

# Annual Financial Statements

BMO Harris Private Portfolios

December 31, 2011

**BMO Harris Emerging Markets Equity Portfolio**

# Auditor's Report

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## To the Unitholders of:

BMO Harris Canadian Money Market Portfolio  
BMO Harris Canadian Special Growth Portfolio  
BMO Harris U.S. Equity Portfolio  
BMO Harris International Equity Portfolio  
BMO Harris U.S. Growth Portfolio  
BMO Harris Canadian Income Equity Portfolio  
BMO Harris Canadian Bond Income Portfolio  
BMO Harris Canadian Growth Equity Portfolio

BMO Harris Canadian Conservative Equity Portfolio  
BMO Harris Canadian Total Return Bond Portfolio  
BMO Harris Canadian Corporate Bond Portfolio  
BMO Harris Diversified Yield Portfolio  
BMO Harris Emerging Markets Equity Portfolio  
BMO Harris International Special Equity Portfolio  
(referred to as the "Portfolios")

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We have audited the accompanying financial statements of each of the Portfolios, which comprise the statement of investment portfolio as at December 31, 2011 and the statements of net assets as at December 31, 2011 and 2010 and the statements of operations and changes in net assets as at and for the years then ended, and the related notes, which comprise a summary of significant accounting policies.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements of each of the Portfolios in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements of each of the Portfolios based on each of our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements,

whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements of each of the Portfolios present fairly, in all material respects, the financial position of each of the Portfolios, the results of each of their operations and the changes in each of their net assets as at and for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants  
Toronto, Ontario  
March 26, 2012

## BMO Harris Emerging Markets Equity Portfolio

<b>STATEMENT OF NET ASSETS</b> <i>As at (in thousands of Canadian dollars, except per unit data)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Cash	1,525	10,698
Investments at fair value	119,251	161,209
Income receivable	54	52
Subscriptions receivable	38	363
<b>Total assets</b>	<b>120,868</b>	<b>172,322</b>
<b>Liabilities</b>		
Accrued expenses	60	48
Redemptions payable	38	33
<b>Total liabilities</b>	<b>98</b>	<b>81</b>
<b>Net assets representing unitholders' equity</b>	<b>120,770</b>	<b>172,241</b>
<b>Net assets per unit</b>	<b>\$10.53</b>	<b>\$13.26</b>

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

## BMO Harris Emerging Markets Equity Portfolio

<b>STATEMENT OF OPERATIONS</b> <i>For the periods ended (in thousands of Canadian dollars, except per unit data)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>Investment Income</b>		
Dividends	3,488	2,849
Interest	216	62
Foreign taxes	(415)	(313)
	3,289	2,598
<b>Expenses</b>		
Audit fees	8	6
Independent Review Committee fees	3	2
Custodian fees	112	88
Legal and filing fees	31	19
Unitholder servicing fees (note 5)	289	303
Printing and stationery fees	5	13
Commissions and other portfolio transaction costs (note 5)	167	179
	615	610
Net investment income for the period	2,674	1,988
Realized gain on sale of investments	631	2,191
Realized loss on foreign exchange	(194)	(348)
Change in unrealized appreciation (depreciation) in value of investments	(34,660)	17,045
Increase (decrease) in net assets from operations	(31,549)	20,876
Increase (decrease) in net assets from operations per unit (note 2)	(2.49)	1.78

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

## BMO Harris Emerging Markets Equity Portfolio

<b>STATEMENT OF CHANGES IN NET ASSETS</b> <i>For the periods ended (in thousands of Canadian dollars)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Net assets – beginning of period	172,241	126,395
Increase (decrease) in net assets from operations	(31,549)	20,876
<b>Unit Transactions:</b>		
Proceeds from sale of units	27,053	48,369
Reinvested distributions	2,979	2,198
Amounts paid on units redeemed	(46,909)	(23,357)
Total unit transactions	(16,877)	27,210
<b>Distributions to Unitholders from:</b>		
Net investment income	(3,030)	(2,229)
Return of capital	(15)	(11)
Total distributions paid to unitholders	(3,045)	(2,240)
Net assets – end of period	120,770	172,241

