | | 10,181 | |
| Total | **17,645** | **17,180** | 17,639 | 17,199 |

(1) The fair value of the securitized assets is $17,757 million and the fair value of the associated liabilities is $17,629 million, for a net position of $128 million as at April 30, 2016 ($17,785 million, $17,666 million, and $119 million, respectively, as at October 31, 2015). Securitized assets are those which we have transferred to third parties, including other related assets.
(2) The other related assets represent payments received on account of loans pledged under securitization that have not been applied against the associated liabilities. The payments received are held on behalf of the investors in the securitization vehicles until principal payments are required to be made on the associated liabilities. In order to compare all assets supporting the associated liabilities, this amount is added to the carrying value of the securitized assets in the above table.

During the three and six months ended April 30, 2016, we sold $1,161 million and $3,520 million, respectively, of loans to third-party securitization programs ($1,398 million and $2,799 million, respectively, for the three and six months ended April 30, 2015).

## Note 6: Acquisitions

### GE Capital Transportation Finance Business ("BMO TF")

On December 1, 2015, we completed the acquisition of the net assets of GE Capital Transportation Finance business for cash consideration of US $9.0 billion (CAD $12.1 billion). The acquisition is consistent with our commercial banking activities in both Canada and the U.S. and will expand our commercial customer base. The acquisition was accounted for as a business combination, and the acquired business and corresponding goodwill are included in our U.S. P&C and Canadian P&C reporting segments.

As part of this acquisition, we primarily acquired loans, assets subject to operating leases, intangible assets and goodwill. We recorded a credit mark of $100 million and an interest rate premium of $41 million on the acquired loan portfolio. Additionally we recorded a fair value adjustment of $72 million to reduce the value of the assets subject to operating leases. A dealer and customer relationship intangible is being amortized over a 15 year period on an accelerated basis, and a technology intangible asset is being amortized over five years on a straight line basis. Goodwill of $410 million related to this acquisition is deductible for tax purposes.

BMO TF contributed approximately 13% to revenue and expenses of U.S. P&C since acquisition.

The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition are as follows:

| (Canadian $ in millions) | **2016 Total** |
|---|---|
| Loans | **10,793** |
| Goodwill | **410** |
| Intangible assets | **63** |
| Other assets | **1,087** |
| Total assets | **12,353** |
| Other liabilities | **275** |
| Purchase price | **12,078** |

The allocation of the purchase price is subject to refinement as we complete the valuation of the assets acquired and liabilities assumed.

## Note 7: Deposits

| (Canadian $ in millions) | Payable on demand – Interest bearing | | Payable on demand – Non-interest bearing | | Payable after notice | | Payable on a fixed date (4) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **April 30, 2016** | October 31, 2015 | **April 30, 2016** | October 31, 2015 | **April 30, 2016** | October 31, 2015 | **April 30, 2016** | October 31, 2015 | **April 30, 2016** | October 31, 2015 |
| Deposits by: | | | | | | | | | | |
| Banks (1) | **837** | 828 | **1,284** | 1,222 | **3,593** | 4,123 | **29,418** | 26,436 | **35,132** | 32,609 |
| Businesses and governments | **15,402** | 15,262 | **36,174** | 35,212 | **54,474** | 57,335 | **148,976** | 150,335 | **255,026** | 258,144 |
| Individuals | **3,178** | 3,095 | **16,551** | 15,095 | **84,179** | 83,081 | **50,727** | 46,145 | **154,635** | 147,416 |
| Total (2) (3) | **19,417** | 19,185 | **54,009** | 51,529 | **142,246** | 144,539 | **229,121** | 222,916 | **444,793** | 438,169 |
| Booked in: | | | | | | | | | | |
| Canada | **17,429** | 17,031 | **37,236** | 35,300 | **75,274** | 75,470 | **132,755** | 120,199 | **262,694** | 248,000 |
| United States | **1,310** | 1,517 | **16,664** | 16,091 | **66,149** | 68,396 | **68,756** | 76,980 | **152,879** | 162,984 |
| Other countries | **678** | 637 | **109** | 138 | **823** | 673 | **27,610** | 25,737 | **29,220** | 27,185 |
| Total | **19,417** | 19,185 | **54,009** | 51,529 | **142,246** | 144,539 | **229,121** | 222,916 | **444,793** | 438,169 |

(1) Includes regulated and central banks.
(2) Includes structured notes designated at fair value through profit or loss.
(3) As at April 30, 2016 and October 31, 2015, total deposits payable on a fixed date included $32,141 million and $26,960 million, respectively, of federal funds purchased and commercial paper issued and other deposit liabilities. Included in deposits as at April 30, 2016 and October 31, 2015 are $216,603 million and $221,268 million, respectively, of deposits denominated in U.S. dollars, and $23,880 million and $19,898 million, respectively, of deposits denominated in other foreign currencies.
(4) Includes $205,808 million of deposits, each greater than one hundred thousand dollars, of which $115,889 million were booked in Canada, $62,313 million were booked in the United States and $27,606 million were booked in other countries ($200,907 million, $103,101 million, $72,073 million and $25,733 million, respectively, as at October 31, 2015). Of the $115,889 million of deposits booked in Canada, $39,683 million mature in less than three months, $9,291 million mature in three to six months, $13,540 million mature in six to twelve months and $53,375 million mature after twelve months ($103,101 million, $36,434 million, $4,956 million, $11,916 million and $49,795 million, respectively, as at October 31, 2015).

Certain comparative figures have been reclassified to conform with the current period's presentation.

Deposits payable on demand are comprised primarily of our customers' chequing accounts, some of which we pay interest on. Our customers need not notify us prior to withdrawing money from their chequing accounts.

Deposits payable after notice are comprised primarily of our customers' savings accounts, on which we pay interest.

Deposits payable on a fixed date are comprised of various investment instruments, such as term deposits and guaranteed investment certificates, federal funds, commercial paper and covered bonds.

During the quarter ended April 30, 2016, we issued €1.5 billion of 0.125% Covered Bonds, Series CBL 8 due April 19, 2021.

During the quarter ended January 31, 2016, we issued €1.5 billion of 0.10% Covered Bonds, Series CBL 7 due January 14, 2019.

During the quarter ended January 31, 2016, U.S $1.5 billion of 2.625% Covered Bond, Series CB3 matured.

## Note 8: Subordinated Debt

On December 8, 2015, we issued $1.0 billion of 3.34% subordinated debt under our Canadian Medium-Term Note Program. The issue, Series H Medium-Term Notes Second Tranche, is due December 8, 2025. The notes reset to a floating rate on December 8, 2020. The notes include a non-viability contingent capital provision, which is necessary for the notes to qualify as regulatory capital under Basel III. As such, the notes are convertible into a variable number of our common shares if OSFI announces that the bank is, or is about to become, non-viable or if a federal or provincial government in Canada publicly announces that the bank has accepted or agreed to accept a capital injection, or equivalent support, to avoid non-viability.

On April 21, 2016, we redeemed all of our outstanding $700 million Subordinated Debentures, Series D Medium-Term Notes First Tranche, at a redemption price of 100 percent of the principal amount plus unpaid accrued interest to, but excluding, the redemption date.

On April 22, 2015, we redeemed all of our outstanding $500 million Subordinated Debentures, Series C Medium-Term Notes Second Tranche, at a redemption price of 100 percent of the principal amount plus unpaid accrued interest to, but excluding, the redemption date.

