BMO FINANCIAL GROUP 196TH ANNUAL REPORT 2013

BMO

All of us expect great things.

But it takes a true meeting of minds
to bring big plans to life –
to find opportunities that spark action
and inspire change.

The key is to add, not take away.
To grow the value of what we do
by creating value for others.

And to meet their great expectations

by expecting as much from ourselves.

Lillian Ishak, Private Banking, Montreal, QC

Delivering on Our Strategic Priorities
2013 Performance

Net Income

$4.2 billion

Adjusted $4.3 billion

Reported net income rose by 1%. Adjusted net income increased $0.2 billion or 5%. The bank achieved record revenue, net income and earnings per share. P 35

Revenue

$16.3 billion

Adjusted $15.6 billion

Reported revenue rose by 1%. Adjusted revenue increased $0.5 billion or 3%. The increase was primarily due to revenue growth in Wealth Management, BMO Capital Markets and Canadian P&C. P 38

Return on Equity (ROE)

14.9%

Adjusted 15.0%

Reported ROE was 15.9% and adjusted ROE was 15.5% in 2012. There was an increase in reported and adjusted earnings available to common shareholders and higher average common shareholders' equity. P 36

Basel III Common Equity Tier 1 Ratio

9.9%

Strong capital position – Our Basel III Common Equity Tier 1 Ratio of 9.9% is strong and in excess of regulatory requirements. P 61

Financial Snapshot

As at or for the year ended October 31 (Canadian $ in millions, except as noted)	Reported 2013	Reported 2012	Adjusted[1] 2013	Adjusted[1] 2012
Revenue (p 38)	**16,263**	16,130	**15,572**	15,067
Provision for credit losses (p 42)	**589**	765	**359**	471
Non-interest expense (p 43)	**10,297**	10,238	**9,826**	9,513
Net income (p 35)	**4,248**	4,189	**4,276**	4,092
Earnings per share – diluted ($) (p 35)	**6.26**	6.15	**6.30**	6.00
Return on equity (p 36)	**14.9%**	15.9%	**15.0%**	15.5%
Operating leverage (p 43)	**0.2%**	(1.4)%	**0.1%**	(2.8)%
Basel III Common Equity Tier 1 Ratio[2] (p 61)	**9.9%**	8.7%	**9.9%**	8.7%
Net Income by Segment[3]				
Canadian P&C (p 47)	**1,854**	1,775	**1,864**	1,785
U.S. P&C (p 50)	**596**	580	**646**	644
Wealth Management (p 53)	**834**	524	**861**	545
BMO Capital Markets (p 56)	**1,094**	1,021	**1,096**	1,022
Corporate Services[4] (p 59)	**(130)**	289	**(191)**	96
Net income (p 35)	**4,248**	4,189	**4,276**	4,092

[1] Adjusted results are non-GAAP and are discussed in the Non-GAAP Measures section on page 34. Management assesses performance on a GAAP basis and on an adjusted basis and considers both to be useful in the assessment of underlying business performance. Presenting results on both bases provides readers with an enhanced understanding of how management assesses results.

[2] Effective in 2013, regulatory capital requirements for BMO are determined on a Basel III basis. In 2012, BMO's Basel III capital ratios were calculated on a pro-forma basis.

[3] Certain prior-year data has been reclassified to conform with the current year's presentation. See pages 44 and 45.

[4] Corporate Services, including Technology and Operations.

Bank of Montreal uses a unified branding approach that links the organization's member companies under the brand "BMO Financial Group". Information about the intercorporate relationships among Bank of Montreal and its principal subsidiaries is provided on page 189, which page is incorporated herein by reference. These subsidiaries are incorporated under the laws of the state, province or country in which their head or principal office is located with the exception of: BMO Harris Financial Advisors, Inc., BMO (US) Lending, LLC, BMO Global Capital Solutions, Inc., BMO Capital Markets Corp., BMO Harris Financing, Inc., BMO Financial Corp., BMO Asset Management Corp., psps Holdings, LLC, and BMO Capital Markets GKST Inc., each of which is incorporated in Delaware.

Who We Are

Established in 1817, BMO Financial Group is a highly diversified financial services provider based in North America with total assets of $537 billion and approximately 45,500 employees. BMO provides a broad range of retail banking, wealth management and investment banking products and services to more than 12 million customers and conducts business through three operating groups: Personal and Commercial Banking, Wealth Management and BMO Capital Markets.

Our Strategic Footprint

BMO's strategic footprint is anchored by our business in the heartland of the continental economy. Our three operating groups serve individuals, businesses, governments and corporate customers right across Canada and in six U.S. Midwest states – Illinois, Wisconsin, Indiana, Minnesota, Missouri and Kansas – as well as in other select locations in the United States.

Our significant presence in North America is bolstered by operations in select global markets, including Europe and Asia, allowing us to provide our North American customers with access to economies and markets around the world, and our customers from other countries with access to North America.

Our Strategic Priorities

1. Achieve industry-leading customer loyalty by delivering on our brand promise.
2. Enhance productivity to drive performance and shareholder value.
3. Leverage our consolidated North American platform to deliver quality earnings growth.
4. Expand strategically in select global markets to create future growth.
5. Ensure our strength in risk management underpins everything we do for our customers.

Setting High Expectations

The Board of Directors is pleased with BMO's results and is focused on the year ahead.

J. Robert S. Prichard
Chairman of the Board

Your bank has performed well over the past year. All of us who are privileged to serve on the Board of Directors are pleased with the results and confident about what can be accomplished in the year ahead.

BMO achieved record revenue, record net income and record earnings per share in 2013. There was an attractive return of capital to common shareholders – over 60% of earnings – through the combination of dividends and share buybacks under the Normal Course Issuer Bid. And our one-year total shareholder return – share price appreciation and dividends – led the Canadian banks.

The bank's performance reflects the dedication and commitment of a talented and motivated team of employees led by a strong and experienced management group. In this regard, I want to acknowledge our CEO, Bill Downe, for his leadership and commitment. His belief that BMO's success depends on the success of customers continues to guide our strategy and is increasingly embedded in the culture of the bank.

It's also a pleasure to welcome Frank Techar to his new role as Chief Operating Officer, assuming overall responsibility for BMO's Personal & Commercial and Wealth businesses, as well as the bank's retail distribution channels, in both Canada and the United States. Strengthened operational capability across all of our businesses is now critical to future success in our industry as the pace of change quickens and as regulation continues to intensify. Frank's appointment strengthens our capacity to develop industry-leading, cross-group capabilities that drive customer experience – at the right pace. Frank brings to his role an outstanding record of achievement and deep knowledge of our businesses and the opportunities we have to strengthen them. Together, Bill and Frank will be a formidable team leading the bank forward.

We will work closely with Bill and the leadership team in a shared commitment to redefine and grow the company, work more efficiently for customers and capitalize on our scale in Canada, the United States and select markets worldwide. As we look forward to the year ahead, our focus will be on execution and performance as we take advantage of our strong businesses and platforms to deliver another year of superior returns.

As your representatives, we will continue to strengthen our board and the way it works, and we will continue to work with management in a shared effort to enhance the diversity of the organization at all levels. The board is performing well, and I thank my fellow directors for their many valued contributions to our progress.

Thank you for your confidence in our company during the past year. I hope you will continue to stand with BMO as we enter a new year of achievement.

J. Robert S. Prichard

Expecting Change

The new climate of heightened expectations is redefining incremental change. In banking, the impact promises to be dramatic, even disruptive – and, for those who are ready to take full advantage, highly rewarding.

William A. Downe
Chief Executive Officer, BMO Financial Group

In the fiscal year just completed, BMO Financial Group posted record net income of $4.2 billion and increased retained earnings by just under $1.7 billion. We paid common share dividends of $1.9 billion and repurchased $675 million of common stock, effectively returning over 60% of earnings to shareholders. And we contributed $1.7 billion in government levies and taxes.

We completed the final, most significant elements of the conversion and integration of our 2011 acquisition of Marshall & Ilsley, capturing cumulative annual run-rate expense savings approaching $400 million. And we positioned the bank for future growth in our four core customer segments: personal banking, commercial banking, capital markets and wealth management.

Most importantly, we made significant changes in the leadership structure of the bank to reduce layers of management and increase the proportion of our workforce in customer-facing roles. On November 1, 2013, most senior leaders in Canadian Personal and Commercial Banking assumed new roles designed to erase old boundaries and build customer loyalty. Our personal, commercial and wealth businesses throughout North America are now united under the leadership of Chief Operating Officer Frank Techar, who is overseeing a tightening of operating discipline and the acceleration of key priorities across the bank.

More broadly, we have initiated longer-term measures to increase our responsiveness to evolving customer behaviour in a world where digital media and electronic commerce compel all companies to respond. The ways that customers are purchasing and consuming our products and services are undergoing profound change. It's something all of us at BMO identify with – and we're investing in capabilities that recognize this shift.

All four operating businesses are moving into 2014 with clear momentum and a great deal of confidence in our continued strong performance. We're well positioned not only to meet expectations, but to anticipate and surpass them – which is why we've made this the central theme of our 196th annual report, a comprehensive review of the past year's achievements and the decisive steps we've taken to advance BMO's long-term strategy.

The world is far different from the one we faced a decade ago. What people expect from a bank – from any business – is rapidly changing. As customers increasingly rely on mobile

We work every day to help our customers have confidence in their financial decisions.

Bill Downe at the BMO Company Meeting, May 2013.

communications and instant access to information, they assume an immediate response to their transactional needs is always within reach. And as we in turn work alongside them to help bring their *financial goals* within reach, they want to see regular confirmation of the value we add.

To deliver on these expectations, we're asking more of ourselves – and more of our bank.

There are big things going on in our industry.

To say the changes underway around us are profound isn't an overstatement.

Profit models are changing across our industry, redefining the drivers of success. Simultaneous shifts in consumer behaviour and levels of regulatory engagement call for a broad change agenda that speaks to both the growth of revenue and the management of expense. There is a premium on superb execution, on innovation and on agility in delivering strong, consolidated financial performance.

The pace of change is very rapid for us all.

We take pride in the quality of the products and services BMO offers to customers – they are the financial building blocks of peace of mind: the control of spending, the growth of savings, the prudent use of credit and wise investment. We also care greatly about the way in which customers experience our bank: responsiveness and attention are what build trust and confidence for all customer segments. But in an era of rapid social, technological and economic change, we remain intensely focused on the reason *why* our customers continue to look for our guidance and support in controlling their financial futures. This is something that goes far beyond convenience and product features. It is why our bankers are so committed to the work they do.

And we're all confident it can be done better.

We're confident in our ability to thrive in this period of rapid change, because we've been steadily deepening our long-standing focus on customers, building the capabilities that grow loyalty and advocacy.

The forces of change

Against the broader backdrop of change, our efforts going forward will be shaped by two significant forces:

- *Customers' growing appetite for personalized service, in the moment.* When someone has an experience that is simpler or perfectly tailored to their needs in one area of life, it influences their expectations in all other areas. In a modern world, customers' expectations of their bank are being revised daily.
- *An unprecedented level of regulatory engagement.* Around the globe, governments and supervisors are introducing rigorous reporting requirements against constantly evolving standards. To continue meeting them, we must securely analyze highly complex data in real time while simplifying the work of the bankers who are responsible for understanding it. As we maintain this balance, we're guided by a long-held belief that what matters more than any one rule is the larger reason behind it. Effective regulation ensures integrity and strengthens trust – principles that are vital to our success as a business and have been ingrained in our values for nearly 200 years.

In some ways these forces seem to operate in opposition to one another. But we have confidence in our ability to respond fully in each of the market segments we serve, and to resolve the natural tension between simplifying the lives of our customers and maintaining confidence in a financial system that thrives in dealing with complex assignments.

Intensifying our efforts

In our four principal business groups we are meeting the challenge of rising expectations. We know that in making processes more efficient or services more accessible, we create more opportunities for our employees to have meaningful conversations with customers about their financial goals, delivering the unique value that differentiates our bank from our competitors.

Personal and Commercial Banking finished the year with very good momentum, reflecting the competitiveness of BMO's position in the markets we serve. In Canada, where our commercial lending market share is close to 20%, we saw good balance growth: 12% in deposits and 11% in loans. In personal banking we again led the market with our emphasis on shorter-amortization, fixed-rate mortgages.

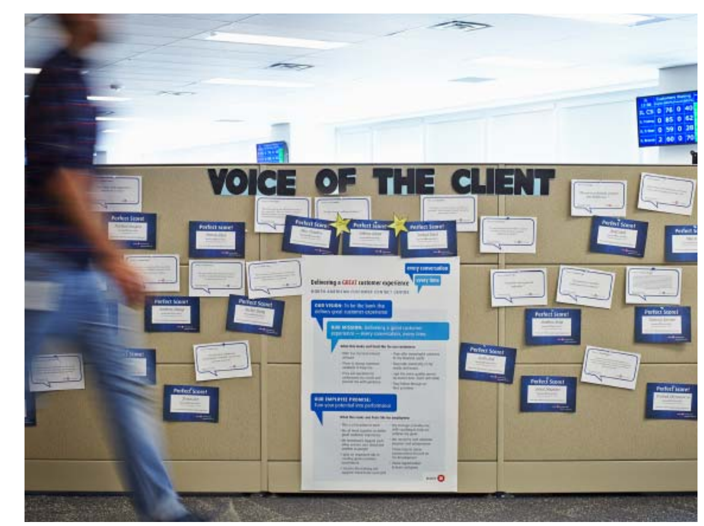
In the U.S., mid-market commercial lending continued to gain strength while initiatives targeted toward small business customers gained traction. In U.S. retail banking we are accelerating the move to digital fulfillment and sales while increasing the investment in technology that supports efficiency and growth.

BMO Capital Markets continued to demonstrate the simple truth that a quality book of business generates quality returns. We earned an 18.9% return on equity and were named Best Investment Bank in Canada by *Global Finance* magazine, and our strengthened U.S. business showed good growth and improving operating leverage.

Wealth Management at BMO is distinguished by a superior offering across multiple dimensions, from private banking and asset management to brokerage and insurance. Market momentum, growth created by changing demographics and disciplined investment all support the accelerating expansion of our wealth business.

Over the last decade, the bank has maintained strong momentum in the compound growth rate of both revenue and net income – 6% and 9%, respectively. With record reported results in 2013 and the highest Basel III common equity tier 1 ratio of the Canadian banks, BMO is well positioned to capitalize on the opportunities ahead. We are intensifying our pursuit of BMO's five strategic priorities (outlined on page 4) by focusing specifically in these areas:

- *Extending the digital experience across all channels.* We're developing strategies to further integrate the bank's digital and physical channels – merging the online and mobile experience into our retail branch and ATM network. U.S. households actively using BMO mobile banking increased 60% in 2013.
- *Simplifying and automating for greater efficiency.* By exploring new ways to streamline processes, modernize platforms and embed cost controls, we're adding to the productivity and efficiency gains realized over the past two years.
- *Leveraging data insights to serve customers better.* By enhancing the bank's analytics capabilities, we're sharpening our understanding of what customers are looking for, how they want to do business with us and, most importantly, why they need our help.



At BMO's Meadowvale Customer Contact Centre, we pay close attention to what's on customers' minds.

Deeper insights will make us even more effective in attracting new customers, assessing risk, and tailoring and cross-selling products and services.

- *Continuing to build a strong, differentiated brand.* As we extend a consistent identity and message throughout our expanded footprint, we reinforce existing relationships while fostering new ones. Across North America, millions of prospective customers are learning what BMO stands for – and why we stand out.

We're sharpening our understanding of what customers are looking for, how they want to do business with us and, most importantly, why they need our help.

In embracing a future where constructive change is certain, we also recognize what's not certain is how customers will respond to the contradictions of the coming decade. As people seek greater transparency and connectivity, their desire for security and privacy creates an opposite impulse. What we do know is that individuals and companies bring their business to our bank because of the trust built by our brand – our commitment to help them make better decisions with better information and have confidence in the decisions they make.

The power of expectations

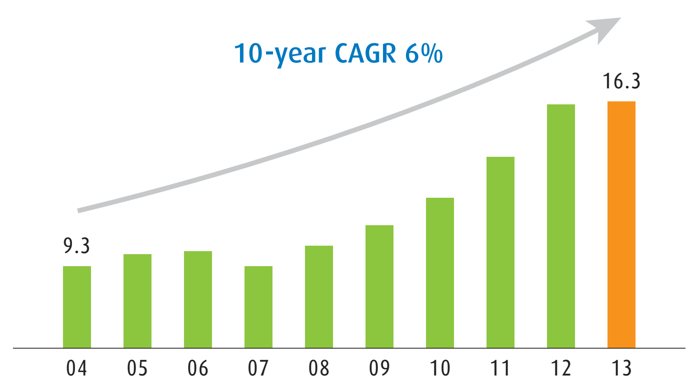
The opportunity before us is to take everything BMO has been doing well, and do it better than ever. By ensuring the quality of *what* we provide, and by simplifying and accelerating *how* we deliver it, we can focus on *why* people choose to make us their financial partner. This is the next step in the realization of BMO's brand promise. As customers see that we're making their lives easier and helping them have confidence in their financial futures, we forge stronger, mutually rewarding relationships – which grow our customer base and increase market share. And as the value we deliver to customers continues to rise, the value we deliver to shareholders grows as well.

The new climate of heightened expectations is redefining incremental change. In banking, the impact promises to be dramatic, even disruptive – and, for those who are ready to take full advantage, highly rewarding. By embracing change, we can influence its pace and help guide its course. Rather than wait to see where the market is going, BMO will be ahead of it, leading through innovation, supported by unrivalled customer loyalty and grounded in a long history of trust – trust that we've earned by always living up to expectations.

William A. Downe
Chief Executive Officer, BMO Financial Group

Strong Momentum in Revenue Growth

(Canadian $ in billions)



2010 and prior period information based on CGAAP.
Ten-year CAGR based on CGAAP in 2003 and on IFRS in 2013.

Senior Leadership Team

From left to right:

Jean-Michel Arès
Chief Technology & Operations Officer, BMO Financial Group

Barbara Muir
Corporate Secretary, BMO Financial Group

Thomas V. Milroy
Group Head, BMO Capital Markets

Frank Techar
Chief Operating Officer, BMO Financial Group

Richard Rudderham
Chief Human Resources Officer, BMO Financial Group

Joanna Rotenberg
Chief Marketing Officer and Head of Strategy, BMO Financial Group

Mark F. Furlong
Group Head, U.S. Personal and Commercial Banking and Chief Executive Officer, BMO Harris Bank N.A.

Thomas E. Flynn
Chief Financial Officer, BMO Financial Group

William Downe
Chief Executive Officer, BMO Financial Group

Simon A. Fish
General Counsel, BMO Financial Group

Surjit Rajpal
Chief Risk Officer, BMO Financial Group

Gilles G. Ouellette
Group Head, Wealth Management

Carol Neal
Chief Auditor, BMO Financial Group

The ideal home.

A thriving business.

A comfortable future.

Dylan Reibling, interactive media innovator and artist-in-residence at Christie Digital, received welcome support for his vision from BMO bankers at the Communitech Hub for high-tech entrepreneurs in Waterloo, ON.

Everyone has great expectations.

And to bring tomorrow's goals within reach, people expect a lot today.

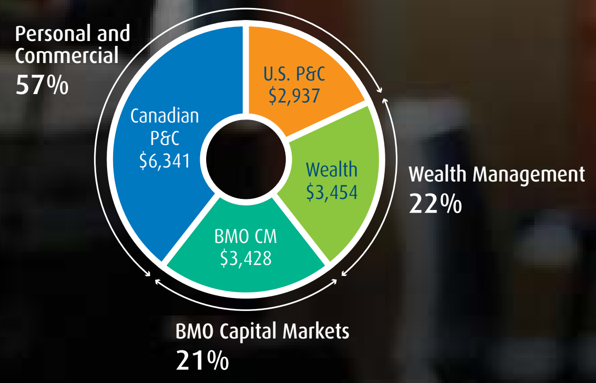
Beginning with the confidence they need to make important choices.

This is what all of our stakeholders ultimately expect.

And it's what we're in business to deliver.

Business mix[1]

Our diversified strategy once again drove BMO's 2013 performance.



(Graph figures in millions)

[1] Percentages determined excluding results in Corporate Services.

Leader in wealth

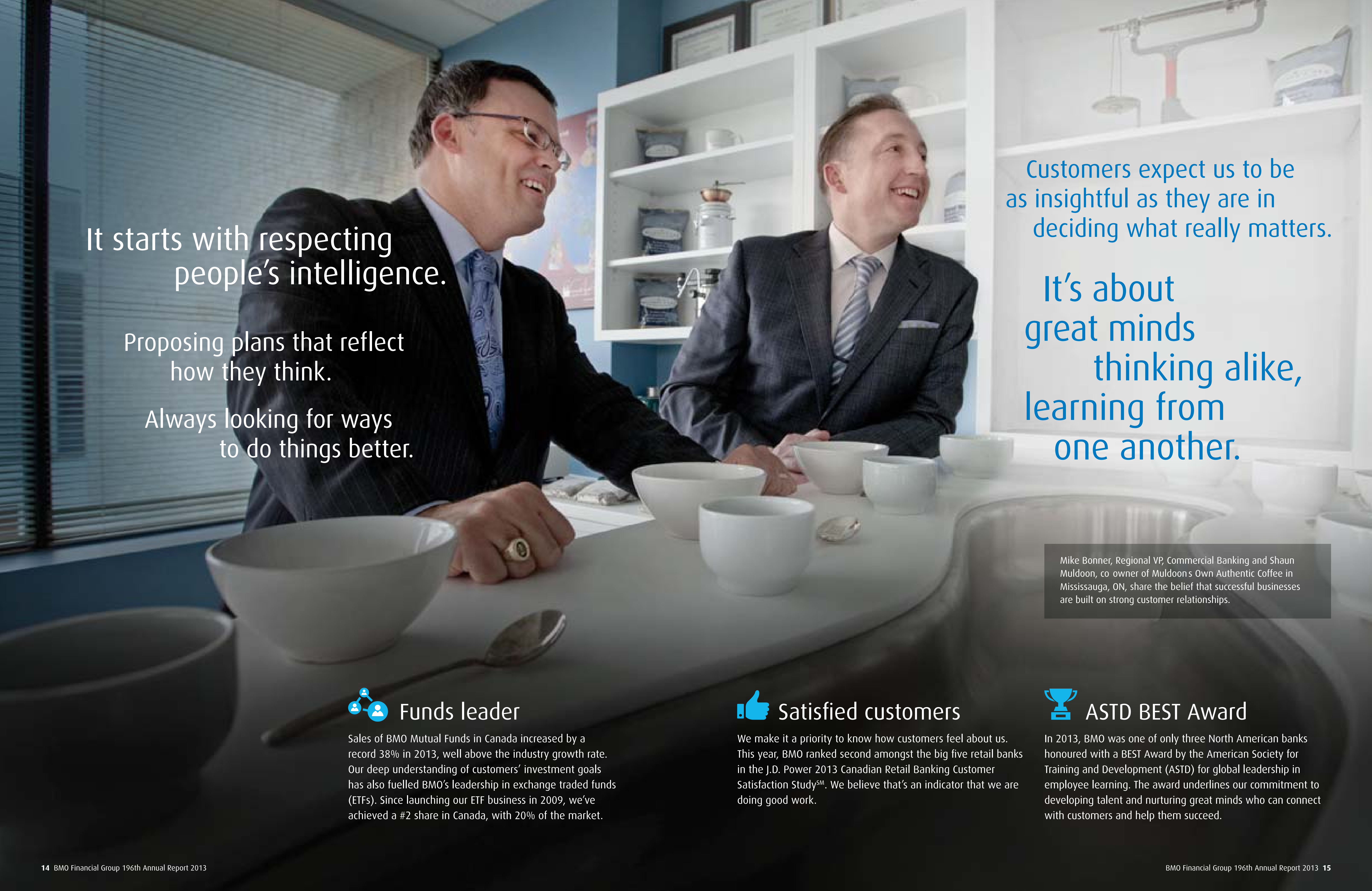
BMO's Canadian and U.S. private banks were both ranked best in the markets they serve by *World Finance* magazine in 2013. Over the past year, our wealth management businesses were recognized with 20 industry awards, evenly split between Canada and the United States.

Commercial strength

North American commercial loan balances grew by 11% year over year as we continued to meet the needs of businesses across our footprint. Commercial deposits were up 12% in Canada, where we have the second largest market share in business loans of $5 million and less. In the United States, core commercial and industrial lending has grown for eight consecutive quarters.

Private and personal

Meeting customers' expectations can mean erasing boundaries. BMO's personal and private banking teams have been successfully partnering where their businesses overlap. By being more responsive and efficient in serving both segments, we're creating more value for shareholders.



It starts with respecting people's intelligence.

Proposing plans that reflect how they think.

Always looking for ways to do things better.

Customers expect us to be as insightful as they are in deciding what really matters.

It's about great minds thinking alike, learning from one another.

Mike Bonner, Regional VP, Commercial Banking and Shaun Muldoon, co owner of Muldoon s Own Authentic Coffee in Mississauga, ON, share the belief that successful businesses are built on strong customer relationships.

Funds leader

Sales of BMO Mutual Funds in Canada increased by a record 38% in 2013, well above the industry growth rate. Our deep understanding of customers' investment goals has also fuelled BMO's leadership in exchange traded funds (ETFs). Since launching our ETF business in 2009, we've achieved a #2 share in Canada, with 20% of the market.

Satisfied customers

We make it a priority to know how customers feel about us. This year, BMO ranked second amongst the big five retail banks in the J.D. Power 2013 Canadian Retail Banking Customer Satisfaction Study℠. We believe that's an indicator that we are doing good work.

ASTD BEST Award

In 2013, BMO was one of only three North American banks honoured with a BEST Award by the American Society for Training and Development (ASTD) for global leadership in employee learning. The award underlines our commitment to developing talent and nurturing great minds who can connect with customers and help them succeed.

Managing our business responsibly.

There's a lot more to it than simply following the rules and avoiding missteps.

It means producing something – a positive impact, a new direction, a bridge that didn't exist before.

In the new economy, the currency that matters most is reputation.

And the only way to earn it is by doing the right thing.

As a bank, we have a responsibility to contribute.

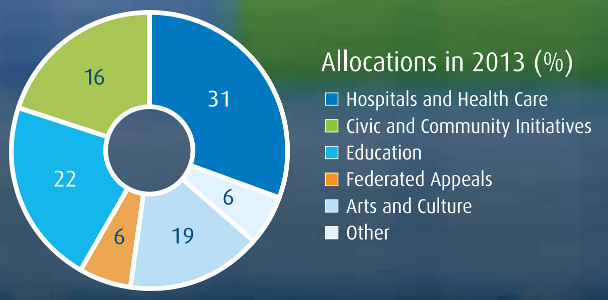
To respond to today's needs, as well as tomorrow's.

And above all, to add value.

Donnell Hill, Service Specialist at BMO's contact centre in Naperville, IL, knows that delivering value begins with responding effectively to customers' calls and online queries.

Community donations $56 million

(Canadian $ in millions)



Earning our reputation

In the latest annual customer survey conducted by *American Banker* and the Reputation Institute, BMO Harris Bank was ranked number one among 30 major U.S. banks evaluated for long-term trust, and number five for overall bank reputation. Confirmation that customers believe in our bank is a key measure of our success as a responsibly run business.

9.9%

BMO's Basel III Common Equity Tier 1 Ratio of 9.9% at year end is strong, and in excess of regulatory requirements. Our consistently strong capital position and prudent approach to risk management help ensure the bank's financial strength and flexibility as we continue to execute on our long-term growth strategy.

National governance award

In 2013, BMO was recognized with an Excellence in Governance Award from the Canadian Society of Corporate Secretaries. Our commitment to the highest standards of corporate governance goes far beyond legal and regulatory compliance; we strive to exceed the expectations of all key stakeholders with regard to risk, financial performance and sustainable growth.

Expectations look to the future.

But they’re inevitably focused on what happens right now.

The moment where ideas are born and plans are made.

Where tomorrow becomes today.

Where *can’t* turns into *can*.

People want to see an opportunity and act upon it.

And as we help them build momentum, our own opportunities grow.

Fuelled by great expectations.

Christie Saunders, Commercial Account Manager, BMO and Niall Fraser, President of the Grizzly Paw Brewing Company, working together to expand the footprint of Grizzly Paw s brewpub and microbrewery in Canmore, AB.

Right place, right time

With 1,563 branches, BMO is the second largest Canadian bank measured by retail network in Canada and the United States. As a North American enterprise centred in the heart of the continent, we serve a contiguous market with about 75 million people, GDP of more than $3.8 trillion and a diversified economy that includes all the fundamental drivers of sustainable growth.

Fuelling opportunity

In the high-tech clusters and centres of innovation across our strategic footprint, BMO helps entrepreneurs launch new businesses that create jobs, expand sectors and generate lasting value. In 2013, we became a funding partner of the C100, a non-profit organization that supports emerging Canadian technology companies in Silicon Valley through mentorship, partnership and investment.

28.8% one-year TSR

BMO’s one year total shareholder return (TSR) was the highest among our Canadian peer group in 2013, reflecting our success in delivering top tier shareholder returns. Over the past five years, BMO shareholders have earned an average annual TSR of 17.0% on their investment in BMO common shares, second among our Canadian peer group.

20 years of learning

In 2014 we will mark the 20th anniversary of the BMO Institute for Learning (IFL), which delivers wide-ranging programs from campuses across North America. The IFL designs and delivers nearly 300 face to face courses, virtual classroom courses and eLearning programs. Employee training strengthens our competitive advantage while helping to bridge the North American skills gap.

Corporate Governance

Good corporate governance matters to our shareholders, our customers, our employees, our communities – and to us. We strive to meet rigorous standards of corporate governance, following the best practices in our industry and meeting or going beyond regulatory requirements.

Our board oversees our business
Our Board of Directors supervises how we manage our business and affairs, so we choose board members with sophisticated expertise and a range of perspectives. The board makes decisions based on BMO's strategies, core values, and the best information available. Its decisions emphasize long-term performance over short-term gain, and the board is accountable to our shareholders.

The board operates independently of management
The Chairman of the Board and our directors, other than the Chief Executive Officer, operate independently of management. Board meetings include time for the independent directors to meet without management or non-independent directors present.

To reflect our customers and our values, our board is diverse
The diverse backgrounds of our directors connect us with our customers, our markets and our employees. We believe this diversity also means we make better decisions. Our Board Diversity Policy received a 2013 Diversity in Governance Award presented by the Canadian Board Diversity Council. We also received the Canadian General Counsel 2013 Social Responsibility Award for our work on sustainability and diversity within the bank and the community.

We compensate our directors and executives in ways that encourage good decisions
Our model for compensating directors and executives follows best practices for good governance. We use a pay-for-performance model that includes clawbacks and discourages unreasonable risk-taking. Directors and executives must own shares, to align their interests with those of other shareholders. We do not allow directors and employees to hedge their investments in our shares, securities or related financial instruments.

We are committed to doing business ethically
FirstPrinciples, our code of conduct and ethics, guides our decision-making at every level. The Audit and Conduct Review Committee monitors compliance with the code and approves any exceptions, as appropriate.

Every director and employee commits to *FirstPrinciples* each year by signing an acknowledgment that they have read, understood and complied with *FirstPrinciples*. All employees are also required to take an online course to test their understanding of *FirstPrinciples*.

Our policy is to:
- encourage employees to raise concerns about ethical conduct
- allow people to report concerns anonymously through the Office of the Ombudsman or online, so they can speak without fear of retaliation
- investigate complaints and act on them, escalating issues to the board and Audit and Conduct Review Committee if necessary.

Our board and management stay connected with our shareholders
We engage our shareholders through the annual shareholder meeting, annual report, management proxy circular, quarterly reports, annual information form, sustainability report, corporate responsibility report, news releases and industry conferences. Our website provides extensive information about the board, its mandate, the board committees and their charters, and our directors.

Board of Directors[1]

To promote alignment of our strategic goals across all our businesses, each director sits on at least one board committee and the Chief Executive Officer is invited to all committee meetings. We review the membership of all committees annually. www.bmo.com/corporategovernance


Robert M. Astley

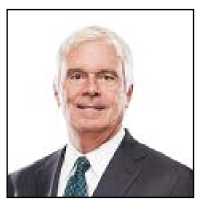

Janice M. Babiak


Sophie Brochu


George A. Cope


William A. Downe


Christine A. Edwards


Ronald H. Farmer


Eric R. La Flèche


Bruce H. Mitchell


Philip S. Orsino


Dr. Martha C. Piper


J. Robert S. Prichard


Don M. Wilson III

Robert M. Astley
Former President and Chief Executive Officer, Clarica Life Insurance Company, and former President, Sun Life Financial Canada
Board/Committees: Governance and Nominating, Human Resources (Chair), Risk Review
Director since: 2004

Janice M. Babiak
Corporate Director
Board/Committees: Audit and Conduct Review, Risk Review
Other public boards: Royal Mail plc, Walgreens Co.
Director since: 2012

Sophie Brochu
President and Chief Executive Officer, Gaz Métro
Board/Committees: Audit and Conduct Review
Other public boards: BCE Inc.
Director since: 2011

George A. Cope
President and Chief Executive Officer, Bell Canada and BCE Inc.
Board/Committees: Human Resources
Other public boards: BCE Inc., Bell Aliant
Director since: 2006

William A. Downe
Chief Executive Officer, BMO Financial Group
Board/Committees: Attends all committee meetings as an invitee
Other public boards: ManpowerGroup
Director since: 2007

Christine A. Edwards
Capital Partner, Winston & Strawn
Board/Committees: Human Resources, Risk Review, The Pension Fund Society of the Bank of Montreal
Director since: 2010

Ronald H. Farmer
Managing Director, Mosaic Capital Partners
Board/Committees: Audit and Conduct Review, Governance and Nominating, Human Resources, The Pension Fund Society of the Bank of Montreal (Chair)
Other public boards: Valeant Pharmaceuticals International Inc.
Director since: 2003

Eric R. La Flèche
President and Chief Executive Officer, Metro Inc.
Board/Committees: Risk Review
Other public boards: Metro Inc.
Director since: 2012

Bruce H. Mitchell
President and Chief Executive Officer, Permian Industries Limited
Board/Committees: Audit and Conduct Review, The Pension Fund Society of the Bank of Montreal
Director since: 1999

Philip S. Orsino, O.C., F.C.A.
President and Chief Executive Officer, Jeld-Wen Inc.
Board/Committees: Audit and Conduct Review (Chair), Governance and Nominating
Director since: 1999

Dr. Martha C. Piper, O.C., O.B.C.
Corporate Director, former President and Vice-Chancellor, The University of British Columbia
Board/Committees: Audit and Conduct Review, Governance and Nominating (Chair)
Other public boards: Shoppers Drug Mart Corporation, TransAlta Corporation
Director since: 2006

J. Robert S. Prichard, O.C., O.Ont.
Chairman of the Board, BMO Financial Group, and Chair of Torys LLP
Board/Committees: Governance and Nominating, Human Resources, Risk Review, The Pension Fund Society of the Bank of Montreal
Other public boards: George Weston Limited, Onex Corporation
Director since: 2000

Don M. Wilson III
Corporate Director
Board/Committees: Governance and Nominating, Human Resources, Risk Review (Chair)
Other public boards: Ethan Allen Interiors Inc.
Director since: 2008

1 As at October 31, 2013.

Honorary Directors

Stephen E. Bachand, Ponte Vedra Beach, FL, USA
Ralph M. Barford, Toronto, ON
Matthew W. Barrett, O.C., LL.D., Oakville, ON
David R. Beatty, O.B.E., Toronto, ON
Peter J.G. Bentley, O.C., LL.D., Vancouver, BC
Robert Chevrier, F.C.A., Montreal, QC
Tony Comper, C.M., LL.D., Toronto, ON
Pierre Côté, C.M., Quebec City, QC
C. William Daniel, O.C., LL.D., Toronto, ON
Louis A. Desrochers, C.M., c.r., A.O.E., Edmonton, AB
A. John Ellis, O.C., LL.D., O.R.S., Vancouver, BC
John F. Fraser, O.C., LL.D., O.R.S., Winnipeg, MB
David A. Galloway, Toronto, ON
Richard M. Ivey, C.C., Q.C., Toronto, ON
Betty Kennedy, O.C., LL.D., Campbellville, ON
Harold N. Kvisle, Calgary, AB
Eva Lee Kwok, Vancouver, BC
J. Blair MacAulay, Oakville, ON
Ronald N. Mannix, O.C., Calgary, AB
Robert H. McKercher, Q.C., Saskatoon, SK
Eric H. Molson, Montreal, QC
Jerry E.A. Nickerson, North Sydney, NS
Jeremy H. Reitman, Montreal, QC
Lucien G. Rolland, O.C., Montreal, QC
Joseph L. Rotman, O.C., LL.D., Toronto, ON
Guylaine Saucier, F.C.P.A., F.C.A., C.M., Montreal, QC
Nancy C. Southern, Calgary, AB

CFO's Foreword to the Financial Review

Thomas E. Flynn
Chief Financial Officer, BMO Financial Group

BMO delivered record net income of $4.2 billion in 2013, building on our 2012 performance. On an adjusted basis, net income rose to $4.3 billion and EPS was $6.30, increasing 5% from last year. We also announced two dividend increases, bought back over 10 million common shares and strengthened our capital position.