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

## BMO Harris Emerging Markets Equity Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2011 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost <sup>†*</sup> (\$)	Fair Value (\$)
<b>Equities</b>			
<i>Australia – 0.0%</i>			
Newcrest Mining Limited	231	8	7
<i>Brazil – 17.9%</i>			
CCR SA	560,000	3,125	3,738
Cielo S.A.	60,000	1,453	1,580
Duratex S.A.	370,000	1,947	1,803
JBS SA	1,600,000	5,877	5,313
Petroleo Brasileiro S.A. – Petrobras	348,000	5,934	4,085
Redecard S.A.	100,000	1,455	1,594
Weg S.A.	350,000	2,856	3,590
		22,647	21,703
<i>China – 6.8%</i>			
China Life Insurance Company Limited, H Shares	1,805,000	6,638	4,533
Tencent Holdings Limited	180,000	4,545	3,693
		11,183	8,226
<i>Greece – 1.7%</i>			
Coca-Cola Hellenic Bottling Company S.A.	120,000	2,883	2,095
<i>Hong Kong – 4.0%</i>			
China Mobile Limited	400,000	4,068	3,973
Esprit Holdings Limited	609,140	5,093	800
		9,161	4,773
<i>India – 6.3%</i>			
Bharat Heavy Electricals Limited, Equity Linked Notes, Jul 20, 2015	500,000	3,629	2,276
Bharti Airtel Limited, Equity Linked Notes, May 31, 2015	550,000	4,348	3,600
NTPC Ltd., Equity Linked Notes, Jul 26, 2015	260,107	1,177	796
NTPC Ltd., Equity Linked Notes, Oct 6, 2014	300,000	1,209	920
		10,363	7,592
<i>Indonesia – 2.0%</i>			
PT Telekomunikasi Indonesia TBK	3,000,000	2,613	2,376
<i>Luxembourg – 1.6%</i>			
Tenaris S.A., ADR	50,000	1,462	1,893

<sup>†</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

\*For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

## BMO Harris Emerging Markets Equity Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2011 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost <sup>†*</sup> (\$)	Fair Value (\$)
<b>Malaysia – 3.2%</b>			
Genting Berhad	1,100,000	2,718	3,882
<b>Mexico – 5.2%</b>			
Grupo Televisa S.A., ADR	175,000	3,362	3,751
Wal-Mart de Mexico S.A.B. de C.V., Series V	900,000	1,652	2,516
		5,014	6,267
<b>Netherlands – 2.9%</b>			
Heineken NV	75,000	3,474	3,527
<b>Russia – 7.3%</b>			
Magnit OJSC, GDR	100,600	2,221	2,140
Mobile TeleSystems OJSC, ADR	235,000	5,368	3,512
Novorossiysk Commercial Sea Port, GDR	425,000	4,526	3,204
		12,115	8,856
<b>South Africa – 13.8%</b>			
Anglogold Ashanti Ltd.	80,000	3,381	3,462
Gold Fields Limited	360,000	4,503	5,626
MTN Group Limited	140,000	2,067	2,533
Nasper Limited, N Shares	60,000	1,319	2,665
Randgold Resources Limited	23,000	2,409	2,394
		13,679	16,680
<b>Taiwan – 13.7%</b>			
Acer Inc., Equity Linked Notes, Jul 14, 2014	2,400,000	5,815	2,836
Delta Electronics Inc., GDR	203,600	2,947	2,465
High Tech Computer Corp., Equity Linked Notes, Sep 1, 2016	219,877	3,220	3,651
Taiwan Semiconductor Manufacturing Company Limited, ADR	575,000	5,909	7,545
		17,891	16,497
<b>Turkey – 2.0%</b>			
Coca-Cola Icecek AS	200,000	1,646	2,427
<b>United Arab Emirates – 2.4%</b>			
Kernel Holdings S.A.	140,000	3,182	2,870
<b>United Kingdom – 3.0%</b>			
SABMiller plc	102,500	3,458	3,658

<sup>†</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

\*For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

## BMO Harris Emerging Markets Equity Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2011 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost <sup>†*</sup> (\$)	Fair Value (\$)
<i>United States – 4.9%</i>			
Avon Products, Inc.	120,000	3,831	2,137
Bunge Limited	65,000	4,438	3,785
		8,269	5,922
<b>Total Investment Portfolio – 98.7%</b>		<b>131,766</b>	<b>119,251</b>
<b>Other Assets Less Liabilities – 1.3%</b>			<b>1,519</b>
<b>NET ASSETS – 100.0%</b>			<b>120,770</b>