## Note 9: Equity

### Preferred and Common Shares Outstanding (1)

| (Canadian $ in millions, except as noted) | April 30, 2016 | | October 31, 2015 | | | |
|---|---|---|---|---|---|---|
| | **Number of shares** | **Amount** | Number of shares | Amount | Convertible into... | |
| **Preferred Shares - Classified as Equity** | | | | | | |
| Class B – Series 14 | **10,000,000** | **250** | 10,000,000 | 250 | not convertible | |
| Class B – Series 15 | **10,000,000** | **250** | 10,000,000 | 250 | not convertible | |
| Class B – Series 16 | **6,267,391** | **157** | 6,267,391 | 157 | Class B - series 17 | (2) |
| Class B – Series 17 | **5,732,609** | **143** | 5,732,609 | 143 | Class B - series 16 | (2) |
| Class B – Series 25 | **11,600,000** | **290** | 11,600,000 | 290 | Class B - series 26 | (2) |
| Class B – Series 27 | **20,000,000** | **500** | 20,000,000 | 500 | Class B - series 28 | (2)(3) |
| Class B – Series 29 | **16,000,000** | **400** | 16,000,000 | 400 | Class B - series 30 | (2)(3) |
| Class B – Series 31 | **12,000,000** | **300** | 12,000,000 | 300 | Class B - series 32 | (2)(3) |
| Class B – Series 33 | **8,000,000** | **200** | 8,000,000 | 200 | Class B - series 34 | (2)(3) |
| Class B – Series 35 | **6,000,000** | **150** | 6,000,000 | 150 | not convertible | (3) |
| Class B – Series 36 | **600,000** | **600** | 600,000 | 600 | Class B - series 37 | (2)(3) |
| | | **3,240** | | 3,240 | | |
| **Common Shares (4)** | **643,557,487** | **12,370** | 642,583,341 | 12,313 | | |
| **Share Capital** | | **15,610** | | 15,553 | | |

(1) For additional information refer to Notes 17 and 22 of our consolidated financial statements for the year ended October 31, 2015 on pages 170 to 184 of our 2015 Annual Report.
(2) If converted, the holders have the option to convert back to the original preferred shares on subsequent redemption dates.
(3) The shares are convertible into a variable number of our common shares if OSFI announces that the bank is, or is about to become, non-viable or if a federal or provincial government in Canada publicly announces that the bank has accepted a capital injection, or equivalent support, to avoid non-viability.
(4) The stock options issued under the stock option plan are convertible into 11,419,149 common shares as at April 30, 2016 (12,111,153 common shares as at October 31, 2015).

### Preferred Shares

On October 16, 2015, we issued 600,000 Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 36, at a price of $1,000 per share, for gross proceeds of $600 million.

On July 29, 2015, we issued 6 million Non-Cumulative Perpetual Class B Preferred Shares, Series 35, at a price of $25 per share, for gross proceeds of $150 million.

On June 5, 2015, we issued 8 million Non-Cumulative, 5-Year Rate Reset Class B Preferred Shares Series 33, at a price of $25 per share, for gross proceeds of $200 million.

The Class B Preferred Shares, Series 33, Series 35 and Series 36, include a non-viability contingent capital provision, necessary for the shares to qualify as regulatory capital under Basel III. As such, the shares are convertible into a variable number of our common shares if OSFI announces that the bank is, or is about to become, non-viable or if a federal or provincial government in Canada publicly announces that the bank has accepted a capital injection, or equivalent support, to avoid non-viability.

On May 25, 2015, we redeemed all 14 million Non-Cumulative, Perpetual Class B Preferred Shares Series 13, at a redemption price of $25.25 per share, for gross redemption of $353 million.

On February 25, 2015, we redeemed all 16 million Non-Cumulative, 5-year Rate Reset Class B Preferred Shares Series 23 at a redemption price of $25.00 per share, for gross redemption of $400 million.

### Common Shares

During the three and six months ended April 30, 2016, we did not repurchase any common shares. During the three and six months ended April 30, 2015, we repurchased 3 million and 6 million common shares at an average cost of $76.12 and $78.07 per share, totalling $229 million and $469 million, respectively.

On February 1, 2016, we renewed our normal course issuer bid effective for one year. Under this bid, we may repurchase up to 15 million of our common shares for cancellation. The timing and amount of purchases under the program are subject to regulatory approvals and to management discretion based on factors such as market conditions and capital adequacy. We will periodically consult with OSFI before making purchases under the bid.

**Capital Trust Securities**

On December 31, 2015, we redeemed all our BMO Capital Trust Securities – Series E ("BMO BOaTS – Series E") at a redemption amount equal to $1,000 for an aggregate redemption of $450 million, plus unpaid indicated distributions.

On December 31, 2014, we redeemed all our BMO Capital Trust Securities – Series D ("BMO BOaTS – Series D") at a redemption amount equal to $1,000 for an aggregate redemption of $600 million, plus unpaid indicated distributions.

## Note 10: Fair Value of Financial Instruments

### Fair Value of Financial Instruments Not Carried at Fair Value on the Balance Sheet

Set out in the following tables are the amounts that would be reported if all financial assets and liabilities not currently carried at fair value were reported at their fair values. Refer to notes to our annual consolidated financial statements for the year ended October 31, 2015 on pages 172 to 179 for further discussion on the determination of fair value.

| | | **April 30, 2016** | | October 31, 2015 |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | Carrying value | Fair value |
| **Securities** | | | | |
| Held to maturity | **8,401** | **8,513** | 9,432 | 9,534 |
| Other (1) | **812** | **2,431** | 655 | 2,365 |
| | **9,213** | **10,944** | 10,087 | 11,899 |
| **Securities purchased under resale agreements (2)** | **67,612** | **67,667** | 55,626 | 54,979 |
| **Loans** | | | | |
| Residential mortgages | **106,641** | **106,721** | 105,918 | 106,322 |
| Consumer instalment and other personal | **63,831** | **63,040** | 65,598 | 64,668 |
| Credit cards | **7,918** | **7,662** | 7,980 | 7,728 |
| Businesses and governments | **165,192** | **163,308** | 145,076 | 143,387 |
| | **343,582** | **340,731** | 324,572 | 322,105 |
| **Deposits (3)** | **433,637** | **433,890** | 428,740 | 429,032 |
| **Securities sold under repurchase agreements (4)** | **52,513** | **53,087** | 33,576 | 33,704 |
| **Other liabilities (5)** | **23,055** | **23,556** | 22,497 | 23,025 |
| **Subordinated debt** | **4,643** | **4,776** | 4,416 | 4,590 |

This table excludes financial instruments with a carrying value approximating fair value such as cash and cash equivalents, interest bearing deposits with banks, securities borrowed, customers' liabilities under acceptances, other assets, acceptances, securities lent and certain other liabilities.

(1) Excluded from other securities is $333 million of securities related to our merchant banking business that are carried at fair value on the balance sheet ($365 million as at October 31, 2015).

(2) Excludes $14,278 million of securities borrowed for which carrying value approximates fair value ($12,440 million as at October 31, 2015).

(3) Excludes $11,156 million of structured note liabilities designated at fair value through profit and loss and accounted for at fair value ($9,429 million as at October 31, 2015).

(4) Excludes $6,680 million of securities lent for which carrying value approximates fair value ($6,315 million as at October 31, 2015).