Our continued good results reflect the success of our strategy and have translated into attractive returns for BMO's shareholders. Our one-year total shareholder return of 29% was the highest among our Canadian peer group. Over the past five years, our shareholders have earned an average annual total shareholder return of 17% on their investment in common shares. We have achieved these returns while managing risk prudently and strengthening our balance sheet.

The bank's financial results are examined in Management's Discussion and Analysis (MD&A), where we review our performance and tell our financial story clearly and thoroughly. Our long-standing commitment to ensuring that shareholders receive timely and informative reporting on our financial results earned us the Chartered Professional Accountants of Canada Award of Excellence in Corporate Reporting for Financial Services in two of the last three years.

This year, we expanded our disclosures in several areas in response to recommendations made by the Enhanced Disclosure Task Force established by the Financial Stability Board, which is part of a broader effort by industry participants and regulators to strengthen the resiliency of the financial services industry globally. We are supportive of this effort and hope you find the additional disclosures informative.

Looking forward, we are well-positioned for the current environment:

- Our large North American commercial banking business is a differentiator in an environment where commercial loan growth is expected to continue to outpace consumer loan growth.
- Our flagship Canadian Personal and Commercial banking business is heading into 2014 with good momentum.
- Wealth Management had record results for this year and has good growth opportunities in North America and select global markets.
- We expect growth and operating leverage from investments we have made in our U.S. businesses and from the improving U.S. economy.
- We are working to improve efficiency with an emphasis on simplifying processes and pursuing opportunities to integrate technology and operations infrastructures on a North American basis.
- Our capital position is the strongest among our Canadian peer group with a Basel III Common Equity Tier 1 Ratio of 9.9%, up from the pro-forma estimate of 8.7% at the end of 2012.

As we head into 2014, we remain focused on meeting our existing customers' needs and adding new customers across all our businesses by delivering on our brand promise. We hope you enjoy reading our MD&A and look forward to reporting on our continued progress next year.

Thomas E. Flynn

Thomas E. Flynn

Financial Performance and Condition at a Glance

Our Performance (Note 1)

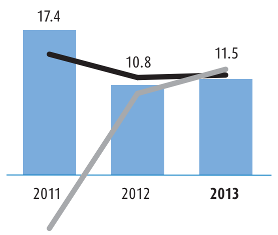
Peer Group Performance

Total Shareholder Return (TSR)

P 33

- BMO shareholders have earned an average annual return of 11.5% over the past three years, above the 4.8% return on the S&P/TSX Composite Index.
- The one-year TSR of 28.8% and the five-year average annual TSR of 17.0% both outperformed the comparable Canadian indices.

Graph shows average annual three-year TSR.



TSR (%)

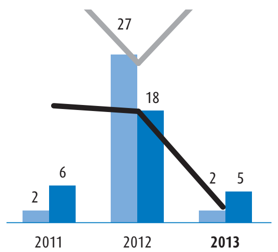
- The Canadian peer group average annual three-year TSR was 12.0%. The one-year TSR was 22.4% and the five-year average annual TSR was 15.6%.
- The North American peer group average annual three-year TSR was 12.7%, slightly above the Canadian peer group average. The one-year TSR in 2013 was 21.3% and the five-year average annual TSR was 6.1%.

Earnings per Share (EPS) Growth

P 35

- Adjusted net income grew $184 million or 5% to $4,276 million in 2013, and adjusted EPS grew $0.30 or 5% to $6.30. Reported net income grew $59 million to $4,248 million, and reported EPS grew $0.11 or 2% to $6.26.
- There was revenue growth and lower provisions for credit losses on an adjusted basis.

All EPS measures are stated on a diluted basis.



EPS Growth (%)

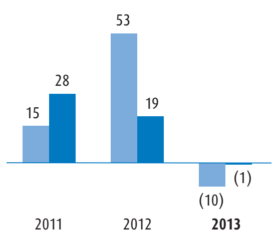
- The Canadian peer group average EPS increased 3%, with all but two banks in the peer group reporting increases in EPS.
- Average EPS growth for the North American peer group was 69%, with significant variability among our U.S. peer banks.

North American peer group data is not to scale.

Net Economic Profit (NEP) Growth

P 36

- Adjusted NEP, a measure of added economic value, was $1,237 million, down $9 million or 1% from 2012. Reported NEP was $1,298 million, down $141 million or 10% from 2012.
- The decrease is reflective of higher earnings being more than offset by a higher charge for capital, as a result of growth in shareholders' equity.



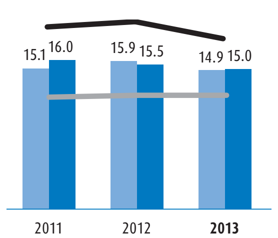
NEP Growth (%)

NEP data is not available for all banks in the peer group.

Return on Equity (ROE)

P 36

- Adjusted ROE was 15.0% and reported ROE was 14.9% in 2013, compared with 15.5% and 15.9%, respectively, in 2012. There was growth in both reported and adjusted earnings available to common shareholders. There was also an increase in average common shareholders' equity primarily due to internally-generated capital.
- BMO has achieved an ROE of 13% or better in 23 of the past 24 years, one of only two banks in our North American peer group to have done so.



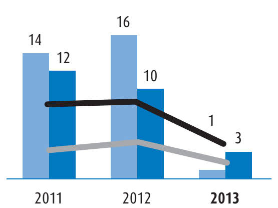
ROE (%)

- The Canadian peer group average ROE of 18.3% was lower than the average return of 20.1% in 2012, as ROE declined for all but one bank in our Canadian peer group.
- Average ROE for the North American peer group was 12.2%, unchanged from 2012.

Revenue Growth

P 38

- Adjusted revenue increased $505 million or 3% in 2013 to $15,572 million. Reported revenue increased $133 million to $16,263 million. The increase was primarily due to revenue growth in Wealth Management, BMO Capital Markets and Canadian P&C.



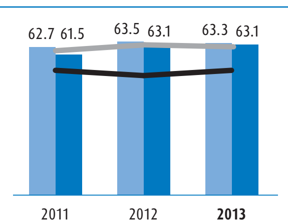
Revenue Growth (%)

- Revenue growth for the Canadian peer group averaged 4%, less than half the average growth of 9% in 2012.
- Average revenue growth for the North American peer group was 2%, a decline from 4% in 2012, with three of our U.S. peers reporting lower revenues.

Efficiency Ratio (Expense-to-Revenue Ratio)

P 43

- The adjusted efficiency ratio was 63.1%, unchanged from 2012. The reported efficiency ratio improved 20 basis points to 63.3%, as revenue growth was higher than expense growth.



Efficiency Ratio (%)

- The Canadian peer group average efficiency ratio was 59.1%, up from 58.3% in 2012 as increases in expenses more than offset revenue growth.
- The average efficiency ratio for the North American peer group was 62.7%, slightly better than the group's average ratio of 63.0% in 2012, and worse than the average of our Canadian peer group.

Note 1: NEP and adjusted results in this section are non-GAAP. Please see the Non-GAAP Measures section on page 34.

Since November 1, 2011, BMO's financial results and those of our Canadian peers have been reported in accordance with IFRS. The consolidated financial statements for comparative periods in fiscal year 2011 have been restated. 2011 growth rates are based on Canadian GAAP in 2010 and IFRS in 2011, and may not be meaningful. U.S. peer group data continues to be reported in accordance with U.S. GAAP.

In 2013, we changed the methodology for the Canadian and North American peer group averages to a simple-average calculation from a weighted-average calculation, and restated prior periods.

BMO reported
BMO adjusted
Canadian peer group average
North American peer group average

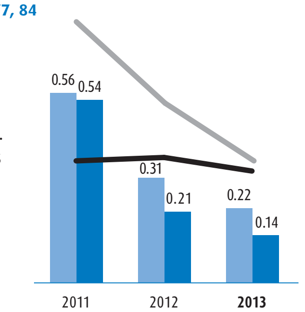
Our Performance (Note 1)

Peer Group Performance

Credit Losses

P 42, 77, 84

- The adjusted provision for credit losses (PCL) was $359 million, down from $471 million in 2012. Reported PCL was $589 million, down from $765 million. The decline in adjusted PCL reflects decreases in provisions in all of our operating groups, offset in part by lower recoveries on the purchased credit impaired loan portfolio.
- Adjusted PCL as a percentage of average net loans and acceptances improved to 14 basis points from 21 basis points a year ago, and reported PCL as a percentage of average net loans and acceptances improved to 22 basis points from 31 basis points. These positive ratio trends reflect lower provisions across both our consumer and commercial loan portfolios and all of our operating groups, compared to 2012.



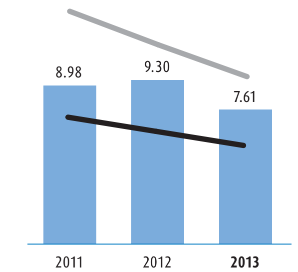
Provision for Credit Losses as a % of Average Net Loans and Acceptances

- The Canadian peer group average PCL represented 33 basis points of average net loans and acceptances, down from 37 basis points in 2012.
- The North American peer group average PCL represented 36 basis points, down from 53 basis points in 2012, and was slightly higher than the average PCL for the Canadian peer group.

Impaired Loans

P 84

- Gross impaired loans and acceptances (GIL), excluding purchased credit impaired loans, decreased to $2,544 million from $2,976 million in 2012, and represented 7.61% of equity and allowances for credit losses, compared with 9.30% a year ago.
- Formations of new impaired loans and acceptances, a key driver of provisions for credit losses, were $2,449 million, down from $3,101 million in 2012, primarily due to a $535 million decrease in formations in the purchased performing loan portfolio.



Gross Impaired Loans and Acceptances as a % of Equity and Allowances for Credit Losses

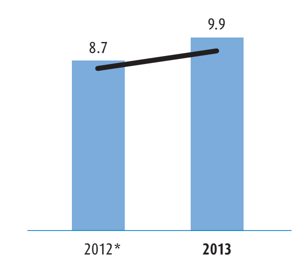
- The Canadian peer group average ratio of GIL as a percentage of equity and allowances for credit losses was 5.66% in 2013, down from 6.40% in 2012.
- The average ratio for our North American peer group improved from 11.32% a year ago to 9.55% in 2013, but continues to be higher than the average for the Canadian peer group.

Capital Adequacy

P 61

- BMO's Basel III Common Equity Tier 1 (CET1) Ratio exceeds regulatory requirements.
- The Basel III CET1 Ratio was 9.9%, up from 8.7% on a pro-forma basis in 2012, primarily due to an increase in common equity.

*2012 Basel III CET1 Ratio is a pro-forma estimate.



Capital Adequacy

- The Canadian peer group average Basel III CET1 Ratio was 9.2% in 2013, compared to an average pro-forma CET1 Ratio of 8.3% a year ago.
- The basis for computing capital adequacy ratios in Canada and the United States is not comparable.

Credit Rating

P 94

- Credit ratings for BMO's long-term debt, as assessed by the four major rating agencies, are listed below and all four ratings are considered to indicate high-grade, high-quality issues. On January 28, 2013, Moody's lowered the long-term senior debt ratings of six Canadian banks, including BMO, by one notch and removed systemic support from the ratings of all rated Canadian banks' subordinated debt instruments. Moody's affirmed BMO's short-term rating.

Credit Rating

- Moody's Canadian peer group median credit rating was lower in 2013 compared with 2012, as Moody's downgraded the senior long-term debt ratings for four of our Canadian peers by one notch.
- S&P's Canadian peer group median credit rating was also lower in 2013, as S&P downgraded the long-term debt ratings of one of our Canadian peers by one notch.
- The credit ratings awarded by the two remaining ratings agencies to the Canadian peer group were unchanged.
- Moody's North American peer group median credit rating was lower compared with 2012, as Moody's downgraded the ratings for two of our U.S. peers by one notch and upgraded the rating of one of our U.S. peers by two notches. The North American peer group median credit ratings remain slightly lower than the median of the Canadian peer group for two of the ratings.

BMO Financial Group			
	2011	2012	2013
DBRS	AA	AA	AA
Fitch	AA–	AA–	AA–
Moody's	Aa2	Aa2	Aa3
S&P	A+	A+	A+

Canadian peer group median*			
	2011	2012	2013
DBRS	AA	AA	AA
Fitch	AA–	AA–	AA–
Moody's	Aa1	Aa2	Aa3
S&P	AA–	AA–	A+

North American peer group median*			
	2011	2012	2013
DBRS	AAL	AAL	AAL
Fitch	AA–	AA–	AA–
Moody's	Aa3	Aa3	A1
S&P	A+	A+	A+

*Data for all years reflects the peer group composition in the most recent year.

The Canadian peer group averages exclude BMO and are based on the performance of Canada's five other largest banks: Canadian Imperial Bank of Commerce, National Bank of Canada, RBC Financial Group, Scotiabank and TD Bank Financial Group. The North American peer group averages are based on the performance of 12 of the largest banks in North America. These include the Canadian peer group, except National Bank of Canada, as well as BB&T Corporation, Bank of New York Mellon, Fifth Third Bancorp, Key Corp., The PNC Financial Services Group Inc., Regions Financial, SunTrust Banks Inc. and U.S. Bancorp.

Results are as at or for the years ended October 31 for Canadian banks and as at or for the years ended September 30 for U.S. banks.

BMO reported
BMO adjusted
Canadian peer group average
North American peer group average

Management's Discussion and Analysis

BMO's Chief Executive Officer and its Chief Financial Officer have signed a statement outlining management's responsibility for financial information in the annual consolidated financial statements and Management's Discussion and Analysis (MD&A). The statement, which can be found on page 122, also explains the roles of the Audit and Conduct Review Committee and Board of Directors in respect of that financial information.

The MD&A comments on BMO's operations and financial condition for the years ended October 31, 2013 and 2012. The MD&A should be read in conjunction with our consolidated financial statements for the year ended October 31, 2013. The MD&A commentary is as of December 3, 2013. Unless otherwise indicated, all amounts are stated in Canadian dollars and have been derived from financial statements prepared in accordance with International Financial Reporting Standards (IFRS). References to generally accepted accounting principles (GAAP) mean IFRS.

Since November 1, 2011, BMO's financial results have been reported in accordance with IFRS. Results for years prior to 2011 have not been restated and are presented in accordance with Canadian GAAP as defined at that time (CGAAP). As such, certain growth rates and compound annual growth rates (CAGR) may not be meaningful. Certain other prior year data has also been reclassified to conform with the current year's presentation, including restatements arising from methodology changes and transfers of certain businesses between operating groups. See pages 44 and 45.

Index

Regulatory Filings

Our continuous disclosure materials, including our interim financial statements and interim MD&A, annual audited consolidated financial statements and annual MD&A, Annual Information Form and Notice of Annual Meeting of Shareholders and Management 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. BMO's Chief Executive Officer and its Chief Financial Officer certify the appropriateness and fairness of BMO's annual and interim consolidated financial statements, MD&A and Annual Information Form, and the effectiveness of BMO's disclosure controls and procedures and material changes in our internal control over financial reporting.

Who We Are

Established in 1817, BMO Financial Group is a highly diversified financial services provider based in North America. With total assets of $537 billion and approximately 45,500 employees, BMO provides a broad range of retail banking, wealth management and investment banking products and services to more than 12 million customers. We serve more than seven million customers across Canada through our Canadian retail arm, BMO Bank of Montreal. We also serve customers through our wealth management businesses: BMO Nesbitt Burns, BMO InvestorLine, BMO Private Banking, BMO Global Asset Management and BMO Insurance. BMO Capital Markets, our investment and corporate banking and trading products division, provides a full suite of financial products and services to North American and international clients. In the United States, BMO serves customers through BMO Harris Bank, an integrated financial services organization based in the U.S. Midwest with more than two million retail, small business and commercial customers. BMO Financial Group conducts business through three operating groups: Personal and Commercial Banking, Wealth Management and BMO Capital Markets.

Our Financial Objectives

BMO's medium-term financial objectives for certain important performance measures are set out below. We believe that we will deliver top-tier total shareholder return and meet our medium-term financial objectives by aligning our operations with, and executing on, our strategic priorities, along with our vision and guiding principle, as outlined on the following page. We consider top-tier returns to be top-quartile shareholder returns relative to our Canadian and North American peer group.

BMO's business planning process is rigorous and considers the prevailing economic conditions, our risk appetite, our customers' evolving needs and the opportunities available across our lines of business. It includes clear and direct accountability for annual performance that is measured against both internal and external benchmarks and progress toward our strategic priorities.

Over the medium term, our financial objectives on an adjusted basis are to achieve average annual earnings per share (adjusted EPS) growth of 7% to 10%, earn an average annual return on equity (adjusted ROE) of between 15% and 18%, generate average annual operating leverage of 2% or more, and maintain strong capital ratios that exceed regulatory requirements. These objectives are key guideposts as we execute against our strategic priorities. Our operating philosophy is to increase revenues at rates higher than general economic growth rates, while limiting expense growth to achieve average annual adjusted operating leverage. In managing our operations, we balance current profitability with the need to both invest in our businesses for future growth and manage risk.

Reasons to Invest in BMO

- Clear opportunities for growth across a diversified North American footprint
  - Large North American commercial banking business with advantaged market share
  - Good momentum in our well-established Canadian Personal and Commercial Banking business
  - Award-winning wealth franchise with strong growth opportunities in North America and select global markets
  - Operating leverage across our U.S. businesses
- Strong capital position and an attractive dividend yield
- Focus on efficiency through core operations and technology integration, particularly for retail businesses across North America
- Industry-leading customer loyalty and a focus on customer experience to increase market share and drive revenue growth
- Committed to upholding the highest level of business ethics and corporate governance

As at or for the periods ended October 31, 2013 (%, except as noted)	1-year	5-year*	10-year*
Average annual total shareholder return	28.8	17.0	8.7
Compound growth in annual EPS	1.8	10.7	6.2
Compound growth in annual adjusted EPS	5.0	6.2	5.8
Average annual ROE	14.9	14.4	15.3
Average annual adjusted ROE	15.0	15.1	16.5
Compound growth in annual dividends declared per share	4.3	1.0	8.2
Dividend yield**	4.0	4.8	4.4
Price-to-earnings multiple**	11.6	12.5	12.8
Market value/book value ratio**	1.66	1.59	1.84
Common Equity Ratio (Basel III basis)	9.9	na	na

* 5-year and 10-year growth rates reflect growth based on CGAAP in 2008 and 2003, respectively, and IFRS in 2013.

** 1-year measure as at October 31. 5-year and 10-year measures are the average of year-end values.

na – not applicable

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

The Our Financial Objectives section above and the Enterprise-Wide Strategy and Economic Developments and Outlook sections that follow contain certain forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-Looking Statements on page 29 of this MD&A for a discussion of such risks and uncertainties and the material factors and assumptions related to the statements set forth in such sections.

Enterprise-Wide Strategy

Our Vision

To be the bank that defines great customer experience.

Our Guiding Principle

We aim to deliver top-tier total shareholder return and balance our commitments to financial performance, our customers, our employees, the environment and the communities where we live and work.

Our Strategy in Context

Changes in the economic environment, and their effects on our customers, are ongoing. Our focus on helping our customers succeed and giving them the confidence that they are making the right financial choices – Making Money Make Sense – serves as a compass for us in all economic environments. It also drives our employees to deliver their best, every day.

Our strategy has proven robust despite continued market uncertainty and global regulatory change. We believe that the strength of our business model, balance sheet, risk management framework and leadership team, along with the benefits we expect from our North American platform, will continue to generate sustainable growth and help us deliver on our brand promise of bringing clarity to customers' financial decisions.

Our commitment to our customers and our shareholders is evidenced in our focus on delivering an industry-leading customer experience, managing our revenue and expenses to achieve our financial goals, and continuing our prudent approach to risk management. We are making good progress on our enterprise strategic priorities, with select accomplishments outlined below, as well as on our group strategies, detailed in the 2013 Review of Operating Groups Performance, which starts on page 44.

Our Priorities and Progress

1. Achieve industry-leading customer loyalty by delivering on our brand promise.

- Developed innovative new capabilities, with an emphasis on digital banking and investing, to bring clarity to our customers' financial decisions:
  - Launched the BMO InvestorLine mobile application, which enables our clients to track their investments, follow market trends and place trades anytime and anywhere with their smartphones.
  - Enhanced our U.S. online banking platform, providing our customers the ability to view and manage all their bank, credit card and investment accounts in one place. After initial release in the market, there were signs of increased total users and average time per visit.
  - Integrated technology and conference delivery to enhance the experience of our BMO Capital Markets customers, and won 2013 American Business Awards' Golden Stevie for Business to Business Marketing Campaign of the Year.
  - Launched Western Union e-Transfers through online banking in Canada, allowing BMO customers to make cash transfers for pickup at a Western Union location.
  - Developed a new online tool to help customers choose the right investment and wealth management service to meet their needs.
  - Introduced online booking of appointments with our Canadian branch staff. Customers booked nearly 40,000 appointments in 2013 using this capability.
- Recognized externally with awards across our groups, including Best Private Bank in Canada *(Global Banking and Finance Review),* Top Bank-Owned Online Brokerage in Canada *(Globe and Mail)*, Model Bank Award for Canadian online appointment booking tool *(Celent),* Best Investment Bank in Canada *(Global Finance)* and World's Best Metals and Mining Investment Bank *(Global Finance)*.

2. Enhance productivity to drive performance and shareholder value.

- Streamlined our divisional sales structure in Canadian P&C to bring our leadership closer to customers and improve efficiency.
- Continued the redesign of our core processes (e.g., Commercial Lending and Mortgage) to achieve a high-quality customer experience, create capacity for customer-facing employees and reduce costs.
- Increased the client-facing time for our Wealth Management sales force through the redesign of workforce processes, including client onboarding and lending processes.
- Successfully launched our equity-linked sales and trading platform in the United States, leading eight deals, including the second largest convertible bond issued by Canadian issuers in the year.
- Reviewed our cost structure to find pathways to greater efficiency:
  - Continued to roll out new branch formats offering smaller, more flexible and more cost-effective points of distribution across North America.
  - Realized real estate synergies from the M&I integration, including nine branch consolidations and significant reductions in non-branch office space.
- Grew our distribution capacity:
  - Built sales capacity in our Canadian branch network with a focus on attractive growth locations, opening or upgrading 86 branches and significantly expanding our automated banking machine (ABM) network, adding more than 300 machines since last year.
  - Invested to improve online sales processes, resulting in increased contributions from our online channel. Online retail banking sales levels in Canada are now equivalent to sales at 90 branches.
  - Began delivering sales leads online in addition to existing branch and call centre programs.

3. Leverage our consolidated North American platform to deliver quality earnings growth.

- Continued to develop consolidated North American capabilities and platforms in priority areas:
  - Launched our first North American creative platform with the *PayCheck / Paycheque* campaign. The advertisements were aired across Canada and the United States and have increased brand awareness.
  - Established North American leadership mandates for key roles, including the appointment of Frank Techar as Chief Operating Officer (effective November 1, 2013). In this role, Frank will oversee our North American Personal and Commercial Banking and Wealth Management businesses, further driving collaboration across borders and businesses.
  - Aligned our North-South risk management capabilities, creating consistency and eliminating duplication.

- Continued to expand our businesses and capabilities in the United States:
  - Continued to roll out Premier Services in the United States, a unique planning-focused wealth management and banking offering. Over the past two years, Premier Services customer holdings have increased significantly.
  - Continued to leverage our robust thought leadership website, The Resource Center, which provides current and prospective clients with valuable industry insights from BMO experts, as well as third-party content via our exclusive partnerships.
  - Posted our best-ever investment banking performance in the United States, with a record year for Equity Capital Markets, Debt Capital Markets, and Acquisitions & Divestitures.
- Introduced compelling offers in Canada to establish and strengthen client relationships:
  - The momentum of our Five-Year Fixed 25-year amortization mortgage product continued, helping customers become mortgage-free faster, pay less interest and protect themselves against rising interest rates. The success of this product is building a foundation for new and expanded long-term customer relationships.
  - Launched seven new exchange traded funds (ETFs) to help investors build their own portfolios more effectively.
  - Furthered our commitment to new Canadians with the launch of the BMO NewStart Program, a program that addresses new Canadians' unique deposit, lending, credit card and advice needs. This program continues to grow, with over 100,000 customers currently in this priority segment.
  - Launched enhanced BMO World Elite MasterCard®, recognized for the richness of its customer offer, including no blackout periods, VIP airport lounge access and one of the highest credit card travel redemption rates in the industry.

4. Expand strategically in select global markets to create future growth.

- Only Canadian bank and one of only three North American banks with an established subsidiary bank in China.
- Expanded our international wealth management platform including the acquisition of a wealth management business with offices in Hong Kong and Singapore.
- BMO Global Asset Management established a new office in Australia that focuses on sales and serving Australia's institutional and retail investors.
- Ranked among the top 20 global investment banks and the 13th largest investment bank in North America based on fees by Thomson Reuters.

5. Ensure our strength in risk management underpins everything we do for our customers.

- Continued to build out the Risk-IT infrastructure in line with regulatory expectations for improved risk data aggregation and information management systems.
- Strengthened our stress testing capabilities by advancing our enterprise-wide stress testing framework and embedding stress testing in our strategy and business planning processes.

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 2014 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 or economic policy; the degree 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; 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; disease or illness that affects 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 could adversely affect our results. For more information, please see the discussion below, which outlines in detail certain key factors that may affect Bank of Montreal's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

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

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

Factors That May Affect Future Results

As noted in the preceding Caution Regarding Forward-Looking Statements, all forward-looking statements and information, by their nature, are subject to inherent risks and uncertainties, both general and specific, which may cause actual results to differ materially from the expectations expressed in any forward-looking statement. The Enterprise-Wide Risk Management section starting on page 77 describes a number of risks, including credit and counterparty, market, liquidity and funding, operational, insurance, legal and regulatory, business, model, strategic, reputation, and environmental and social. That section also highlights top and emerging risks, including challenges linked to the slow-growth economy, heightened regulatory requirements, Canadian household debt, Eurozone challenges, U.S. political gridlock and information and cyber security risk. Should our risk management framework prove ineffective, there could be a material adverse impact on our financial position. The sections that follow outline some additional risks and uncertainties.

General Economic and Market Conditions in the Countries in which We Conduct Business

We conduct business in Canada, the United States and other countries. Factors such as the general health of capital and/or credit markets, including liquidity, level of activity, volatility and stability, could have a material impact on our business. As well, interest rates, foreign exchange rates, consumer saving and spending, housing prices, consumer borrowing and repayment, business investment, government spending and the rate of inflation affect the business and economic environments in which we operate. Therefore, the amount of business we conduct in a specific geographic region and its local economic and business conditions may have an effect on our revenues and earnings. For example, a regional economic decline may result in an increase in credit losses, a decrease in loan growth and reduced capital markets activity. In addition, the financial services industry is characterized by interrelations among financial services companies. As a result, defaults by other financial services companies in Canada, the United States or other countries could adversely affect our earnings. Given the interconnectedness of global financial markets and the importance of trade flows, deterioration of the still-unresolved European sovereign debt situation could affect the supply and cost of credit and constrain the pace of economic growth in North America.

Fiscal, Monetary and Interest Rate Policies

Our earnings are affected by fiscal, monetary, interest rate and economic policies that are adopted by Canadian, U.S. and other regulatory authorities. Such policies can have the effect of increasing or reducing competition and uncertainty in the markets. Such policies may also adversely affect our customers and counterparties in the countries in which we operate, causing a greater risk of default by these customers and counterparties. As well, expectations in the bond and money markets about inflation and central bank monetary policy have an impact on the level of interest rates. Changes in market expectations and monetary policy are difficult to anticipate and predict. Fluctuations in interest rates that result from these changes can have an impact on our earnings. The current prolonged low interest rate policies have had a negative impact on results and a continuation of such policies would likely continue to pressure earnings. Refer to the Market Risk section on page 87 for a more complete discussion of our interest rate risk exposures. As discussed in our Critical Accounting Estimates section, a reduction in income tax rates could lower the value of our deferred tax asset.

Changes in Laws, Regulations and Approach to Supervision

Regulators in Canada, the United States and elsewhere are very active on a number of fronts, including consumer protection, capital markets activities, anti-money laundering, and the oversight and strengthening of risk management.

Regulations are in place to protect our customers, investors and the public interest. Considerable changes in laws and regulations that relate to the financial services industry have been proposed and enacted, including changes related to capital and liquidity requirements. Changes in laws and regulations, including their interpretation and application, and changes in approaches to supervision could adversely affect our earnings. For example, such changes could limit the products or services we can provide and the manner in which we provide them and, potentially, lower our ability to compete, while also increasing the costs of compliance. As such, they could have a negative impact on earnings and return on equity. These changes could also affect the levels of capital and liquidity we choose to maintain. In particular, the Basel III global standards for capital and liquidity, which are discussed in the Enterprise-Wide Capital Management and the Liquidity and Funding Risk sections that start on pages 61 and 92, respectively, and implementation of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, which is discussed in the U.S. Regulatory Developments section on page 69, will have an impact on our results and activities. Other regulatory developments are discussed in the Market Risk section on page 87 and liquidity and funding risk is discussed starting on page 61. In addition to the factors outlined here, our failure to comply with laws and regulations could result in sanctions and financial penalties that could adversely affect our strategic flexibility, reputation and earnings.

Execution of Strategy

Our financial performance is influenced by our ability to execute strategic plans developed by management. If these strategic plans do not meet with success or if there is a change in these strategic plans, our earnings could grow at a slower pace or decline. In addition, our ability to execute our strategic plans is dependent to a large extent on our ability to attract, develop and retain key executives, and there is no assurance we will continue to do so successfully.

Acquisitions

We conduct thorough due diligence before completing an acquisition. However, it is possible that we might make an acquisition that subsequently does not perform in line with our financial or strategic objectives. Our ability to successfully complete an acquisition may be subject to regulatory and shareholder approvals and we may not be able to determine when or if, or on what terms, the necessary approvals will be granted. Changes in the competitive and economic environment as well as other factors may lower revenues, while higher than anticipated integration costs and failure to realize expected cost savings could also adversely affect our earnings after an acquisition. Integration costs may increase as a result of increased regulatory costs related to an acquisition, unanticipated costs that were not identified in the due diligence process or more significant demands on management time than anticipated, as well as unexpected delays in implementing certain plans that in turn lead to delays in achieving full integration. Our post-acquisition performance is also contingent on retaining the clients and key employees of acquired companies, and there can be no assurance that we will always succeed in doing so.

Level of Competition
The level of competition among financial services companies is high. Furthermore, non-financial companies have increasingly been offering services traditionally provided by banks. Customer loyalty and retention can be influenced by a number of factors, including service levels, prices for products or services, our reputation and the actions of our competitors. Also, laws and regulations enacted by regulatory authorities in the United States and other jurisdictions in which we operate may provide benefits to our international competitors that could affect our ability to compete. Changes in these factors or any subsequent loss of market share could adversely affect our earnings.

Currency Rates
The Canadian dollar equivalents of our revenues, expenses, assets and liabilities denominated in currencies other than the Canadian dollar are subject to fluctuations in the value of the Canadian dollar relative to those currencies. Changes in the value of the Canadian dollar relative to the U.S. dollar may also affect the earnings of our small business, corporate and commercial clients in Canada. A strengthening of the U.S. dollar could increase our risk-weighted assets, lowering our capital ratios. Refer to the Foreign Exchange section on page 38, the Enterprise-Wide Capital Management section on page 61 and the Market Risk section on page 87 for a more complete discussion of our foreign exchange risk exposures.

Changes to Our Credit Ratings
Credit ratings are important to our ability to raise both capital and funding to support our business operations. Maintaining strong credit ratings allows us to access the capital markets at competitive pricing. 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 also have other consequences, including those set out in Note 10 on page 147 of the financial statements.

Operational and Infrastructure Risks
We are exposed to many of the operational risks that affect large enterprises conducting business in multiple jurisdictions. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We face the risk of loss due to cyber attack and also face the risk that computer or telecommunications systems could fail, despite our efforts to maintain these systems in good working order. Some of our services (such as online banking) or operations may face the risk of interruption or other security risks arising from the risks related to the use of the internet in these services or operations, which may impact our customers and infrastructure. Given the high volume of transactions we process on a daily basis, certain errors may be repeated or compounded before they are discovered and rectified. Shortcomings or failures of our internal processes, employees or systems, or those provided by third parties, including any of our financial, accounting or other data processing systems, could lead to financial loss and damage to our reputation. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports both our operations and the communities in which we do business, including but not limited to disruption caused by public health emergencies or terrorist acts. Refer to the Information and Cyber Security Risk section on page 79 for more information.

Judicial or Regulatory Judgments and Legal and Regulatory Proceedings
We take reasonable measures to comply with the laws and regulations of the jurisdictions in which we conduct business. Should these measures prove not to be effective, it is possible that we could be subject to a judicial or regulatory judgment or decision which results in fines, damages, other costs or restrictions that would adversely affect our earnings and reputation. We are also subject to litigation arising in the ordinary course of our business. The unfavourable resolution of any litigation could have a material adverse effect on our financial results. Damage to our reputation could also result, harming our future business prospects. Information about certain legal and regulatory proceedings we currently face is provided in Note 28 on page 177 of the financial statements.

Critical Accounting Estimates and Accounting Standards
We prepare our financial statements in accordance with IFRS. Changes by the International Accounting Standards Board to international financial accounting and reporting standards that govern the preparation of our financial statements can be difficult to anticipate and may materially affect how we record and report our financial results. Significant accounting policies and future changes in accounting policies are discussed in Note 1 on page 130 of the financial statements.

The application of IFRS requires that management make significant judgments and estimates that can affect when certain assets, liabilities, revenues and expenses are recorded in our financial statements and their recorded values. In making these judgments and estimates, we rely on the best information available at the time. However, it is possible that circumstances may change or new information may become available.

Our financial results would be affected in the period in which any such new information or change in circumstances became apparent, and the extent of the impact could be significant. More information is included in the discussion of Critical Accounting Estimates on page 70.

Accuracy and Completeness of Customer and Counterparty Information
When deciding to extend credit or enter into other transactions with customers and counterparties, we may rely on information provided by or on behalf of those customers and counterparties, including audited financial statements and other financial information. We also may rely on representations made by customers and counterparties that the information they provide is accurate and complete. Our financial results could be adversely affected if the financial statements or other financial information provided by customers and counterparties is materially misleading.

Other Factors
Other factors beyond our control that may affect our future results are noted in the Caution Regarding Forward-Looking Statements on page 29.

We caution that the preceding discussion of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to BMO, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect future results. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf, except as required by law.