The Portfolio's Investment Portfolio is concentrated in the following segments as at:

	December 31, 2011	December 31, 2010
Brazil	17.9%	14.2%
China	6.8%	1.9%
Greece	1.7%	1.8%
Hong Kong	4.0%	7.5%
India	6.3%	9.2%
Indonesia	2.0%	1.3%
Israel	—%	1.4%
Luxembourg	1.6%	—%
Malaysia	3.2%	2.1%
Mexico	5.2%	6.8%
Netherlands	2.9%	—%
Russia	7.3%	5.1%
South Africa	13.8%	15.4%
Taiwan	13.7%	12.8%
Turkey	2.0%	4.1%
United Arab Emirates	2.4%	—%
United Kingdom	3.0%	1.4%
United States	4.9%	8.6%
Other Assets Less Liabilities	1.3%	6.4%
	<b>100.0%</b>	<b>100.0%</b>

<sup>†</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

\*For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

# BMO Harris Emerging Markets Equity Portfolio

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## NOTES TO THE FINANCIAL STATEMENTS

*(All amounts in thousands of Canadian dollars, except per unit data)*

*December 31, 2011*

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### 1. The Portfolio

BMO Harris Emerging Markets Equity Portfolio [“the Portfolio”] is an open-ended mutual fund trust established by a Declaration of Trust under the laws of the Province of Ontario, most recently amended on September 18, 2007. BMO Harris Investment Management Inc. (“the Manager”) is the manager of the Portfolio. The Manager is a wholly owned subsidiary of Bank of Montreal.

The information provided in these audited financial statements is for the periods ended December 31, 2011 and December 31, 2010.

### 2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), including estimates and assumptions made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Actual results could differ from estimates.

#### Portfolio mergers

The Manager has adopted the purchase method of accounting for certain Portfolio mergers which occurred during the periods. Under this method, one of the Portfolios in each merger is identified as the acquiring Portfolio, and is referred to as the “Continuing Portfolio”, and any other Portfolio involved in the merger is referred to as the “Terminated Portfolio”. This identification is based on a comparison of the relative net asset values of the Portfolios as well as consideration of the continuation of such aspects of the Continuing Portfolio as: investment advisors; investment objectives and practices; type of portfolio securities; and management fees and expenses. Where applicable, refer to Note 8(a) for the details of the merger transactions.

#### Valuation of investments

Canadian GAAP requires the use of bid prices for long positions and ask prices for short positions in the fair valuation of investments traded in an active market, rather than the use of closing prices currently used for the purpose of determining Net Asset Value (“NAV”). For investments that are not traded in an active market, Canadian GAAP requires the use of valuation techniques, incorporating factors that market participants would consider in setting a price.

The NAV is the fair value of the total assets of a Portfolio less the fair value of its total liabilities at a Valuation Date (“the Valuation Date” is each day on which the Toronto Stock Exchange is open for trading) determined in accordance with Part 14 of National Instrument 81-106 – Investment Portfolio Continuous Disclosure (“NI 81-106”) for the purpose of processing unitholder transactions. For financial statement purposes, valuations are determined in accordance with Canadian GAAP. This may result in a difference between the Net Assets per unit and the NAV per unit. Refer to Note 8(b) for the details of the comparison between NAV per unit and Net Assets per unit.

Investments are deemed to be held for trading. Investments are recorded at their fair value with the change between this amount and average cost being recorded as unrealized appreciation (depreciation) in value of investments in the Statement of Operations.

Securities listed on a recognized public securities exchange in North America and Latin America are valued for financial statement purposes at their bid prices for long positions and ask prices for short positions. The Manager uses fair value pricing when the price of a security held in a Portfolio is unavailable, unreliable or not considered to reflect the current value, and may determine another value which it considers to be fair and reasonable using the services of third-party valuation service providers, or using a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies and other applicable rates or prices. Procedures are in place to fair value securities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

# BMO Harris Emerging Markets Equity Portfolio

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## **NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

December 31, 2011

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For bonds, debentures, asset-backed securities and other debt securities, the fair value represents the bid price provided by independent security pricing services. Short-term investments are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant.