(5) Other liabilities include securitization and structured entity liabilities and certain other liabilities of subsidiaries, other than deposits.

Certain comparative figures have been reclassified to conform with the current period's presentation.

### Financial Instruments Designated at Fair Value

Most of our structured note liabilities have been designated at fair value through profit or loss and are accounted for at fair value, which aligns the accounting result with the way the portfolio is managed. The change in fair value of these structured notes was recorded as a decrease of $236 million and an increase of $158 million in non-interest revenue, trading revenue and a decrease of $243 million and $143 million recorded in other comprehensive income related to changes in our credit spread, respectively, for the three and six months ended April 30, 2016 (a decrease of $23 million and $126 million recorded in non-interest revenue, trading revenue, and a decrease of $19 million and an increase of less than $1 million recorded in other comprehensive income related to changes in our own credit spread, respectively, for the three and six months ended April 30, 2015). The impact of changes in our credit spread is measured based on movements in the bank's credit spread quarter over quarter.

The cumulative change in fair value related to changes in our own credit spread that has been recognized since the notes were designated at fair value to April 30, 2016 was an unrealized loss of approximately $76 million, of this an unrealized gain of less than $1 million was recorded in other comprehensive income, with an unrealized loss of $76 million recorded through the Statement of Income prior to the adoption of IFRS 9 own credit provision.

The fair value and notional amount due at contractual maturity of these structured notes as at April 30, 2016 were $11,156 million and $11,608 million, respectively ($9,429 million and $9,869 million, respectively, as at October 31, 2015). These structured notes are recorded in deposits in our Consolidated Balance Sheet.

We designate certain securities held by our insurance subsidiaries that support our insurance liabilities at fair value through profit or loss since the actuarial calculation of insurance liabilities is based on the fair value of the investments supporting them. This designation aligns the accounting result with the way the portfolio is managed on a fair value basis. The change in fair value of the assets is recorded in non-interest revenue, insurance revenue and the change in fair value of the liabilities is recorded in insurance claims, commissions and changes in policy benefit liabilities. The fair value of these investments as at April 30, 2016 of $7,278 million ($6,961 million as at

October 31, 2015) is recorded in securities, trading in our Consolidated Balance Sheet. The impact of recording these investments at fair value through profit or loss was an increase of $138 million and $162 million in non-interest revenue, insurance revenue, respectively, for the three and six months ended April 30, 2016 (a decrease of $231 million and an increase of $304 million, respectively, for the three and six months ended April 30, 2015).

We designate the obligation related to certain investment contracts at fair value through profit or loss, which eliminates a measurement inconsistency that would otherwise arise from measuring the investment contract liabilities and offsetting changes in the fair value of the investments supporting them on a different basis. The fair value of these investment contract liabilities as at April 30, 2016 of $595 million ($525 million as at October 31, 2015) is recorded in other liabilities in our Consolidated Balance Sheet. The change in fair value of these investment contract liabilities resulted in an increase of $1 million and $23 million in insurance claims, commissions, and changes in policy benefit liabilities, respectively, for the three and six months ended April 30, 2016 (a decrease of $13 million and an increase of $16 million, respectively, for the three and six months ended April 30, 2015). For the three and six months ended April 30, 2016, a decrease of $23 million and $9 million, respectively, was recorded in other comprehensive income related to changes in our own credit spread (a decrease of $4 million and an increase of $1 million, respectively, for the three and six months ended April 30, 2015). Changes in the fair value of investments backing these investment contract liabilities are recorded in non-interest revenue, insurance revenue. The impact of changes in our credit spread is measured based on movements in the bank's credit spread quarter over quarter.

Included in securitization and structured entities liabilities are amounts related to the notes issued by our credit protection vehicle which have been designated at fair value through profit or loss and are accounted for at fair value. This eliminates a measurement inconsistency that would otherwise arise from measuring the note liabilities and offsetting changes in the fair value of the related investments and derivatives on a different basis. The fair value of these note liabilities as at April 30, 2016 of $140 million ($139 million as at October 31, 2015) is recorded in other liabilities in our Consolidated Balance Sheet. The change in fair value of these note liabilities resulted in a decrease of less than $1 million and less than $1 million in non-interest revenue, trading revenues, respectively, for the three and six months ended April 30, 2016 (a decrease of less than $1 million and less than $1 million, respectively, for the three and six months ended April 30, 2015).

We designate certain investments held in our merchant banking business at fair value through profit or loss, which aligns the accounting result with the way the portfolio is managed. The fair value of these investments as at April 30, 2016 of $333 million ($365 million as at October 31, 2015) is recorded in securities, other in our Consolidated Balance Sheet. The impact of recording these investments at fair value through profit or loss was a decrease in non-interest revenue, securities gains, other than trading of less than $1 million and a decrease of $17 million, respectively, for the three and six months ended April 30, 2016 (a decrease of $4 million and $20 million, respectively, for the three and six months ended April 30, 2015).

### Fair Value Hierarchy

We use a fair value hierarchy to categorize financial instruments according to the inputs we use in valuation techniques to measure fair value.

### Valuation Techniques and Significant Inputs

We determine the fair value of publicly traded fixed maturity and equity securities using quoted prices in active markets (Level 1) when these are available. When quoted prices in active markets are not available, we determine the fair value of financial instruments using models such as discounted cash flows with observable market data for inputs such as yield and prepayment rates or broker quotes and other third-party vendor quotes (Level 2). Fair value may also be determined using models where significant market inputs are not observable due to inactive markets or minimal market activity (Level 3). We maximize the use of market inputs to the extent possible.

Our Level 2 trading securities are primarily valued using discounted cash flow models with observable spreads or broker quotes. The fair value of Level 2 available-for-sale securities is determined using discounted cash flow models with observable spreads or third-party vendor quotes. Level 2 structured note liabilities are valued using models with observable market information. Level 2 derivative assets and liabilities are valued using industry–standard models and observable market information.

The extent of our use of actively quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities, fair value liabilities, derivative assets and derivative liabilities was as follows:

| (Canadian $ in millions) | | | April 30, 2016 | | | October 31, 2015 |
|---|---|---|---|---|---|---|
| | Valued using quoted market prices | Valued using models (with observable inputs) | Valued using models (without observable inputs) | Valued using quoted market prices | Valued using models (with observable inputs) | Valued using models (without observable inputs) |
| **Trading Securities** | | | | | | |
| Issued or guaranteed by: | | | | | | |
| Canadian federal government | **13,066** | **1,372** | **-** | 12,342 | 1,512 | - |
| Canadian provincial and municipal governments | **3,647** | **3,938** | **-** | 3,183 | 3,568 | - |
| U.S. federal government | **6,121** | **166** | **-** | 2,937 | 314 | - |
| U.S. states, municipalities and agencies | **-** | **745** | **94** | - | 589 | 98 |
| Other governments | **330** | **42** | **-** | 396 | 15 | - |
| Mortgage-backed securities and collateralized mortgage obligations | **-** | **1,237** | **-** | - | 491 | - |
| Corporate debt | **609** | **9,946** | **149** | 328 | 8,717 | 243 |
| Corporate equity | **36,287** | **1,211** | **-** | 35,901 | 1,826 | - |
| | **60,060** | **18,657** | **243** | 55,087 | 17,032 | 341 |
| **Available-for-Sale Securities** | | | | | | |
| Issued or guaranteed by: | | | | | | |
| Canadian federal government | **5,595** | **1,930** | **-** | 4,988 | 2,982 | - |
| Canadian provincial and municipal governments | **3,097** | **2,075** | **-** | 2,658 | 2,267 | - |
| U.S. federal government | **4,280** | **-** | **-** | 1,754 | - | - |
| U.S. states, municipalities and agencies | **-** | **5,323** | **1** | - | 6,084 | 1 |
| Other governments | **2,588** | **2,334** | **-** | 2,328 | 3,084 | - |
| Mortgage-backed securities and collateralized mortgage obligations | **-** | **11,969** | **-** | - | 12,192 | - |
| Corporate debt | **5,995** | **2,954** | **4** | 5,977 | 1,972 | 6 |
| Corporate equity | **62** | **99** | **1,384** | 358 | 104 | 1,251 |
| | **21,617** | **26,684** | **1,389** | 18,063 | 28,685 | 1,258 |
| **Other Securities** | **-** | **-** | **333** | - | - | 365 |
| **Fair Value Liabilities** | | | | | | |
| Securities sold but not yet purchased | **26,204** | **867** | **-** | 19,499 | 1,727 | - |
| Structured note liabilities and other note liabilities | **-** | **11,304** | **-** | - | 9,577 | - |
| Annuity liabilities | **-** | **595** | **-** | - | 525 | - |
| | **26,204** | **12,766** | **-** | 19,499 | 11,829 | - |
| **Derivative Assets** | | | | | | |
| Interest rate contracts | **4** | **18,102** | **-** | 5 | 19,248 | - |
| Foreign exchange contracts | **79** | **20,099** | **-** | 18 | 16,281 | - |
| Commodity contracts | **515** | **979** | **-** | 605 | 1,062 | - |
| Equity contracts | **153** | **627** | **-** | 91 | 892 | - |
| Credit default swaps | **-** | **27** | **-** | - | 35 | 1 |
| | **751** | **39,834** | **-** | 719 | 37,518 | 1 |
| **Derivative Liabilities** | | | | | | |
| Interest rate contracts | **18** | **16,605** | **-** | 25 | 17,488 | - |
| Foreign exchange contracts | **43** | **24,501** | **-** | 15 | 20,091 | - |
| Commodity contracts | **339** | **1,620** | **-** | 380 | 2,391 | - |
| Equity contracts | **100** | **2,716** | **-** | 103 | 2,098 | - |
| Credit default swaps | **-** | **37** | **-** | - | 48 | - |
| | **500** | **45,479** | **-** | 523 | 42,116 | - |

### Significant Transfers

Our policy is to record transfers of assets and liabilities between fair value hierarchy levels at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Transfers between the various fair value hierarchy levels reflect changes in the availability of quoted market prices or observable market inputs that result from changing market conditions. The following is a discussion of the significant transfers between Level 1, Level 2 and Level 3 balances for the three and six months ended April 30, 2016.

During the three and six months ended April 30, 2016, $6 million and $18 million, respectively, of trading securities were transferred from Level 1 to Level 2 due to reduced observability of the inputs used to value these securities. During the three and six months ended April 30, 2016, $27 million and $49 million, respectively, of trading securities, and $nil and $215 million, respectively, of available-for-sale securities were transferred from Level 2 to Level 1 due to increased availability of quoted prices in active markets.

### Changes in Level 3 Fair Value Measurements

The tables below present a reconciliation of all changes in Level 3 financial instruments during the three and six months ended April 30, 2016, including realized and unrealized gains (losses) included in earnings and other comprehensive income.

| | | Change in fair value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| For the three months ended April 30, 2016 | Balance January 31, 2016 | Included in earnings | Included in other comprehensive income (3) | Purchases | Sales | Maturities/ Settlement (1) | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as at April 30, 2016 | Change in unrealized gains (losses) (2) |
| **Trading Securities** | | | | | | | | | | |
| Issued or guaranteed by: | | | | | | | | | | |
| U.S. states, municipalities and agencies | 105 | **-** | **(11)** | **-** | **-** | **-** | **-** | **-** | **94** | **-** |
| Corporate debt | 209 | **-** | **(22)** | **-** | **-** | **(38)** | **-** | **-** | **149** | **-** |
| Total trading securities | 314 | **-** | **(33)** | **-** | **-** | **(38)** | **-** | **-** | **243** | **-** |
| **Available-for-Sale Securities** | | | | | | | | | | |
| Issued or guaranteed by: | | | | | | | | | | |
| U.S. states, municipalities and agencies | 2 | **-** | **(1)** | **-** | **-** | **-** | **-** | **-** | **1** | **na** |
| Corporate debt | 5 | **-** | **-** | **-** | **(1)** | **-** | **-** | **-** | **4** | **na** |
| Corporate equity | 1,320 | **(13)** | **(126)** | **209** | **(6)** | **-** | **-** | **-** | **1,384** | **na** |
| Total available-for-sale securities | 1,327 | **(13)** | **(127)** | **209** | **(7)** | **-** | **-** | **-** | **1,389** | **na** |
| **Other Securities** | 363 | **-** | **(32)** | **6** | **(4)** | **-** | **-** | **-** | **333** | **-** |

(1) Includes cash settlement of derivative assets and derivative liabilities.
(2) Change in unrealized gains or losses on trading securities, other securities, derivative assets and derivative liabilities still held on April 30, 2016 are included in earnings in the period.
(3) Foreign exchange translation on trading securities held by foreign subsidiaries is included in other comprehensive income, net foreign operations.
na – not applicable

| | | Change in fair value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| For the six months ended April 30, 2016 | Balance October 31, 2015 | Included in earnings | Included in other comprehensive income (3) | Purchases | Sales | Maturities/ Settlement (1) | Tranfers into Level 3 | Transfers out of Level 3 | Fair Value as at April 30, 2016 | Change in unrealized gains (losses) (2) |
| **Trading Securities** | | | | | | | | | | |
| Issued or guaranteed by: | | | | | | | | | | |
| U.S. states, municipalities and agencies | 98 | **-** | **(4)** | **-** | **-** | **-** | **-** | **-** | **94** | **-** |
| Corporate debt | 243 | **-** | **(5)** | **-** | **-** | **(89)** | **-** | **-** | **149** | **-** |
| Total trading securities | 341 | **-** | **(9)** | **-** | **-** | **(89)** | **-** | **-** | **243** | **-** |
| **Available-for-Sale Securities** | | | | | | | | | | |
| Issued or guaranteed by: | | | | | | | | | | |
| U.S. states, municipalities and agencies | 1 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1** | **na** |
| Corporate debt | 6 | **-** | **-** | **-** | **(1)** | **(1)** | **-** | **-** | **4** | **na** |
| Corporate equity | 1,251 | **(9)** | **(45)** | **230** | **(43)** | **-** | **-** | **-** | **1,384** | **na** |
| Total available-for-sale securities | 1,258 | **(9)** | **(45)** | **230** | **(44)** | **(1)** | **-** | **-** | **1,389** | **na** |
| **Other Securities** | 365 | **(17)** | **(11)** | **21** | **(25)** | **-** | **-** | **-** | **333** | **(16)** |
| **Derivative Assets** | | | | | | | | | | |
| Credit default swaps | 1 | **(1)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1)** |

(1) Includes cash settlement of derivative assets and derivative liabilities.
(2) Change in unrealized gains or losses on trading securities, other securities, derivative assets and derivative liabilities still held on April 30, 2016 are included in earnings in the period.
(3) Foreign exchange translation on trading securities held by foreign subsidiaries are included in other comprehensive income, net foreign operations.
na – not applicable

## Note 11: Capital Management

Our objective is to maintain a strong capital position in a cost-effective structure that: considers our target regulatory capital ratios and internal assessment of required economic capital; is consistent with our targeted credit ratings; underpins our operating groups' business strategies; and builds depositor confidence and long-term shareholder value.