Economic Developments and Outlook

Economic and Financial Services Developments in 2013

After slowing in 2012, the rate of economic growth in Canada remained modest at approximately 1.7% in 2013, keeping the unemployment rate around 7%. Sluggish global demand and a strong currency restrained exports, while lower commodity prices dampened investment in the resource sector. Elevated debt levels curbed personal loan growth, despite record numbers of motor vehicle sales. Housing market activity and residential mortgage growth moderated, but show signs of stabilizing as most housing markets across the country are well balanced. Despite a decline in business investment, loan demand remained strong in response to low interest rates and attractive financing conditions. Demand for non-residential mortgages has been supported by low commercial real estate vacancy rates. Personal deposit growth moderated, in part reflecting depositors' preference for higher-yielding assets. Despite a decline in corporate profits, business deposit growth strengthened in response to increased economic uncertainty. The Bank of Canada held its overnight interest rate target at 1% for a third consecutive year, while longer-term interest rates rose in anticipation of less expansionary monetary policies in the United States.

The rate of economic growth in the United States slowed to approximately 1.7% in 2013 from 2.8% in 2012, largely in response to restrictive fiscal policies. Business investment and exports also moderated, while growth in consumer spending remained modest despite a slight uptick in consumer loans. Residential construction improved on firmer home sales, supporting mortgage growth. The Federal Reserve maintained its near-zero interest rate policy, but expectations that it will reduce the rate of its asset purchases have put upward pressure on longer-term interest rates. In the Midwest, where most of our U.S. operations are located, the economy grew in line with the modest average national growth in 2013, as continued expansion in the automobile sector and a recovery in housing activity offset restrictive fiscal policies and slower global demand. While the Eurozone appears to have emerged from recession, rates of growth remain weak. China's economy is stabilizing at a rate of growth that is still strong, but lower than in the past.

Economic and Financial Services Outlook for 2014

Economic growth in Canada is expected to strengthen to 2.3% in the coming year, led by growth in exports in response to an improving U.S. economy and a weaker Canadian dollar. Firmer commodity prices should support growth in business investment and loans, while bolstering activity in the resource-producing provinces in Western Canada. However, high levels of household debt will likely continue to dampen consumer spending and housing market activity, restraining personal loan and mortgage growth. Growth in the economy should reduce the unemployment rate to 6.6% by year end, while encouraging the Bank of Canada to raise interest rates in early 2015. Higher interest rates should eventually support the Canadian dollar, although a sizeable trade deficit will likely keep the currency below parity with the U.S. dollar in 2014.

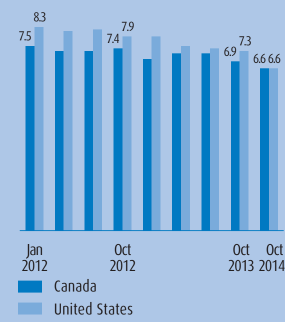
Economic growth in the United States is projected to strengthen to 2.7% in 2014, as fiscal restraint subsides, reducing the unemployment rate to below 7%. Low interest rates, improved household finances and pent-up demand, especially for automobiles, should lift consumer spending and encourage a pickup in personal loans. Residential mortgage growth should continue to be supported by the ongoing housing market recovery, which is benefiting from still-healthy levels of affordability despite the recent upturn in mortgage rates. Lower vacancy rates for commercial and industrial properties should encourage growth in non-residential construction. Continued low interest rates and easier credit conditions will likely continue to support growth in business investment and loans. While the Federal Reserve is expected to keep overnight interest rates unchanged for a sixth consecutive year in response to low rates of inflation, it will likely stop purchasing assets in the second half of the year, resulting in further moderate upward pressure on long-term rates. The U.S. Midwest economy is expected to grow in line with the national economy, supported by increasing automobile production and firmer global demand.

Real Growth in Gross Domestic Product (%)

*Forecast

The Canadian and U.S. economies are expected to strengthen in 2014.

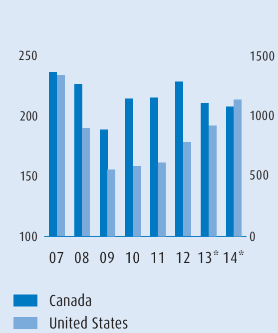
Canadian and U.S. Unemployment Rates (%)



*Forecast

Unemployment rates in Canada and the United States are expected to decline in 2014.

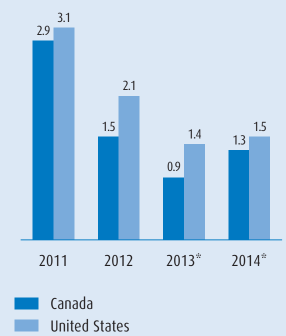
Housing Starts
(in thousands)



*Forecast

Housing market activity should moderate in Canada but strengthen in the United States in 2014.

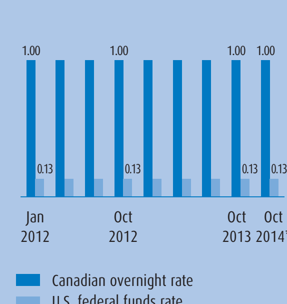
Consumer Price Index Inflation (%)



*Forecast

Inflation is expected to rise but still remain low in 2014.

Canadian and U.S. Interest Rates (%)



*Forecast

Central banks are expected to keep interest rates very low in 2014.

Canadian/U.S. Dollar Exchange Rates

*Forecast

The Canadian dollar is expected to remain below parity with the U.S. dollar in 2014.

Note: Data points are averages for the month or year, as appropriate. References to years are calendar years.

Value Measures

Total Shareholder Return

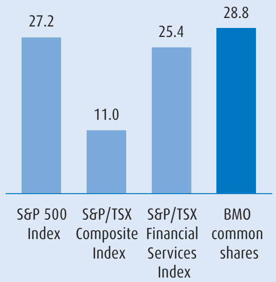
The average annual total shareholder return (TSR) is a key measure of shareholder value, since it assesses our success in achieving our guiding principle of delivering top-tier shareholder returns. Over the past five years, shareholders have earned an average annual TSR of 17.0% on their investment in BMO common shares, second among our Canadian peer group. Our one-year TSR of 28.8% was the highest among our Canadian peer group, and our three-year average TSR was 11.5%.

The table below summarizes dividends paid on BMO common shares over the past five years and the movements in BMO's share price. An investment of $1,000 in Bank of Montreal common shares made at the beginning of fiscal 2009 would have been worth $2,192 at October 31, 2013, assuming reinvestment of dividends, for a total return of 119.2%.

On December 3, 2013, BMO announced that the Board of Directors had declared a quarterly dividend payable to common shareholders of $0.76 per common share, an increase of $0.02 per share from the preceding quarter and up $0.04 from a year ago. The dividend is payable February 26, 2014 to shareholders of record on February 3, 2014. Previously, we had increased our quarterly dividend declared to $0.74 per common share for the second quarter of 2013. Our quarterly dividend declared was $0.72 per common share for the fourth quarter of 2012 and the first quarter of 2013. Dividends paid over five-year and ten-year periods have increased at average annual compound rates of 0.8% and 8.5%, respectively.

MD&A

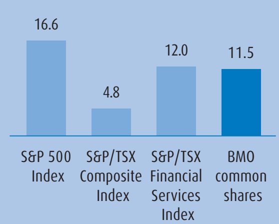
One-Year Total Shareholder Return (%)



All returns represent total returns.

BMO's TSR was the highest among our Canadian peer group.

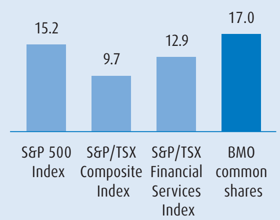
Three-Year Average Annual Total Shareholder Return (%)



All returns represent total returns.

BMO's three-year average annual return was strong.

Five-Year Average Annual Total Shareholder Return (%)



All returns represent total returns.

BMO outperformed the comparable Canadian indices.

The **average annual total shareholder return (TSR)** represents the average annual total return earned on an investment in Bank of Montreal common shares made at the beginning of a fixed period. The return includes the change in share price and assumes that dividends received were reinvested in additional common shares. The one-year TSR also assumes that dividends were reinvested in shares.

Total Shareholder Return

For the year ended October 31	**2013**	2012	2011	2010	2009	**3-year CAGR** (1)	**5-year CAGR** (1)
Closing market price per common share ($)	**72.62**	59.02	58.89	60.23	50.06	**6.4%**	**11.0%**
Dividends paid ($ per share)	**2.92**	2.80	2.80	2.80	2.80	**1.4%**	**0.8%**
Dividends paid (%) (2)	**4.9**	4.8	4.6	5.6	6.5		
Increase (decrease) in share price (%)	**23.0**	0.2	(2.2)	20.3	16.4		
Total annual shareholder return (%)	**28.8**	5.2	2.4	26.4	25.1	**11.5**	**17.0**

Total annual shareholder return assumes reinvestment of quarterly dividends and therefore does not equal the sum of dividend and share price returns in the table.
(1) Compound annual growth rate (CAGR) expressed as a percentage.
(2) As a percentage of the closing market price in the prior year.

Non-GAAP Measures

Results and measures in this MD&A are presented on a GAAP basis. They are also presented on an adjusted basis that excludes the impact of certain items as set out in the following table. 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.

Net economic profit represents net income available to common shareholders, before deduction for the after-tax impact of the amortization of acquisition-related intangible assets, less a charge for capital, and is considered a reasonable measure of added economic value.

(Canadian $ in millions, except as noted)	**2013**	2012	2011
Reported Results			
Revenue	**16,263**	16,130	13,943
Provision for credit losses	**(589)**	(765)	(1,212)
Non-interest expense	**(10,297)**	(10,238)	(8,741)
Income before income taxes	**5,377**	5,127	3,990
Provision for income taxes	**(1,129)**	(938)	(876)
Net income	**4,248**	4,189	3,114
EPS ($)	**6.26**	6.15	4.84
Adjusting Items (Pre-tax) (1)			
Credit-related items on the M&I purchased performing loan portfolio (see below*)	**406**	407	173
M&I integration costs (2)	**(251)**	(402)	(131)
M&I acquisition-related costs	**–**	–	(87)
Hedge of foreign exchange risk on purchase of M&I (3)	**–**	–	(20)
Amortization of acquisition-related intangible assets (4)	**(125)**	(134)	(70)
Decrease (increase) in the collective allowance for credit losses (5)	**2**	82	(6)
Run-off structured credit activities (6)	**40**	264	(50)
Restructuring charge (7)	**(82)**	(173)	–
Adjusting items included in reported pre-tax income	**(10)**	44	(191)
Adjusting Items (After tax) (1)			
Credit-related items on the M&I purchased performing loan portfolio (see below*)	**250**	251	107
M&I integration costs (2)	**(155)**	(250)	(84)
M&I acquisition-related costs	**–**	–	(62)
Hedge of foreign exchange risk on purchase of M&I (3)	**–**	–	(14)
Amortization of acquisition-related intangible assets (4)	**(89)**	(96)	(54)
Decrease (increase) in the collective allowance for credit losses (5)	**(9)**	53	(4)
Run-off structured credit activities (6)	**34**	261	(50)
Restructuring charge (7)	**(59)**	(122)	–
Adjusting items included in reported net income after tax	**(28)**	97	(161)
Impact on EPS ($)	**(0.04)**	0.15	(0.26)
Adjusted Results			
Revenue	**15,572**	15,067	13,742
Provision for credit losses	**(359)**	(471)	(1,108)
Non-interest expense	**(9,826)**	(9,513)	(8,453)
Income before income taxes	**5,387**	5,083	4,181
Provision for income taxes	**(1,111)**	(991)	(906)
Adjusted net income	**4,276**	4,092	3,275
EPS ($)	**6.30**	6.00	5.10
*Credit-related items on the M&I purchased performing loan portfolio are comprised of the following amounts:			
Revenue (8)	**638**	783	271
Provision for credit losses			
Specific provisions for credit losses	**(240)**	(291)	(18)
Decrease (increase) in the collective allowance	**8**	(85)	(80)
Increase in pre-tax income	**406**	407	173
Provision for income taxes	**(156)**	(156)	(66)
Increase in reported net income after tax	**250**	251	107

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

(1) Adjusting items are included in Corporate Services with the exception of the amortization of acquisition-related intangible assets, which is charged to the operating groups.

(2) Included in non-interest expense, M&I integration costs in 2013 consist of amounts related to system conversions and post-conversion activities, marketing costs in connection with customer communications and rebranding activities, real estate costs, including write-downs, consulting fees and restructuring charges.

(3) Recorded as a charge to net interest income.

(4) These expenses have been designated as adjusting items because the purchase decision may not consider the amortization of acquisition-related intangible assets to be a relevant expense. They were charged to the non-interest expense of the operating groups as follows:
- In fiscal 2013: Canadian P&C $11 million ($10 million after tax); U.S. P&C $76 million ($50 million after tax); Wealth Management $36 million ($27 million after tax); and BMO Capital Markets $2 million before and after tax;
- In fiscal 2012: Canadian P&C $11 million ($10 million after tax); U.S. P&C $93 million ($64 million after tax); Wealth Management $29 million ($21 million after tax); and BMO Capital Markets $1 million before and after tax;
- In fiscal 2011: Canadian P&C $9 million before and after tax; U.S. P&C $48 million ($35 million after tax); Wealth Management $12 million ($10 million after tax); and BMO Capital Markets $1 million before and after tax.

(5) Changes in the collective allowance for credit losses on loans other than the M&I purchased performing loan portfolio.

(6) Primarily comprised of valuation changes associated with these activities that are mainly included in trading revenue in non-interest revenue.

(7) Restructuring charge to align our cost structure with the current and future business environment as part of a broader effort to improve productivity that is underway.

(8) Recognition in net interest income of a portion of the credit mark on the M&I purchased performing loan portfolio.

Earnings per Share Growth

The year-over-year percentage change in earnings per share (EPS) and in adjusted EPS are our key measures for analyzing earnings growth. All references to EPS are to diluted EPS, unless indicated otherwise.

EPS was $6.26, up $0.11 or 2% from $6.15 in 2012. Adjusted EPS was $6.30, up $0.30 or 5% from $6.00 in 2012. Our three-year compound average annual adjusted EPS growth rate was 9%, in line with our current medium-term objective of achieving average annual adjusted EPS growth of 7% to 10%. EPS growth in both 2013 and 2012 reflected increased earnings. Adjusted net income available to common shareholders was 47% higher over the three-year period from the end of 2010, while the average number of diluted common shares outstanding increased 15% over the same period, primarily due to the issuance of common shares on the acquisition of M&I in July 2011.

Net income was $4,248 million in 2013, up $59 million from the previous year. Adjusted net income was $4,276 million, up $184 million or 5%.

On an adjusted basis, there was good revenue growth and a decrease in provisions for credit losses in 2013. Higher revenues exceeded incremental costs, contributing to growth in net income. There was a higher effective income tax rate in 2013.

There was significant adjusted net income growth in Wealth Management, good growth in Canadian P&C and BMO Capital Markets, with U.S. P&C relatively unchanged and a decline in Corporate Services.

Canadian P&C reported net income increased $79 million or 4% to $1,854 million, with growth in balances and fees across most products, lower net interest margin and modest increases in expenses. Expenses rose due to continued investment in the business, including our distribution network, net of strong expense management. Canadian P&C results are discussed in the operating group review on page 47.

Wealth Management adjusted net income increased significantly by $316 million or 58% to $861 million, with net income growth in both wealth and insurance businesses. Adjusted net income in the wealth businesses was $600 million, up $213 million or 55%. The significant increase in net income was driven by a security gain of $121 million and good growth of 23% in our other wealth businesses. Insurance net income increased as the prior year was impacted by unfavourable movements in long-term interest rates, and there was continued growth in both the underlying creditor and life insurance businesses. Wealth Management results are discussed in the operating group review on page 53.

BMO Capital Markets reported net income increased $73 million or 7% to $1,094 million. Improved results were driven by increases in trading revenues and investment banking fees and higher recoveries of credit losses, partially offset by an increase in expenses resulting from stronger revenue performance and increased technology and support costs related to a changing business and regulatory environment. BMO Capital Markets results are discussed in the operating group review on page 56.

U.S. P&C adjusted net income was relatively unchanged, with a decline of $8 million or 1% to $633 million on a U.S. dollar basis. Lower provisions for credit losses and a reduction in adjusted expenses were more than offset by lower revenue. Revenue declined as the benefits of strong core commercial and industrial loan and deposit growth and higher commercial lending fees were more than offset by the effects of lower net interest margin, reductions in certain portfolios and lower deposit and debit card fees. U.S. P&C results are discussed in the operating group review on page 50.

Corporate Services adjusted loss was $191 million, compared with adjusted net income of $96 million in 2012, primarily due to lower revenues and growth in expenses. Adjusted revenues decreased primarily due to a group teb offset that was higher than the prior year and a decline in treasury-related items. Adjusted non-interest expense was higher, primarily due to increases in pension and benefit costs, and regulatory-related and technology costs. Adjusted recoveries of credit losses were lower, reflecting lower recoveries on the purchased credit impaired loan portfolio, offset in part by recoveries on the impaired real estate loan portfolio in 2013, compared to provisions in 2012. Corporate Services results are discussed in the operating group review on page 59. Changes to reported and adjusted net income for each of our operating groups are discussed in more detail in the 2013 Review of Operating Groups Performance, which starts on page 44.

EPS ($)

Increases reflect a continued focus on the execution of our strategy and the benefits of diversification.

Earnings per share (EPS) is calculated by dividing net income, after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS, which is our basis for measuring performance, adjusts for possible conversions of financial instruments into common shares if those conversions would reduce EPS, and is more fully explained in Note 25 on page 174 of the financial statements. Adjusted EPS is calculated in the same manner using adjusted net income.

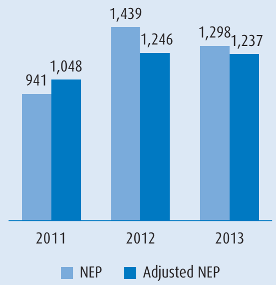
Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

MD&A

Net Economic Profit Growth

Net economic profit (NEP) growth is another of our key value measures. NEP was $1,298 million in 2013, down $141 million or 10% from 2012. Adjusted NEP was $1,237 million, down $9 million or 1%. The decrease in both NEP and adjusted NEP is reflective of higher earnings in the current year being more than offset by a higher charge for capital, as a result of an increase in average common shareholders' equity. NEP calculations are set out in the table that follows.

NEP ($ millions)



Higher earnings in 2013 were more than offset by a higher charge for capital given higher capital levels.

Net economic profit (NEP) represents net income available to common shareholders before deduction for the after-tax impact of the amortization of acquisition-related intangible assets, less a charge for capital. Adjusted NEP is a comparable measure that is instead computed with reference to adjusted net income. NEP is considered a reasonable measure of added economic value. NEP and adjusted NEP are non-GAAP measures. See page 34.

Net Economic Profit and Adjusted Net Economic Profit ($ millions)

For the year ended October 31	**2013**	2012	2011	2010	2009
Net income available to common shareholders	**4,063**	3,979	2,895	2,674	1,667
After-tax impact of the amortization of acquisition-related intangible assets	**89**	96	54	32	35
Net income available to common shareholders after adjusting for the amortization of acquisition-related intangible assets	**4,152**	4,075	2,949	2,706	1,702
Charge for capital (1)	**(2,854)**	(2,636)	(2,008)	(1,888)	(1,770)
Net economic profit	**1,298**	1,439	941	818	(68)
Add back: after-tax impact of adjusting items, excluding after-tax impact of the amortization of acquisition-related intangible assets	**(61)**	(193)	107	–	474
Adjusted net economic profit	**1,237**	1,246	1,048	818	406

2010 and prior are based on CGAAP.

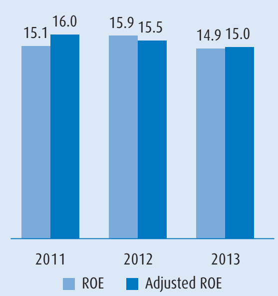
(1) The charge for capital is calculated by applying the cost of capital of 10.5% to average common shareholders' equity.

NEP and adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Return on Equity

Return on equity (ROE) is the last of our four key value measures. ROE was 14.9% in 2013 and adjusted ROE was 15.0%, compared with 15.9% and 15.5%, respectively, in 2012. There was an increase of $84 million in earnings ($209 million in adjusted earnings) available to common shareholders in 2013. Average common shareholders' equity increased by $2.1 billion from 2012, primarily due to internally-generated capital. Adjusted ROE of 15.0% was in line with our medium-term objective of earning an average annual adjusted ROE of 15% to 18%. BMO has achieved an ROE of 13% or better in 23 of the past 24 years. Table 3 on page 106 includes ROE statistics for the past 10 years.

ROE (%)



ROE has been consistently strong.

Return on common shareholders' equity (ROE) is calculated as net income, less non-controlling interest in subsidiaries and preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings. Adjusted ROE is calculated using adjusted net income rather than net income.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

2013 Financial Performance Review

This section provides a review of our enterprise financial performance for 2013 that focuses on the Consolidated Statement of Income included in our consolidated financial statements, which begin on page 125. A review of our operating groups' strategies and performance follows the enterprise review. A summary of the enterprise financial performance for 2012 appears on page 100. This section contains adjusted results, which are non-GAAP and are disclosed in more detail in the Non-GAAP Measures section on page 34.

Highlights

- Revenue increased $133 million in 2013 to $16,263 million. Adjusted revenue increased $505 million or 3% to $15,572 million. The increase was primarily due to revenue growth in Wealth Management, BMO Capital Markets and Canadian P&C, and continues to demonstrate the benefits of our diversified business mix and successful execution against our strategic priorities.
- Revenue growth in Canadian P&C reflected growth in balances and fees across most products, offset in part by lower net interest margin. There was strong revenue growth in wealth businesses, driven by growth in client assets, a security gain and the benefit of recent acquisitions. Insurance revenue increased as the prior year was impacted by unfavourable movements in long-term interest rates, and there was continued growth in both the underlying creditor and life insurance businesses. BMO Capital Markets revenues grew, driven by increases in trading revenues and investment banking fees, particularly from our U.S. Platform. U.S. P&C revenue declined as the benefits of strong growth in core commercial and industrial loans and deposits and higher commercial lending fees were more than offset by the effects of lower net interest margin, reductions in certain portfolios and lower deposit and debit card fees.
- Provisions for credit losses totalled $589 million in the current year, down from $765 million in 2012. Adjusted provisions for credit losses totalled $359 million, down from $471 million in 2012 due to reduced provisions in all of our operating groups, offset in part by lower recoveries on the purchased credit impaired loan portfolio.
- Adjusted non-interest expense increased modestly, primarily due to higher employee-related costs, including continued investment in the business related to increases in front-line roles, higher benefit costs, including pension, and higher severance and regulatory costs.
- The effective income tax rate in 2013 was 21.0%, compared with 18.3% in 2012. The adjusted effective income tax rate(1) was 20.6%, compared with 19.5% in 2012. The higher adjusted effective rate in 2013 was mainly attributable to lower recoveries of prior periods' income taxes.

(1) The adjusted rate is computed using adjusted net income rather than net income in the determination of income subject to tax.

MD&A

Impact of Business Acquisitions

BMO Financial Group has selectively acquired a number of businesses, as outlined in Note 12 on page 155 of the financial statements. These acquisitions increase revenues and expenses, affecting year-over-year comparisons of operating results. The adjacent table outlines the impact of these acquisitions on BMO's revenue, non-interest expense and net income for 2013 and 2012 to assist in analyzing changes in results. The effect on net income includes the impact of provisions for credit losses and income taxes, which are not disclosed separately in the table.

For 2013, business acquisitions contributed $46 million of revenues and $47 million of non-interest expenses, including acquisition and integration costs, for a net loss of $1 million.

Impact of Business Acquisitions on Operating Results (1)

($ millions)

For the year ended October 31	**2013**	2012
Total revenue	**46**	6
Non-interest expense (2)	**47**	14
Net loss	**(1)**	(5)

(1) Results for both 2013 and 2012 include the results of the acquired Asia-based wealth management business, COFCO Trust Co. and CTC Consulting, LLC, which are part of our Wealth Management reporting segment. Results for 2013 also include the results of Aver Media LP, which is part of our Canadian P&C reporting segment.

(2) Non-interest expense in 2013 and 2012 includes acquisition and integration costs in respect of the acquired businesses.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

MD&A

Foreign Exchange

The U.S. dollar was stronger compared to the Canadian dollar at October 31, 2013 than at October 31, 2012. BMO's U.S.-dollar-denominated assets and liabilities are translated at year-end rates. The average exchange rate over the course of 2013, which is used in the translation of BMO's U.S.-dollar-denominated revenues and expenses, was higher in 2013 than in 2012. Consequently, the Canadian dollar equivalents of BMO's U.S.-dollar-denominated net income, revenues, expenses, recoveries of credit losses and income taxes in 2013 were increased relative to the preceding year. The table below indicates average Canadian/U.S. dollar exchange rates in 2013, 2012 and 2011 and the impact of changes in the average rates. At October 31, 2013, the Canadian dollar traded at $1.043 per U.S. dollar. It traded at $0.999 per U.S. dollar at October 31, 2012.

Changes in the exchange rate will affect future results measured in Canadian dollars and the impact on those results is a function of the periods in which revenues, expenses and provisions for (recoveries of) credit losses arise. If future results are consistent with results in 2013, each one cent increase (decrease) in the Canadian/U.S. dollar exchange rate, expressed in terms of how many Canadian dollars one U.S. dollar buys, would be expected to increase (decrease) the Canadian dollar equivalent of U.S.-dollar-denominated adjusted net income before income taxes for the year by $15 million in the absence of hedging transactions.

BMO may execute transactions to mitigate the impact of foreign exchange rate movements on net income.

Effects of Changes in Exchange Rates on BMO's Reported and Adjusted Results

($ millions, except as noted)	**2013 vs. 2012**	2012 vs. 2011
Canadian/U.S. dollar exchange rate (average)		
2013	**1.024**	
2012	**1.003**	1.003
2011		0.985
Effects on reported results		
Increased net interest income	**66**	70
Increased non-interest revenue	**42**	30
Increased revenues	**108**	100
Increased expenses	**(74)**	(63)
Decreased (increased) provisions for credit losses	**1**	(4)
Increased income taxes	**(5)**	(3)
Increased reported net income before impact of hedges	**30**	30
Hedging losses	**(14)**	(1)
Income taxes thereon	**4**	–
Increased reported net income	**20**	29
Effects on adjusted results		
Increased net interest income	**53**	56
Increased non-interest revenue	**42**	30
Increased revenues	**95**	86
Increased expenses	**(66)**	(56)
Decreased provisions for credit losses	**4**	3
Increased income taxes	**(4)**	(3)
Increased adjusted net income before impact of hedges	**29**	30
Hedging losses	**(14)**	(1)
Income taxes thereon	**4**	–
Increased adjusted net income	**19**	29

Revenue

Revenue increased $133 million in 2013 to $16,263 million.

Amounts in the rest of this Revenue section are stated on an adjusted basis.

Adjusted revenue increased $505 million or 3% to $15,572 million due to growth in Wealth Management, BMO Capital Markets and Canadian P&C. The stronger U.S. dollar added $81 million or 1% to adjusted revenue growth, net of hedging impacts. BMO analyzes revenue at the consolidated level based on GAAP revenues as reported in the financial statements, and on an adjusted basis. Consistent with our Canadian peer group, we analyze revenue on a taxable equivalent basis (teb) at the operating group level. The teb adjustments for 2013 totalled $344 million, up from $266 million in 2012.

Adjusted revenue excludes the portion of the credit mark recorded in net interest income on the M&I purchased performing loan portfolio and income or losses from run-off structured credit activities for 2013, 2012 and 2011; and the hedge of foreign exchange risk on the M&I purchase in 2011, all of which are recorded in Corporate Services, as discussed in the Non-GAAP Measures section on page 34.

Canadian P&C revenue increased $129 million or 2% as the growth in balances and fees across most products was partially offset by lower net interest margin. Revenue improved, growing by more than 4% in the second half of the year. Wealth Management revenue increased $549 million or 19%. Revenue in wealth businesses increased 16%, reflecting strong performance driven by growth in client assets, a security gain and the benefit of recent acquisitions. Insurance revenue increased 49%, as the prior year was impacted by unfavourable movements in long-term interest rates, and there was continued growth in both the underlying creditor and life insurance businesses. BMO Capital Markets revenue increased $152 million or 5% to $3,428 million, driven by increases in trading revenues and investment banking fees, particularly from our U.S. platform. U.S. P&C revenue decreased US$144 million or 5% as the benefits of strong core commercial and industrial loan and deposit growth and higher commercial lending fees were more than offset by the effects of lower net interest margin, reductions in certain portfolios and lower deposit and debit card fees. Corporate Services adjusted revenues decreased by $238 million or 69%, primarily due to an increase in the group teb offset and a decline in treasury-related items.

Revenue and Adjusted Revenue ($ millions, except as noted)

For the year ended October 31	**2013**	2012	2011*	2010	2009
Net interest income	**8,545**	8,808	7,474	6,235	5,570
Year-over-year growth (%)	**(3)**	18	20	12	10
Non-interest revenue	**7,718**	7,322	6,469	6,004	5,494
Year-over-year growth (%)	**5**	13	8	9	7
Total revenue	**16,263**	16,130	13,943	12,239	11,064
Year-over-year growth (%)	**1**	16	14	11	8
Adjusted net interest income	**7,888**	8,029	7,248	6,235	5,570
Year-over-year growth (%)	**(2)**	11	16	12	10
Adjusted non-interest revenue	**7,684**	7,038	6,494	6,004	6,015
Year-over-year growth (%)	**9**	8	8	–	9
Total adjusted revenue	**15,572**	15,067	13,742	12,239	11,585
Year-over-year growth (%)	**3**	10	12	6	9

* Growth rates for 2011 reflect growth based on CGAAP in 2010 and IFRS in 2011.

Taxable equivalent basis (teb) Revenues of operating groups are presented in our MD&A on a taxable equivalent basis (teb). The teb adjustment increases GAAP revenues and the provision for income taxes by an amount that would increase revenues on certain tax-exempt items to a level that would incur tax at the statutory rate, to facilitate comparisons. This adjustment is offset in Corporate Services.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Net Interest Income

Net interest income for the year was $8,545 million, a decrease of $263 million or 3% from 2012. Adjusted net interest income of $7,888 million was down 2% from 2012, due to a decline of 11 basis points in adjusted net interest margin to 1.63% in the current low interest rate environment. The impact of the stronger U.S. dollar increased adjusted net interest income by $53 million.

Adjusted net interest income primarily excludes amounts for the recognition of a portion of the credit mark on the M&I purchased performing loan portfolio.

BMO's average earning assets increased $23.9 billion or 5% in 2013, including a $3.8 billion increase as a result of the stronger U.S. dollar. There was strong growth in Canadian P&C and Wealth Management, growth in BMO Capital Markets and U.S. P&C, and a reduction in Corporate Services.

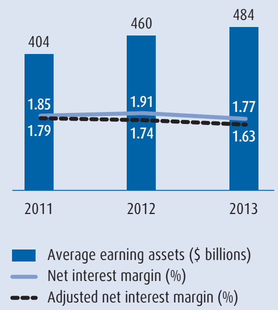
The main drivers of BMO's overall net interest margin are the individual group margins, changes in the magnitude of each operating group's average earning assets and changes in net interest income in Corporate Services. Changes are discussed in the 2013 Review of Operating Groups Performance section on page 44.

Table 9 on page 110 and Table 10 on page 111 provide further details on net interest income and net interest margin.

Net interest income is comprised of earnings on assets, such as loans and securities, including interest and dividend income and BMO's share of income from investments accounted for using the equity method of accounting, less interest expense paid on liabilities, such as deposits.

Net interest margin is the ratio of net interest income to average earning assets, expressed as a percentage or in basis points.

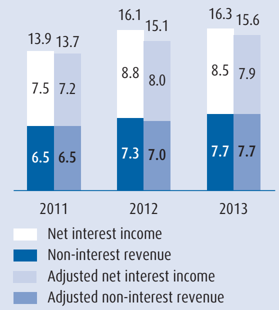
Average Earning Assets and Net Interest Margin



Average earning assets increased 5% and adjusted net interest margin decreased in the low-rate environment.

Net Interest Income and Non-Interest Revenue*

($ billions)

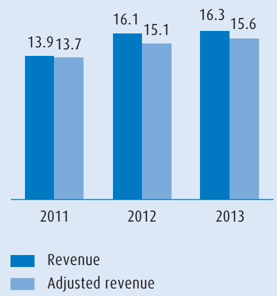


Revenue increased in the year with net interest income slightly lower, due to lower net interest margin, and higher non-interest revenue.

*Numbers may not add due to rounding.

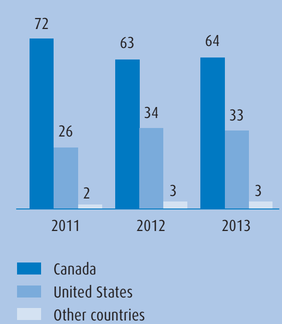
Revenue

($ billions)



Wealth Management, BMO Capital Markets and Canadian P&C drove revenue growth.

Revenue by Country (%)



Revenue by country was consistent with the prior year.

Change in Net Interest Income, Average Earning Assets and Net Interest Margin

	Net interest income (teb) ($ millions)		Change	Average earning assets ($ millions)		Change	Net interest margin (in basis points)		
For the year ended October 31	**2013**	2012	%	**2013**	2012	%	**2013**	2012	**Change**
Canadian P&C	**4,429**	4,365	**1**	**170,847**	156,231	**9**	**259**	279	**(20)**
U.S. P&C	**2,378**	2,456	**(3)**	**58,369**	55,857	**4**	**407**	440	**(33)**
Personal and Commercial Banking (P&C)	**6,807**	6,821	**–**	**229,216**	212,088	**8**	**297**	322	**(25)**
Wealth Management	**564**	561	**–**	**19,399**	17,875	**9**	**291**	314	**(23)**
BMO Capital Markets	**1,238**	1,191	**4**	**202,361**	193,889	**4**	**61**	61	**–**
Corporate Services, including Technology and Operations	**(721)**	(544)	**(33)**	**33,165**	36,353	**(9)**	**nm**	nm	**nm**
Total BMO adjusted	**7,888**	8,029	**(2)**	**484,141**	460,205	**5**	**163**	174	**(11)**
Adjusting items impacting net interest income	**657**	779	**(16)**	**na**	na	**na**	**nm**	nm	**nm**
Total BMO reported	**8,545**	8,808	**(3)**	**484,141**	460,205	**5**	**177**	191	**(14)**

na – not applicable
nm – not meaningful

Non-Interest Revenue ($ millions)

For the year ended October 31	2013	2012	2011	Change from 2012 (%)
Securities commissions and fees	**1,182**	1,146	1,215	**3**
Deposit and payment service charges	**916**	929	834	**(1)**
Trading revenues	**849**	1,025	549	**(17)**
Lending fees	**715**	641	593	**12**
Card fees	**724**	708	689	**2**
Investment management and custodial fees	**726**	725	496	**–**
Mutual fund revenues	**799**	647	633	**23**
Underwriting and advisory fees	**488**	442	512	**10**
Securities gains, other than trading	**285**	152	189	**88**
Foreign exchange, other than trading	**172**	153	130	**12**
Insurance income	**445**	335	283	**33**
Other	**417**	419	346	**–**
Total BMO reported	**7,718**	7,322	6,469	**5**
Total BMO adjusted	**7,684**	7,038	6,434	**9**

Non-Interest Revenue

Non-interest revenue, which comprises all revenues other than net interest income, was $7,718 million in 2013, an increase of $396 million or 5% from 2012. Adjusted non-interest revenue was $7,684 million, up $646 million or 9%, with the majority of the growth driven by strong performance in Wealth Management, as well as growth in BMO Capital Markets and Canadian P&C.

Adjusted non-interest revenue excludes the income or losses from run-off structured credit activities, which are mainly included in trading revenues.

Mutual fund revenues increased $152 million or 23% from 2012, driven by market appreciation and growth in new client assets.

Securities gains increased $133 million or 88% from 2012 due to a security gain in Wealth Management, partially offset by lower investment security gains across the other operating groups.