### **Investment transactions**

Investment transactions are accounted for on the trade date. Realized gains (losses) from the sale of investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments which exclude brokerage commissions and other trading expenses. All net realized gains (losses), unrealized appreciation (depreciation) in value, and transaction costs are attributable to investments and derivative instruments which are deemed held for trading, and are included in the Statement of Operations.

Client brokerage commissions, where applicable, are used as payment for order execution services or research services. The portfolio advisors or Manager may select brokers, including their affiliates, who charge a commissions in excess of that charged by other brokers ("soft dollars") if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. It is the Manager's objective that over time, all clients receive benefits from client brokerage commissions.

Transaction costs, such as brokerage commissions, if any, incurred in the purchase and sale of securities by the Portfolio are expensed and included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

### **Cost of investments**

The cost of investments represents the amount paid for each security and is determined on an average cost basis.

### **Income recognition**

Interest income is recognized on the accrual basis. Dividend income and distributions from investment trust units are recognized on the ex-dividend and ex-distribution date, respectively.

Interest on inflation-indexed bonds will be paid based on a principal value, which is adjusted for inflation. The inflation adjustment of the principal value is recognized as part of interest income in the Statement of Operations. At maturity, the Portfolio will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par value and the inflation compensation accrued from the original issue date. Interest is accrued on each Valuation Day based on the inflation adjusted par value at that time and is included in "Interest" in the Statement of Operations.

### **Translation of foreign currencies**

The fair value of investments and other assets and liabilities denominated in foreign currencies is translated into the Portfolio's functional currency, the Canadian dollar at the rates of exchange prevailing at the period-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in "Realized gain (loss) on sale of investments" and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation) in value of investments" in the Statement of Operations. Realized and unrealized foreign exchange gains (losses) on assets (other than investments) and liabilities are included in "Realized gain (loss) on foreign exchange" in the Statement of Operations.

# BMO Harris Emerging Markets Equity Portfolio

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

December 31, 2011

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### Forward currency contracts

A forward currency contract is an agreement between two parties (the Portfolio and the counterparty) to purchase or sell a currency against another currency at a set price on a future date. The Portfolio may enter into forward currency contracts for hedging purposes which can include the hedging of all or a portion of the currency exposure of an investment or group of investments, either directly or indirectly. The Portfolio may also enter into these contracts for non-hedging purposes which can include increasing the exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another.

The value of forward currency contracts entered into by the Portfolio is recorded as the difference between the value of the contract on the Valuation Date and the value on the date the contract originated.

Changes in the value of open forward currency contracts at each Valuation Date are recognized in the Statement of Operations as "Change in unrealized appreciation (depreciation) in value of forward currency contracts."

Amounts realized at the close of the contracts are recorded as "Realized gain (loss) on forward currency contracts" in the Statement of Operations.

### Securities lending

A Portfolio may engage in securities lending pursuant to the terms of an agreement which includes restrictions as set out in Canadian securities legislation. Collateral held is government Treasury Bills and qualified Notes.

Income from securities lending is included in the Statement of Operations and is recognized when earned. The securities on loan continue to be displayed in the Statement of Investment Portfolio. The market value of the securities loaned and collateral held is determined daily. Aggregate values of securities on loan and related collateral held in trust as at December 31, 2011, where applicable, are disclosed in Note 8(h).

### Increase or decrease in net assets from operations per unit

"Increase (decrease) in net assets from operations per unit" in the Statement of Operations represents the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the period.

### Short-term trading penalty

To discourage excessive trading, the Portfolio may, at the Manager's sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Portfolio and is included in "Interest" in the Statement of Operations.

### Cash

Cash includes cash on deposit, bank overdrafts and cash equivalents and is deemed to be held for trading and is carried at fair value.

### Other assets and liabilities

Income receivable, subscriptions receivable and due from broker are designated as loans and receivables and recorded at cost or amortized cost. Amounts due to broker, redemptions payable and accrued expenses are designated as financial liabilities and reported at amortized cost. Financial liabilities are generally settled within three months of issuance. Other assets and liabilities are short-term in nature, and are carried at amortized cost which approximates fair value.