We met OSFI's stated "all-in" target capital ratios requirement as at April 30, 2016. Our capital position as at April 30, 2016 is detailed in the Capital Management section on pages 12 to 14 of Management's Discussion and Analysis of the Second Quarter 2016 Report to Shareholders.

## Note 12: Employee Compensation

### Stock Options

We did not grant any stock options during the three months ended April 30, 2016 and 2015. During the six months ended April 30, 2016, we granted a total of 754,714 stock options (641,875 stock options during the six months ended April 30, 2015). The weighted-average fair value of options granted during the six months ended April 30, 2016 was $7.60 per option ($7.45 per option for the six months ended April 30, 2015).

To determine the fair value of the stock option tranches (i.e. the portion that vests each year) on the grant date, the following ranges of values were used for each option pricing assumption:

| For stock options granted during the six months ended | **April 30, 2016** | April 30, 2015 |
|---|---|---|
| Expected dividend yield | **5.5%** | 4.7% |
| Expected share price volatility | **19.8 % - 20.0%** | 16.9%-17.0% |
| Risk-free rate of return | **1.3% - 1.4%** | 1.9%-2.0% |
| Expected period until exercise (in years) | **6.5 - 7.0** | 6.5-7.0 |
| Exercise price ($) | **77.23** | 78.09 |

Changes to the input assumptions can result in different fair value estimates.

### Pension and Other Employee Future Benefit Expenses

Pension and other employee future benefit expenses are determined as follows:

(Canadian $ in millions)

| | Pension benefit plans | | Other employee future benefit plans | |
|---|---|---|---|---|
| For the three months ended | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| Benefits earned by employees | **17** | 70 | **6** | 7 |
| Net interest (income) expense on net defined benefit (asset) liability | **(3)** | (2) | **13** | 12 |
| Administrative expenses | **1** | 1 | **-** | - |
| Benefits expense | **15** | 69 | **19** | 19 |
| Canada and Quebec pension plan expense | **23** | 23 | **-** | - |
| Defined contribution expense | **26** | 20 | **-** | - |
| Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income | **64** | 112 | **19** | 19 |

(Canadian $ in millions)

| | Pension benefit plans | | Other employee future benefit plans | |
|---|---|---|---|---|
| For the six months ended | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| Benefits earned by employees | **87** | 140 | **12** | 14 |
| Net interest (income) expense on net defined benefit (asset) liability | **(5)** | (3) | **26** | 25 |
| Administrative expenses | **2** | 2 | **-** | - |
| Benefits expense | **84** | 139 | **38** | 39 |
| Canada and Quebec pension plan expense | **42** | 44 | **-** | - |
| Defined contribution expense | **55** | 47 | **-** | - |
| Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income | **181** | 230 | **38** | 39 |

Certain comparative figures have been reclassified to conform with the current period's presentation.

## Note 13: Earnings Per Share

Our basic earnings per share is calculated by dividing net income attributable, after deducting total preferred shares dividends, by the daily average number of fully paid common shares outstanding throughout the period.

Diluted earnings per share is calculated in the same manner, with further adjustments made to reflect the dilutive impact of instruments convertible into our common shares.

The following tables present the bank's basic and diluted earnings per share:

### Basic earnings per share

| (Canadian $ in millions, except as noted) | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **April 30, 2016** | April 30, 2015 | **April 30, 2016** | April 30, 2015 |
| Net income attributable to bank shareholders | **973** | 993 | **2,033** | 1,979 |
| Dividends on preferred shares | **(35)** | (31) | **(76)** | (64) |
| Net income available to common shareholders | **938** | 962 | **1,957** | 1,915 |
| Average number of common shares outstanding (in thousands) | **643,382** | 645,504 | **643,178** | 646,938 |
| Basic earnings per share (Canadian $) | **1.46** | 1.49 | **3.04** | 2.96 |

### Diluted earnings per share

| | | | | |
|---|---|---|---|---|
| Net income available to common shareholders adjusted for dilution effect | **938** | 962 | **1,957** | 1,915 |
| Stock options potentially exercisable (1) | **8,182** | 9,522 | **8,358** | 9,654 |
| Common shares potentially repurchased | **(6,217)** | (7,171) | **(6,394)** | (7,144) |
| Average diluted number of common shares outstanding (in thousands) | **645,347** | 647,855 | **645,142** | 649,448 |
| Diluted earnings per share (Canadian $) | **1.45** | 1.49 | **3.03** | 2.95 |

(1) In computing diluted earnings per share we excluded average stock options outstanding of 2,396,256 and 2,279,909 with a weighted-average exercise price of $142.38 and $145.99, respectively, for the three and six months ended April 30, 2016 (1,994,844 and 1,892,106 with a weighted-average exercise price of $183.86 and $189.63 for the three and six months ended April 30, 2015) as the average share price for the period did not exceed the exercise price.

## Note 14: Operating Segmentation

### Operating Groups

We conduct our business through three operating groups, each of which has a distinct mandate. Our operating groups are Personal and Commercial Banking ("P&C") (comprised of Canadian Personal and Commercial Banking ("Canadian P&C") and U.S. Personal and Commercial Banking ("U.S. P&C")), Wealth Management and BMO Capital Markets ("BMO CM"), along with a Corporate Services unit.

Corporate Services results prior to 2016 reflected certain items in respect of the 2011 purchased loan portfolio, including recognition of the reduction in the credit mark that is reflected in net interest income over the term of the purchased loans and provisions and recoveries of credit losses on the purchased portfolio. Beginning in the first quarter of 2016, the reduction in the credit mark that is reflected in net interest income and the provision for credit losses on the purchased performing portfolio are being recognized in U.S. P&C, consistent with the accounting for the acquisition of BMO TF, and given that these amounts have reduced substantially in size. Results for prior periods have not been reclassified. Recoveries or provisions on the 2011 purchased credit impaired portfolio continue to be recognized in Corporate Services. Purchased loan accounting impacts related to BMO TF are recognized in U.S. P&C.

Also effective in the first quarter of 2016, income from equity investments has been reclassified from net interest income to non-interest revenue in Canadian P&C, Wealth Management and Corporate Services. Results from prior periods have been reclassified. For additional information refer to Note 27 of the consolidated financial statements for the year ended October 31, 2015 on pages 194 to 195 of the Annual Report.