Insurance income increased $110 million or 33%, as the prior year was impacted by unfavourable movements in long-term interest rates, and there was continued growth in both the underlying creditor and life insurance businesses.

Trading revenues decreased $176 million and are discussed in the trading-related revenues section that follows.

Lending fees increased $74 million or 12%, primarily due to strong growth in North American P&C commercial and industrial loan portfolios and increased lending activity in BMO Capital Markets, largely in the United States.

Underwriting and advisory fees increased $46 million or 10% from 2012, resulting from better performance despite a weaker market.

Securities commissions and fees increased $36 million or 3%. These revenues consist largely of brokerage commissions and fees within Wealth Management, which account for about three-quarters of the total, and institutional equity trading commissions within BMO Capital Markets. In Wealth Management, securities commissions and fees were up 10% due to growth in client assets and higher transaction volumes, partially offset by a decline in BMO Capital Markets revenue due to lower securities lending commissions.

Income from foreign exchange, other than trading, increased $19 million or 12% from 2012, reflecting growth in Wealth Management and BMO Capital Markets.

Other non-interest revenue balances were consistent with the prior year.

Table 7 on page 108 provides further details on revenue and revenue growth.

Trading-Related Revenues

Trading-related revenues are dependent on, among other things, the volume of activities undertaken for clients who enter into transactions with BMO to mitigate their risks or to invest. BMO earns a spread or profit on the net sum of its client positions by profitably managing, within prescribed limits, the overall risk of the net positions. On a limited basis, BMO also assumes proprietary positions with the intent of earning trading profits.

Interest and non-interest trading-related revenues decreased $204 million or 17% to $1,026 million in 2013. Adjusted trading-related revenues were $972 million in 2013, up $22 million or 2%. Interest rate trading-related revenues increased $30 million or 7%, primarily due to increased client activity in our Canadian fixed income businesses. Foreign exchange trading-related revenues were up $16 million or 6% from 2012, primarily driven by market volatility. Equities trading-related revenues increased $86 million or 21%, primarily due to increased activity with corporate and investor clients and an improved market environment. Commodities trading-related revenues decreased $23 million, mainly due to lower activity in the crude and natural gas markets.

Revenues from run-off structured credit activities totalling $34 million in 2013, compared to $284 million in 2012, are included in other trading revenues in the adjacent table. The decline was due to higher mark-to-market gains on the underlying assets in 2012. These revenues are adjusting items and are excluded from adjusted trading-related revenues.

The Market Risk section on page 87 provides more information on trading-related revenues.

Trading-related revenues include net interest income and non-interest revenue earned from on and off-balance sheet positions undertaken for trading purposes. The management of these positions typically includes marking them to market on a daily basis. Trading-related revenues also include income (expense) and gains (losses) from both on-balance sheet instruments and interest rate, foreign exchange (including spot positions), equity, commodity and credit contracts.

Interest and Non-Interest Trading-Related Revenues (1)

($ millions) (taxable equivalent basis) For the year ended October 31	2013	2012	2011	Change from 2012 (%)
Interest rates	**479**	449	388	**7**
Foreign exchange	**285**	269	288	**6**
Equities	**499**	413	322	**21**
Commodities	**43**	66	40	**(35)**
Other (2)	**29**	267	(126)	**(89)**
Total (teb)	**1,335**	1,464	912	**(9)**
Teb offset	**309**	234	190	**32**
Total	**1,026**	1,230	722	**(17)**
Reported as:				
Net interest income	**486**	439	363	**11**
Non-interest revenue – trading revenues	**849**	1,025	549	**(17)**
Total (teb)	**1,335**	1,464	912	**(9)**
Teb offset	**309**	234	190	**32**
Total	**1,026**	1,230	722	**(17)**
Adjusted net interest income net of teb offset	**157**	209	199	**(25)**
Adjusted non-interest revenue – trading revenues	**815**	741	573	**10**
Adjusted total	**972**	950	772	**2**

(1) Trading-related revenues are presented on a taxable equivalent basis.
(2) Includes revenues from run-off structured credit activities of $34 million ($284 million in 2012; loss of $25 million in 2011), which are adjusting items included in Corporate Services results, and hedging exposures in BMO's structural balance sheet.

Adjusted results in this Revenue section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

MD&A

Provision for Credit Losses

The provision for credit losses (PCL) was $589 million in the current year, down from $765 million in 2012. Adjusted PCL was $359 million, down from $471 million in 2012. The decline in adjusted PCL reflects decreases in provisions in all of our operating groups, offset in part by lower recoveries on the purchased credit impaired loan portfolio.

Adjusting items this year included a $240 million specific provision on the M&I purchased performing loan portfolio and a $10 million reduction in the collective allowance, compared to a $291 million specific provision on the M&I purchased performing loan portfolio and a $3 million increase in the collective allowance in 2012.

Adjusted PCL in 2013 represents 0.14% of average net loans and acceptances, down from 0.21% in 2012. PCL as a percentage of average net loans and acceptances also declined to 0.22% in 2013 from 0.31% in 2012. This ratio, excluding amounts related to the purchased loan portfolios, fell to 0.32% in 2013 from 0.42% in 2012. These positive ratio trends reflect lower provisions across both our consumer and commercial loan portfolios and all our operating groups, compared to 2012.

On an operating group basis, most of our provisions relate to Personal and Commercial Banking. In Canadian P&C, PCL decreased by $41 million to $574 million in 2013, driven by lower provisions in the consumer loan portfolio. U.S. P&C PCL was $223 million, down $51 million from 2012, primarily reflecting better credit quality in the consumer loan portfolio. Wealth Management PCL was $3 million in 2013, a decrease of $19 million from the previous year, which included a larger than usual write-down on a single commercial account. BMO Capital Markets recorded a net recovery of $36 million, an improvement over the $6 million provision in 2012, as a result of higher recoveries of previously written-off amounts. Corporate Services adjusted recoveries of credit losses of $405 million in 2013 were down from $446 million in 2012, reflecting lower recoveries on the purchased credit impaired loan portfolio of $410 million in 2013, compared to $509 million in the previous year, offset in part by recoveries on the impaired real estate loan portfolio in 2013, compared to provisions in 2012.

On a geographic basis, the majority of our provisions relate to our Canadian loan portfolio. Specific PCL in Canada and other countries (excluding the United States) was $568 million, compared to $611 million in 2012. Adjusted specific PCL in the United States was a recovery of $209 million, up from a $140 million recovery in 2012, reflecting a better credit environment, partially offset by lower recoveries of credit losses on the purchased credit impaired loans. Note 4 on page 137 of the financial statements provides PCL information on a geographic basis. Table 19 on page 118 provides further PCL segmentation information.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Provision for Credit Losses

For the year ended October 31 (Canadian $ in millions, except as noted)	**2013**	2012	2011
New specific provisions	**1,638**	1,860	1,495
Reversals of previously established allowances	**(267)**	(252)	(128)
Recoveries of loans previously written off	**(772)**	(846)	(241)
Specific provision for credit losses	**599**	762	1,126
Increase (decrease) in collective allowance	**(10)**	3	86
Provision for credit losses (PCL)	**589**	765	1,212
Adjusted provision for credit losses (1)	**359**	471	1,108
PCL as a % of average net loans and acceptances (annualized) (2)	**0.22**	0.31	0.56
PCL as a % of average net loans and acceptances excluding purchased portfolios (annualized) (2) (3)	**0.32**	0.42	0.55
Specific PCL as a % of average net loans and acceptances (annualized) (2)	**0.23**	0.31	0.52
Adjusted specific PCL as a % of average net loans and acceptances (annualized) (1) (2)	**0.14**	0.21	0.54

(1) Adjusted provision for credit losses excludes provisions related to the purchased performing loan portfolio and changes in the collective allowance.
(2) Certain ratios for 2012 were restated in the first quarter of 2013 to reflect the reclassified balance sheet presentation.
(3) Ratio is presented excluding purchased loan portfolios, to provide for better historical comparisons.

This table contains adjusted results and measures, which are non-GAAP. Please refer to the Non-GAAP Measures section on page 34.

Provision for Credit Losses by Operating Group (1)

For the year ended October 31 (Canadian $ in millions)	**2013**	2012	2011
Canadian P&C	**574**	615	664
U.S. P&C	**223**	274	359
Personal and Commercial Banking	**797**	889	1,023
Wealth Management	**3**	22	10
BMO Capital Markets	**(36)**	6	32
Corporate Services, including T&O			
Impaired real estate loan portfolio	**(43)**	19	28
Interest on impaired loans	**48**	44	15
Purchased credit impaired loan portfolio	**(410)**	(509)	–
Adjusted provision for credit losses	**359**	471	1,108
Specific provisions on purchased performing loans (2)	**240**	291	18
Change in collective allowance	**(10)**	3	86
Provision for credit losses	**589**	765	1,212

(1) Effective the first quarter of 2013, provisions in the operating groups are reported on an actual loss basis and interest on impaired loans is allocated to the operating groups. Results for prior periods have been restated accordingly.
(2) Provisions for the purchased performing loan portfolio are reported in Corporate Services.

This table contains adjusted results and measures, which are non-GAAP. Please refer to the Non-GAAP Measures section on page 34.

Non-Interest Expense

Non-interest expense increased $59 million or 1% to $10,297 million in 2013.

Amounts in the rest of this Non-Interest Expense section are stated on an adjusted basis, unless otherwise noted.

Adjusted non-interest expense excludes costs of the M&I integration and amortization of acquisition-related intangible assets in 2013, 2012 and 2011; restructuring costs in 2013 and 2012 to align our cost structure with the current and future business environment; and M&I acquisition-related costs in 2011. The factors contributing to the cost increases are set out in the adjacent Contribution to Growth in Adjusted Non-Interest Expense and Non-Interest Expense table.

Adjusted non-interest expense increased $313 million or 3% to $9,826 million. Excluding the impact of the stronger U.S. dollar, adjusted non-interest expense increased by only 2%.

The dollar and percentage changes in expense by category are outlined in the adjacent Adjusted Non-Interest Expense and Non-Interest Expense table. Table 8 on page 109 provides more detail on expenses and expense growth.

Performance-based compensation increased 2%, driven by improved revenue in Wealth Management and BMO Capital Markets. Other employee compensation, which includes salaries, benefits and severance, increased 8% from 2012, due to continued investment in the business, higher benefit costs, including pension, and higher severance and regulatory-related costs. The stronger U.S. dollar also contributed to the increase.

Premises and equipment costs increased $27 million or 2%, with $16 million related to technology development initiatives.

Other expenses fell by $63 million or 3%, reflecting declines in most other expense categories, with the exception of an increase in travel and business development costs.

BMO's reported efficiency ratio improved by 20 basis points to 63.3% in 2013. The adjusted efficiency ratio remained unchanged at 63.1%.

Canadian P&C is BMO's largest operating segment, and its reported efficiency ratio of 51.3% was stable as modest revenue growth was offset by continued investment in the business, net of savings from productivity initiatives.

The efficiency ratio in Wealth Management improved by 870 basis points to 66.7%, reflecting revenue growth across most businesses and a continued focus on productivity.

BMO Capital Markets reported efficiency ratio of 59.8% was essentially unchanged as revenue growth was offset by higher expenses resulting from stronger revenue performance and increased technology and support costs related to a changing business and regulatory environment.

The efficiency ratio in U.S. P&C of 60.1% was relatively unchanged from the prior year as lower revenue was largely offset by decreased expenses.

The reported operating leverage was 0.2% in 2013 and adjusted operating leverage was 0.1%. One of our medium-term financial objectives is to generate average annual adjusted operating leverage of 2% or more, increasing the rate of adjusted revenue growth by an average of at least two percentage points more than the rate of adjusted non-interest expense growth. We aim to improve efficiency and generate operating leverage by driving revenue growth through a strong customer focus and by continuing our focus on productivity while making selective investments.

Examples of initiatives to enhance productivity are outlined in the 2013 Review of Operating Groups Performance, which starts on page 44.

The **efficiency ratio** (or **expense-to-revenue ratio**) is a key measure of productivity. It is calculated as non-interest expense divided by total revenues (on a taxable equivalent basis in the operating groups), expressed as a percentage. The **adjusted efficiency ratio** is another key measure of productivity and is calculated in the same manner, utilizing adjusted revenue and expense.

Contribution to Growth in Adjusted Non-Interest Expense and Non-Interest Expense (%)

For the year ended October 31	2013	2012	2011
Significant businesses acquired	**0.3**	10.3	5.8
Canadian/U.S. dollar translation effect, excluding acquisitions	**0.7**	0.4	(1.5)
Other	**2.3**	1.8	7.2
Total adjusted non-interest expense growth	**3.3**	12.5	11.5
Impact of adjusting items	**(2.7)**	4.6	3.2
Total non-interest expense growth	**0.6**	17.1	14.7

Adjusted Non-Interest Expense and Non-Interest Expense

($ millions, except as noted)

For the year ended October 31	2013	2012	2011*	Change from 2012 (%)
Performance-based compensation	**1,682**	1,641	1,560	**2**
Other employee compensation	**4,011**	3,725	3,253	**8**
Total employee compensation	**5,693**	5,366	4,813	**6**
Premises and equipment	**1,787**	1,760	1,557	**2**
Other	**2,119**	2,182	1,922	**(3)**
Amortization of intangible assets	**227**	205	161	**11**
Total adjusted non-interest expense	**9,826**	9,513	8,453	**3**
Adjusting items	**471**	725	288	**(35)**
Total non-interest expense	**10,297**	10,238	8,741	**1**
Adjusted non-interest expense growth (%)	**3.3**	12.5	11.5	**na**
Non-interest expense growth (%)	**0.6**	17.1	14.7	**na**

* Growth rates for 2011 reflect growth based on CGAAP in 2010 and IFRS in 2011.
na – not applicable

Efficiency Ratio by Group (teb) (%)

For the year ended October 31	2013	2012	2011
Efficiency Ratio			
Canadian P&C	**51.3**	51.2	50.6
U.S. P&C	**62.6**	62.9	61.6
Wealth Management	**67.7**	76.4	75.5
BMO Capital Markets	**59.8**	59.7	57.2
Total BMO	**63.3**	63.5	62.7
Adjusted Efficiency Ratio			
Canadian P&C	**51.1**	51.1	50.5
U.S. P&C	**60.1**	59.8	59.1
Wealth Management	**66.7**	75.4	75.0
BMO Capital Markets	**59.7**	59.7	57.2
Total BMO	**63.1**	63.1	61.5

Caution
This Non-Interest Expense section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Provision for Income Taxes

The provision for income taxes reflected in the Consolidated Statement of Income is based upon transactions recorded in income, regardless of when such transactions are subject to taxation by tax authorities, with the exception of the repatriation of retained earnings from foreign subsidiaries, as outlined in Note 24 on page 171 of the financial statements.

Management assesses BMO's consolidated results and associated provisions for income taxes on a GAAP basis. We assess the performance of the operating groups and associated income taxes on a taxable equivalent basis and report accordingly.

The provision for income taxes was $1,129 million in 2013, compared with $938 million in 2012. The reported effective tax rate in 2013 was 21.0%, compared with 18.3% in 2012. The adjusted provision for income taxes[(1)] in 2013 was $1,111 million, compared with $991 million in 2012. The adjusted effective tax rate in 2013 was 20.6%, compared with 19.5% in 2012. The higher adjusted effective tax rate was mainly attributable to lower recoveries of prior periods' income taxes.

BMO partially hedges the foreign exchange risk arising from its investments in U.S. operations by funding the investments in U.S. dollars. Under this program, the gain or loss on hedging and the unrealized gain or loss on translation of investments in U.S. operations are charged or credited to shareholders' equity. For income tax purposes, the gain or loss on the hedging activities results in an income tax charge or credit in the current period, which is charged or credited to shareholders' equity, while the associated unrealized gain or loss on the investments in U.S. operations does not incur income taxes until the investments are liquidated. The income tax charge/benefit arising from a hedging gain/loss is a function of the fluctuations in exchange rates from period to period. Hedging of the investments in U.S. operations has given rise to an income tax recovery in shareholders' equity of $146 million for the year, compared with $13 million in 2012. Refer to the Consolidated Statement of Changes in Equity on page 128 of the financial statements for further details.

Table 8 on page 109 details the $1,716 million of total net government levies and income tax expense incurred by BMO in 2013. The increase from $1,521 million in 2012 was primarily due to higher income tax expense, as well as higher harmonized sales tax, GST and other sales taxes.

(1) The adjusted rate is computed using adjusted net income rather than net income in the determination of income subject to tax.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

2013 Review of Operating Groups Performance

This section includes an analysis of the financial results of our operating groups and descriptions of their businesses, strategies, strengths, challenges, key value drivers, achievements and outlooks.

Personal and Commercial Banking (P&C) (pages 46 to 52)
Net income was $2,450 million in 2013, an increase of $95 million or 4% from 2012. Adjusted net income was $2,510 million, an increase of $81 million or 3%. Personal and Commercial Banking is comprised of two operating segments: Canadian Personal and Commercial Banking (Canadian P&C) and U.S. Personal and Commercial Banking (U.S. P&C).

Wealth Management (pages 53 to 55)
Net income was $834 million in 2013, an increase of $310 million or 59% from 2012. Adjusted net income was $861 million, an increase of $316 million or 58%.

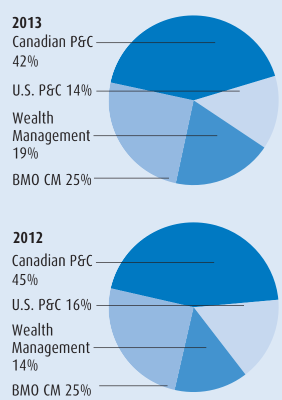
BMO Capital Markets (BMO CM) (pages 56 to 58)
Net income was $1,094 million in 2013, an increase of $73 million or 7% from 2012. Adjusted net income was $1,096 million, an increase of $74 million or 7%.

Corporate Services, including Technology and Operations (page 59)
Net loss was $130 million in 2013, compared with net income of $289 million in 2012. Adjusted net loss was $191 million compared with net income of $96 million in 2012.

Allocation of Results

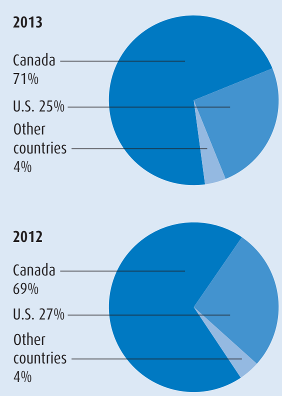
The basis for the allocation of results geographically and among operating groups is outlined in Note 26 on page 174 of the financial statements. Certain prior year data has been restated, as explained on the following page, which also provides further information on the allocation of results.

Adjusted Net Income by Operating Segment*



Results reflect the significant adjusted net income growth in Wealth Management in 2013.

Adjusted Net Income by Country



Earnings by country were consistent with the previous year.

*Percentages determined excluding results in Corporate Services.

Contributions to Revenue, Expenses, Net Income and Average Assets by Operating Group and by Location ($ millions, except as noted)

	Personal and Commercial Banking			Wealth Management			BMO Capital Markets			Corporate Services, including Technology and Operations			Total Consolidated		
For the year ended October 31	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Operating Groups Relative Contribution to BMO's Performance (%)															
Revenue	**57.0**	57.3	58.7	**21.2**	18.0	18.6	**21.1**	20.3	23.8	**0.7**	4.4	(1.1)	**100**	100	100
Expenses	**49.4**	49.7	49.9	**22.7**	21.7	22.4	**19.9**	19.1	21.7	**8.0**	9.5	6.0	**100**	100	100
Net income	**57.7**	56.2	63.4	**19.6**	12.5	15.4	**25.8**	24.4	31.3	**(3.1)**	6.9	(10.1)	**100**	100	100
Adjusted net income	**58.7**	59.4	61.6	**20.1**	13.3	15.0	**25.6**	25.0	29.8	**(4.4)**	2.3	(6.4)	**100**	100	100
Average assets	**43.6**	41.1	41.3	**4.0**	3.7	3.7	**44.6**	46.2	46.0	**7.8**	9.0	9.0	**100**	100	100
Total Revenue															
Canada	**6,254**	6,129	6,065	**2,239**	1,981	2,010	**2,168**	2,043	2,088	**(181)**	15	(80)	**10,480**	10,168	10,083
United States	**3,023**	3,107	2,124	**908**	702	425	**1,106**	1,031	1,020	**278**	616	(4)	**5,315**	5,456	3,565
Other countries	**1**	–	–	**307**	222	157	**154**	202	207	**6**	82	(69)	**468**	506	295
	9,278	9,236	8,189	**3,454**	2,905	2,592	**3,428**	3,276	3,315	**103**	713	(153)	**16,263**	16,130	13,943
Total Expenses															
Canada	**3,177**	3,098	3,046	**1,651**	1,609	1,581	**1,027**	977	964	**354**	409	242	**6,209**	6,093	5,833
United States	**1,913**	1,986	1,319	**588**	554	344	**869**	830	786	**431**	539	251	**3,801**	3,909	2,700
Other countries	**–**	–	–	**101**	56	31	**153**	149	146	**33**	31	31	**287**	236	208
	5,090	5,084	4,365	**2,340**	2,219	1,956	**2,049**	1,956	1,896	**818**	979	524	**10,297**	10,238	8,741
Net Income															
Canada	**1,853**	1,794	1,709	**429**	271	307	**872**	830	822	**(229)**	(32)	(67)	**2,925**	2,863	2,771
United States	**596**	561	265	**207**	85	46	**217**	146	101	**116**	254	(145)	**1,136**	1,046	267
Other countries	**1**	–	–	**198**	168	127	**5**	45	52	**(17)**	67	(103)	**187**	280	76
	2,450	2,355	1,974	**834**	524	480	**1,094**	1,021	975	**(130)**	289	(315)	**4,248**	4,189	3,114
Adjusted Net Income															
Canada	**1,858**	1,797	1,713	**430**	273	311	**872**	830	823	**(144)**	(73)	(75)	**3,016**	2,827	2,772
United States	**651**	632	305	**229**	101	51	**219**	147	101	**(27)**	214	(99)	**1,072**	1,094	358
Other countries	**1**	–	–	**202**	171	128	**5**	45	52	**(20)**	(45)	(35)	**188**	171	145
	2,510	2,429	2,018	**861**	545	490	**1,096**	1,022	976	**(191)**	96	(209)	**4,276**	4,092	3,275
Average Assets															
Canada	**177,142**	161,335	153,052	**17,438**	15,974	14,191	**133,120**	139,333	118,954	**18,037**	16,240	16,548	**345,737**	332,882	302,745
United States	**64,866**	62,218	40,896	**3,527**	3,678	2,773	**96,101**	94,691	80,287	**25,199**	30,214	21,674	**189,693**	190,801	145,630
Other countries	**18**	–	–	**1,178**	702	519	**18,357**	17,538	17,065	**699**	2,341	3,975	**20,252**	20,581	21,559
	242,026	223,553	193,948	**22,143**	20,354	17,483	**247,578**	251,562	216,306	**43,935**	48,795	42,197	**555,682**	544,264	469,934

How BMO Reports Operating Group Results

Periodically, certain business lines or units within business lines are transferred between operating groups to more closely align BMO's organizational structure with its strategic priorities. Results for prior periods are restated to conform to the current presentation.

In the first quarter of 2013, we changed the way in which we evaluate our operating segments to reflect the provisions for credit losses on an actual credit loss basis. The change in allocation methodology enhances the assessment of performance against our peer group. Previously, we had charged the operating groups with credit losses based on an expected loss provisioning methodology whereby Corporate Services was charged (or credited) with differences between the periodic provisions for credit losses charged to the operating group segments under our expected loss provisioning methodology and the periodic provisions required under GAAP. As part of this change, the interest income resulting from the accretion of the net present value of impaired loans is also included in operating group net interest income. Prior period results have been restated accordingly. Provisions for the purchased performing and purchased credit impaired loan portfolios continue to be evaluated and reported in Corporate Services.

During 2013, we refined our methodology for the allocation of certain revenues in Corporate Services by geographic region. As a consequence, we have reallocated certain revenues reported in prior periods from Canada to the United States in Corporate Services.

During 2012, Wealth Management and Canadian P&C entered into an agreement that changes the way they report the financial results related to retail mutual fund sales. Prior periods have been restated.

During 2011, approximately US$1.0 billion of impaired real estate secured assets, comprised primarily of commercial real estate loans, were transferred to Corporate Services from U.S. P&C to allow our businesses to focus on ongoing customer relationships and leverage our risk management expertise in our special assets management unit. Prior period loan balances, revenues and expenses were restated to reflect the transfer. Approximately US$1.5 billion of similar assets acquired in the M&I transaction were also included in Corporate Services, and had a carrying value of US$329 million at the end of 2013.

Corporate Services results reflect certain items in respect of the acquired loan portfolio, including the recognition of a portion of the related credit mark that is reflected in net interest income over the term of the purchased loans and provisions for credit losses on the acquired loan portfolio. Integration and restructuring costs, run-off structured credit activities and changes in the collective allowance are also included in Corporate Services.

BMO analyzes revenue at the consolidated level based on GAAP revenues reflected in the consolidated financial statements rather than on a taxable equivalent basis (teb), which is consistent with our Canadian peer group. Like many banks, we continue to analyze revenue on a teb basis at the operating group level. This basis includes an adjustment that increases GAAP revenues and the GAAP provision for income taxes by an amount that would raise revenues 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 revenues and income tax provisions.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

MD&A

Personal and Commercial Banking (Canadian $ in millions, except as noted)

	Canadian P&C				U.S. P&C				Total P&C			
As at or for the year ended October 31	**2013**	2012	2011*	**Change from 2012 (%)**	**2013**	2012	2011*	**Change from 2012 (%)**	**2013**	2012	2011*	**Change from 2012 (%)**
Net interest income (teb)	**4,429**	4,365	4,381	**1**	**2,378**	2,456	1,653	**(3)**	**6,807**	6,821	6,034	**–**
Non-interest revenue	**1,912**	1,847	1,807	**4**	**559**	568	348	**(1)**	**2,471**	2,415	2,155	**2**
Total revenue (teb)	**6,341**	6,212	6,188	**2**	**2,937**	3,024	2,001	**(3)**	**9,278**	9,236	8,189	**–**
Provision for credit losses	**574**	615	664	**(7)**	**223**	274	359	**(19)**	**797**	889	1,023	**(10)**
Non-interest expense	**3,250**	3,183	3,133	**2**	**1,840**	1,901	1,232	**(3)**	**5,090**	5,084	4,365	**–**
Income before income taxes	**2,517**	2,414	2,391	**4**	**874**	849	410	**3**	**3,391**	3,263	2,801	**4**
Provision for income taxes (teb)	**663**	639	676	**4**	**278**	269	151	**3**	**941**	908	827	**4**
Reported net income	**1,854**	1,775	1,715	**4**	**596**	580	259	**3**	**2,450**	2,355	1,974	**4**
Adjusted net income	**1,864**	1,785	1,724	**4**	**646**	644	294	**–**	**2,510**	2,429	2,018	**3**
Net economic profit									**990**	1,026	1,019	**(4)**
Adjusted return on equity (%)									**17.7**	18.6	22.2	**(0.9)**
Return on equity (%)									**17.3**	18.1	21.7	**(0.8)**
Adjusted operating leverage (teb) (%)	**–**	(1.1)	0.4	**nm**	**(0.5)**	(1.6)	15.2	**nm**	**–**	(2.8)	2.3	**nm**
Operating leverage (teb) (%)	**–**	(1.2)	0.3	**nm**	**0.3**	(3.2)	13.2	**nm**	**0.4**	(3.7)	1.7	**nm**
Adjusted efficiency ratio (teb) (%)	**51.1**	51.1	50.5	**–**	**60.1**	59.8	59.1	**0.3**	**53.9**	53.9	52.6	**–**
Efficiency ratio (teb) (%)	**51.3**	51.2	50.6	**0.1**	**62.6**	62.9	61.6	**(0.3)**	**54.9**	55.0	53.3	**(0.1)**
Net interest margin on earning assets (teb) (%)	**2.59**	2.79	2.94	**(0.20)**	**4.07**	4.40	4.53	**(0.33)**	**2.97**	3.22	3.26	**(0.25)**
Average common equity									**13,723**	12,611	8,692	**9**
Average earning assets	**170,847**	156,231	148,835	**9**	**58,369**	55,857	36,471	**4**	**229,216**	212,088	185,306	**8**
Average loans and acceptances	**175,079**	159,484	151,331	**10**	**52,421**	50,711	32,892	**3**	**227,500**	210,195	184,223	**8**
Average deposits	**113,644**	106,256	101,784	**7**	**60,645**	59,147	36,425	**3**	**174,289**	165,403	138,209	**5**
Assets under administration	**16,148**	15,521	22,421	**4**	**112,732**	96,803	77,066	**16**	**128,880**	112,324	99,487	**15**
Full-time equivalent employees	**15,957**	16,197	16,723	**(1)**	**7,971**	7,906	7,564	**1**	**23,928**	24,103	24,287	**(1)**

* Leverage measures for 2011 reflect growth based on CGAAP in 2010 and IFRS in 2011.
nm – not meaningful

Net economic profit and adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Canadian Personal and Commercial Banking

Frank Techar
Chief Operating Officer
BMO Financial Group

Canadian Personal and Commercial Banking serves more than seven million personal and commercial banking customers, who do business with us through an integrated national network of BMO Bank of Montreal branches, automated banking machines, telephone, mobile and online banking, along with the expertise of our mortgage specialists and financial planners.

MD&A

Lines of Business

Personal Banking provides financial solutions for everyday banking, financing, investing, credit cards and creditor insurance needs. We serve approximately one quarter of Canadian households.

Commercial Banking provides our small business, medium-sized enterprise and mid-market banking customers with a broad suite of integrated commercial and capital markets products, as well as financial advisory services.

Strengths and Value Drivers

- Strong competitive position in commercial banking, reflected in our number two ranking in market share for business loans of $5 million and less.
- Highly experienced team of specialists in mid-market commercial banking, offering integrated products and services that are driving high customer loyalty scores.
- Strong and consistently applied credit risk management practices that provide customers with reliable access to appropriate financing solutions in all economic conditions.
- Large, loyal customer base supported by strong and differentiated brand.
- Largest MasterCard® issuer in Canada as measured by transaction volumes, and one of the top commercial card issuers in North America.

Strategy and Key Priorities

We aim to succeed in the Canadian market by delivering a customer experience differentiated through guidance across all channels and by leveraging our highly productive distribution network.

Enhance the customer experience to create a differentiated position in the Canadian market

2013 Achievements

- Continued to maintain strong customer loyalty scores as measured by Net Promoter Score. Implemented an additional measure of in-branch customer experience that provides detailed and timely feedback to improve the customer relationship.
- For the second consecutive year, BMO received a prestigious Celent Model Bank Award. BMO received the 2013 Model Bank Impact Award for BMO Bank by Appointment, and was the first Canadian bank to offer real-time appointment booking for both online and mobile customers. Nearly 40,000 appointments were booked in 2013 using this capability. Current online sales levels are equivalent to sales at 90 branches.
- Maintained strong employee engagement and commitment to the customer experience. In the annual employee survey, employees indicated that they believe customer experience is a top priority for them.

2014 Focus

- Continue to build capabilities to provide personalized advice to our customers through the channel of their choice, including enhancements to online and mobile banking.

Strengthen relationships with our Personal Banking customers through innovative product offerings and exceptional service

2013 Achievements

- Our investment campaign was a great success. Mutual funds growth of 15% was our highest since 2010.
- Developed segment-specific campaigns and offers targeted at new Canadians and the military community.
- The continued success of our Five-Year Fixed 25-year amortization mortgage product is building a foundation for new and expanded long-term customer relationships.
- Our leads management engine continues to provide our customers with relevant and timely offers and services, increasing share of wallet and positively impacting revenue growth.

2014 Focus

- Target personal banking growth in under-penetrated customer segments and products to grow share of wallet and gain new customers.

Establish the most productive distribution network in the country

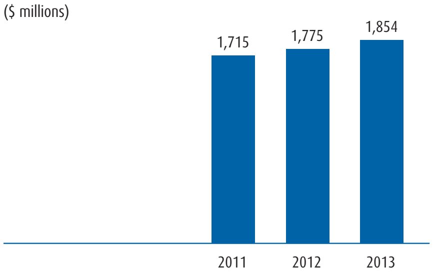
2013 Achievements

- Implemented system, organization and process changes that allow front-line employees to spend more time acquiring new customers and strengthening existing relationships. Enhancements include a more efficient personal loan origination system, lean mortgage application and approval processes and simplified commercial lending processes.
- Opened or upgraded 86 branches and added more than 300 ABMs.
- Held efficiency ratio at a stable level in a low revenue growth environment by tightly managing expenses.

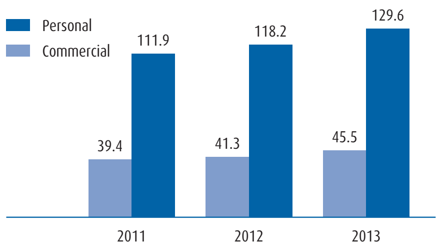
2014 Focus

- Continue the redesign of our core processes and implement new technologies to improve productivity and enhance the customer experience.

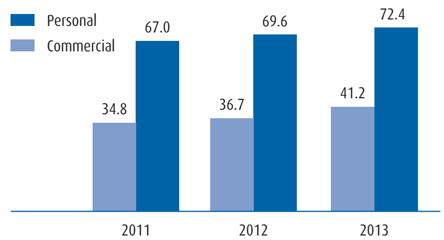
Reported Net Income
($ millions)



Average Loans and Acceptances
($ billions)



Average Deposits
($ billions)



Drive growth in commercial lending and deposits to improve market share

2013 Achievements

- We enhanced our performance management system and continued to focus our commercial workforce on having more complete conversations with our customers. This produced strong results with commercial deposit growth of 12%, our highest since 2007. Commercial lending momentum continued with strong balance growth of 11%, our highest since 2008. We maintained our second place position in commercial lending market share.
- BMO was awarded a seven-year contract to provide a corporate cards program for the Government of Canada.
- Tied for first place among the big banks in the Canadian Federation of Independent Business report *Battle of the Banks*, based on a 2012 survey of almost 13,000 small and medium-sized enterprise (SME) owners that assessed how well banks are serving their SME customers.

2014 Focus

- Accelerate financial performance by improving our sales force productivity.

Financial Review

Canadian P&C reported net income of $1,854 million, up $79 million or 4% from a year ago. Revenue increased $129 million or 2% to $6,341 million. Net interest margin was 2.59%, down 20 basis points from the prior year, primarily due to changes in mix, including growth in loan balances that was greater than growth in deposits and lower deposit spreads in the low-rate environment. We achieved strong loan and deposit growth throughout the year and reduced net interest margin compression in the last two quarters, reflected in a significant improvement in our financial performance, as net income grew by more than 7% and revenue grew by more than 4% in the second half of the year.

In our personal banking business, revenue increased $74 million or 2%. The increase was due to the effects of growth in balances and fees across most products, partially offset by lower net interest margin.

In our commercial banking business, revenue increased $55 million or 2%, as the effects of growth in balances and fees across most products were partially offset by lower net interest margin.

Canadian P&C (Canadian $ in millions, except as noted)

As at or for the year ended October 31	2013	2012	2011	Change from 2012 (%)
Net interest income (teb)	**4,429**	4,365	4,381	**1**
Non-interest revenue	**1,912**	1,847	1,807	**4**
Total revenue (teb)	**6,341**	6,212	6,188	**2**
Provision for credit losses	**574**	615	664	**(7)**
Non-interest expense	**3,250**	3,183	3,133	**2**
Income before income taxes	**2,517**	2,414	2,391	**4**
Provision for income taxes (teb)	**663**	639	676	**4**
Reported net income	**1,854**	1,775	1,715	**4**
Adjusted net income	**1,864**	1,785	1,724	**4**
Key Performance Metrics and Drivers				
Net income growth (%)	**4**	4	3	**nm**
Revenue growth (%)	**2**	–	6	**nm**
Operating leverage (teb) (%)	**–**	(1.2)	0.3	**nm**
Efficiency ratio (teb) (%)	**51.3**	51.2	50.6	**0.1**
Net interest margin on earning assets (teb) (%)	**2.59**	2.79	2.94	**(0.20)**
Average loans and acceptances	**175,079**	159,484	151,331	**10**
Average deposits	**113,644**	106,256	101,784	**7**
Full-time equivalent employees	**15,957**	16,197	16,723	**(1)**

nm – not meaningful

Provisions for credit losses declined $41 million or 7% to $574 million, driven by lower provisions in the consumer portfolio. We continue to grow our business while remaining attentive to the credit quality of our portfolio.