## 3. Unit valuation

Units of the Portfolio are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit. The NAV per unit for the purposes of subscription or redemption is computed by dividing the NAV of the Portfolio (that is, the total fair value of the assets less its liabilities) by the total number of units outstanding at such time. This amount may be different from the Net Asset per unit which is presented on the Statement of Net Assets. Generally, any differences are due to valuing actively traded securities at bid prices for GAAP purposes while NAV typically utilizes closing price to determine fair value for the purchase and redemption of units. See Note 8(b) for the details of the comparison between NAV per unit and Net Assets per unit.

# BMO Harris Emerging Markets Equity Portfolio

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
December 31, 2011

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### Capital

The capital of the Portfolio is represented by issued and redeemable units with no par value. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Portfolio's NAV per unit upon redemption. The Portfolio has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 8(a), if any. The relevant movements in capital are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 6, the Portfolio endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

### 4. Taxes

#### (a) Income taxes

The Portfolio qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders. Such part of the Portfolio's net income and net realized capital gains as is not so paid or payable, is subject to income tax. It is the intention of the Portfolio to distribute all of its income and sufficient net realized capital gains so that the Portfolio will not be subject to income tax. Income tax on net realized capital gains not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur.

Non-capital losses that arose in 2004 and 2005 are available to be carried forward for ten years and applied against future taxable income. Non-capital losses that arose in 2006 and thereafter are available to be carried forward for twenty years. Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.

The Portfolio's estimated non-capital and capital losses for income tax purposes as of the tax year-ended December 2011 are included in Note 8(c), if applicable.

#### (b) Harmonized sales tax

Effective July 1, 2010, goods and services tax ("GST") was replaced by the harmonized sales tax ("HST") in certain provinces and is imposed at higher rates than the GST. The applicable HST is being paid by the Portfolio, which has resulted in an overall increase in expenses incurred by the Portfolio since the effective date of implementation.

### 5. Related party transactions

#### (a) Unitholder servicing, commissions and other portfolio transaction costs

The Portfolio is provided with certain facilities and services by affiliates of the Manager. Expenses incurred in the administration of the Portfolio were paid to BMO Trust Company (the Trustee) and to BMO Asset Management Inc. (the Registrar) and charged to the Portfolio. These expenses are included in "Unitholder servicing fees" in the Statement of Operations.

The Portfolio may execute trades with and or through BMO Nesbit Burns Inc., an affiliate of the Manager based on established standard brokerage agreements at market prices. These fees are included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

Refer to Note 8(d) for related party fees charged to the Portfolio for the periods ended December 31, 2011 and December 31, 2010.

#### (b) Other related party transactions

From time to time, the Manager may on behalf of the Portfolio enter into transactions or arrangements with or involving other members of Bank of Montreal Group of Companies, or certain other persons or companies that are related or connected to the Manager of the Portfolio. These transactions or arrangements may include transactions or arrangements with or involving Bank of Montreal Group of Companies, BMO Trust Company, BMO Nesbitt Burns Inc., Harris Investment Management Inc., BMO Asset Management Inc., BMO Investment Inc., Pyrford International Ltd, and may involve the purchase

# BMO Harris Emerging Markets Equity Portfolio

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

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or sale of portfolio securities through or from a member of Bank of Montreal Group of Companies, the purchase or sale of securities issued or guaranteed by a member of Bank of Montreal Group of Companies, the purchase or sale of securities issued or guaranteed by a member of Bank of Montreal group of Companies, entering into forward contracts with a member of Bank of Montreal Group of Companies acting as counterparty, the purchase or redemption of units of other BMO Harris Private Portfolios or the provision of services to the Manager.

### 6. Financial Instrument Risk

The Portfolio may be exposed to a variety of financial risks that are concentrated in its investment holdings, including derivative instruments. The Statement of Investment Portfolio groups securities by asset type, geographic region and/or market segment. The Portfolio's risk management practice includes the monitoring of compliance to investment guidelines.

The Manager manages the potential effects of these financial risks on the Portfolio's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Portfolio's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

#### (a) Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Portfolio, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Portfolio's functional currency in determining fair value. The Portfolio may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Portfolio's exposure to currency risk, if any, is further discussed in Note 8(f).