### Our results and average assets, grouped by operating segment, are as follows:

(Canadian $ in millions)

| For the three months ended April 30, 2016 | Canadian P&C | U.S. P&C | Wealth Management | BMO CM | Corporate Services (1) | Total |
|---|---|---|---|---|---|---|
| Net interest income | **1,222** | **876** | **149** | **378** | **(205)** | **2,420** |
| Non-interest revenue | **450** | **268** | **1,248** | **692** | **23** | **2,681** |
| Total Revenue | **1,672** | **1,144** | **1,397** | **1,070** | **(182)** | **5,101** |
| Provision for credit losses | **127** | **51** | **2** | **44** | **(23)** | **201** |
| Insurance Claims, Commissions and Changes in Policy Benefit Liabilities | **-** | **-** | **407** | **-** | **-** | **407** |
| Amortization | **69** | **111** | **58** | **26** | **-** | **264** |
| Non-interest expense | **772** | **616** | **758** | **607** | **295** | **3,048** |
| Income before taxes and non-controlling interest in subsidiaries | **704** | **366** | **172** | **393** | **(454)** | **1,181** |
| Provision for income taxes | **179** | **99** | **38** | **102** | **(210)** | **208** |
| Reported net income | **525** | **267** | **134** | **291** | **(244)** | **973** |
| Non-controlling interest in subsidiaries | **-** | **-** | **-** | **-** | **-** | **-** |
| Net Income attributable to bank shareholders | **525** | **267** | **134** | **291** | **(244)** | **973** |
| Average Assets | **205,797** | **104,469** | **30,028** | **303,132** | **55,318** | **698,744** |

| For the three months ended April 30, 2015 | Canadian P&C | U.S. P&C | Wealth Management | BMO CM | Corporate Services (1) | Total |
|---|---|---|---|---|---|---|
| Net interest income | 1,165 | 684 | 133 | 274 | (196) | 2,060 |
| Non-interest revenue | 440 | 195 | 1,055 | 737 | 39 | 2,466 |
| Total Revenue | 1,605 | 879 | 1,188 | 1,011 | (157) | 4,526 |
| Provision for credit losses | 143 | 18 | 1 | 5 | (6) | 161 |
| Insurance Claims, Commissions and Changes in Policy Benefit Liabilities | - | - | 24 | - | - | 24 |
| Amortization | 59 | 56 | 56 | 25 | - | 196 |
| Non-interest expense | 753 | 523 | 780 | 591 | 269 | 2,916 |
| Income before taxes and non- controlling interest in subsidiaries | 650 | 282 | 327 | 390 | (420) | 1,229 |
| Provision for income taxes | 165 | 75 | 89 | 94 | (193) | 230 |
| Reported net income | 485 | 207 | 238 | 296 | (227) | 999 |
| Non-controlling interest in subsidiaries | - | - | - | - | 6 | 6 |
| Net Income attributable to bank shareholders | 485 | 207 | 238 | 296 | (233) | 993 |
| Average Assets | 195,486 | 87,888 | 29,173 | 289,591 | 59,302 | 661,440 |

(Canadian $ in millions)

| For the six months ended April 30, 2016 | Canadian P&C | U.S. P&C | Wealth Management | BMO CM | Corporate Services (1) | Total |
|---|---|---|---|---|---|---|
| Net interest income | **2,476** | **1,753** | **298** | **807** | **(434)** | **4,900** |
| Non-interest revenue | **921** | **530** | **2,536** | **1,283** | **6** | **5,276** |
| Total Revenue | **3,397** | **2,283** | **2,834** | **2,090** | **(428)** | **10,176** |
| Provision for credit losses | **267** | **116** | **4** | **52** | **(55)** | **384** |
| Insurance Claims, Commissions and Changes in Policy Benefit Liabilities | **-** | **-** | **773** | **-** | **-** | **773** |
| Amortization | **134** | **208** | **118** | **51** | **-** | **511** |
| Non-interest expense | **1,579** | **1,249** | **1,575** | **1,243** | **425** | **6,071** |
| Income before taxes and non-controlling interest in subsidiaries | **1,417** | **710** | **364** | **744** | **(798)** | **2,437** |
| Provision for income taxes | **363** | **192** | **82** | **193** | **(434)** | **396** |
| Reported net income | **1,054** | **518** | **282** | **551** | **(364)** | **2,041** |
| Non-controlling interest in subsidiaries | **-** | **-** | **1** | **-** | **7** | **8** |
| Net Income attributable to bank shareholders | **1,054** | **518** | **281** | **551** | **(371)** | **2,033** |
| Average Assets | **204,816** | **104,556** | **30,291** | **307,501** | **59,307** | **706,471** |

| For the six months ended April 30, 2015 | Canadian P&C | U.S. P&C | Wealth Management | BMO CM | Corporate Services (1) | Total |
|---|---|---|---|---|---|---|
| Net interest income | 2,350 | 1,366 | 277 | 662 | (430) | 4,225 |
| Non-interest revenue | 883 | 374 | 2,693 | 1,269 | 137 | 5,356 |
| Total Revenue | 3,233 | 1,740 | 2,970 | 1,931 | (293) | 9,581 |
| Provision for credit losses | 275 | 58 | 3 | 14 | (26) | 324 |
| Insurance Claims, Commissions and Changes in Policy Benefit Liabilities | - | - | 771 | - | - | 771 |
| Amortization | 114 | 110 | 114 | 46 | - | 384 |
| Non-interest expense | 1,533 | 1,030 | 1,550 | 1,193 | 428 | 5,734 |
| Income before taxes and non- controlling interest in subsidiaries | 1,311 | 542 | 532 | 678 | (695) | 2,368 |
| Provision for income taxes | 323 | 143 | 135 | 162 | (394) | 369 |
| Reported net income | 988 | 399 | 397 | 516 | (301) | 1,999 |
| Non-controlling interest in subsidiaries | - | - | - | - | 20 | 20 |
| Net Income attributable to bank shareholders | 988 | 399 | 397 | 516 | (321) | 1,979 |
| Average Assets | 195,080 | 86,265 | 28,482 | 288,409 | 57,853 | 656,089 |

(1) Corporate Services includes Technology and Operations.

Revenue is presented on a taxable equivalent basis (“teb”) at the operating group level. This basis increases reported revenues and the reported provision for income taxes that would increase revenues on certain tax-exempt items to a level that incurs tax at the statutory rate with the offset to Corporate Services revenue and provision for income taxes.

## Note 15: Contractual Maturities of Assets and Liabilities and Off-Balance Sheet Commitments

The tables below show the remaining contractual maturity of on-balance sheet assets and liabilities and off-balance sheet commitments. The contractual maturity of financial assets and liabilities is an input to but is not necessarily consistent with the expected maturity of assets and liabilities that is used in the management of liquidity and funding risk. We forecast asset and liability cash flows under both normal market conditions and under a number of stress scenarios to manage liquidity and funding risk. Stress scenarios include assumptions for loan repayments, deposit withdrawals, and credit commitment and liquidity facility drawdowns by counterparty and product type. Stress scenarios also consider the time horizon over which liquid assets can be monetized and the related haircuts and potential collateral requirements that may occur due to both market volatility and credit rating downgrades amongst other assumptions. For further details, see the Liquidity and Funding Risk Section on pages 105-110 of our 2015 Annual Report.