Non-interest expense was $3,250 million, up $67 million or 2%, primarily due to continued investment in the business, including our distribution network, net of strong expense management. Our efficiency ratio was 51.3%, in line with the prior year. Improving the customer experience and productivity is a focus for Canadian P&C in 2014. We expect productivity to improve as balance growth continues, margin compression subsides and the benefits from productivity initiatives are realized, including mortgage and commercial lending process improvements.

Business Environment, Outlook and Challenges

Canada's economy is expected to improve in 2014, reflecting moderate increases in employment and personal income, as well as in response to a strengthening U.S. economy.

In the Canadian personal banking sector, retail operating deposits are projected to grow in 2014 by approximately 5%, similar to growth in 2013 and in line with the expected increase in personal income. Credit card loan balances grew nominally in 2013 and growth is projected to strengthen gradually next year. Overall residential mortgage growth moderated in 2013, as tighter mortgage underwriting guidelines constrained the demand for housing. This was reflected in a moderate decline in resales, a sharp drop in housing starts and some slowing in house price increases. Anticipated moderate increases in employment in fiscal 2014 should keep the demand for housing and house prices fairly steady.

In the commercial banking sector, growth in commercial operating deposits (CODs) was strong in 2013. Businesses are continuing to hold back on strategic investments due to global economic uncertainty. Industry COD growth is projected to decelerate in 2014, as improving economic conditions reduce the need for precautionary savings and encourage business investment.

We expect growth in consumer lending to slow given relatively high levels of household debt, which we will address through our focus on targeting growth in under-penetrated customer segments and products, as well as by continuing to improve our sales force productivity. While the industry faces increasingly complex regulatory, information security and fraud prevention requirements, our strong governance framework continues to position us well to monitor any such changes and respond accordingly. With competition for skilled resources becoming more intense, we continue to monitor employee engagement to ensure that BMO remains at or above the financial industry average.

The Canadian economic environment in 2013 and outlook for 2014 are discussed in more detail in the Economic Developments and Outlook section on page 32.

Caution

This Canadian P&C Banking section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

U.S. Personal and Commercial Banking

Mark Furlong
Group Head
U.S. Personal and Commercial Banking
and CEO, BMO Harris Bank N.A. Chicago

The promise we make to our more than two million customers is to bring clarity to their financial decisions. Our retail and small and mid-sized business banking customers are served through our 621 branches, call centre, online and mobile banking platforms and more than 1,300 ABMs across eight states. We deliver financial expertise to our commercial banking customers, offering in-depth, specific industry knowledge and strategic capital markets solutions.

MD&A

Lines of Business

Personal Banking offers a broad range of products and services to individuals, as well as small and mid-sized business customers, including deposits, mortgages, consumer credit, business lending, credit cards and other banking services.

Commercial Banking provides larger businesses with a broad range of banking products and services, including lending, deposits, treasury management and risk management.

Strengths and Value Drivers

- Rich heritage of more than 160 years in the U.S. Midwest, with a deep commitment to the community and to helping our customers succeed.
- Strong, experienced leadership team that knows how to compete and excel in our markets.
- Enviable platform for profitable growth provided by our attractive branch footprint and top-tier deposit market share in key U.S. Midwest markets.
- Large-scale, relationship-based national commercial banking business based in the U.S. Midwest, with in-depth industry knowledge in select sectors.

Strategy and Key Priorities

We aim to grow our business and be a leader in our markets by delivering a customer experience differentiated through guidance on a wide range of financial topics, and by leveraging our brand reputation, local presence and high-performance teams.

Deliver a great customer experience to grow a loyal and profitable customer base

2013 Achievements

- Continued to build on our strong commercial lending market share, ranking second among our peer U.S. commercial banks in our core Midwest market and first in Wisconsin, with an increase in core commercial and industrial loans of $3.5 billion or 19% from a year ago.
- Implemented a new customer relationship management system that enables our employees to deliver a great experience to our customers by providing them with all customer information in one channel.
- Received the Community Service Leadership Award from The Financial Services Roundtable in recognition of our dedication and service to the communities in which we operate.
- Ranked number 1 among 30 major U.S. banks in long-term trust in the annual American Banker/Reputation Institute Survey of Bank Reputations, demonstrating the high level of confidence customers have in us.

2014 Focus

- Maintain strong customer loyalty while growing our customer base in high-opportunity segments, including mass affluent, mid-market and earlier life stage consumers.

Continue to improve our product and channel capabilities to better meet our customers' needs

2013 Achievements

- Enhanced our online banking platform with upgrades that improve our loan processing capabilities and cross-border functionalities. In addition, customers can now view and manage all their bank, credit card and investment accounts in one place using BMO Harris Total Look℠.
- Launched BMO Harris Bank iPad®, iPhone® and Android™ mobile apps to increase convenience for our customers. To date, customer response has been strong, with nearly 40% of customers accessing our mobile banking platform, and the iPad® application has a four-star user rating.
- Continued to work in partnership with Wealth Management to implement Premier Services, which offers a unique planning-focused client experience, with 98 teams of bankers and wealth management advisors in place at year end. This realignment drives increases in share of wallet, and ensures our clients are served through the most cost-effective channel.

2014 Focus

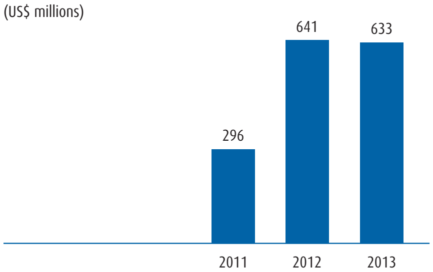
- Continue to enhance our technology and processes with additional digital channels and improved mortgage and business lending and treasury processes.

Improve financial performance by growing revenue and effectively managing costs

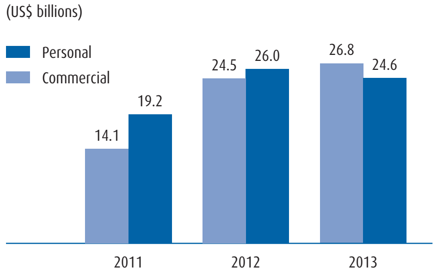
2013 Achievements

- Revenue from strong core commercial and industrial loan growth and increased deposit balances improved, offsetting in part the negative impact of the low interest rate environment which lowered overall revenue.
- Expenses and adjusted expenses declined by 5% and 4%, respectively (in U.S. dollars), primarily due to synergy-related savings and cost reductions resulting from our productivity initiatives, partially offset by the effects of selective investments in the business and higher regulatory-related costs.

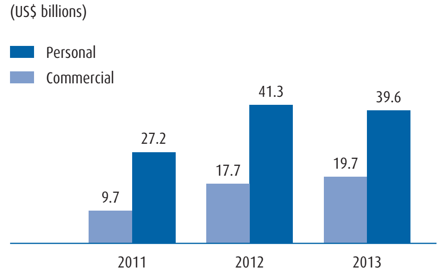
Adjusted Net Income
(US$ millions)



Average Current Loans and Acceptances
(US$ billions)



Average Deposits
(US$ billions)



- Maintained our adjusted efficiency ratio of 60.1% at a level relatively unchanged from the previous year. Our adjusted operating leverage improved through effective expense management.

2014 Focus

- Increase loan and deposit balances while focusing on cost management.

Continue to deploy our unique commercial operating model by delivering local access and industry expertise to our clients across a broad geographic footprint

2013 Achievements

- Focus on new client acquisition resulted in a 10% increase in the number of our client relationships.
- Strong core commercial and industrial loan growth, with a year-over-year increase of 19% and eight consecutive quarters of positive growth.
- Expanded into new specialty areas and geographic regions through targeted talent acquisition. Within the last year, we opened new commercial banking offices in Atlanta and Omaha and acquired a team of experienced franchise finance lenders, with additional hires in the dealership finance and equipment finance specialties in Houston, Atlanta, Seattle and Washington, D.C.
- Continued to leverage our robust thought leadership website, The Resource Center, which provides current and prospective clients with valuable industry insights from BMO experts, as well as third-party content via our exclusive partnerships.

2014 Focus

- Keep building on the strength of our commercial banking business with a focus on new client acquisition, increasing market share and expanding our corporate payments penetration.

Financial Review

Amounts in this section are expressed in U.S. dollars. U.S. P&C net income in 2013 was $584 million, an increase of $6 million or 1% from $578 million a year ago. Adjusted net income, which excludes the amortization of acquisition-related assets, was $633 million, down $8 million or 1%.

Revenue of $2,871 million decreased $144 million or 5%, as the benefits of strong growth in core commercial and industrial loans and deposits and higher commercial lending fees were more than offset by the effects of lower net interest margin, reductions in certain portfolios and lower deposit and debit card fees.

In our commercial banking business, revenue increased $48 million or 4%, reflecting growth in loan and deposit products and global treasury management services.

In our personal banking business, revenue decreased by $154 million or 9%, primarily as a result of the low interest rate environment, reductions in certain acquired loan portfolios and deposit balances, and lower deposit and debit card fees. During the year we continued to execute our lower-cost funding strategy, and we have reduced the number of higher-cost time deposits and money market accounts, in favour of growth in lower-cost chequing and savings accounts.

Net interest margin decreased by 33 basis points, primarily due to lower loan spreads due to competitive pricing and deposit spread compression given the low-rate environment.

Provisions for credit losses of $217 million declined by $56 million or 21% from a year ago, primarily reflecting better credit quality in the consumer loan portfolio.

Non-interest expense of $1,797 million decreased $98 million or 5%. Adjusted non-interest expense of $1,723 million was $78 million or 4% lower, primarily as a result of synergy-related savings in the current year and cost reductions resulting from our productivity initiatives, partially offset by the effects of selective investments in the business and higher regulatory-related costs.

Average current loans and acceptances increased $0.8 billion year-over-year to $51.4 billion. The core commercial and industrial loan portfolio continues to experience good growth, increasing by $3.5 billion or 19% from a year ago to $22.4 billion. In addition, we have grown our indirect automobile loan portfolio by $0.9 billion from a year ago. These increases helped to offset expected decreases in certain commercial loan portfolios, as well as reductions in home equity and mortgage loans, due in part to the effects of our continued practice of selling most mortgage originations in the secondary market and our active loan portfolio management.

U.S. P&C (US$ in millions, except as noted)

As at or for the year ended October 31	2013	2012	2011	Change from 2012 (%)
Net interest income (teb)	**2,324**	2,449	1,673	**(5)**
Non-interest revenue	**547**	566	352	**(3)**
Total revenue (teb)	**2,871**	3,015	2,025	**(5)**
Provision for credit losses	**217**	273	366	**(21)**
Non-interest expense	**1,797**	1,895	1,247	**(5)**
Income before income taxes	**857**	847	412	**1**
Provision for income taxes (teb)	**273**	269	152	**2**
Reported net income	**584**	578	260	**1**
Adjusted net income	**633**	641	296	**(1)**
Key Performance Metrics and Drivers				
Adjusted net income growth (%)	**(1)**	+100	31	**nm**
Net income growth (%)	**1**	+100	25	**nm**
Revenue growth (%)	**(5)**	49	49	**nm**
Adjusted operating leverage (teb) (%)	**(0.4)**	(1.5)	16.0	**nm**
Operating leverage (teb) (%)	**0.4**	(3.1)	13.9	**nm**
Adjusted efficiency ratio (teb) (%)	**60.1**	59.8	59.1	**0.3**
Efficiency ratio (teb) (%)	**62.6**	62.9	61.6	**(0.3)**
Net interest margin on earning assets (teb) (%)	**4.07**	4.40	4.53	**(0.33)**
Average current loans and acceptances	**51,356**	50,549	33,286	**2**
Average deposits	**59,257**	58,964	36,866	**–**
Full-time equivalent employees	**7,971**	7,906	7,564	**1**

nm – not meaningful

Average deposits of $59.3 billion increased slightly from the prior year, as growth in our commercial business and in our personal chequing and savings accounts more than offset a planned reduction in higher-cost personal money market and time deposit accounts.

Business Environment, Outlook and Challenges

U.S. P&C has a significant footprint in eight states, primarily concentrated in six contiguous states (Illinois, Wisconsin, Indiana, Minnesota, Missouri and Kansas).

The U.S. Midwest economy grew in line with the national average in 2013, at a modest pace of approximately 1.6%, as growth was supported by the continued expansion in the automobile sector and a recovery in housing activity. However, growth was restrained by restrictive fiscal policies, modest consumer spending and a decline in global demand. Modest loan and deposit growth in U.S. P&C was consistent with the growth in the economy. There was a decline in consumer loans consistent with our peers and the overall economy. Consumer loan growth is expected to trend higher in 2014 due to an improving economy. Residential mortgage growth will likely strengthen as the housing market recovery continues and is supported by affordability. Commercial loan growth should continue to improve in 2014 as credit becomes more widely available due to an improving economy.

Economic growth is expected at a rate of 2.7% in 2014 as fiscal restraint subsides.

The marketplace remains dynamic and highly competitive, as banks compete aggressively on pricing for both loans and deposits to maintain and increase market share. We are concentrating on our customer-focused growth strategy and commercial sector expertise to increase our loan and deposit balances in order to strengthen our financial performance in this challenging environment, while focusing on cost management to improve efficiency. This will help alleviate the continued pressure on margins in the highly competitive low interest rate environment. Regulatory oversight is growing increasingly complex, with new regulations and compliance requirements. We will continue to leverage our strong governance framework to address existing and new requirements.

The U.S. economic environment in 2013 and outlook for 2014 are discussed in more detail in the Economic Developments and Outlook section on page 32.

Caution

This U.S. P&C Banking section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Wealth Management

Gilles Ouellette
Group Head
Wealth Management

BMO's group of wealth businesses serves a full range of client segments from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and solutions including insurance products. Wealth Management operates in both Canada and the United States, as well as in select global markets including Asia and Europe.

Lines of Business

BMO Nesbitt Burns, our full-service investing business in Canada, offers comprehensive and client-focused investment and wealth advisory services leveraging strong financial planning capabilities.

BMO InvestorLine, our online investing business in Canada, offers self-directed investors a range of tools to help plan, research and manage investing decisions their own way, in addition to adviceDirect, the first service in Canada that provides investing advice to online investors.

BMO's Private Banking businesses operate in Canada, the United States, Hong Kong and Singapore. We offer a comprehensive range of financial services and solutions to high net worth and ultra-high net worth clients and, under BMO Harris Financial Advisors, to mass affluent clients in the United States.

BMO Global Asset Management is a global investment organization that provides investment management, retirement, and trust and custody services to institutional, retail and high net worth investors around the world.

BMO Insurance operates in Canada and internationally. In Canada, we manufacture life insurance, accident and sickness insurance, and annuity products that are marketed both to brokers and directly to individuals. Our creditor insurance division markets group creditor insurance and internationally, we provide reinsurance solutions.

Strengths and Value Drivers

- Planning and advice-based approach that integrates investments, insurance, specialized wealth management and core banking solutions.
- Team of highly skilled wealth professionals committed to providing an exceptional client experience.
- Brand prestige, recognition and trust.
- Strong national presence in Canada, as well as strategic positioning in select high-growth U.S. and emerging wealth and asset management markets.
- Access to BMO's broad client base and distribution network in Canada and the United States.

Strategy and Key Priorities

Our vision is to be the wealth management solutions provider that defines great client experience. Our strategy is to deliver on our clients' wealth management needs now and in the future by enhancing the client experience, focusing on productivity and investing for future growth.

Enhance our clients' experience by delivering on their evolving wealth management needs

2013 Achievements

- Developed new products designed to respond to clients' emerging needs, including seven new ETFs that help investors build their portfolios more effectively. Our ETF line of business has more than $11 billion in assets under management and is the eighth largest fixed-income ETF provider in the world.
- Launched the BMO InvestorLine mobile application, which enables our clients to track their investments, follow market trends and place trades on the go with their smartphones.
- Expanded Net Promoter Score monitoring to all businesses for active measurement of client loyalty and identification of opportunities for continued improvement.
- Achieved high rankings in external loyalty benchmarking: BMO Nesbitt Burns' Net Promoter Score was tied for first place in the latest Ipsos Reid Full Service Brokerage Report, BMO InvestorLine led its peers in client satisfaction in the Ipsos Reid Online Brokerage Report, and for the seventh year in a row, BMO Global Asset Management has garnered more client service awards than any other 401(k) platform in the United States in PLANSPONSOR's Defined Contribution Survey.

2014 Focus

- Attract new clients and focus on delivering a tailored offer for key client segments.

Streamline our products and simplify our processes to increase our productivity

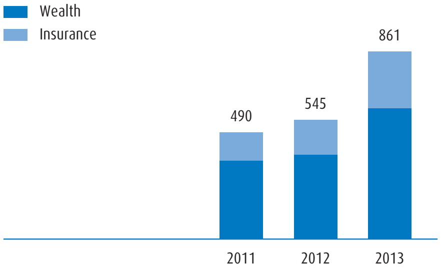
2013 Achievements

- Increased client-facing time for our sales force through the redesign of workforce processes, including client onboarding and lending processes.
- Consolidated sub-advisor asset management mandates to fully leverage internal capabilities and extend those capabilities globally.
- Reduced the number of funds that we offer in our Canadian mutual fund lineup to provide greater clarity and simplify our client offer.
- Redesigned the processes, by which our internal sales teams interact with our client-facing sales force, providing an efficient, unified view of wealth products and services to our retail partners.

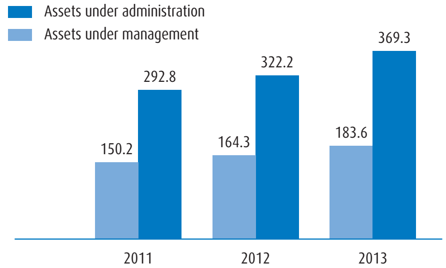
2014 Focus

- Continue to improve our productivity by improving the ratio of front-line sales to support staff to increase revenue per employee.

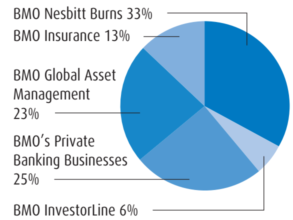
Adjusted Net Income
($ millions)



Assets under Management and Administration ($ billions)



2013 Revenue by Line of Business (%)



Invest in our people, products, technology and footprint to drive future growth

2013 Achievements

- Expanded our geographic footprint and wealth management platform through the acquisition of a wealth management business based in Hong Kong and Singapore.
- Increased our investment in our sales teams to expand coverage to new segments and geographic regions and provide the best experience for our clients.
- Leveraged our investments in technology to drive sales and improve efficiency.
- Strengthened our brand with an enhanced online presence on bmo.com, which now offers potential clients a tool to help them identify the wealth management options that best suit their needs, as well as information about our full-service investing, private banking, financial planning and asset management services – all in one place – resulting in a fivefold increase in site visits.

2014 Focus

- Invest in our sales force and enhance technology to drive revenue growth, with a particular focus on the United States.

Financial Review

Wealth Management net income was $834 million, up $310 million or 59% from a year ago. Adjusted net income, which excludes the amortization of acquisition-related intangible assets, was $861 million, up $316 million or 58% from a year ago. Adjusted net income in wealth businesses was $600 million, up $213 million or 55%. The significant increase in net income was driven by a security gain of $121 million and good growth of 23% in our other wealth businesses. Adjusted net income in insurance was $261 million, up $103 million or 65%.

Revenue of $3,454 million increased $549 million or 19%. Revenue in our wealth businesses increased 16%, reflecting strong performance driven by growth in client assets, the $191 million security gain and the benefit of recent acquisitions. Insurance revenue increased 49% as the prior year was impacted by unfavourable movements in long-term interest rates, and there was continued growth in both the underlying creditor and life insurance businesses.

Provisions for credit losses of $3 million decreased $19 million or 84%, primarily due to a loan recovery recorded in the current year, compared to a larger than usual loan write-down in the prior year related to a single commercial account.

Wealth Management (Canadian $ in millions, except as noted)

As at or for the year ended October 31	2013	2012	2011	Change from 2012 (%)
Net interest income (teb)	**564**	561	462	**–**
Non-interest revenue	**2,890**	2,344	2,130	**23**
Total revenue (teb)	**3,454**	2,905	2,592	**19**
Provision for credit losses	**3**	22	10	**(84)**
Non-interest expense	**2,340**	2,219	1,956	**5**
Income before income taxes	**1,111**	664	626	**67**
Provision for income taxes (teb)	**277**	140	146	**96**
Reported net income	**834**	524	480	**59**
Adjusted net income	**861**	545	490	**58**
Key Performance Metrics and Drivers				
Adjusted net income growth (%)	**58**	11	11	**nm**
Net income growth (%)	**59**	9	10	**nm**
Revenue growth (%)	**19**	12	15	**nm**
Return on equity (%)	**28.6**	24.1	32.9	**4.5**
Adjusted operating leverage (%)	**13.7**	(0.6)	(1.6)	**nm**
Operating leverage (%)	**13.4**	(1.3)	(1.9)	**nm**
Adjusted efficiency ratio (%)	**66.7**	75.4	75.0	**(8.7)**
Efficiency ratio (teb) (%)	**67.7**	76.4	75.5	**(8.7)**
Average common equity	**2,884**	2,143	1,436	**35**
Average loans and acceptances	**11,909**	10,833	9,299	**10**
Average deposits	**23,337**	21,753	19,136	**7**
Assets under administration	**369,277**	322,222	292,801	**15**
Assets under management	**183,625**	164,293	150,176	**12**
Full-time equivalent employees	**6,117**	6,108	6,518	**–**
U.S. Business Selected Financial Data (US$ in millions)				
Total revenue (teb)	**883**	699	430	**26**
Non-interest expense	**574**	552	349	**4**
Reported net income	**200**	84	47	**+100**
Adjusted net income	**221**	99	53	**+100**
Average loans and acceptances	**2,510**	2,650	2,260	**(5)**
Average deposits	**4,947**	4,960	3,199	**–**

nm – not meaningful

Non-interest expense was $2,340 million, up $121 million or 5%. Adjusted non-interest expense was $2,304 million, up $114 million or 5%. The increase was due to growth in revenue-based costs and the costs of recent acquisitions, partly offset by the benefits of a continued focus on productivity.

Assets under management and administration grew by $66.4 billion to $552.9 billion, driven by market appreciation, growth in new client assets and the stronger U.S. dollar.

Net income in Wealth Management U.S. businesses was US$200 million, up US$116 million from US$84 million a year ago. Adjusted net income in Wealth Management U.S. businesses was US$221 million, up US$122 million from US$99 million a year ago due to the security gain and growth across most of our lines of business.

Business Environment, Outlook and Challenges

Economic growth in Canada remained modest in 2013, and equity markets posted moderate gains. And while U.S. economic growth slowed, its stock markets recorded double-digit gains. The strong gains were widespread across sectors, led by the financial, health care and consumer discretionary sectors.

Investor confidence is returning, as evidenced by an increase in transaction volumes throughout the year and strong client asset growth, attributable to market gains and new client acquisition. Historically low interest rates limited our net interest income growth.

In 2014, we anticipate that a sustained healthy level of activity in equity markets will continue to positively influence transaction volumes. Despite modest economic growth and the continued low interest rate environment expected in North America, we have clear strategic plans to grow all of our wealth businesses.

Changing demographics, particularly in the retirement, mass affluent and high net worth sectors, will continue to drive the North American wealth management industry over the longer term. Tailoring our offering for key client segments, making sure we service our clients in the right channels and keeping pace with technology advancements are ways in which we can continue to meet our clients' evolving needs.

We have experienced significant growth, both organically and through strategic acquisitions, over the past few years, and we now have a robust wealth management platform in the United States and a growing presence in Asia, while we are also expanding into other countries. This activity supports BMO's plans to offer truly global services to its clients across its international footprint.

We are continuing to manage increasingly complex regulatory requirements, and at the same time we are proactively seeking top talent to complement our growing sales force.

The Canadian and U.S. economic environment in fiscal 2013 and the outlook for fiscal 2014 are discussed in more detail in the Economic Developments and Outlook section on page 32.

Caution

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

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

BMO Capital Markets

Tom Milroy
Group Head
BMO Capital Markets

BMO Capital Markets provides capital-raising, strategic advisory and risk management, and integrated sales, trading and research services to corporate, institutional, and government clients. We have nearly 2,300 employees and operate in 29 locations around the world, including 16 offices in North America.

Lines of Business

Investment and Corporate Banking offers clients debt and equity capital-raising services, as well as a full range of loan and debt products, balance sheet management solutions and treasury management services. We provide strategic advice and execution on mergers and acquisitions, restructurings and recapitalizations, in addition to valuation and fairness opinions. In support of our clients' international business activities, we offer trade finance and risk mitigation services, including banking and other operating services tailored to meet the needs of North American and international financial institutions.

Trading Products offers institutional, commercial and retail clients access to global markets through an integrated suite of debt, foreign exchange, interest rate, credit, equity, securitization and commodities solutions. Our services include sales, trading, research and distribution of new issues and secondary offerings to institutional investors. We also provide our clients with risk management (derivatives) advice and services to hedge against price fluctuations on a variety of key inputs, including interest rates and commodities. In addition, we offer efficient funding and liquidity management to our clients, as well as to BMO Financial Group.

Strengths and Value Drivers

- A unified coverage approach and integrated distribution that creates an exceptional client experience across our North American platform, together with a complementary international presence in select industry sectors.
- Innovative ideas and expertise delivered through our top-tier coverage team, dedicated to understanding and meeting our core clients' needs.
- Top-ranked equity and fixed income research, sales and trading capabilities with deep expertise in core sectors.

Strategy and Key Priorities

BMO Capital Markets' vision is to be the lead investment bank that enables our clients to achieve their ambitions. Our strategy is to provide our clients with an integrated platform that is differentiated by leading ideas and unified coverage.

Continue to earn leading market share in Canada by delivering leading ideas through our top-tier coverage team

2013 Achievements

- Ranked second in Investment Banking Fee Share using *Dealogic* data.
- Named Best Investment Bank in Canada by *Global Finance* magazine.
- 2013 Quality Leader for Canadian Equity Trading and Canadian Equity Sales – Greenwich Associates.
- Ranked #2 as a 2013 Share Leader for Canadian Equity Research/Advisory Portfolio Managers Vote Share by Greenwich Associates.
- Ranked #2 (tied) as a 2013 Share Leader for Overall Canadian Fixed-Income Market Share by Greenwich Associates.
- Named Best Bank in Canadian Dollar Foreign Exchange by *FX Week*.

2014 Focus

- Continue to earn leading market share in Canada, particularly in investment banking fees and trading revenues, without taking outsized risk.

Leverage our North American capabilities in select strategic sectors in international markets to expand our client offering

2013 Achievements

- Named World's Best Metals & Mining Investment Bank by *Global Finance* magazine.
- Named Best Trade Bank in Canada for the fourth consecutive year by *Trade Finance* magazine.
- Selectively expanded our natural resource presence in London with the addition of energy sector capabilities.
- Recognized by *Global M&A Network* for Americas Deal of the Year (Small Mid Markets), Canada Deal of the Year (Mid Markets), and Cross-border Deal of the Year.

2014 Focus

- Continue to serve global clients with North American interests and extend our global leadership in select sectors.

Drive performance from our U.S. platform by leveraging our expanded distribution capabilities and focused research and coverage in strategic sectors

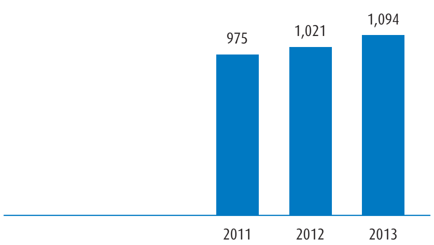
2013 Achievements

- Nearly tripled investment banking market share in our target U.S. mid-cap segment since 2009.
- Increased our lead capital-raising mandates in 2013 by more than 50%, demonstrating our progress with issuer and investor clients for both our origination and distribution capabilities.
- Increased U.S. net income by 47%.

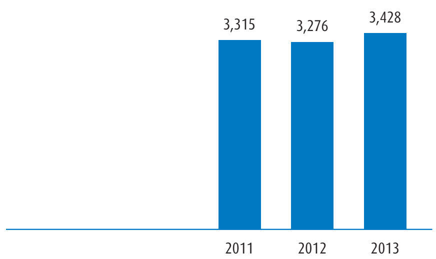
2014 Focus

- Continue to drive performance from our U.S. client franchise, with an emphasis on further increasing our investment banking share of fees in the U.S. mid-cap market segment.

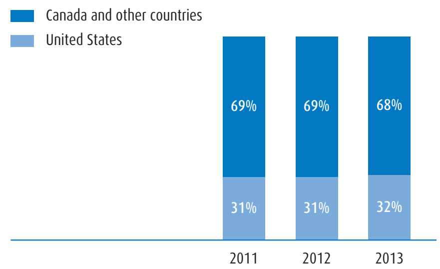
Reported Net Income
($ millions)



Revenue
($ millions)



Revenue by Geography (%)



Continue to enhance our risk management and regulatory compliance practices to be responsive to an evolving regulatory environment

2013 Achievements

- Invested in processes to meet new regulatory requirements and maintained a consistent, proactive cross-border approach to both compliance and risk management.
- Implemented expanded clearing arrangements to comply with the Dodd-Frank Act.

2014 Focus

- Continue to monitor and adapt to new regulations as they are enacted.

Financial Review

BMO Capital Markets net income increased $73 million or 7% to $1,094 million. The increase reflected growth in revenues and higher recoveries of credit losses, partially offset by an increase in expenses.

Revenue increased $152 million or 5% to $3,428 million, driven by increases in trading revenues and investment banking fees, particularly in our U.S. platform. The stronger U.S. dollar increased revenue by $30 million.

Net interest income increased $47 million or 4%, reflecting growth in trading income related to improved market conditions, partially offset by a decrease in revenues from interest-rate-sensitive businesses. Non-interest revenue increased $105 million or 5% from the prior year, reflecting growth in trading revenue related to improved market conditions, and an increase in investment and corporate banking revenues resulting from higher client activity levels.

Trading products revenue increased $69 million or 3% from the prior year, reflecting growth in trading revenue related to improved market conditions, partly offset by a decrease in revenues from interest-rate-sensitive businesses and lower securities commissions.

Investment and corporate banking revenue increased $83 million, reflecting higher activity levels as well as growth in corporate banking revenue.

We continue to experience very low levels of credit losses across our businesses. The recovery of credit losses was $36 million in 2013, compared with a provision of $6 million in 2012.

Non-interest expense increased $93 million or 5% to $2,049 million resulting from stronger revenue performance and increased technology and support costs related to a changing business and regulatory environment. The stronger U.S. dollar increased expenses by $15 million. The group's efficiency ratio of 59.8% remained relatively unchanged from the prior year as revenue growth was offset by higher expenses.

The provision for income taxes was higher than in the prior year, as the provision in 2012 benefited from higher recoveries of prior years' income taxes.

Average assets of $247.6 billion were relatively unchanged from the prior year. Decreases in derivative financial assets, primarily due to declines in the fair value of interest rate contracts as a result of rising interest rates, were largely offset by increases in securities borrowed or purchased under resale agreements related to higher levels of client activity, an increase in net loans and acceptances related to growth in corporate banking, and higher levels of securities balances.

Net income from U.S. operations increased US$68 million or 47% to US$213 million. Revenue increased from the prior year, driven by growth in investment and corporate banking revenue, higher gains on securities and an increase in commission fees, partially offset by a decline in trading revenue. Recoveries of credit losses were higher. Non-interest expense increased from the prior year resulting from stronger revenue performance and higher technology and support costs. The provision for income taxes was lower than in the prior year, mainly due to recoveries of prior years' income taxes in 2013.

BMO Capital Markets (Canadian $ in millions, except as noted)

As at or for the year ended October 31	2013	2012	2011	Change from 2012 (%)
Net interest income (teb)	**1,238**	1,191	1,229	**4**
Non-interest revenue	**2,190**	2,085	2,086	**5**
Total revenue (teb)	**3,428**	3,276	3,315	**5**
Provision for (recovery of) credit losses	**(36)**	6	32	**(+100)**
Non-interest expense	**2,049**	1,956	1,896	**5**
Income before income taxes	**1,415**	1,314	1,387	**8**
Provision for income taxes (teb)	**321**	293	412	**10**
Reported net income	**1,094**	1,021	975	**7**
Adjusted net income	**1,096**	1,022	976	**7**
Key Performance Metrics and Drivers				
Trading Products revenue	**2,146**	2,077	2,035	**3**
Investment and Corporate Banking revenue	**1,282**	1,199	1,280	**7**
Net income growth (%)	**7**	5	20	**nm**
Revenue growth (%)	**5**	(1)	2	**nm**
Net economic profit	**471**	509	541	**(7)**
Return on equity (%)	**18.9**	21.7	25.0	**(2.8)**
Operating leverage (%)	**(0.1)**	(4.3)	(3.0)	**nm**
Efficiency ratio (teb) (%)	**59.8**	59.7	57.2	**0.1**
Average common equity	**5,582**	4,527	3,723	**23**
Average assets	**247,578**	251,562	216,306	**(2)**
Average loans and acceptances	**24,843**	23,441	21,351	**6**
Average deposits	**121,881**	103,836	92,068	**17**
Debt underwriting participation (deals)	**677**	635	525	**7**
Equity underwriting participation (deals)	**292**	307	293	**(5)**
Full-time equivalent employees	**2,278**	2,176	2,286	**5**
U.S. Business Selected Financial Data (US$ in millions)				
Total revenue (teb)	**1,081**	1,028	1,038	**5**
Non-interest expense	**849**	828	797	**3**
Reported net income	**213**	145	104	**47**
Average loans and acceptances	**8,567**	8,089	7,552	**6**
Average deposits	**60,788**	48,776	38,112	**25**

nm – not meaningful

Business Environment, Outlook and Challenges

BMO Capital Markets' strong performance in fiscal 2013 reflects our balanced, diversified and client-focused business model, as well as our disciplined approach to risk management in an environment influenced by market factors that contribute to variability in results. There was growth in our investment and corporate banking businesses despite a reduction in mergers and acquisitions in Canada due to lower levels of activity in the natural resource sector and the impact of the protracted resolution of the U.S. debt ceiling debate in Congress. Our diversified business mix in trading products has enabled us to generate good earnings growth in 2013. The ROE for BMO Capital Markets was 18.9%.

Looking forward to fiscal 2014, we expect economic growth to strengthen in both Canada and the United States. A continuation of low interest rates, a reduction in unemployment and low inflation are all projected in the United States, as well as stable interest rates in Canada. Our capital markets outlook is influenced by the performance of financial markets, business confidence and evolving regulatory requirements. Despite some areas of weakness and concern in financial markets, we anticipate continued growth in revenue and earnings.

The Canadian and U.S. economic environment in fiscal 2013 and the outlook for fiscal 2014 are discussed in more detail in the Economic Developments and Outlook section on page 32.

Caution

This BMO Capital Markets section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Corporate Services, including Technology and Operations

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 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 Corporate Units and T&O services are largely transferred to the three client operating groups (P&C, Wealth Management and BMO CM), 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 asset portfolios, and the recovery of credit losses on the M&I purchased credit impaired loan portfolio. Corporate Services reported results also reflect a number of items and activities that are excluded from BMO's adjusted results to help assess BMO's performance. These adjusting items are not reflective of core operating results. They are itemized in the Non-GAAP Measures section on page 34. All adjusting items are recorded in Corporate Services except the amortization of acquisition-related intangible assets, which is recorded in the client operating groups.