#### (b) Interest rate risk

Interest rate risk is the risk that the fair value of the Portfolio's interest-bearing investments will fluctuate due to changes in market interest rates. The Portfolio's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market instruments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing. The Portfolio's exposure to interest rate risk, if any, is further discussed in Note 8(f).

#### (c) Other market risk

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature, and as such they are not subject to other market risk. The Portfolio's exposure to other market risk, if any, is further discussed in Note 8(f).

#### (d) Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Portfolio's unrealized gain (loss) of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Portfolio's exposure to credit risk, if any, is further discussed in Note 8(f).

The Portfolio may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Portfolio must be at least 102% of the fair value of securities loaned, if any, as disclosed in Note 8(f).

# BMO Harris Emerging Markets Equity Portfolio

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

December 31, 2011

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### (e) Liquidity risk

The Portfolio's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Portfolio primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Portfolio retains sufficient cash and cash equivalent positions to maintain liquidity. The Portfolio may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified on the Statement of Investment Portfolio. The proportion of illiquid securities to NAV of the Portfolio is monitored by the Manager to ensure it does not exceed the regulatory limit and does not significantly affect the liquidity required to meet the Portfolio's financial obligations.

### 7. Transition to International Financial Reporting Standards

In March 2011, the Canadian Accounting Standards Board ("AcSB") amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), permitting investment companies, which includes mutual funds, to defer the adoption of IFRS. On December 12, 2011, the AcSB decided to extend by one year the deferral from fiscal years beginning on or after January 1, 2013 to January 1, 2014.

The deferral of the mandatory IFRS changeover date to January 1, 2014 is to prevent Canadian investment companies and segregated accounts of life insurance enterprises from having to change their current accounting treatment for controlled investees while the IASB finalizes its proposed investment entities standard. The AcSB will continue to monitor the need to revise the IFRS changeover date for these entities. Under the current

IFRS guidance, investment companies are required to consolidate their controlled investments. The IASB has issued an exposure draft that will exempt entities that qualify as investment entities from consolidating their controlled investments and requires such entities to record, with very limited exceptions, all of their investments at fair value through profit or loss account. This exposure draft is still under review. Canadian GAAP permits investment companies to fair value their investments regardless of whether those investments are controlled.

The Portfolio has not elected to early adopt IFRS, therefore it will adopt IFRS effective January 1, 2014. The Portfolio expects to report its financial results for the six month period ending June 30, 2014 prepared on an IFRS basis. The Portfolio will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Portfolio's adoption of IFRS. The criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) may require Unitholders' equity to be classified as a liability within the Portfolio's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Portfolio's Unitholder structure to confirm the classification.

## BMO Harris Emerging Markets Equity Portfolio

### NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

December 31, 2011

### 8. Portfolio specific information

#### (a) Portfolio information and change in units

The Portfolio's inception date was May 15, 1997.

The number of units that have been issued and are outstanding are disclosed in the table below.

#### Change in units

(in thousands of units)	Dec. 31, 2011	Dec. 31, 2010
Units issued and outstanding, beginning of period	12,992	10,791
Issued for cash	2,206	4,034
Issued on reinvestment of distributions	284	166
Redeemed during the period	(4,014)	(1,999)
Units issued and outstanding, end of period	11,468	12,992

#### (b) Comparison of Net Asset Value per unit to Net Assets per unit

Dec. 31, 2011		Dec. 31, 2010	
Net Asset Value per unit	Net Assets per unit	Net Asset Value per unit	Net Assets per unit
10.55	10.53	13.27	13.26

#### (c) Income taxes

As at the tax year-ended December 2011, the Portfolio had the following estimated capital and non-capital losses available for income tax purposes:

Total capital losses (\$)	Total non-capital losses (\$)	Non-capital losses that expire in 2026 and thereafter (\$)		
		2014 (\$)	2015 (\$)	
2,985	—	—	—	—

#### (d) Related party transactions

The related party fees charged for unitholder servicing fees are as follows:

	Dec. 31, 2011	Dec. 31, 2010
Unitholder servicing (\$)	223	224

#### (e) Brokerage commissions and soft dollars

Brokerage commissions paid on securities transactions and amounts paid to related parties of the Manager for brokerage services provided to the Portfolio for the periods are as follows:

	Dec. 31, 2011	Dec. 31, 2010
Total brokerage amounts paid (\$)	166	157
Total brokerage amounts paid to related parties (\$)	—	—

There were no ascertainable soft dollars or client brokerage commissions paid or payable to dealers by the Portfolio during the periods.