| (Canadian $ in millions) | | | | | | | | | | April 30, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 to 1 month | 1 to 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | No maturity | Total |
| **On-Balance Sheet Financial Instruments** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | 35,320 | - | - | - | - | - | - | - | 791 | 36,111 |
| Interest bearing deposits with banks | 5,664 | 1,273 | 428 | 2 | 19 | - | - | - | - | 7,386 |
| Securities | | | | | | | | | | |
| Trading | 1,071 | 3,304 | 2,666 | 2,654 | 2,592 | 6,069 | 7,636 | 15,470 | 37,498 | 78,960 |
| Available-for-sale | 961 | 484 | 1,945 | 1,615 | 1,282 | 3,814 | 20,239 | 17,805 | 1,545 | 49,690 |
| Held-to-maturity | 35 | 212 | 312 | - | 304 | 1,881 | 2,181 | 3,476 | - | 8,401 |
| Other | - | - | - | 3 | - | 6 | 66 | - | 1,070 | 1,145 |
| Total securities | 2,067 | 4,000 | 4,923 | 4,272 | 4,178 | 11,770 | 30,122 | 36,751 | 40,113 | 138,196 |
| Securities borrowed or purchased under resale agreements | 63,446 | 13,787 | 2,600 | 1,556 | 501 | - | - | - | - | 81,890 |
| Loans | | | | | | | | | | |
| Residential mortgages | 1,645 | 2,447 | 4,011 | 2,901 | 3,991 | 18,898 | 63,614 | 9,134 | - | 106,641 |
| Consumer instalment and other personal | 444 | 824 | 1,265 | 843 | 865 | 4,007 | 23,874 | 8,392 | 23,317 | 63,831 |
| Credit cards | - | - | - | - | - | - | - | - | 7,918 | 7,918 |
| Businesses and governments | 6,730 | 11,596 | 6,992 | 4,664 | 18,410 | 17,660 | 58,385 | 10,209 | 30,546 | 165,192 |
| Allowance for credit losses | - | - | - | - | - | - | - | - | (1,894) | (1,894) |
| Total loans, net of allowance | 8,819 | 14,867 | 12,268 | 8,408 | 23,266 | 40,565 | 145,873 | 27,735 | 59,887 | 341,688 |
| Total other assets | | | | | | | | | | |
| Derivative instruments | 3,366 | 3,204 | 1,269 | 1,699 | 1,272 | 4,740 | 10,743 | 14,292 | - | 40,585 |
| Customers' liability under acceptances | 9,622 | 2,451 | 18 | - | - | - | - | - | - | 12,091 |
| Other | 1,250 | 436 | 75 | 5 | - | - | 5 | 3,871 | 17,869 | 23,511 |
| Total other assets | 14,238 | 6,091 | 1,362 | 1,704 | 1,272 | 4,740 | 10,748 | 18,163 | 17,869 | 76,187 |
| Total Assets | 129,554 | 40,018 | 21,581 | 15,942 | 29,236 | 57,075 | 186,743 | 82,649 | 118,660 | 681,458 |

| (Canadian $ in millions) | | | | | | | | | | April 30, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 to 1 month | 1 to 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | No maturity | Total |
| **Liabilities and Equity** | | | | | | | | | | |
| Deposits (1) | | | | | | | | | | |
| Banks | **14,715** | **6,667** | **5,770** | **1,348** | **719** | **59** | **61** | **79** | **5,714** | **35,132** |
| Businesses and governments | **26,792** | **29,419** | **18,549** | **13,338** | **6,917** | **16,857** | **27,007** | **10,097** | **106,050** | **255,026** |
| Individuals | **1,490** | **2,748** | **5,642** | **7,149** | **6,667** | **7,975** | **16,573** | **2,483** | **103,908** | **154,635** |
| Total deposits | **42,997** | **38,834** | **29,961** | **21,835** | **14,303** | **24,891** | **43,641** | **12,659** | **215,672** | **444,793** |
| Other liabilities | | | | | | | | | | |
| Derivative instruments | **4,260** | **5,209** | **2,331** | **2,744** | **1,970** | **5,026** | **11,081** | **13,358** | **-** | **45,979** |
| Acceptances | **9,622** | **2,451** | **18** | **-** | **-** | **-** | **-** | **-** | **-** | **12,091** |
| Securities sold but not yet purchased | **27,071** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **27,071** |
| Securities lent or sold under repurchase agreements | **58,611** | **241** | **341** | **-** | **-** | **-** | **-** | **-** | **-** | **59,193** |
| Securitization and liabilities related to structured entities | **849** | **1,751** | **347** | **1,772** | **504** | **3,965** | **8,491** | **4,627** | **-** | **22,306** |
| Other | **8,462** | **238** | **193** | **758** | **657** | **5,863** | **80** | **2,281** | **7,818** | **26,350** |
| Total other liabilities | **108,875** | **9,890** | **3,230** | **5,274** | **3,131** | **14,854** | **19,652** | **20,266** | **7,818** | **192,990** |
| Subordinated debt | **-** | **-** | **-** | **-** | **100** | **-** | **-** | **4,543** | **-** | **4,643** |
| Total Equity | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **39,032** | **39,032** |
| Total Liabilities and Equity | **151,872** | **48,724** | **33,191** | **27,109** | **17,534** | **39,745** | **63,293** | **37,468** | **262,522** | **681,458** |

(1) Deposits payable on demand and payable after notice have been included under no maturity.

| (Canadian $ in millions) | | | | | | | | | | April 30, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 to 1 month | 1 to 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | No maturity | Total |
| **Off-Balance Sheet Commitments** | | | | | | | | | | |
| Commitments to extend credit (1) | **1,013** | **4,321** | **4,190** | **4,580** | **13,361** | **15,922** | **63,888** | **2,074** | **-** | **109,349** |
| Operating leases | **31** | **62** | **93** | **87** | **85** | **316** | **692** | **617** | **-** | **1,983** |
| Financial guarantee contracts (1) | **5,564** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **5,564** |
| Purchase obligations | **52** | **103** | **149** | **131** | **115** | **306** | **223** | **103** | **-** | **1,182** |

(1) A large majority of these commitments expire without being drawn upon. As a result, the total contractual amounts may not be representative of the funding likely to be required for these commitments.

| (Canadian $ in millions) | | | | | | | | | | October 31, 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 to 1 month | 1 to 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | No maturity | Total |
| **On-Balance Sheet Financial Instruments** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | 39,438 | - | - | - | - | - | - | - | 857 | 40,295 |
| Interest bearing deposits with banks | 5,077 | 1,728 | 411 | 94 | 70 | 2 | - | - | - | 7,382 |
| Securities | | | | | | | | | | |
| Trading | 954 | 1,432 | 633 | 3,900 | 2,241 | 3,639 | 5,993 | 15,940 | 37,728 | 72,460 |
| Available-for-sale | 1,260 | 1,198 | 995 | 590 | 2,434 | 4,641 | 18,699 | 16,476 | 1,713 | 48,006 |
| Held-to-maturity | 66 | 96 | 367 | 311 | 318 | 658 | 3,721 | 3,895 | - | 9,432 |
| Other | 3 | - | - | - | - | - | 61 | 13 | 943 | 1,020 |
| Total securities | 2,283 | 2,726 | 1,995 | 4,801 | 4,993 | 8,938 | 28,474 | 36,324 | 40,384 | 130,918 |
| Securities borrowed or purchased under resale agreements | 44,959 | 17,564 | 4,400 | 714 | 389 | 40 | - | - | - | 68,066 |
| Loans | | | | | | | | | | |
| Residential mortgages | 1,189 | 2,022 | 4,014 | 4,758 | 4,567 | 17,807 | 61,913 | 9,648 | - | 105,918 |
| Consumer instalment and other personal | 475 | 619 | 1,334 | 1,509 | 1,513 | 3,844 | 23,578 | 9,228 | 23,498 | 65,598 |
| Credit cards | - | - | - | - | - | - | - | - | 7,980 | 7,980 |
| Businesses and governments | 6,406 | 8,895 | 5,929 | 6,482 | 16,426 | 16,118 | 45,541 | 8,203 | 31,076 | 145,076 |
| Allowance for credit losses | - | - | - | - | - | - | - | - | (1,855) | (1,855) |
| Total loans, net of allowance | 8,070 | 11,536 | 11,277 | 12,749 | 22,506 | 37,769 | 131,032 | 27,079 | 60,699 | 322,717 |
| Other Assets | | | | | | | | | | |
| Derivative instruments | 3,611 | 2,862 | 1,043 | 1,827 | 752 | 4,961 | 9,591 | 13,591 | - | 38,238 |
| Customers' liability under acceptances | 8,607 | 2,692 | 8 | - | - | - | - | - | - | 11,307 |
| Other | 1,249 | 445 | 47 | 4 | - | - | 12 | 4,347 | 16,854 | 22,958 |
| Total other assets | 13,467 | 5,999 | 1,098 | 1,831 | 752 | 4,961 | 9,603 | 17,938 | 16,854 | 72,503 |
| Total Assets | 113,294 | 39,553 | 19,181 | 20,189 | 28,710 | 51,710 | 169,109 | 81,341 | 118,794 | 641,881 |