Corporate Services focuses on enterprise-wide priorities that improve service quality and efficiency to deliver an excellent customer experience. Notable achievements during the year included:

- Advancing the customer experience through: upgrades to our mobile banking applications to make them compatible with the Apple tablet and iPhone 5® devices and the launch of BMO InvestorLine's free mobile investing app; the launch of cross-border transfer functionality, which allows online business banking customers to transact between BMO and BMO Harris Bank U.S. dollar currency accounts in near-real time; modernization of the retail branch network, which increases our footprint by equipping smaller branches with upgraded technology; and improved core banking processes, including mortgage, commercial lending and collections processes, to drive productivity and provide an enhanced customer experience;
- Continuing to deliver against key performance metrics by exceeding channel and critical facilities availability targets and increasing straight-through processing; and
- Realizing significant real estate synergies from the M&I integration and improving our U.S. operations technology capabilities in channels, products, functions and infrastructure.

Financial Review

Corporate Services net loss for the year was $130 million, compared with net income of $289 million a year ago.

The adjusted net loss in 2013 was $191 million, compared with adjusted net income of $96 million in 2012. Adjusted revenue decreased $238 million, primarily due to a group teb offset that was $78 million higher than the prior year and a decline in treasury-related items. Adjusted non-interest expense was $84 million higher, primarily due to increases in pension and benefit costs, as well as regulatory-related and technology costs. Adjusted recoveries of credit losses were $41 million lower, reflecting lower recoveries on the purchased credit impaired loan portfolio, offset in part by recoveries on the impaired real estate loan portfolio in 2013, compared to provisions in 2012. The accounting policy for purchased loans is discussed in the Purchased Loans section in Note 4 on page 137 of the financial statements. The recoveries of credit losses on a reported basis were $175 million in 2013.

Significant components of the recoveries are detailed in the table below.

Corporate Services, including Technology and Operations

(Canadian $ in millions, except as noted)

As at or for the year ended October 31	**2013**	2012	2011	**Change from 2012 (%)**
Net interest income before teb offset	**280**	501	(31)	**(44)**
Group teb offset	**(344)**	(266)	(220)	**(29)**
Net interest income (teb)	**(64)**	235	(251)	**(+100)**
Non-interest revenue	**167**	478	98	**(65)**
Total revenue (teb)	**103**	713	(153)	**(86)**
Provision for (recovery of) credit losses	**(175)**	(152)	147	**(16)**
Non-interest expense	**818**	979	524	**(17)**
Loss before income taxes	**(540)**	(114)	(824)	**(+100)**
Recovery of income taxes (teb)	**(410)**	(403)	(509)	**(1)**
Reported net income (loss)	**(130)**	289	(315)	**(+100)**
Adjusted total revenue (teb)	**(588)**	(350)	(354)	**(69)**
Adjusted provision for (recovery of) credit losses	**(405)**	(446)	43	**9**
Adjusted non-interest expense	**472**	388	306	**21**
Adjusted net income (loss)	**(191)**	96	(209)	**(+100)**
Full-time equivalent employees	**13,308**	13,885	13,884	**(4)**
U.S. Business Select Financial Data (US$ millions)				
Total revenue (teb)	**273**	613	(9)	**(56)**
Provision for (recovery of) credit losses	**(256)**	(168)	125	**(52)**
Non-interest expense	**423**	538	257	**(21)**
Recovery of income taxes (teb)	**(6)**	(6)	(241)	**–**
Reported net income (loss)	**112**	249	(150)	**(56)**
Adjusted net income (loss)	**(29)**	210	(102)	**(+100)**

Corporate Services Provision for Credit Losses ($ millions)

For the year ended October 31	**2013**	2012	2011
Impaired real estate loan portfolio	**(43)**	19	28
Purchased credit impaired loans	**(410)**	(509)	–
Interest on impaired loans	**48**	44	15
Provision for (recovery of) credit losses, adjusted basis	**(405)**	(446)	43
Collective provision	**(10)**	3	86
Purchased performing loans	**240**	291	18
Provision for (recovery of) credit losses, reported basis	**(175)**	(152)	147
Average loans and acceptances	**972**	1,847	1,267
Year end loans and acceptances	**526**	1,314	1,846

As explained on page 45, BMO analyzes revenues on a teb basis at the client operating group level, with an offsetting adjustment in Corporate Services. Results reflect teb reductions in net interest income and related income taxes. The impact on net interest income is itemized in the table above.

Loans and acceptances at year end were $526 million, a reduction of $788 million from a year ago, reflecting run-off in the impaired real estate secured loan portfolio.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Financial Condition Review

Summary Balance Sheet ($ millions)

As at October 31	2013	2012	2011	2010	2009
Assets					
Cash and interest bearing deposits with banks	**32,601**	26,282	25,656	20,554	13,295
Securities	**134,981**	128,324	122,115	123,399	110,813
Securities borrowed or purchased under resale agreements	**39,799**	47,011	37,970	28,102	36,006
Net loans and acceptances	**279,095**	253,835	238,885	176,643	167,829
Other assets	**50,823**	69,997	75,949	62,942	60,515
	537,299	525,449	500,575	411,640	388,458

As at October 31	2013	2012	2011	2010	2009
Liabilities and Shareholders' Equity					
Deposits	**366,821**	323,702	302,373	249,251	236,156
Other liabilities	**134,538**	167,102	164,197	135,933	126,719
Subordinated debt	**3,996**	4,093	5,348	3,776	4,236
Capital trust securities	**463**	462	821	800	1,150
Shareholders' equity	**30,409**	28,655	26,353	21,880	20,197
Non-controlling interest in subsidiaries (1)	**1,072**	1,435	1,483	–	–
	537,299	525,449	500,575	411,640	388,458

(1) Included in other liabilities under CGAAP.

Overview

Total assets increased $11.9 billion from the prior year to $537.3 billion. The increase was comprised of net loans and acceptances of $25.3 billion, securities of $6.7 billion and cash and interest bearing deposits with banks of $6.3 billion, partially offset by decreases of $19.2 billion in other assets and $7.2 billion in securities borrowed or purchased under resale agreements.

Liabilities and shareholders' equity increased $11.9 billion. The increase was comprised of deposits of $43.1 billion and shareholders' equity of $1.8 billion, partially offset by a decrease of $32.6 billion in other liabilities and a decrease of $0.4 billion in non-controlling interest in subsidiaries.

Cash and Interest Bearing Deposits with Banks

Cash and interest bearing deposits with banks increased $6.3 billion to $32.6 billion in 2013, primarily reflecting an increase in balances held with the U.S. Federal Reserve due to U.S. deposit growth.

Securities ($ millions)

As at October 31	2013	2012	2011	2010	2009
Trading	**75,159**	70,109	69,925	71,710	59,071
Available-for-sale	**53,067**	56,382	51,426	50,543	50,257
Held-to-maturity	**6,032**	875	–	–	–
Other	**723**	958	764	1,146	1,485
	134,981	128,324	122,115	123,399	110,813

Securities increased $6.7 billion to $135.0 billion, primarily reflecting increases in held-to-maturity securities and trading securities, partially offset by a decrease in available-for-sale securities. The increase in trading securities is primarily related to client-driven activities in BMO Capital Markets. The increase in held-to-maturity securities reflects higher levels of supplemental liquid assets held to support contingent liability requirements. Supplemental liquid assets held in available-for-sale securities have declined from the prior year.

Securities Borrowed or Purchased Under Resale Agreements

Securities borrowed or purchased under resale agreements decreased $7.2 billion to $39.8 billion, mainly due to lower levels of client-driven activities.

Loans and Acceptances ($ millions)

As at October 31	2013	2012	2011	2010	2009
Residential mortgages	**99,328**	87,870	81,075	48,715	45,524
Consumer instalment and other personal	**63,640**	61,436	59,445	51,159	45,824
Credit cards	**7,870**	7,814	8,038	3,308	2,574
Businesses and governments	**101,450**	90,402	84,883	68,338	68,169
Customers' liability under acceptances	**8,472**	8,019	7,227	7,001	7,640
Gross loans and acceptances	**280,760**	255,541	240,668	178,521	169,731
Allowance for credit losses	**(1,665)**	(1,706)	(1,783)	(1,878)	(1,902)
Net loans and acceptances	**279,095**	253,835	238,885	176,643	167,829

All 2010 and prior data is based on CGAAP in this section.

Net loans and acceptances increased $25.3 billion to $279.1 billion, primarily due to an $11.0 billion increase in loans to businesses and governments across most operating groups and an $11.5 billion increase in residential mortgages in Canadian P&C. The remaining $2.8 billion increase includes an increase in consumer instalment and other personal loans, primarily due to growth in auto loans and home equity loans, and an increase in acceptances.

Table 11 on page 112 provides a comparative summary of loans by geographic location and product. Table 13 on page 113 provides a comparative summary of net loans in Canada by province and industry. Loan quality is discussed on pages 84 and 85 and further details on loans are provided in Notes 4, 5 and 8 to the financial statements, starting on page 137.

Other Assets

Other assets decreased $19.2 billion to $50.8 billion, primarily reflecting a $17.8 billion decrease in derivative financial instrument assets, largely due to declines in the fair value of interest rate contracts as a result of rising interest rates. The balance of other assets, which includes accounts receivable, prepaid expenses, tax receivable and pension assets, decreased $1.4 billion. Derivative instruments are detailed in Note 10 on page 147 of the financial statements.

Deposits ($ millions)

As at October 31	2013	2012	2011	2010	2009
Banks	**20,591**	18,102	20,877	19,435	22,973
Businesses and governments	**220,798**	186,570	159,209	130,773	113,738
Individuals	**125,432**	119,030	122,287	99,043	99,445
	366,821	323,702	302,373	249,251	236,156

Deposits increased $43.1 billion to $366.8 billion. The increase was largely driven by a $34.2 billion increase in deposits by businesses and governments, reflecting higher levels of wholesale and customer deposits. Deposits by individuals increased $6.4 billion, primarily in Canada, while deposits by banks increased $2.5 billion, primarily reflecting higher levels of wholesale deposits. Further details on the composition of deposits are provided in Note 15 on page 158 of the financial statements and in the Liquidity and Funding Risk section on page 92.

Other Liabilities

Other liabilities decreased $32.6 billion to $134.5 billion, primarily driven by a decrease of $16.8 billion in derivatives, a decrease of $10.9 billion in securities lent or sold under repurchase agreements related to client-driven activities, and a decrease of $1.0 billion in securities sold but not yet purchased. Further details on the composition of other liabilities are provided in Note 16 on page 159 of the financial statements.

Subordinated Debt

Subordinated debt decreased $0.1 billion. Further details on the composition of subordinated debt are provided in Note 17 on page 160 of the financial statements.

Shareholders' Equity

Shareholders' equity increased $1.8 billion to $30.4 billion, reflecting growth in retained earnings. BMO's Dividend Reinvestment and Share Purchase Plan is described in the Enterprise-Wide Capital Management section that follows. Our Consolidated Statement of Changes in Equity on page 128 provides a summary of items that increase or reduce shareholders' equity, while Note 20 on page 163 of the financial statements provides details on the components of and changes in share capital. Details of our enterprise-wide capital management practices and strategies can be found below.

All 2010 and prior data is based on CGAAP in this section.

Enterprise-Wide Capital Management

MD&A

As discussed below, BMO's Basel III Common Equity Tier 1 Ratio of 9.9% is strong, and in excess of regulatory requirements.

Objective

BMO is committed to a disciplined approach to capital management that balances the interests and requirements of shareholders, regulators, depositors and rating agencies. Our objective is to maintain a strong capital position in a cost-effective structure that:

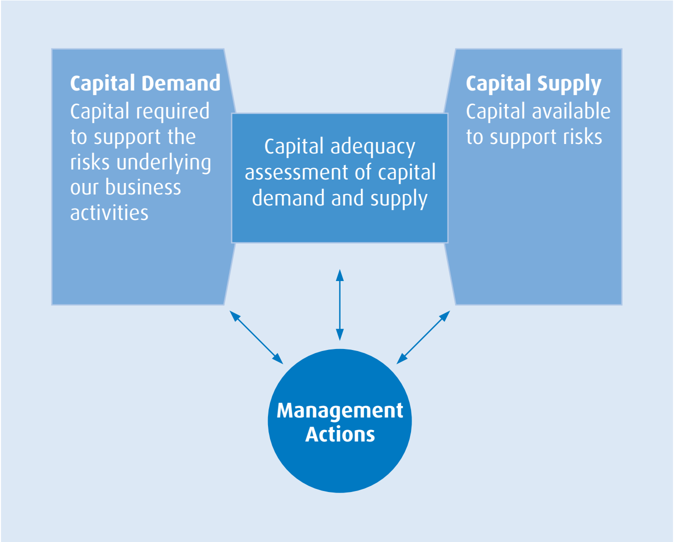
- is appropriate given our target regulatory capital ratios and internal assessment of required economic capital;
- is consistent with our targeted credit ratings;
- underpins our operating groups' business strategies; and
- supports depositor, investor and regulatory confidence while also building long-term shareholder value.

Capital Management Framework

The principles and key elements of BMO's capital management framework are outlined in our capital management corporate policy and in our annual capital plan, which includes the results of our Internal Capital Adequacy Assessment Process (ICAAP).

ICAAP is an integrated process that evaluates capital adequacy on both a regulatory and an economic capital basis, and is used to establish capital targets and capital strategies that take into consideration the strategic direction and risk appetite of the enterprise. The capital plan is developed considering our ICAAP and in conjunction with our annual business plan, promoting alignment between our business and risk strategies, regulatory and economic capital requirements and the availability of capital. Regulatory and economic capital adequacy is assessed by comparing capital supply (the amount of capital available to support risks) to capital demand (the capital required to support the risks arising from our business activities). Enterprise-wide stress testing and scenario analysis are also used to assess the impact of various stress conditions on BMO's risk profile and capital requirements. The framework seeks to ensure that we are adequately capitalized given the risks we take, and supports the determination of limits, goals and performance measures that are used to manage balance sheet positions, risk levels and capital requirements at both the consolidated entity and line of business levels. Assessments of actual and forecast capital adequacy are compared to the capital plan throughout the year, and the capital plan is updated as required, based on changes in our business activities, risk profile or operating environment.

BMO uses a combination of regulatory and economic capital to evaluate business performance and considers capital implications in its strategic, tactical and transactional decision-making. By allocating our capital supply to operating units and measuring their performance in relation to the capital necessary to support the risks in their business, we seek to optimize our risk-adjusted return to shareholders, while maintaining a well-capitalized position. This approach aims to protect our stakeholders from the risks inherent in our various businesses, while still allowing the flexibility to deploy resources to strategic growth activities of our operating groups. Capital in excess of what is required to support our line of business activities is held in Corporate Services.



For further discussion of the risks that arise from our business activities, refer to the Enterprise-Wide Risk Management section on page 77.

Governance

The Board of Directors, either directly or in conjunction with its Risk Review Committee, provides ultimate oversight and approval of capital management, including our capital management corporate policy framework, capital plan and capital adequacy assessments. The board regularly reviews BMO's capital position, key capital management activities and, with the Risk Review Committee, the ICAAP-determined capital adequacy assessment results. The Balance Sheet and Capital Management Committee provides senior management oversight, including the review and discussion of significant capital management policies, issues and activities and, along with the Risk Management Committee, the capital required to support the execution of our enterprise-wide strategy. Finance and Risk Management are responsible for the design and implementation of the corporate policies and framework related to capital, risk management and the ICAAP.

Risk-Weighted Asset Approaches

BMO primarily uses the Advanced Internal Ratings Based (AIRB) Approach to determine credit risk-weighted assets (RWA) in our portfolio, and the Standardized Approach to determine operational risk RWA. Credit RWA arising from certain U.S. portfolios are determined using the Standardized Approach. BMO's market risk RWA are primarily determined using the Internal Models Approach, but the Standardized Approach is used for some exposures.

The AIRB Approach is the most advanced of the approaches for determining credit risk capital requirements. It utilizes sophisticated techniques to measure RWA at the exposure level based on sound risk management principles, including consideration of estimates of the probability of default, the likely loss given default and exposure at default, term to maturity and the type of Basel Asset Class exposure. These risk parameters are determined using historical portfolio data supplemented by benchmarking, and are updated periodically. Validation procedures related to these parameters are in place and are enhanced periodically in order to appropriately quantify and differentiate risks so they reflect changes in economic and credit conditions.

Under the Standardized Approach, operational risk capital requirements are based on the size and type of our lines of business. As defined under Basel rules adopted by the Office of the Superintendent of Financial Institutions Canada (OSFI), gross income serves as a proxy for the size of the line of business and as an indicator of operational risk. Gross income is segmented into eight regulatory business lines by business type, and each segment amount is multiplied by a corresponding factor prescribed by the Basel framework to determine its operational risk capital requirement. The table that follows provides a breakdown of our RWA by risk type.

Risk-Weighted Assets ($ millions)

As at October 31	2013 (Basel III)	2012 (Basel II)
Credit risk	**179,289**	171,955
Market risk	**9,154**	7,598
Operational risk	**26,651**	25,677
Total RWA	**215,094**	205,230

2013 Regulatory Capital Review

Effective the first quarter of 2013, regulatory capital requirements for BMO are determined on a Basel III basis. In 2013, the minimum Basel III capital ratios proposed by the Basel Committee on Banking Supervision (BCBS) were a 3.5% Common Equity Tier 1 (CET1) Ratio, 4.5% Tier 1 Capital Ratio and 8% Total Capital Ratio, such ratios being calculated using a five-year transitional phase-in of regulatory adjustments and a nine-year transitional phase-out of instruments that no longer qualify as regulatory capital under the Basel III rules. However, guidance issued by OSFI (also referred to as the "all-in" requirements) required Canadian deposit-taking institutions to meet the 2019 Basel III capital requirements in 2013, other than the phase-out of non-qualifying capital instruments, and expected them to attain a target Basel III CET1 Ratio of at least 7% (4.5% minimum plus 2.5% Capital Conservation Buffer) by January 31, 2013.

BCBS has released a framework for the determination of additional capital requirements for domestic systemically important banks (D-SIBs). In March 2013, OSFI issued guidance designating the six largest Canadian banks, including BMO, as D-SIBs. The D-SIBs will be subject to continued enhanced supervision and disclosure and, commencing on January 1, 2016, will be required to hold an additional 1% CET1 capital buffer as part of an increased Capital Conservation Buffer. No Canadian banks are currently considered to be globally systemically important.

The fully implemented Basel III requirements and the OSFI "all-in" Basel III requirements are summarized in the following table.

Regulatory Requirements (% of Risk-Weighted Assets)

	Common Equity Tier 1 Ratio (1)	Tier 1 Capital Ratio	Total Capital Ratio	Leverage Ratio (3)
Basel III – Stated 2019 minimum requirements	4.5	6.0	8.0	3.0
Plus: Capital Conservation Buffer (2) (effective January 1, 2013)	2.5	2.5	2.5	na
Plus: D-SIB Common Equity capital buffer (effective January 1, 2016)	1.0	1.0	1.0	na
OSFI Basel III effective requirements (4)	**8.0**	**9.5**	**11.5**	**3.0**

(1) The minimum 4.5% CET1 Ratio requirement is augmented by the 2.5% Capital Conservation Buffer that can absorb losses during periods of stress. The Capital Conservation Buffer for BMO will increase to 3.5% CET1 due to the addition of the D-SIB buffer. If a bank's capital ratios fall within the range of this buffer, restrictions on discretionary distributions of earnings (such as dividends, equity repurchases and discretionary compensation) would ensue, with the degree of such restrictions varying according to the position of the bank's ratios within the buffer range.
(2) The Capital Conservation Buffer does not include the counter-cyclical capital buffer of up to 2.5% of CET1, which may be required on a national basis by supervisors if they perceive credit growth resulting in systemic risk. If imposed, this additional buffer is effectively combined with the Capital Conservation Buffer.
(3) A 3% minimum Leverage Ratio has been proposed by the BCBS. It will be subject to monitoring and analysis during a four-year parallel run test period, which began on January 1, 2013. Depending upon the results of the parallel run testing, there could be subsequent adjustments, which are targeted to be finalized in 2017, with the final Leverage Ratio requirement effective January 1, 2018. OSFI currently monitors bank leverage using the Assets-to-Capital Multiple, which is based on total capital. The proposed Basel III Leverage Ratio is based on Tier 1 capital.
(4) OSFI's Basel III "effective requirements" are the capital requirements systemically important Canadian banks must meet in 2016 to avoid being subject to restrictions on discretionary distributions of earnings.
na – not applicable

Common equity is the most permanent form of capital. Under Basel III, CET1 is comprised of common shareholders' equity less deductions for goodwill, intangible assets, pension assets, certain deferred tax assets and certain other items. Additional Tier 1 capital primarily consists of preferred shares and innovative hybrid instruments, less certain regulatory deductions. Tier 1 capital is comprised of CET1 and Additional Tier 1 capital.

Our Basel III CET1 and Tier 1 capital were $21.2 billion and $24.6 billion, respectively, at October 31, 2013, up from the pro-forma estimates of $19.3 billion and $23.2 billion, respectively, at October 31, 2012. Basel III CET1 capital increased due to retained earnings growth, increases to accumulated other comprehensive income, the issuance of common shares through the Shareholder Dividend Reinvestment and Share Purchase Plan (DRIP) and the exercise of stock options, partially offset by the purchase and cancellation of shares under BMO's share repurchase program and payment of dividends. Pro-forma estimates of Basel III capital amounts and ratios have not been updated to reflect the Basel III rules set out in OSFI's Capital Adequacy Requirements Guideline released in December 2012. The increase in Tier 1 capital from the October 31, 2012 pro-forma estimate, was attributable to the growth in CET1 capital, partially offset by the redemption of preferred shares, as outlined below in the Capital Management Activities section.

Total capital includes Tier 1 and Tier 2 capital. Tier 2 capital is primarily comprised of subordinated debentures and a portion of the collective allowance for credit losses, less certain regulatory deductions. Basel III Total capital was $29.5 billion at October 31, 2013, up from the pro-forma estimate of $28.5 billion at October 31, 2012, attributable to the growth in Tier 1 capital mentioned above, partially offset by the phase-out of Tier 2 instruments that no longer qualify as capital under Basel III, as mentioned above and further explained below.

The Basel III **Common Equity Tier 1 Ratio** reflects Basel III CET1 capital divided by RWA.

The Basel III **Tier 1 Capital Ratio** reflects Basel III Tier 1 capital divided by RWA.

The Basel III **Total Capital Ratio** reflects Basel III Total capital divided by RWA.

The **Assets-to-Capital Multiple** reflects total assets, including specified off-balance sheet items net of other specified deductions, divided by Total capital, calculated on a transitional basis.

The **Leverage Ratio** is defined as Basel III Tier 1 capital divided by the sum of on-balance sheet items and specified off-balance sheet items, net of specified deductions. The BCBS has proposed that it be disclosed in 2015 and that it should be in effect in 2018.

Basel III Regulatory Capital ($ millions)

As at October 31	All-in 2013 (1)	Transitional 2013 (2)
Gross Common Equity (3)	**28,144**	**28,144**
Regulatory adjustments applied to Common Equity	**(6,917)**	**9**
Common Equity Tier 1 capital (CET1)	**21,227**	**28,153**
Additional Tier 1 eligible capital (4)	**3,781**	**3,781**
Regulatory adjustments applied to Tier 1	**(409)**	**(3,781)**
Additional Tier 1 capital (AT1)	**3,372**	**–**
Tier 1 capital (T1 = CET1 + AT1)	**24,599**	**28,153**
Tier 2 eligible capital (5)	**4,951**	**4,951**
Regulatory adjustments applied to Tier 2	**(50)**	**(13)**
Tier 2 capital (T2)	**4,901**	**4,938**
Total capital (TC = T1 + T2)	**29,500**	**33,091**

(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 will be phased out at a rate of 10% per year from January 1, 2013 to January 1, 2022.
(2) Transitional regulatory capital assumes that all Basel III regulatory capital adjustments are phased in from January 1, 2014, to January 1, 2018, and that the capital value of instruments that no longer qualify as regulatory capital under Basel III rules will be phased out at a rate of 10% per year from January 1, 2013 to January 1, 2022.
(3) Gross Common Equity includes issued qualifying common shares, retained earnings, accumulated other comprehensive income and eligible common share capital issued by subsidiaries.
(4) 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, that are subject to phase-out under Basel III.
(5) 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.

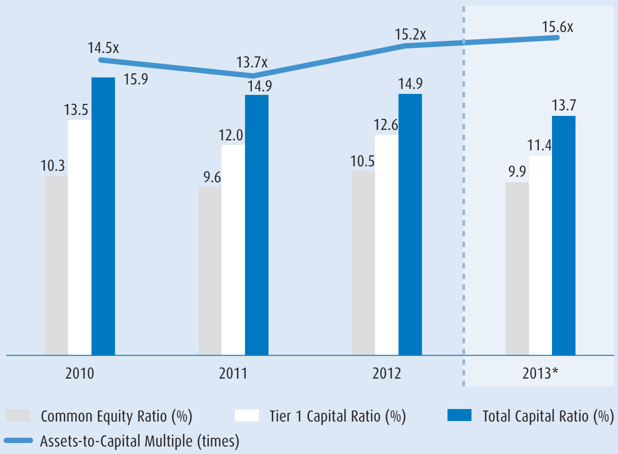
BMO's Basel III capital ratios are strong and exceed OSFI's requirements for large Canadian banks, including the 1% D-SIB CET1 capital buffer to be implemented in 2016, positioning us well as we continue to execute our growth strategy. Our Basel III CET1 Ratio was 9.9% at October 31, 2013, compared to a pro-forma estimate of 8.7% at October 31, 2012. The pro-forma estimate of our CET1 Ratio at October 31, 2012 reflected an estimate of the full Credit Valuation Adjustment (CVA) risk capital charge, implementation of which was subsequently delayed during 2013, and which is being phased in commencing in 2014 as explained below. The Basel III CET1 Ratio increased 120 basis points from the pro-forma estimate at the end of fiscal 2012 primarily due to higher CET1, as described above, but the delayed implementation of the CVA risk capital charge has increased our October 31, 2013 CET1 Ratio by approximately 30 basis points.

Our Basel III Tier 1 Capital Ratio and Total Capital Ratio were 11.4% and 13.7%, respectively, at October 31, 2013, compared to 10.5% and 12.9%, respectively, on a pro-forma basis at October 31, 2012. The Basel III Tier 1 Capital Ratio increased 90 basis points from the pro-forma estimate at the end of fiscal 2012 and the Basel III Total Capital Ratio was up 80 basis points, in both cases due primarily to higher CET1.

BMO's Assets-to-Capital Multiple, a leverage ratio monitored by OSFI, was 15.6 at October 31, 2013, up from 15.2 at October 31, 2012, on a pro-forma Basel III basis, primarily due to adjusted asset growth, partly offset by higher CET1. The multiple remains well below the maximum permitted by OSFI. OSFI has indicated that it intends to adopt the Basel III Leverage Ratio, which is scheduled for ongoing disclosure in 2015 and to become a required minimum ratio (currently proposed to be a 3% minimum requirement) in 2018. If the Basel III Leverage Ratio was in force at the end of Q4 2013, BMO expects that it would have a Leverage Ratio comfortably in excess of the 3% minimum requirement. As such, BMO plans to comply with the Basel III Leverage Ratio by continuing to manage its leverage in keeping with past practices.

BMO's investments in foreign operations are primarily denominated in U.S. dollars. As discussed in the Provision for Income Taxes section, foreign exchange gains or losses on the translation of the investments in foreign operations to Canadian dollars are reported in shareholders' equity, although they do not attract tax until realized. The combination of these foreign exchange gains and losses, along with the impact of foreign exchange fluctuations on U.S.-dollar-denominated RWA and on U.S.-dollar-denominated regulatory capital deductions, creates potential volatility in BMO's capital ratios. BMO may, as discussed in the Provision for Income Taxes section, partially hedge this foreign exchange risk by funding its foreign investments in U.S. dollars. Alternatively, to reduce the impact of foreign exchange rate changes on BMO's capital ratios, BMO may enter into derivatives that create an offset to such foreign exchange-driven volatility or elect to fund those U.S. dollar investments in Canadian dollars.

Capital Measures



*2013 based on Basel III; 2012 and prior based on Basel II.

BMO conducts business through a variety of corporate structures, including subsidiaries and joint ventures. All of our subsidiaries must meet the regulatory and legislative requirements of the jurisdictions in which they operate. A framework is in place to provide subsidiaries and their parent entities with access to capital and funding to support their ongoing operations under both normal and stressed conditions.

OSFI's Basel III capital rules include rules to implement the BCBS guidance on non-viability contingent capital (NVCC). The guidance stipulates that in order to qualify as regulatory capital, a bank's non-common share capital instruments must provide that they can be converted into CET1 in the event OSFI determines that it is non-viable and that either its rescue is in the public interest (in which case NVCC investors will bear losses before taxpayers) or conversion is reasonably likely to restore the bank to viability. All non-common instruments issued after December 31, 2012, must meet these NVCC requirements to qualify as regulatory capital.

OSFI's Basel III rules provide guidance on the treatment of non-common share capital instruments that do not meet Basel III requirements, including NVCC requirements. Instruments that do not meet Basel III requirements are subject to grandfathering provisions, requiring that they be phased out over a nine-year period that began on January 1, 2013, at which point their recognition as regulatory capital was capped at 90% of their total value as at that date. The cap reduces by one-tenth in each subsequent year. Under Basel III, BMO's existing preferred shares, innovative Tier 1 capital (BMO Capital Trust Securities and BMO Tier 1 Notes) and Tier 2 subordinated debt instruments do not qualify as regulatory capital and are being phased out as discussed above. OSFI's guidance also outlines the requirements for redemption of these regulatory capital instruments due to a regulatory capital event. BMO currently does not expect to redeem any outstanding regulatory capital instruments through a regulatory capital event.

A number of other potential regulatory changes are still pending. For example, OSFI may implement a "solo" capital framework that would assess a bank's stand-alone capital adequacy by reducing such bank's capital by the portion of its investments in subsidiaries that are not considered available to protect the parent bank creditors under exceptional circumstances. These changes could affect the amount of capital that we hold or are required to hold, or the attractiveness of certain investments in subsidiaries. We cannot forecast the timing or the consequences of such potential changes.

In addition, in 2014, certain other changes will impact our regulatory capital. In a letter dated August 21, 2013, OSFI advised banks that it will begin phasing in the CVA risk capital charge for Canadian banks in the first quarter of 2014. The CVA risk capital charge applicable to BMO's CET1 during fiscal 2014 will be 57% of the fully implemented charge, and this will increase each year until it reaches 100% by 2019. BMO estimates that its Basel III CET1 Ratio at October 31, 2013, would have been reduced by approximately 20 basis points if the CVA risk capital charge (at 57% of the fully implemented charge) for 2014 was in effect on such date.

As discussed in Note 1 on page 130 of the financial statements, effective November 1, 2013, BMO adopted International Accounting Standard 19R Employee Benefits. If we had adopted this standard for October 31, 2013, our Basel III CET1 Ratio at October 31, 2013, would have been reduced by less than 5 basis points.

Economic Capital Review

Economic capital is a measure of our internal assessment of the risks underlying BMO's business activities. It represents management's estimation of the likely magnitude of economic losses that could occur should adverse situations arise, and allows returns to be measured on a basis that considers the risks taken. Economic capital is calculated for various types of risk – credit, market (trading and non-trading), operational and business – based on a one-year time horizon. Economic capital is a key element of our risk-based capital management and ICAAP framework.

Economic Capital and RWA by Operating Group and Risk Type

As at October 31, 2013

BMO

Operating groups:	P&C Banking	Wealth Management	BMO Capital Markets	Corporate Services
Economic Capital by Risk Type				
Credit	80%	27%	50%	92%
Market	3%	33%	22%	3%
Operational/Other	17%	40%	28%	5%
RWA by Risk Type (Canadian $ in millions)				
Credit	$116,285	$7,856	$39,125	$16,023
Market	–	$593	$8,527	$34
Operational	$15,441	$4,018	$7,192	–

Capital Management Activities

On December 4, 2012, we announced our intention, and subsequently obtained the approval of OSFI and the Toronto Stock Exchange (TSX), to initiate a normal course issuer bid (NCIB) to purchase up to 15 million of BMO's common shares on the TSX for the purpose of cancellation. During fiscal 2013, we purchased 10.7 million shares under BMO's NCIB share repurchase program. The current NCIB is set to expire on January 31, 2014.

On December 3, 2013, BMO announced its intention, subject to the approval of OSFI and the Toronto Stock Exchange (TSX), to initiate a new NCIB for up to 15 million of its common shares, commencing on or about February 1, 2014, after the expiry of the current NCIB. Once approvals are obtained, the share repurchase program will permit BMO to purchase its common shares on the TSX for the purpose of cancellation. Maintaining a NCIB is part of BMO's capital management strategy. The timing and amount of any purchases under the program are subject to regulatory approvals and to management discretion based on factors such as market conditions and capital adequacy.

BMO issued 4.1 million shares during 2013 through the DRIP and the exercise of stock options. On February 25, 2013, we redeemed all of our $200 million Non-cumulative Class B Preferred shares, Series 5. On April 30, 2013, we redeemed all of the US$250 million Non-cumulative perpetual exchangeable Preferred shares, Series A issued by Harris Preferred Capital Corporation.

On July 22, 2013, we announced that we did not intend to exercise our right to redeem our $300 million Non-cumulative 5-Year rate reset Class B Preferred shares, Series 16 (Series 16 Preferred shares). As a result, the holders of the Series 16 Preferred shares had the right, at their option, to convert all or part of their Series 16 Preferred shares on a one-for-one basis into Non-cumulative Floating Rate Class B Preferred shares, Series 17 (Series 17 Preferred shares). As a result, approximately 6.3 million Series 16 Preferred shares and approximately 5.7 million Series 17 Preferred shares will be outstanding for the five-year period commencing on August 26, 2013.

Further details are provided in Notes 17, 18 and 20 on pages 160, 161 and 163 of the financial statements.

Outstanding Shares and Securities Convertible into Common Shares

As at November 27, 2013	Number of shares or dollar amount (in millions)	Dividends declared per share		
		2013	2012	2011
Common shares	644	**$2.94**	$2.82	$2.80
Class B Preferred shares				
Series 5 (1)	–	**–**	$1.33	$1.33
Series 13	$350	**$1.13**	$1.13	$1.13
Series 14	$250	**$1.31**	$1.31	$1.31
Series 15	$250	**$1.45**	$1.45	$1.45
Series 16 (2)	$157	**$1.19**	$1.30	$1.30
Series 17 (2)	$143	**$0.17**	–	–
Series 18	$150	**$1.63**	$1.63	$1.63
Series 21	$275	**$1.63**	$1.63	$1.63
Series 23	$400	**$1.35**	$1.35	$1.35
Series 25	$290	**$0.98**	$0.98	$0.69
Convertible into common shares:				
Class B Preferred shares				
Series 10 (3)	–	**–**	US$0.37	US$1.49
Stock options				
– vested	7.1			
– non-vested	7.7			

(1) Redeemed in February 2013.
(2) In August 2013, approximately 5.7 million Series 16 Preferred shares were converted into Series 17 Preferred shares on a one-for-one basis.
(3) Redeemed in February 2012.

Note 20 on page 163 of the financial statements includes details on share capital.

Dividends

Dividends declared per common share in fiscal 2013 totalled $2.94. Annual dividends declared represented 47% of net income and adjusted net income available to common shareholders on a last twelve months basis. Over the long term, BMO's dividends are generally increased in line with trends in earnings per share growth.

Our target dividend payout range (common share dividends as a percentage of net income available to shareholders, less preferred share dividends, based on adjusted earnings over the last twelve months) is 40-50%, which is consistent with our objective of maintaining flexibility to execute on our growth strategies and takes into consideration the higher capital expectations resulting from the Basel III rules. BMO's target dividend payout range seeks to provide shareholders with stable income, while ensuring sufficient earnings are retained to support anticipated business growth, fund strategic investments and provide continued support for depositors.