#### (f) Financial instrument risk

The Portfolio's objective is to achieve long term growth through capital appreciation by investing primarily in securities of companies in emerging markets or companies with a connection to emerging markets.

No changes affecting the overall level of risk of investing in the Portfolio were made during the period.

#### Currency risk

The table below summarizes the Portfolio's exposure to currency risk. Amounts shown are based on the carrying value of monetary and non-monetary assets (including derivatives and the underlying principle (notional) amount of forward currency contracts, if any).

Currency	Dec. 31, 2011		Dec. 31, 2010	
	Currency exposure (\$)	As a % of Net Assets (%)	Currency exposure (\$)	As a % of Net Assets (%)
Euro dollar	5,623	4.6	3,459	2.0
Pound sterling	2,396	2.0	—	—
U.S. dollar	44,512	36.9	75,321	43.7
Other Pacific currencies	13,008	10.8	17,199	10.0
Other Emerging Market currencies	54,361	45.0	70,367	40.9

All amounts in CA\$

# BMO Harris Emerging Markets Equity Portfolio

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

December 31, 2011

As at the periods ended December 31, 2011 and December 31, 2010, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all factors remaining constant, Net Assets could possibly have decreased or increased, respectively, by approximately \$5,995 (December 31, 2010 – \$8,317). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

### Interest rate risk

As at December 31, 2011 and December 31, 2010, the Portfolio did not have any significant exposure to interest rate risk.

### Other market risk

As at December 31, 2011, 99% (December 31, 2010 – 94%) of the Portfolio's Net Assets were traded on respective stock exchanges. If equity prices on respective stock exchanges had increased or decreased by 10% as at the periods ended, with all other factors remaining constant, Net Assets could possibly have increased or decreased, respectively, by approximately \$11,925 (December 31, 2010 – \$16,121). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

### Credit risk

As at December 31, 2011 and December 31, 2010, the Portfolio did not have any significant exposure to credit risk.

## (g) Fair value hierarchy

The Portfolio classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on the quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on unobservable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The table below shows the relevant disclosure.

### As at December 31, 2011

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	5,922	113,329	—	119,251

### As at December 31, 2010

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	45,204	116,005	—	161,209

## Significant transfers

Transfers are made between the various fair value hierarchy levels due to changes in the availability of quoted market prices or observable market inputs due to changing market conditions.

During the period ended December 31, 2011, \$21,618 were transferred from Level 1 to Level 2.

## Management's Responsibility for Financial Reporting

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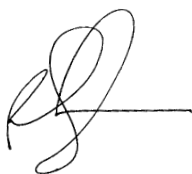
The accompanying financial statements have been prepared by an affiliate of the Manager and approved by the Board of Trustees of the Portfolios. Management is responsible for the information and representations contained in these financial statements.

The affiliate of the Manager maintains appropriate processes to ensure that relevant and reliable information is produced. The financial statements have been prepared in accordance with the accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies which management believes are appropriate for the Portfolio are described in Note 2 of the financial statements. The Trustee (BMO Trust Company) is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements of the Portfolios, adequacy of the internal controls, the audit process and financial reporting with management and external auditors.

PricewaterhouseCoopers LLP is the external auditor of the Portfolios. The auditor has been appointed by Board of the Manager and of the Trustees and cannot be changed without the prior approval for the Independent Review Committee and 60 days notice to the Unitholders. They have audited the financial statements in accordance with generally accepted auditing standards in Canada to enable them to express to the unitholders their opinion on the financial statements. Their report is included as an integral part of the financial statements.



**Richard Mason**  
Chief Executive Officer  
BMO Harris Investment Management Inc.  
March 26, 2012



**Robert J. Schauer**  
Chief Financial Officer  
BMO Harris Private Portfolios  
March 26, 2012

**Manager**

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(12/11)