| (Canadian $ in millions) | | | | | | | | | | October 31, 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 to 1 month | 1 to 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | No maturity | Total |
| **Liabilities and Equity** | | | | | | | | | | |
| Deposits (1) | | | | | | | | | | |
| Banks | 12,548 | 7,370 | 4,050 | 1,195 | 1,172 | 101 | - | - | 6,173 | 32,609 |
| Businesses and governments | 20,505 | 38,097 | 21,001 | 7,270 | 10,962 | 14,497 | 27,112 | 10,891 | 107,809 | 258,144 |
| Individuals | 1,632 | 3,457 | 5,392 | 3,872 | 6,086 | 8,787 | 15,135 | 1,784 | 101,271 | 147,416 |
| Total deposits | 34,685 | 48,924 | 30,443 | 12,337 | 18,220 | 23,385 | 42,247 | 12,675 | 215,253 | 438,169 |
| Other Liabilities | | | | | | | | | | |
| Derivative instruments | 2,586 | 3,858 | 1,574 | 3,493 | 1,259 | 6,030 | 11,637 | 12,202 | - | 42,639 |
| Acceptances | 8,607 | 2,692 | 8 | - | - | - | - | - | - | 11,307 |
| Securities sold but not yet purchased | 21,226 | - | - | - | - | - | - | - | - | 21,226 |
| Securities lent or sold under repurchase agreements | 35,599 | 3,990 | 121 | 104 | 77 | - | - | - | - | 39,891 |
| Securitization and liabilities related to structured entities | 2 | 880 | 446 | 2,514 | 337 | 3,864 | 8,834 | 4,796 | - | 21,673 |
| Other | 8,148 | 319 | 30 | 15 | 185 | 1,071 | 3,181 | 2,201 | 7,497 | 22,647 |
| Total other liabilities | 76,168 | 11,739 | 2,179 | 6,126 | 1,858 | 10,965 | 23,652 | 19,199 | 7,497 | 159,383 |
| Subordinated debt | - | - | - | - | - | 100 | - | 4,316 | - | 4,416 |
| Total Equity | - | - | - | - | - | - | - | - | 39,913 | 39,913 |
| Total Liabilities and Equity | 110,853 | 60,663 | 32,622 | 18,463 | 20,078 | 34,450 | 65,899 | 36,190 | 262,663 | 641,881 |

(1) Deposits payable on demand and payable after notice have been included as having no maturity.

| (Canadian $ in millions) | | | | | | | | | | October 31, 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 to 1 month | 1 to 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | No maturity | Total |
| **Off-Balance Sheet Commitments** | | | | | | | | | | |
| Commitments to extend credit (1) | 1,815 | 6,651 | 3,994 | 5,946 | 6,549 | 15,542 | 63,885 | 2,319 | - | 106,701 |
| Operating leases | 29 | 60 | 89 | 88 | 87 | 328 | 721 | 675 | - | 2,077 |
| Financial guarantee contracts (1) | 6,081 | - | - | - | - | - | - | - | - | 6,081 |
| Purchase obligations | 54 | 103 | 153 | 160 | 154 | 467 | 302 | 127 | - | 1,520 |

(1) A large majority of these commitments expire without being drawn upon. As a result, the total contractual amounts may not be representative of the funding likely to be required for these commitments.
Certain comparative figures have been reclassified to conform with the current period's presentation.

## INVESTOR AND MEDIA PRESENTATION

### Investor Presentation Materials

Interested parties are invited to visit our website at www.bmo.com/investorrelations to review our 2015 Annual Report, this quarterly news release, presentation materials and supplementary financial information package online.

### Quarterly Conference Call and Webcast Presentations

Interested parties are also invited to listen to our quarterly conference call on Wednesday, May 25, 2016, at 2:00 p.m. (EDT). At that time, senior BMO executives will comment on results for the quarter and respond to questions from the investor community. The call may be accessed by telephone at 416-695-9753 (from within Toronto) or 1-888-789-0089 (toll-free outside Toronto). A replay of the conference call can be accessed until Monday, August 22, 2016, by calling 905-694-9451 (from within Toronto) or 1-800-408-3053 (toll-free outside Toronto) and entering passcode 5740558.

A live webcast of the call can be accessed on our website at www.bmo.com/investorrelations. A replay can also be accessed on the site.

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Christine Viau, Director, Investor Relations, christine.viau@bmo.com, 416-867-6956

### Corporate Secretary

Barbara Muir, Corporate Secretary, corp.secretary@bmo.com, 416-867-6423

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**Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan)**
Average market price as defined under the Plan
February 2016: $74.27
March 2016: $78.49
April 2016: $82.25

**For dividend information, change in shareholder address or to advise of duplicate mailings, please contact**
Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Telephone: 1-800-340-5021 (Canada and the United States)
Telephone: (514) 982-7800 (international)
Fax: 1-888-453-0330 (Canada and the United States)
Fax: (416) 263-9394 (international)
E-mail: service@computershare.com

**For other shareholder information, including the notice for our normal course issuer bid, please contact**
Bank of Montreal
Shareholder Services
Corporate Secretary's Department
One First Canadian Place, 21st Floor
Toronto, Ontario M5X 1A1
Telephone: (416) 867-6785
Fax: (416) 867-6793
E-mail: corp.secretary@bmo.com

**For further information on this report, please contact**
Bank of Montreal
Investor Relations Department
P.O. Box 1, One First Canadian Place, 10th Floor
Toronto, Ontario M5X 1A1

**To review financial results online, please visit our website at www.bmo.com. To review regulatory filings and disclosures online, please visit our website at www.bmo.com/investorrelations.**

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Our 2015 annual MD&A, audited annual consolidated financial statements and annual report on Form 40-F (filed with the U.S. Securities and Exchange Commission) are available online at www.bmo.com/investorrelations and at www.sedar.com. Printed copies of the bank's complete 2015 audited financial statements are available free of charge upon request at 416-867-6785 or corp.secretary@bmo.com.