At year end, BMO's common shares provided a 4.0% annual dividend yield based on the year-end closing share price and dividends declared in the last four quarters. On December 3, 2013, BMO announced that the Board of Directors had declared a quarterly dividend on common shares of $0.76 per share, up $0.02 from the prior quarter and up $0.04 from a year ago. The dividend is payable on February 26, 2014 to shareholders of record on February 3, 2014.

Common shareholders may elect to have their cash dividends reinvested in common shares of BMO in accordance with the DRIP. In the first three quarters of 2013, common shareholders who elected to reinvest dividends in common shares of BMO were issued shares from treasury. Commencing with the dividend paid in the fourth quarter of 2013, common shares to supply the DRIP were purchased on the open market. BMO may elect to revert to treasury issuances at its discretion by providing notice to shareholders before the dividends are paid.

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.

Caution

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

Select Financial Instruments

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 of the FSB are located is provided on page 75.

Caution

Given continued uncertainty in the capital markets environment, our capital markets instruments could experience valuation gains and losses due to changes in market value. This section, Select Financial Instruments, contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements on page 29.

Consumer Loans

In the United States, mortgage loans and home equity products are underwritten to conservative standards relative to credit scores and loan to value ratios and capacity assessment is generally based upon documented and verifiable income. Non-traditional mortgage programs such as interest-only mortgages were discontinued at the onset of the recent economic downturn and account for less than 1% of the U.S. mortgage portfolio. Indirect lending (primarily auto loans) is also predicated upon strong underwriting criteria and leverages a well-managed dealer network across a diverse geographic footprint.

In Canada, BMO does not have any subprime mortgage programs, nor do we purchase subprime mortgage loans from third-party lenders.

Leveraged Finance

Leveraged finance loans are defined by BMO as loans to private equity businesses and mezzanine financings where our assessment indicates a higher level of credit risk. BMO has exposure to leveraged finance loans, which represent 1.2% of our total assets, with $6.5 billion outstanding at October 31, 2013, up approximately $0.7 billion from a year ago. Of this amount, $82 million or 1.3% of leveraged finance loans were classified as impaired ($152 million or 2.6% in 2012).

Monoline Insurers and Credit Derivative Product Companies

At October 31, 2013, BMO's direct exposure to companies that specialize in providing default protection was winding down and amounted to $10 million of the mark-to-market value of counterparty derivatives ($25 million in 2012). The cumulative adjustment for counterparty credit risk recorded against these exposures was $nil ($6 million in 2012).

Certain credit derivative product counterparty exposures are discussed further in the Exposure to Other Select Financial Instruments section.

BMO-Sponsored Securitization Vehicles

BMO sponsors various vehicles that fund assets originated by either BMO (through a bank securitization vehicle) or its customers (several Canadian customer securitization vehicles and one U.S. customer securitization vehicle). We earn fees for providing services related to the securitizations in the customer securitization vehicles, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicles. These fees totalled approximately $53 million in 2013 and $38 million in 2012.

Canadian Customer Securitization Vehicles

The customer securitization vehicles we sponsor in Canada provide our customers with access to financing either directly from BMO or in the asset-backed commercial paper (ABCP) markets. Customers sell their assets into these vehicles, which then issue ABCP to either investors or BMO to fund the purchases. In all cases, the sellers continue to service the transferred assets and are first to absorb any losses realized on the assets.

Our exposure to potential losses relates to our investment in ABCP issued by the vehicles, derivative contracts we have entered into with the vehicles and the liquidity support we provide to ABCP purchased by investors. We use our credit adjudication process in deciding whether to enter into these agreements just as we do when extending credit in the form of a loan.

Two of these customer securitization vehicles are funded in the market, while a third is funded directly by BMO. BMO consolidates the assets of the customer securitization vehicles that BMO is deemed to control. Further information on the consolidation of customer securitization vehicles is provided in Note 9 on page 145 of the financial statements. There were no mortgage loans with subprime or Alt-A characteristics held in any of the customer securitization vehicles at year end. No losses have been recorded on any of BMO's exposures to these vehicles.

BMO's investment in the ABCP of the market-funded vehicles totalled $13 million at October 31, 2013 ($20 million in 2012).

BMO provided liquidity support facilities to the market-funded vehicles totalling $3.9 billion at October 31, 2013 ($3.7 billion in 2012). This amount comprised part of other credit instruments outlined in Note 5 on page 141 of the financial statements. All of these facilities remain undrawn. The assets of each of these market-funded customer securitization vehicles consist primarily of diversified pools of Canadian automobile-related receivables and Canadian insured residential mortgages. These two asset classes represent 77% (83% in 2012) of the aggregate assets of these vehicles.

U.S. Customer Securitization Vehicle

We sponsor a U.S. ABCP multi-seller vehicle that we consolidate under IFRS. This customer securitization vehicle assists our customers with the securitization of their assets to provide them with alternative sources of funding. The vehicle provides funding to diversified pools of portfolios through 47 (57 in 2012) individual securitization transactions with an average facility size of US$94 million (US$73 million in 2012). The size of the pools ranged from US$2 million to US$500 million at October 31, 2013. There were no residential mortgages classified as subprime or Alt-A held in this ABCP multi-seller vehicle.

Approximately 49% of the vehicle's commitments have been rated by Moody's or S&P, and 52% of those are rated A or higher. The vehicle holds exposures secured by a variety of asset classes, including mid-market corporate loans, commercial real estate and auto loans.

The vehicle had US$3.4 billion of commercial paper outstanding at October 31, 2013 (US$3.1 billion in 2012). The ABCP of the vehicle is rated A1 by S&P and P1 by Moody's. BMO has not invested in the vehicle's ABCP. BMO provides committed liquidity support facilities to the vehicle, with the undrawn amount totalling US$4.5 billion at October 31, 2013 (US$4.1 billion in 2012).

Credit Protection Vehicle

We also sponsor Apex Trust (Apex), a Canadian special purpose vehicle that has exposure to tranches of diversified corporate credits, each of which has the benefit of first-loss protection. We consolidate Apex under IFRS. Seven tranches matured in 2013 without loss. The two remaining tranches have notional amounts totalling $7.8 billion and significant first-loss protection, ranging from 12% to 28% of the notional exposures, with a weighted average of 25%. The longest-dated tranche matures in 2016 and has first-loss protection of 28%. Approximately 65% of the corporate credits are rated investment grade. Apex has $1.4 billion of notes outstanding (Apex Notes), with $1.05 billion having an expected maturity date in the first quarter of 2014 and the remainder in 2016. BMO has hedged its exposure to its holdings of Apex Notes. BMO has entered into credit default swap contracts on the net notional positions in the structure with the swap counterparties and into offsetting swaps with Apex.

Given the level of first-loss protection supporting the tranches, the hedges in place on BMO's Apex Note holdings and the protection provided by third-party noteholders, BMO is extremely well protected from losses in relation to Apex.

Structured Investment Vehicle

In 2013, we provided senior funding through a loan facility to a London-managed BMO structured investment vehicle (SIV), Links Finance Corporation (Links). We consolidated the SIV under IFRS. Our exposure to potential losses in the SIV related to the loan facility that was put in place in order to fund the repayment of its senior notes and to allow for the orderly sale of its assets. In the third quarter of 2013, our loan facility was repaid in full. In the fourth quarter, all of the remaining assets of the SIV were sold. Links is currently in the process of being wound up.

Exposure to Other Select Financial Instruments, including Collateralized Debt Obligations (CDOs) and Collateralized Loan Obligations (CLOs)

BMO's trading and available-for-sale portfolios contain CLOs, all of which are in run-off mode. The underlying securities consist of a wide range of corporate assets. Unhedged exposures to CLOs totalled $278 million and had credit ratings of AA- to AAA at year end. Hedged CLO exposures of $571 million had a carrying value of $560 million at year end, with $11 million recoverable on associated hedges with a monoline insurer that is rated A3 by Moody's.

The portfolio also contains a credit default swap (CDS) transaction referencing CDO instruments where we do not hold the underlying derivative asset. The CDS protection outstanding is on a notional amount of $500 million, and had a carrying value of ($2) million at year end.

Select Geographic Exposures

BMO's geographic exposure is subject to a country risk management framework that incorporates economic and political assessments, and management of exposure within limits based on product, entity and the country of ultimate risk. We closely monitor our European exposure, and our risk management processes incorporate stress tests where appropriate to assess our potential risk. Our exposure to select countries of interest, as at October 31, 2013, is set out in the tables that follow, which summarize our exposure to Greece, Ireland, Italy, Portugal and Spain (GIIPS) along with a broader group of countries of interest in Europe where our gross exposure is greater than $500 million.

The first table outlines total gross and net portfolio exposures for lending, securities (inclusive of credit default swap (CDS) activity), repo-style transactions and derivatives. These totals are further broken down by counterparty type in Tables 20 to 22 on pages 119 and 120.

For greater clarity, BMO's CDS exposures in Europe are outlined separately in the second table that follows. As part of our credit risk management framework, purchased CDS risk is controlled through a regularly reviewed list of approved counterparties. The majority of CDS exposures are offsetting in nature, typically contain matched contractual terms and are attributable to legacy credit trading strategies that have been in run-off mode since 2008.

MD&A

European Exposure by Country and Counterparty (9) (Canadian $ in millions)

As at October 31, 2013	Lending (1)		Securities (2)		Repo-style transactions (3)		Derivatives (4)		Total	
Country	Commitments	Funded	Gross	Net	Gross	Net	Gross	Net	Gross	Net
GIIPS										
Greece	–	–	–	–	–	–	–	–	–	–
Ireland (5)	–	–	26	–	27	1	33	4	86	5
Italy	2	2	196	–	54	–	5	1	257	3
Portugal	–	–	130	–	–	–	–	–	130	–
Spain	77	77	125	–	–	–	7	1	209	78
Total – GIIPS (6)	**79**	**79**	**477**	**–**	**81**	**1**	**45**	**6**	**682**	**86**
Eurozone (excluding GIIPS)										
France	22	22	634	494	2,966	9	190	45	3,812	570
Germany	21	21	1,660	1,347	1,098	2	54	30	2,833	1,400
Netherlands	338	163	811	737	1,112	4	52	15	2,313	919
Other (7)	421	256	340	201	23	2	62	13	846	472
Total – Eurozone (excluding GIIPS) (8)	**802**	**462**	**3,445**	**2,779**	**5,199**	**17**	**358**	**103**	**9,804**	**3,361**
Rest of Europe										
Denmark	15	15	1,126	1,124	69	–	7	7	1,217	1,146
Norway	16	16	1,250	1,250	–	–	–	–	1,266	1,266
Sweden	121	64	280	276	111	–	1	–	513	340
Switzerland	546	163	48	–	330	7	3	19	927	189
United Kingdom	485	222	365	122	3,534	50	251	89	4,635	483
Other (7)	476	476	341	–	–	–	–	–	817	476
Total – Rest of Europe (8)	**1,659**	**956**	**3,410**	**2,772**	**4,044**	**57**	**262**	**115**	**9,375**	**3,900**
Total – All of Europe	**2,540**	**1,497**	**7,332**	**5,551**	**9,324**	**75**	**665**	**224**	**19,861**	**7,347**

As at October 31, 2012	Lending (1)		Securities (2)		Repo-style transactions (3)		Derivatives (4)		Total	
Country	Commitments	Funded	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Total – GIIPS	**116**	**69**	**500**	**–**	**242**	**8**	**69**	**6**	**927**	**83**
Total – Eurozone (excluding GIIPS)	**934**	**608**	**4,074**	**3,306**	**3,746**	**10**	**600**	**76**	**9,354**	**4,000**
Total – Rest of Europe	**1,167**	**916**	**3,711**	**2,771**	**3,986**	**15**	**468**	**126**	**9,332**	**3,828**
Total – All of Europe	**2,217**	**1,593**	**8,285**	**6,077**	**7,974**	**33**	**1,137**	**208**	**19,613**	**7,911**

Note: Further breakdown by country and counterparty is provided in Tables 20 to 22 on pages 119 to 120.

(1) Lending includes loans and trade finance. Amounts are net of write-offs and gross of specific allowances, both of which are not considered material.

(2) Securities includes cash products, insurance investments and traded credit. Gross traded credit includes only the long positions and excludes offsetting short positions.

(3) Repo-style transactions are all with bank counterparties.

(4) Derivatives amounts are marked-to-market, incorporating transaction netting and, for counterparties where a Credit Support Annex is in effect, collateral offsets. Derivative replacement risk net of collateral for all of Europe is approximately $3.0 billion as at October 31, 2013.

(5) Does not include Irish subsidiary reserves we are required to maintain with the Irish Central Bank of $86 million as at October 31, 2013.

(6) BMO's direct exposures to GIIPS are primarily to banks for trade finance and trading products. Net exposures remain modest at $86 million, with no unfunded commitments as at October 31, 2013.

(7) Includes countries with less than $500 million in gross exposure. Other Eurozone includes exposures to Austria, Belgium, Cyprus, Finland, Luxembourg, Slovakia and Slovenia. Other Rest of Europe includes exposures to Croatia, Czech Republic, Hungary, Iceland, Poland and Russian Federation.

(8) BMO's net direct exposure to the other Eurozone countries (the other 12 countries that share the common euro currency) as at October 31, 2013, totalled approximately $3.4 billion, of which 79% was to counterparties in countries with a rating of Aaa/AAA by both Moody's and S&P, with approximately 83% rated Aaa/AAA by one of the two rating agencies. Our net direct exposure to the rest of Europe totalled approximately $3.9 billion, of which 64% was to counterparties in countries with a Moody's/S&P rating of Aaa/AAA. A significant majority of our sovereign exposure consists of tradeable cash products, while exposure related to banks was comprised of trading instruments, short-term debt, derivative positions and letters of credit and guarantees.

(9) **Other exposures (including indirect exposures) not included in the tables as at October 31, 2013:**

- BMO also has exposure to entities in a number of European countries through our credit protection vehicle and U.S customer securitization vehicle. These exposures are not included in the tables due to the credit protection incorporated in their structures.
  - BMO has direct exposure to those credit structures, which in turn have exposures to loans or securities originated by entities in Europe. As noted on page 66 in the Credit Protection Vehicle section, this structure has first-loss protection and hedges are in place.
  - The notional exposure held in the credit protection vehicle to issuers in Greece, Italy and Spain represented 3.9%, of its total notional exposure. The credit protection vehicle had notional exposure to five of the other 12 countries that share the euro currency. This exposure represented 12% of total notional exposure, of which 87% was rated investment grade by both S&P and Moody's. The notional exposure to the rest of Europe was 14% of total notional exposure, with 77% rated investment grade by S&P (68% by Moody's). The vehicle benefits from significant risk loss protection and as a result residual credit risk is very low.
  - BMO has exposure to GIIPS and other European countries through our U.S. customer securitization vehicle, which has commitments that involve reliance on collateral of which 0.29% represents loans or securities originated by entities in Europe. At year end, exposure to Luxembourg was the largest component at 0.10%. Exposure to Spain was approximately 0.06%, and there was no exposure to Italy, Ireland, Greece or Portugal.
- BMO has exposure to European supranational institutions totalling $0.4 billion, predominantly in the form of tradeable cash products.
- BMO's indirect exposure to Europe in the form of euro-denominated collateral to support trading activity was €413 million in securities issued by entities in European countries, of which €3.5 million was held in securities related to GIIPS and €288 million was in French securities. In addition, €323 million of cash collateral was also held at October 31, 2013.
- Indirect exposure by way of guarantees from entities in European countries totalled $558.6 million, of which $5 million was exposure to GIIPS, $250.8 million to the other Eurozone countries and $302.8 million to the rest of Europe.

Credit Default Swaps by Country and Credit Quality (Canadian $ in millions)

As at October 31, 2013	Fair value							Notional						
	Purchased			Written				Purchased			Written			
Country	Investment grade	Non-Investment grade	Total	Investment grade	Non-Investment grade	Total	Total exposure	Investment grade	Non-Investment grade	Total	Investment grade	Non-Investment grade	Total	Total exposure
GIIPS														
Greece	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Ireland (5)	1	–	1	(1)	–	(1)	–	(24)	–	(24)	24	–	24	–
Italy	2	–	2	(2)	–	(2)	–	(188)	–	(188)	188	–	188	–
Portugal	8	–	8	(8)	–	(8)	–	(120)	–	(120)	120	–	120	–
Spain	1	–	1	(1)	–	(1)	–	(132)	–	(132)	132	–	132	–
Total – GIIPS	**12**	**–**	**12**	**(12)**	**–**	**(12)**	**–**	**(464)**	**–**	**(464)**	**464**	**–**	**464**	**–**
Eurozone (excluding GIIPS)														
France	(2)	–	(2)	1	–	1	(1)	(169)	–	(169)	140	–	140	(29)
Germany	(3)	–	(3)	2	–	2	(1)	(358)	–	(358)	332	–	332	(26)
Netherlands	–	–	–	–	–	–	–	(78)	–	(78)	59	14	73	(5)
Other (7)	(1)	–	(1)	1	–	1	–	(130)	–	(130)	130	–	130	–
Total – Eurozone (excluding GIIPS)	**(6)**	**–**	**(6)**	**4**	**–**	**4**	**(2)**	**(735)**	**–**	**(735)**	**661**	**14**	**675**	**(60)**
Rest of Europe														
Denmark	–	–	–	–	–	–	–	(2)	–	(2)	2	–	2	–
Norway	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Sweden	–	–	–	–	–	–	–	(4)	–	(4)	4	–	4	–
Switzerland	(3)	–	(3)	1	–	1	(2)	(286)	–	(286)	61	–	61	(225)
United Kingdom	–	–	–	2	–	2	2	(273)	–	(273)	245	14	259	(14)
Other (7)	–	–	–	(1)	–	(1)	(1)	(330)	–	(330)	322	7	329	(1)
Total – Rest of Europe	**(3)**	**–**	**(3)**	**2**	**–**	**2**	**(1)**	**(895)**	**–**	**(895)**	**634**	**21**	**655**	**(240)**
Total – All of Europe	**3**	**–**	**3**	**(6)**	**–**	**(6)**	**(3)**	**(2,094)**	**–**	**(2,094)**	**1,759**	**35**	**1,794**	**(300)**

As at October 31, 2012	Fair value					Notional						
	Purchased		Written			Purchased			Written			
Country	Investment grade	Non-Investment grade	Investment grade	Non-Investment grade	Total exposure	Investment grade	Non-Investment grade	Total	Investment grade	Non-Investment grade	Total	Total exposure
Total – GIIPS	**30**	**–**	**(31)**	**–**	**(1)**	**(517)**	**–**	**(517)**	**511**	**5**	**516**	**(1)**
Total – Eurozone (excluding GIIPS)	**(1)**	**–**	**1**	**–**	**–**	**(1,041)**	**–**	**(1,041)**	**998**	**13**	**1,011**	**(30)**
Total – Rest of Europe	**2**	**–**	**(1)**	**–**	**1**	**(1,273)**	**(25)**	**(1,298)**	**1,053**	**20**	**1,073**	**(225)**
Total – All of Europe	**31**	**–**	**(31)**	**–**	**–**	**(2,831)**	**(25)**	**(2,856)**	**2,562**	**38**	**2,600**	**(256)**

Refer to footnotes in the table above.

- All purchased and written exposures are with bank counterparties.
- 28% of purchased and 37% of written CDS exposure is subject to complete restructuring trigger events (full restructuring). Under the terms of these contracts, any restructuring event qualifies as a credit event and any bond with a maturity of up to 30 years is deliverable against the contract.
- 72% of purchased and 63% of written CDS exposure is subject to modified-modified restructuring trigger events. Under the terms of these contracts, restructuring agreements count as a credit event; however, the deliverable obligation against the contract is limited to maturities of up to 60 months for restructured obligations and 30 months for all other obligations.
- Table excludes $28 million of iTraxx CDS Index purchased protection. The index is comprised equally of 25 constituent names in the following regions: GIIPS (20%), Eurozone (excluding GIIPS) (44%) and rest of Europe (36%).

U.S. Regulatory Developments

On July 21, 2010, U.S. President Obama signed into law the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the Dodd-Frank Act). The Dodd-Frank Act is broad in scope and the reforms include heightened consumer protection, regulation of the over-the-counter derivatives markets, restrictions on proprietary trading and sponsorship of private investment funds by banks (referred to as the *Volcker Rule*), imposition of heightened prudential standards and broader application of leverage and risk-based capital requirements. The reforms also include greater supervision of systemically significant payment, clearing or settlement systems, restrictions on interchange fees, and the creation of a new financial stability oversight council of regulators with the objective of increasing stability by monitoring systemic risks posed by financial services companies and their activities. Many provisions of the Dodd-Frank Act continue to be subject to rulemaking and will take effect over several years, making it difficult to anticipate at this time the overall impact on BMO or the financial services industry as a whole. As rulemaking evolves, we are continually monitoring developments to ensure we are well-positioned to respond to and implement any required changes. We anticipate an increase in regulatory compliance costs, and will be focused on managing the complexity and breadth of the regulatory changes.

The Volcker Rule, which prohibits banking entities and their affiliates from certain proprietary trading and specified relationships with hedge funds and private equity funds, is currently in proposed form. The U.S. federal banking agencies, the Securities and Exchange Commission and the Commodity Futures Trading Commission have confirmed that banking entities have two years from July 21, 2012, to conform all of their activities and investments, or longer if the period is extended. Banking entities are expected to engage in good-faith planning efforts and work toward compliance during this period.

In addition, under the Dodd-Frank Act, most over-the-counter derivatives are now subject to a comprehensive regulatory regime. Certain derivatives are now required to be centrally cleared, traded on an exchange and are subject to reporting and business conduct requirements. Capital and margin requirements relating to derivatives are currently being considered by U.S. and international regulators.

The Consumer Financial Protection Bureau, which enforces U.S. federal consumer finance laws, has stated that it will closely scrutinize indirect auto lenders to focus on compliance, including with fair lending laws.

The Board of Governors of the Federal Reserve System (FRB) has issued for comment a proposed rulemaking (the Proposed Rule) that would implement the Dodd-Frank Act's enhanced prudential standards and early remediation requirements for the U.S. operations of non-U.S. banks, such as BMO. The Proposed Rule would establish new requirements relating to risk-based capital, leverage limits, liquidity standards, risk-management frameworks, concentration and credit exposure limits, resolution planning and credit exposure reporting.

The U.S. federal banking agencies have issued a proposal that would implement in the U.S. the Basel III liquidity coverage ratio (LCR). The LCR requires banking organizations to maintain high-quality liquid assets in an amount sufficient to withstand a standardized liquidity stress scenario. The proposed effective date is January 1, 2015, when a two-year phase-in period would commence. The proposal is subject to a public comment period that is scheduled to close January 31, 2014.

BMO is currently assessing and preparing for the impact of these proposed rules on its operations.

As a bank holding company with total consolidated assets of US$50 billion or more, our U.S. subsidiary BMO Financial Corp. (BFC) was subject to the Capital Plan Review (CapPR) rules and processes in fiscal 2013, under which BFC participated in an annual stress testing and capital planning exercise conducted by the FRB. BFC was required to demonstrate an ability to maintain a Tier 1 Common Ratio(1) of 5% or more and meet or exceed minimum required capital ratios, after considering its planned capital actions under a company-developed adverse scenario and a supervisory-prescribed severely adverse scenario. Pursuant to these requirements, BFC submitted a two-year capital plan to the FRB in January 2013. The FRB informed BFC in March 2013 that it did not object to the capital actions contained within BFC's 2013 capital plan. BFC's wholly owned principal banking subsidiary, BMO Harris Bank N.A. (BHB), was subject to similar capital planning requirements by the Office of the Comptroller of the Currency (OCC).

In fiscal 2014, BFC will be subject to the FRB's annual Comprehensive Capital Analysis and Review (CCAR) and mid-year Dodd-Frank Act (DFAST) stress testing rules and processes, while BHB will be subject to the OCC's DFAST annual and mid-year stress testing requirements. CCAR requirements are expected to be more stringent than CapPR, and will continue to require BFC to demonstrate an ability to meet the applicable minimum capital requirements, including a Basel I Tier 1 Common Ratio of 5% and the transitional U.S. Basel III Capital Ratio requirements in effect in 2015, including a 4.5% Common Equity Tier 1 Ratio[1]. Similar to the CapPR process, the capital plan BFC submits in January 2014 will be subject to supervisory review, and a decision on whether the planned capital actions contained in its 2014 capital plan are approved is expected by March 31, 2014; however, unlike the results of the CapPR process, the FRB will disclose its own CCAR stress test results for BFC under its supervisory adverse and severely adverse scenarios. In addition, BFC and BHB are also required to disclose the results of their testing under the supervisory scenarios in March 2014. Under the DFAST rules, BFC and BHB are required to execute mid-year company-run stress tests commencing in 2014. BFC and BHB are expected to develop baseline, adverse and severely adverse scenarios, submit the stress test results to the FRB and the OCC in July 2014, and disclose them in September 2014.

In July 2013, U.S. regulators finalized comprehensive changes to U.S. capital requirements by adopting the Basel III risk-based capital standards. The U.S. Basel III rules will be effective for BFC and BHB on January 1, 2015. BFC and BHB will be subject to the rules on U.S. Basel III capital and the standardized approach to risk-weighting assets, and have initiated activities to implement these rules. BFC and BHB are well-capitalized – they expect that their 2014 capital plan will meet the CCAR and DFAST requirements and are well-positioned to transition to the new U.S. Basel III capital requirements by January 2015.

(1) Tier 1 Common Ratio is defined as the ratio of Tier 1 Common Capital to total risk-weighted assets under U.S. Basel I rules, while the Common Equity Tier 1 Ratio is the equivalent ratio under U.S. Basel III rules.

Caution

This U.S. Regulatory Developments section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Off-Balance Sheet Arrangements

BMO enters into a number of off-balance sheet arrangements in the normal course of operations.

Credit Instruments

In order to meet the financial needs of our clients, we use a variety of off-balance sheet credit instruments. These include guarantees and standby letters of credit, which represent our obligation to make payments to third parties on behalf of a customer if the customer is unable to make the required payments or meet other contractual requirements. We also write documentary and commercial letters of credit, which represent our agreement to honour drafts presented by a third party upon completion of specified activities. Commitments to extend credit are off-balance sheet arrangements that represent our commitment to customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions.

There are a large number of credit instruments outstanding at any time. Our customers are broadly diversified and we do not anticipate events or conditions that would cause a significant number of our customers to fail to perform in accordance with the terms of the contracts. We use our credit adjudication process in deciding whether to enter into these arrangements, just as we do when extending credit in the form of a loan. We monitor off-balance sheet instruments to avoid undue concentrations in any geographic region or industry.

The maximum amount payable by BMO in relation to these credit instruments was approximately $90 billion at October 31, 2013 ($74 billion in 2012). However, this amount is not representative of our likely credit exposure or liquidity requirements for these instruments, as it does not take into account customer behaviour, which suggests that only a portion will utilize the facilities related to these instruments. It also does not take into account any amounts that could be recovered under recourse and collateralization provisions. Further information on these instruments can be found in Note 5 on page 141 of the financial statements.

For the credit commitments outlined in the preceding paragraphs, in the absence of an event that triggers a default, early termination by BMO may result in a breach of contract.

Special Purpose Entities (SPEs)

Our interests in SPEs are discussed primarily on page 66 in the BMO-Sponsored Securitization Vehicles and Structured Investment Vehicle sections and in Note 9 on page 145 of the financial statements. Under IFRS, we consolidate all of our SPEs and capital and funding trusts, except for certain Canadian customer securitization and structured finance vehicles.

Guarantees

Guarantees include contracts under which we may be required to make payments to a counterparty based on changes in the value of an asset, liability or equity security that the counterparty holds. Contracts under which we may be required to make payments if a third party does not perform according to the terms of a contract and contracts under which we provide indirect guarantees of indebtedness are also considered guarantees. In the normal course of business, we enter into a variety of guarantees, including standby letters of credit, backstop and other liquidity facilities and derivatives contracts or instruments (including, but not limited to, credit default swaps, as well as indemnification agreements).

The maximum amount payable by BMO in relation to these guarantees was $31 billion at October 31, 2013 ($40 billion in 2012). However, this amount is not representative of our likely exposure, as it does not take into account customer behaviour, which suggests that only a portion of the guarantees will require payment. It also does not take into account any amounts that could be recovered through recourse and collateral provisions.

For a more detailed discussion of these agreements, please see Note 7 on page 144 of the financial statements.

Critical Accounting Estimates

The most significant assets and liabilities for which we must make estimates include: allowance for credit losses; purchased loans; acquired deposits; financial instruments measured at fair value; consolidation of special purpose entities (SPEs); pension and other employee future benefits; impairment of securities; income taxes; goodwill and intangible assets; insurance-related liabilities; and contingent liabilities. We make judgments in assessing whether substantially all risks and rewards have been transferred in respect of transfers of financial assets and whether we control SPEs. These judgments are discussed in Notes 8 and 9, respectively, on page 145 of the financial statements. Note 29 on page 178 of the financial statements discusses the judgments made in determining the fair value of financial instruments. If actual results differ from the estimates, the impact would be recorded in future periods. We have established detailed policies and control procedures that are intended to ensure the judgments we make in determining the estimates are well controlled, independently reviewed and consistently applied from period to period. We believe that our estimates of the value of BMO's assets and liabilities are appropriate.

For a more detailed discussion of the use of estimates, please see Note 1 on page 130 of the financial statements.

Allowance for Credit Losses

One of our key performance measures is the provision for credit losses as a percentage of average net loans and acceptances. Over the past 10 years, for our Canadian peer group, the average annual ratio has ranged from a high of 0.90% in 2009 to a low of 0.10% in 2004.

This ratio varies with changes in the economy and credit conditions. If we were to apply these high and low ratios to average net loans and acceptances in 2013, our provision for credit losses would range from $2,395 million to $266 million. Our provision for credit losses in 2013 was $589 million.

Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of Credit and Counterparty Risk on page 82 as well as in Note 4 on page 137 of the financial statements.

Purchased Loans

Significant judgment and assumptions were applied to determine the fair value of the Marshall & Ilsley Corporation (M&I) loan portfolio. Loans were identified as either purchased performing loans or purchased credit impaired loans (PCI loans), both of which were recorded at fair value at the time of acquisition. The determination of fair value involved estimating the expected cash flows to be received and determining the discount rate to be applied to the cash flows from the loan portfolio. In determining the possible discount rates, we considered various factors, including our cost to raise funds in the current market, the risk premium associated with the loans and the cost to service the portfolios. PCI loans are those where the timely collection of principal and interest was no longer reasonably assured as at the date of acquisition. We regularly evaluate what we expect to collect on PCI loans. Changes in expected cash flows could result in the recognition of impairment or a recovery through the provision for credit losses. Assessing the timing and amount of cash flows requires significant management judgment regarding key assumptions, including the probability of default, severity of loss, timing of payment receipts and valuation of collateral. All of these factors are inherently subjective and can result in significant changes in the cash flow estimates over the term of a loan.

The purchased performing loans are subject to the credit review processes applied to loans we originate.

Acquired Deposits

M&I deposit liabilities were recorded at fair value at the date of acquisition. The determination of fair value involved estimating the expected cash flows to be paid and determining the discount rate to be applied to the cash flows. Estimating the timing and amount of cash flows requires significant management judgment regarding the likelihood of early redemption by us and the timing of withdrawal by the client. Discount rates were based on the prevailing rates we were paying on similar deposits at the date of acquisition.

Financial Instruments Measured at Fair Value

BMO records certain securities and derivatives at their fair value, and certain liabilities are designated at fair value. Fair value represents our estimate of the amount we would receive, or would have to pay in the case of a liability, in a current transaction between willing parties. We employ a fair value hierarchy to categorize the inputs we use in valuation techniques to measure fair value. The extent of our use of quoted market prices (Level 1), internal models using observable market information (Level 2) and internal models without observable market information (Level 3) in the valuation of securities, derivative assets and derivative liabilities as at October 31, 2013, as well as a sensitivity analysis of our Level 3 financial instruments, is disclosed in Note 29 on page 178 of the financial statements.

Valuation models use general assumptions and market data, and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. As a result, we incorporate certain adjustments when using internal models to establish fair values. These fair value adjustments take into account the estimated impact of credit risk, liquidity risk, administrative costs and other items including closeout costs. For example, the credit risk adjustment for derivative financial instruments incorporates credit risk into our determination of fair values by taking into account factors such as the counterparty's credit rating, the duration of the instrument and changes in credit spreads.

Valuation Product Control (VPC), a group independent of the trading lines of business, verifies the fair values at which financial instruments are recorded. For instruments that are valued using models, VPC identifies situations where valuation adjustments must be made to the model estimates to arrive at fair value.

The methodologies used for calculating these adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. Significant changes in methodologies are made only when we believe that the change will result in better estimates of fair value.

Valuation Adjustments ($ millions)

As at October 31	**2013**	2012
Credit risk	**49**	110
Liquidity risk	**48**	28
Administrative costs	**11**	11
Other	**3**	3
	111	152

Valuation adjustments made to model estimates to arrive at fair value were lower in 2013 than in 2012. The decrease in the adjustment for credit risk was primarily due to significantly higher swap rates in Canada and the United States, coupled with narrower relative credit spreads between our counterparties and BMO. The increase in liquidity risk was due to larger independent valuation adjustments from VPC.

Consolidation of Special Purpose Entities

In the normal course of business, BMO enters into arrangements with SPEs. We are required to consolidate SPEs if we determine that we control the SPEs.

We control the vehicle and therefore we consolidate its results when the activities of the SPE are being conducted on our behalf and we receive the benefits, when we have the decision-making power or we retain the residual or ownership risks related to the SPE or its assets.

Additional information concerning BMO's involvement with SPEs is included on page 66 as well as in Note 9 on page 145 of the financial statements.

Pension and Other Employee Future Benefits

Our pension and other employee future benefits expense is calculated by our independent actuaries using assumptions determined by management. If actual experience differs from the assumptions used, pension and other employee future benefits expense could increase or decrease in future years. The expected rate of return on plan assets is a management estimate that significantly affects the calculation of pension expense. Our expected rate of return on plan assets is determined using the plan's target asset allocation and estimated rates of return for each asset class. Estimated rates of return are based on expected returns from fixed-income securities, which take into consideration bond yields. An equity risk premium is then applied to estimate equity returns. Expected returns from other asset classes are established to reflect the risks of these asset classes relative to fixed-income and equity assets. The impact of changes in expected rates of return on plan assets is not significant for our other employee future benefits expense since only small amounts of assets are held in these plans.

Pension and other employee future benefits expense and obligations are also sensitive to changes in discount rates. We determine discount rates at each year end for our Canadian and U.S. plans using high-quality corporate bonds with terms matching the plans' specific cash flows.

Additional information regarding our accounting for pension and other employee future benefits, including a sensitivity analysis for key assumptions, is included in Note 23 on page 167 of the financial statements.

Impairment of Securities

We have investments in securities issued or guaranteed by Canadian, U.S. and other governments, corporate debt and equity securities, mortgage-backed securities and collateralized mortgage obligations, which are classified as either available-for-sale securities, held-to-maturity or other securities. We review held-to-maturity, available-for-sale and other securities at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if there is objective evidence that the estimated future cash flows will be reduced and the impact can be reliably measured. We consider evidence such as delinquency or default, bankruptcy, restructuring or the absence of an active market. The decision to record a write-down, its amount and the period in which it is recorded could change if management's assessment of those factors were different. We do not record impairment write-downs on debt securities when impairment is due to changes in market rates, if future contractual cash flows associated with the debt security are still expected to be recovered.

At the end of 2013, there were total unrealized losses of $96 million on securities for which cost exceeded fair value and an impairment write-down had not been recorded. Of this amount, $5 million related to securities for which cost had exceeded fair value for 12 months or more. These unrealized losses resulted from increases in market interest rates and not from deterioration in the creditworthiness of the issuer.

Additional information regarding our accounting for available-for-sale securities, held-to-maturity securities and other securities and the determination of fair value is included in Note 3 on page 134 of the financial statements.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in our Consolidated Statements of Income or Changes in Equity. In determining the provision for income taxes, we interpret tax legislation in a variety of jurisdictions and make assumptions about the expected timing of the reversal of deferred tax assets and liabilities. If our interpretations differ from those of tax authorities or if the timing of reversals is not as expected, our provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated.

Public discussions concerning U.S. legislation suggest that it is possible that corporate income tax rates may be reduced during BMO's fiscal year ending October 31, 2014. If corporate tax rates were to be reduced, this would result in a reduction of the deferred tax asset and a charge to the provision for income taxes. A 1% reduction in the U.S. federal corporate tax rate from 35% to 34% would result in a decrease in our deferred tax asset of approximately $60 million and a corresponding reduction in net income. As deferred tax assets are deducted from BMO's CET1 ratio or capitalized as a risk-weighted asset, any such decrease in deferred tax assets will wholly or partly offset the deterioration in our CET1 ratio which would otherwise result from such reduced net income. Any reduction in the U.S. federal corporate tax rate would be expected to increase net income from our U.S. operations in future periods.

Additional information regarding our accounting for income taxes is included in Note 24 on page 171 of the financial statements.

Goodwill and Intangible Assets

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value and the recoverable amount of each business unit to verify that the recoverable amount of the business unit is greater than its carrying value. If the carrying value were to exceed the recoverable amount of the business unit, a more detailed goodwill impairment assessment would have to be undertaken. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell was used to perform the impairment test in 2013 and 2012. In determining fair value less costs to sell, we employ a discounted cash flow model, consistent with that used when we acquire businesses. This model is dependent on assumptions related to revenue growth, discount rates, synergies achieved on acquisition and the availability of comparable acquisition data. Changes in each of these assumptions would affect the determination of fair value for each of the business units in a different manner. Management must exercise judgment and make assumptions in determining fair value, and differences in judgments and assumptions could affect the determination of fair value and any resulting impairment write-down. At October 31, 2013, the estimated fair value of each of our business units was greater than its carrying value.

Intangible assets are amortized to income on either a straight-line or an accelerated basis over a period not exceeding 15 years, depending on the nature of the asset. There are no intangible assets with indefinite lives. We test intangible assets for impairment when circumstances indicate the carrying value may not be recoverable. No such impairment was identified for the years ended October 31, 2013 and 2012. Additional information regarding the composition of goodwill and intangible assets is included in Note 13 on page 156 of the financial statements.

Insurance-Related Liabilities

Insurance claims and policy benefit liabilities represent current claims and estimates for future insurance policy benefits. Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method, which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and updated to reflect actual experience and market conditions. The most significant impact on the valuation of a liability results from a change in the assumption for future investment yields. Future investment yields may be sensitive to variations in reinvestment interest rates and accordingly may affect the valuation of policy benefit liabilities. If the assumed yield were to increase by one percentage point, net income would increase by approximately $81 million. A reduction of one percentage point would lower net income by approximately $66 million.

Contingent Liabilities

BMO and its subsidiaries are involved in various legal actions in the ordinary course of business.

Provisions are recorded at the best estimate of the amount required to settle the obligation related to these legal actions as at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Management and internal and external experts are involved in estimating any amounts required. The actual costs of resolving these claims may be substantially higher or lower than the amount of the provisions.

Additional information regarding provisions is provided in Note 28 on page 177 of the financial statements.

Caution

This Critical Accounting Estimates section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Changes in Accounting Policies in 2013

There were no changes in accounting policies in 2013.

Future Changes in Accounting Policies

BMO monitors the potential changes to IFRS proposed by the International Accounting Standards Board (IASB) and analyzes the effect that any such changes to the standards may have on BMO's financial reporting and accounting policies. New standards and amendments to existing standards that will be effective for BMO in the future are described in Note 1 on page 130 of the financial statements.

Transactions with Related Parties

In the ordinary course of business, we provide banking services to our key management personnel and their affiliated entities, joint ventures and equity-accounted investees on the same terms that we offer to our customers for those services. Key management personnel are defined as those persons having authority and responsibility for planning, directing and/or controlling the activities of an entity, being the directors and most senior executives of the bank.

Details of our investments in joint ventures and associates and the compensation of key management personnel are disclosed in Note 27 on page 177 of the financial statements. A select suite of customer loan and mortgage products is offered to our employees at rates normally made available to our preferred customers. We also offer employees a subsidy on annual credit card fees.

Management's Annual Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as at October 31, 2013, by Bank of Montreal's management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at October 31, 2013, our disclosure controls and procedures, as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, and in the United States by Rule 13a-15(e) under the *Securities Exchange Act of 1934* (the Exchange Act), are effective.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS and the requirements of the Securities and Exchange Commission (SEC) in the United States, as applicable. Management is responsible for establishing and maintaining adequate internal control over financial reporting for Bank of Montreal.

Bank of Montreal's internal control over financial reporting includes policies and procedures designed to provide reasonable assurance that: records are maintained in reasonable detail to accurately and fairly reflect the transactions and dispositions of the assets of Bank of Montreal; transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and the requirements of the SEC in the United States, as applicable; receipts and expenditures of Bank of Montreal are being made only in accordance with authorizations by management and directors of Bank of Montreal; and unauthorized acquisition, use or disposition of Bank of Montreal's assets that could have a material effect on the financial statements are prevented or detected in a timely manner.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Bank of Montreal's management, under the supervision of the CEO and the CFO, has evaluated the effectiveness of internal control over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework* (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that internal control over financial reporting was effective as at October 31, 2013.

The Committee of Sponsoring Organizations of the Treadway Commission recently released its updated *Internal Control – Integrated Framework* (2013 Framework). Bank of Montreal's management must apply the 2013 Framework to evaluate the effectiveness of the internal control over financial reporting in fiscal 2015. Management will evaluate the transition to the 2013 Framework in fiscal 2014.

Bank of Montreal's auditors, KPMG LLP (Shareholders' Auditors), an independent registered public accounting firm, has issued an audit report on our internal control over financial reporting. This audit report appears on page 123.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting in fiscal 2013 that have materially affected, or are reasonably likely to materially affect, the adequacy and effectiveness of our internal control over financial reporting.

Shareholders' Auditors' Services and Fees

Pre-Approval Policies and Procedures

As part of BMO Financial Group's corporate governance practices, the Board of Directors oversees the strict application of BMO's corporate policy limiting the services provided by the Shareholders' Auditors that are not related to their role as auditors. All services provided by the Shareholders' Auditors are pre-approved by the Audit and Conduct Review Committee as they arise, or through an annual pre-approval of amounts for specific types of services. All services comply with our Auditor Independence Policy, as well as professional standards and securities regulations governing auditor independence.

Shareholders' Auditors' Fees

Aggregate fees paid to the Shareholders' Auditors during the fiscal years ended October 31, 2013 and 2012 were as follows:

Fees ($ millions) (1)	**2013**	2012
Audit fees	**14.9**	15.8
Audit-related fees (2)	**1.5**	1.7
Tax fees	**–**	–
All other fees (3)	**1.0**	1.2
Total	**17.4**	18.7

(1) The classification of fees is based on applicable Canadian securities laws and U.S. Securities and Exchange Commission definitions.

(2) Audit-related fees for 2013 and 2012 relate to fees paid for accounting advice, specified procedures on our Proxy Circular and other specified procedures.

(3) All other fees for 2013 and 2012 relate primarily to fees paid for reviews of compliance with regulatory requirements for financial information and reports on internal controls over services provided by various BMO Financial Group businesses. They also include costs of translation services.

Enhanced Disclosure Task Force

On October 29, 2012, the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board published its first report, Enhancing the Risk Disclosures of Banks. We support the recommendations issued by EDTF for the provision of high-quality, transparent risk disclosures. Our 2012 Annual Report included certain of these disclosures required by the EDTF. We have enhanced our disclosures in the 2013 Annual Report and Q4 2013 Supplementary Financial Information in light of these recommendations, and we expect to make further enhancements to our disclosures in the future.

Disclosures related to EDTF recommendations are detailed below.

General

1 Present all risk-related information in the Annual Report, Supplementary Financial Information and Supplementary Regulatory Capital Disclosure, and provide an index for easy navigation.

Annual Report: Risk-related information is presented in the Enterprise-Wide Risk Management section on pages 77 to 99.

An index for the MD&A is provided on page 26. An index for the notes to the financial statements is provided on page 130.

Supplementary Financial Information: An index is provided in Supplementary Financial Information.

2 Define the bank's risk terminology and risk measures and present key parameters used.

Annual Report: Specific risk definitions and key parameters underpinning BMO's risk reporting are provided on pages 82 to 99.

A glossary of financial terms (including risk terminology) can be found on pages 190 to 191.

3 Discuss top and emerging risks for the bank.

Annual Report: BMO's top and emerging risks are discussed on pages 78 to 79.

4 Outline plans to meet new key regulatory ratios once the applicable rules are finalized.

Annual Report: We outline BMO's plans to meet new regulatory ratios on pages 63 (Leverage Ratio) and 94 (Net Stable Funding Ratio and Liquidity Coverage Ratio).

Risk Governance

5 Summarize the bank's risk management organization, processes, and key functions.

Annual Report: BMO's risk management organization, processes and key functions are summarized on pages 79 to 82.

6 Describe the bank's risk culture.

Annual Report: BMO's risk culture is described on pages 80 to 81.

7 Describe key risks that arise from the bank's business model and activities.

Annual Report: A diagram of BMO's risk exposure by operating segment is provided on page 64.

8 Describe the use of stress testing within the bank's risk governance and capital frameworks.

Annual Report: BMO's stress testing process is described on page 82.

Capital Adequacy and Risk-Weighted Assets (RWA)

9 Provide minimum Pillar 1 capital requirements.

Annual Report: Basel III Pillar 1 capital requirements are described on page 62.

Supplementary Financial Information: Basel III regulatory capital is disclosed on page 35.

10 Summarize information contained in the composition of capital templates adopted by the Basel Committee.

Annual Report: An abridged version of the Basel III Regulatory Capital template is provided on page 63.

Supplementary Financial Information: Basel III Pillar 3 disclosure is provided on pages 35 to 37. A Main Features template can be found on BMO's website at www.bmo.com under Investor Relations and Regulatory Filings.

11 Present a flow statement of movements in regulatory capital, including changes in Common Equity Tier 1, Additional Tier 1, and Tier 2 capital.

Supplementary Financial Information: Regulatory capital flow statement is provided on page 39.

12 Discuss capital planning within a more general discussion of management's strategic planning.

Annual Report: BMO's capital planning process is discussed under Capital Management Framework on page 61.

13 Provide granular information to explain how RWA relate to business activities.

Annual Report: A diagram of BMO's risk exposure, including RWA by operating segment, is provided on page 64.

14 Present a table showing the capital requirements for each method used for calculating RWA.

Annual Report: Regulatory capital requirement, as a percentage of RWA, is outlined on page 62.

Information about significant models used to determine RWA is provided on pages 97 to 98.

Supplementary Financial Information: A table showing RWA by model approaches and by risk type is provided on page 37.

15 Tabulate credit risk in the banking book for Basel asset classes.

Supplementary Financial Information: Wholesale and retail credit exposures by internal rating grades are provided on page 46.

16 Present a flow statement that reconciles movements in RWA by credit risk and market risk.

Supplementary Financial Information: RWA flow statements are provided on page 40.

17 Describe the bank's Basel validation and back-testing process.

Annual Report: BMO's Basel validation and back-testing process is described on pages 97 to 98 for credit risk and page 89 for market risk.

Supplementary Financial Information: A table showing Exposure at Default and RWA by model approaches and asset class is provided on page 37. A table showing estimated and actual loss parameters is provided on page 48.

Liquidity

18 Describe how the bank manages its potential liquidity needs and the liquidity reserve held to meet those needs.

Annual Report: BMO's potential liquidity needs and the liquidity reserve held to meet those needs are described on pages 93 to 94.

The composition of BMO's liquidity reserve is reflected in the unencumbered liquid asset positions in the Asset Encumbrance table on page 107.

Funding

19 Summarize encumbered and unencumbered assets in a table by balance sheet category.

Annual Report: An Asset Encumbrance table is provided on page 107.

Additional collateral requirement in the event of downgrades by rating agencies is disclosed in Note 10 on page 150 of the financial statements.

Supplementary Financial Information: The Asset Encumbrance table by currency is provided on page 34.

20 Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity.

Annual Report: A Contractual Maturity table is presented in Note 30 on pages 185 to 188 of the financial statements.

21 Discuss the bank's sources of funding and describe the bank's funding strategy.

Annual Report: BMO's sources of funding and funding strategy are described on pages 92 to 93.

A table showing the composition and maturity of wholesale funding is provided on page 93.

Market Risk

22 Provide a breakdown of balance sheet positions into trading and non-trading market risk measures.

Annual Report: A table linking balance sheet items to market risk measures is provided on page 88.

23 Provide qualitative and quantitative breakdowns of significant trading and non-trading market risk factors.

Annual Report: Trading market risk exposures are described and quantified on pages 87 to 90.

Structural market risk exposures are described and quantified on page 91.

24 Describe significant market risk measurement model validation procedures and back-testing and how these are used to enhance the parameters of the model.

Annual Report: Market risk measurement model validation procedures and back-testing are described on page 89 for trading market risk, and page 91 for structural market risk.

25 Describe the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures.

Annual Report: The use of stress testing, scenario analysis and stressed VaR for market risk management is described on pages 87 to 91.

Credit Risk

26 Provide information about the bank's credit risk profile.

Annual Report: Information about BMO's credit risk profile is provided on pages 84 to 85 and in Notes 4 and 6 on pages 137 to 141 and 142 to 144 of the financial statements, respectively.

27 Describe the bank's policies related to impaired loans and renegotiated loans.

Annual Report: Impaired and renegotiated loan policies are described in Note 4 on pages 138 and 140 of the financial statements.

28 Provide reconciliations of impaired loans and the allowance for credit losses.

Annual Report: Continuity schedules for gross impaired loans and allowance for credit losses are provided on page 85.

29 Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivative transactions.

Annual Report: Qualitative and quantitative disclosures on collateralization agreements for over-the-counter (OTC) derivatives are provided on page 86.

30 Provide a discussion of credit risk mitigation.

Annual Report: A discussion of BMO's collateral management is provided on page 84.

Other Risks

31 Describe other risks and discuss how each is identified, governed, measured and managed.

Annual Report: A diagram illustrating the risk governance process that supports BMO's risk culture is provided on page 79.

Other risks are discussed on pages 94 to 99.

32 Discuss publicly known risk events related to other risks, where material or potentially material loss events have occurred.

Annual Report: Other risks are discussed on pages 94 to 99.

Enterprise-Wide Risk Management

Surjit Rajpal
Chief Risk Officer
BMO Financial Group

As a diversified financial services company active in banking, investment, insurance and wealth management services, we are exposed to a variety of risks that are inherent in carrying out our business activities. As such, having a disciplined and integrated approach to managing risk is fundamental to the success of our operations. Our risk management framework seeks to provide appropriate and independent risk oversight across the enterprise and is essential to building competitive advantage and stability.

Strengths and Value Drivers

- Comprehensive and consistent risk frameworks that encompass all risks within the enterprise.
- Risk appetite statement and metrics that shape business strategies across the organization.
- Sustained cultural mindset of continuous improvement that drives greater consistency and efficiency in managing risk.

Challenges

- Heightened pace, volume and complexity of regulatory requirements and expectations.
- Prolonged low growth economic environment, coupled with low interest rates and marketplace uncertainty, requires greater vigilance in balancing risk and return.

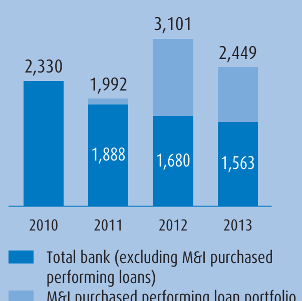
Priorities

- Continue to invest in key risk areas of stress testing and market risk.
- Streamline and simplify risk processes to drive greater effectiveness and efficiency.

2013 Accomplishments

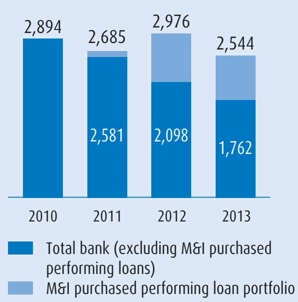
- Significantly reduced the level of our impaired assets by 15% year over year.
- Augmented our stress testing capabilities and integrated them into our strategic and business planning processes.
- Enhanced our operational risk capabilities in line with the Basel II Advanced Measurement Approach expectations.
- Continued to build out our Risk-IT infrastructure in line with regulatory expectations for improved risk data aggregation and reporting capabilities.

Gross Impaired Loan Formations ($ millions)



Level of new impaired formations was 21% lower year over year, reflecting decreases in both our consumer and commercial portfolios.

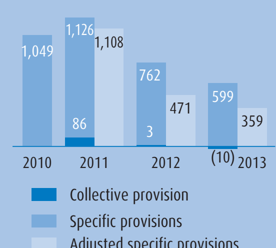
Gross Impaired Loan Balances* ($ millions)



Gross impaired loans were 15% lower year over year, reflecting lower levels in both Canada and the United States.

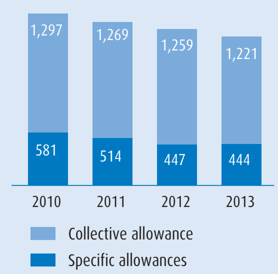
*Excludes purchased credit impaired loans.

Provision for Credit Losses ($ millions)



The total provision for credit losses was lower year over year, reflecting lower provisions across our consumer and commercial loan portfolios and all our operating groups.

Total Allowance for Credit Losses* ($ millions)



The total allowance for credit losses was stable year over year and remains adequate.

*Excludes allowances related to Other Credit Instruments.

Adjusted results in this Enterprise-Wide Risk Management section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Text and tables presented in a blue-tinted font in the Enterprise-Wide Risk Management section of the MD&A form an integral part of the 2013 annual consolidated financial statements. They present required disclosures as set out by the International Accounting Standards Board in IFRS 7, Financial Instruments – Disclosures, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 1 on page 130 and Note 6 on page 142 of the financial statements.

Overview

At BMO, we believe that risk management is every employee's responsibility. We are guided by five core principles that drive our entire approach to managing risk.

Approach to Risk Management

- Understand and manage.
- Protect our reputation.
- Diversify. Limit tail risk.
- Maintain strong capital and liquidity.
- Optimize risk return.

Our integrated and disciplined approach to risk management is fundamental to the success of our business. All elements of our risk management framework work together in facilitating prudent and measured risk-taking, while striking an appropriate balance between risk and return. Our Enterprise Risk and Portfolio Management (ERPM) group develops our risk appetite, risk policies and limits, and provides independent review and oversight across the enterprise on risk-related issues to achieve prudent and measured risk-taking that aligns with our business strategy.

Top and Emerging Risks

We are exposed to a variety of continually changing risks that have the potential to impact our business and financial condition. Therefore, an integral component of our risk management process is to proactively identify, assess, monitor and manage a broad spectrum of top and emerging risks. Our top and emerging risk identification process consists of a regular forum of discussion with senior risk leaders and from time to time with subject matter guest speakers, which is then followed by discussion with BMO's Risk Management Committee (RMC) and the Risk Review Committee of the Board of Directors (RRC). Our assessment of top and emerging risks then informs the monitoring, action plans and stress tests performed within BMO. This allows us to focus on current risks and also maintain a forward-looking view of potential risks.

In 2013, particular attention was given to the following top and emerging risks:

Challenges Linked to the Slow-Growth Economy

The prolonged slow-growth economic environment, combined with low interest rates and intense competition, including the continued growth of the shadow banking sector, creates obstacles to the achievement of our strategic objectives. Quantitative easing has suppressed interest rates and raised liquidity, leading to large flows of money into debt instruments, resulting in greater leverage, covenant-light structures and lower yields. This places pressure on our ability to generate an adequate return on equity while still operating within the parameters of our risk appetite.

We are actively focused on managing and mitigating this risk so that we are able to strike the appropriate balance between risk-taking and rewards in this slow-growth economic environment. The parameters of our enterprise-wide Risk Appetite Statement have been clearly articulated across our lines of business and are monitored on an ongoing basis. We continue to maintain prudent risk management practices, including close monitoring of all portfolios and underwriting commitments and we apply stringent approval processes for new products and services.

Further details can be found in our Risk Appetite and Risk Review and Approval sections on page 81.

Heightened Regulatory Requirements

Regulatory requirements have been increasing in intensity and may materially shift the prevailing business paradigm. Significant changes in laws and regulations relating to the financial services industry have been enacted. These regulatory reforms can impact our operations when they pose financial costs and strategic challenges and increase reputational risk. Financial costs result from increasing capital and liquidity requirements and through the cost of compliance in terms of infrastructure. Strategic challenges can arise in cases where non-compliance can hinder our ability to pursue strategic initiatives or prevent our involvement in certain business activities.

To minimize any potential business or financial impact of this risk, we continually stay abreast of evolving regulatory changes and monitor regulatory requirements to ensure that resources are prioritized appropriately and our views are expressed to regulators. We perform an impact analysis of capital and liquidity requirements on our business. Additionally, we are in the process of enhancing our compliance framework to better prepare our organization to handle ongoing and future compliance requirements.

Regulations and developments specific to the United States are discussed in the U.S. Regulatory Developments section on page 69.

Canadian Household Debt

High levels of household debt have left Canadians vulnerable to negative financial shocks, which can emanate from inside and outside the country. Changes to mortgage practices are slowing activity in the mortgage market and borrowers are increasingly opting for fixed-rate contracts.

We closely monitor and review this portfolio, applying prudent and consistent credit underwriting practices. We have also performed stress tests under various scenarios ranging from moderate to extreme. In an extreme scenario, with high unemployment rates, a significant decline in housing prices and a rapid increase in interest rates, BMO would have the ability to absorb and manage the related losses.

Further details of our Canadian residential mortgage portfolio can be found in the Real Estate Secured Lending section on page 84.

Eurozone Challenges

Despite the length of time that the Eurozone has been in the spotlight and the numerous interventions by various authorities to attempt to resolve the debt crisis and economic stagnation, there continues to be a potential risk of economic instability that could spread from peripheral to core Eurozone countries in the near future.

We are closely monitoring the geopolitical situation in Europe, including regular review of our direct and indirect European exposures. Our risk management processes incorporate stress tests to assess our potential risk, where appropriate. Our total net European exposure was $7.3 billion as at October 31, 2013 ($7.9 billion in 2012), of which the majority is to counterparties in countries that are well rated.

Further information on our direct and indirect European exposures is provided in the Select Geographic Exposures section on page 67.

U.S. Political Gridlock

The U.S. economy is continuing along its path of moderate growth, but the recovery has not yet fully taken hold and is vulnerable to stalling. The possibility of renewed political gridlock over the debt ceiling and budget has the potential to weaken the economy. These ongoing challenges have a negative effect on consumer, investor and business confidence, which contributes to slower growth and has broader impacts on other countries, such as Canada, that rely on the United States to play a leading role in the global recovery.

In light of the potential impact on our business, we continue to proactively monitor political developments in the United States. We continually assess our portfolio and business strategies, and contingency-plan for possible adverse developments.

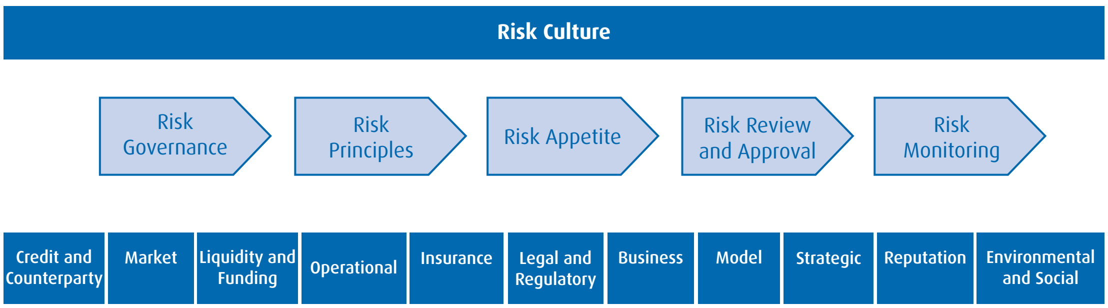
Information and Cyber Security Risk

Information security is integral to BMO's information management, brand and reputation. In recent years, information security risks for financial institutions like BMO have been increasing. Our operations include online and mobile financial services that feature the secure processing, transmission and storage of confidential information. Given our use of the internet and reliance on digital technologies, we face cyber security risks, which could include information security risk such as the threat of hacking, identity theft and corporate espionage, and denial of service risk such as threats targeted at causing system failure and service disruption. BMO maintains systems and procedures to prevent, monitor, react to and manage cyber security threats. It is possible that we, or those with whom we do business, may not anticipate or implement effective measures against all such security threats, because the techniques used change frequently and threats can originate from a wide variety of source that have also become increasingly sophisticated. In the event of such an occurrence, BMO may experience losses or reputational damage.

We exercise continued vigilance and proactive planning to detect and contain possible threats. We also have action plans in place to enhance the overall security of our infrastructure and capabilities to mitigate losses from these risks.

Further information on information security is provided in the Operational Risk section on page 94.

Framework and Risks



Our enterprise-wide risk management framework consists of our operating model and our risk governance structure, both of which are underpinned by our strong risk culture. Our robust framework provides for the management of each individual risk type: credit and counterparty, market, liquidity and funding, and operational. Other risk categories are also recognized within the framework, including insurance, legal and regulatory, business, model, strategic, reputation, and environmental and social.

Our framework is anchored in the three-lines-of-defence approach to managing risk, which is fundamental to our operating model, as follows:

- The **first line of defence** is the operating groups who own the risk in their operations. They are responsible for pursuing suitable business opportunities within our risk appetite. Each operating group must ensure that it is acting within its delegated risk-taking authority, as set out in our corporate risk policies and limits. Each of the groups has established effective processes and controls to ensure that they comply with and operate within these limits.
- The **second line of defence** is provided by ERPM along with other Corporate Support areas. These groups provide independent oversight and establish corporate risk management policies, infrastructure, processes and practices that address all significant risks across the enterprise; and
- The **third line of defence** is our Corporate Audit Division, which monitors the efficiency and effectiveness of controls across various functions within our operations, including control, risk management and governance processes that support the enterprise.

Risk Governance

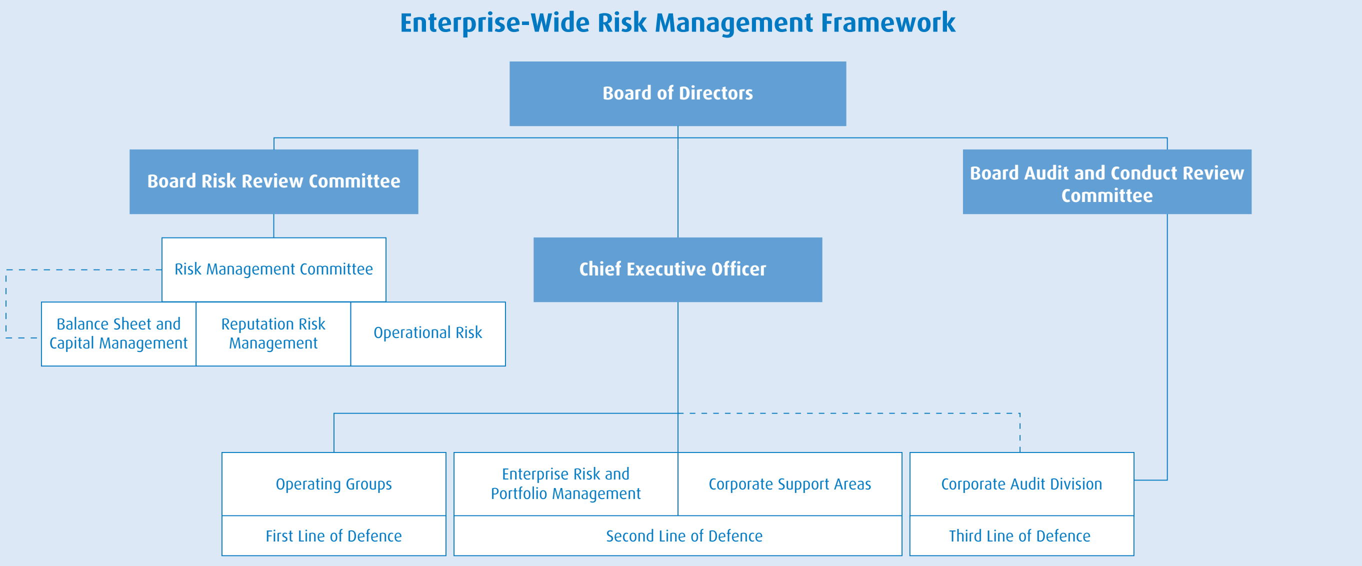
The foundation of our enterprise-wide risk management framework is a governance structure that includes a robust committee structure and a comprehensive set of corporate policies, which are approved by the Board of Directors or its committees, as well as supporting corporate standards and operating guidelines. This enterprise-wide risk management framework is governed through a hierarchy of committees and individual responsibilities as outlined in the diagram below.

Our risk management framework is reviewed on a regular basis by the RRC to provide guidance for the governance of our risk-taking activities. In each of our operating groups, management monitors governance activities, controls, and management processes and procedures. Management also oversees their effective operation within our overall risk management framework. Individual governance committees establish and monitor further risk management limits, consistent with and subordinate to the board-approved limits.

Limits and Authorities

Our risk limits are shaped by our risk principles and risk appetite, which also help to shape our business strategies and decisions. These limits are reviewed and approved by the Board of Directors and/or management committees and include:

- Credit and Counterparty Risk – limits on country, industry, portfolio/product segments, and group and single-name exposures;
- Market Risk – limits on economic value and earnings exposures to stress scenarios;
- Liquidity and Funding Risk – limits on minimum levels of liquid assets and maximum levels of asset pledging and wholesale funding, as well as guidelines approved by senior management related to liability diversification, financial condition, and credit and liquidity exposure appetite; and
- Insurance Risk – limits on policy exposure and reinsurance arrangements.



Board of Directors is responsible for the stewardship of BMO and protecting the interest of BMO's shareholders. The board, either directly or through its committees, is responsible for oversight in the following areas: strategic planning, defining risk appetite, identification and management of risk, capital management, promoting a culture of integrity, governance, internal controls, succession planning and evaluation of senior management, communication, public disclosure and corporate governance.

Risk Review Committee of the Board of Directors (RRC) assists the board in fulfilling its oversight responsibilities in relation to BMO's identification and management of risk, adherence to risk management corporate policies and procedures, compliance with risk-related regulatory requirements and evaluation of the Chief Risk Officer.

Audit and Conduct Review Committee of the Board of Directors assists the board in fulfilling its oversight responsibilities for the integrity of BMO's financial reporting, effectiveness of BMO's internal controls and performance of its internal and external audit functions.

Chief Executive Officer (CEO) is directly accountable to the board for all of BMO's risk-taking activities. The CEO is supported by the Risk Management Committee and its sub-committees, as well as ERPM.

Chief Risk Officer (CRO) reports directly to the CEO and is head of ERPM. The CRO is responsible for providing independent review and oversight of enterprise-wide risks and leadership on risk issues, developing and maintaining a risk management framework and fostering a strong risk culture across the enterprise.

Risk Management Committee (RMC) is BMO's senior risk committee. RMC reviews and discusses significant risk issues and action plans that arise in executing the enterprise-wide strategy. RMC provides risk oversight and governance at the highest levels of management. This committee is chaired by the CRO.

RMC Sub-committees have oversight responsibility for the risk and balance sheet impacts of management strategies, governance, risk measurement and contingency planning. RMC and its sub-committees provide oversight over the processes whereby the risks assumed across the enterprise are identified, measured, monitored and reported in accordance with policy guidelines and are held within delegated limits.

Enterprise Risk and Portfolio Management (ERPM) provides independent oversight of the credit and counterparty, operational and market risk functions. It promotes consistency of risk management practices and standards across the enterprise. ERPM facilitates a disciplined approach to risk-taking through the execution of independent transactional approval and portfolio management, policy formulation, risk reporting, stress testing, modelling, vetting and risk education responsibilities. This approach seeks to meet enterprise objectives and to ensure that risks assumed are consistent with BMO's risk appetite.

Operating Groups are responsible for managing risk within their respective areas. They exercise business judgment and seek to ensure that policies, processes and internal controls are in place and that significant risk issues are appropriately escalated to ERPM.

The Board of Directors, based on recommendations from the RRC and the RMC, delegates risk limits to the CEO. The CEO then delegates more specific authorities to the CRO, who in turn delegates them to the Operating Group CROs or the Treasurer in the case of structural market risk limits. These delegated authorities allow the officers to set risk tolerances, approve geographic and industry sector exposure limits within defined parameters, and establish underwriting and inventory limits for trading and investment banking activities. The authorities are reviewed and approved annually by the Board of Directors based on the recommendation of the RRC. The criteria whereby these authorities may be further delegated throughout the organization, as well as the requirements relating to documentation, communication and monitoring of delegated authorities, are set out in corporate policies and standards.

Risk Culture

At BMO, we believe that risk management is the responsibility of every employee within the organization. This key tenet shapes and influences our risk culture and is evident in the actions and behaviours of our employees and leaders as they identify, interpret, discuss and make choices and decisions between risk and opportunities. Our risk culture is deeply rooted and is evident in every aspect of how we run our enterprise, including within our policies, risk management frameworks, risk appetite and tolerances, capital management and compensation.

Our risk culture is built around a risk management system that encourages openness and builds confidence in how we engage stakeholders in key decisions and strategy discussions, thereby bringing rigour and discipline to decision-making. This not only leads to the timely identification, escalation and resolution of issues, but also encourages communication and understanding of the key risks faced by our organization, so that our employees are equipped to take action and make decisions in a coordinated and consistent manner. Also, our governance and leadership forums, committee structures and learning curriculums reinforce and inspire our risk culture.

Certain elements of our risk culture that are embedded across our organization include:

- **Risk appetite** – promotes an understanding of the most prevalent risks that our businesses face and facilitates alignment of business strategies within the limits of our risk appetite, leading to sound business decision-making.
- **Communication and escalation channels** – encourages information sharing and engagement between ERPM and the operating groups, leading to enhanced risk transparency and open and effective communication. We also foster and encourage a culture where concerns regarding potential or emerging risks are escalated to senior management so that they can be evaluated and appropriately addressed.
- **Compensation philosophy** – pay is aligned with prudent risk-taking to ensure that compensation does not encourage excessive risk-taking and rewards the appropriate use of capital.
- **Training and education** – programs are designed to foster a deep understanding of BMO's capital and risk management frameworks across the enterprise, providing employees and management with the tools and awareness required to fulfill their responsibilities for independent oversight regardless of their position in the organization. Our education strategy has been developed in partnership with BMO's Institute for Learning, our risk management professionals, external risk experts and teaching professionals.
- **Rotation programs** – two-way rotation system allows employees to transfer between ERPM and the operating groups, thereby effectively embedding our strong risk culture across the enterprise.

Risk Principles

Risk-taking and risk management activities across the enterprise are guided by the following principles:

- ERPM provides independent oversight of risk-taking activities across the organization;
- management of risk is a responsibility at all levels of the organization, employing the three-lines-of-defence approach;
- ERPM monitors our risk management framework to ensure that our risk profile is maintained within our established risk appetite and supported with adequate capital;
- all material risks to which the enterprise is exposed are identified, measured, managed, monitored and reported;
- decision-making is based on a clear understanding of risk, accompanied by robust metrics and analysis; and
- Economic Capital is used to measure and aggregate risk across all risk types and business activities to facilitate the incorporation of risk into the measurement of business returns.

Risk Appetite

Our Risk Appetite Framework consists of our Risk Appetite Statement, as well as supporting key risk metrics and corporate policies and standards, including limits. Our risk appetite defines the amount of risk that BMO is willing to assume in all risk types, given our guiding principles and capital capacity, thereby supporting sound business initiatives and growth. Our risk appetite is integrated into our strategic and capital planning processes and our lines of business. On an annual basis, senior management recommends our Risk Appetite Statement and key risk metrics for approval by the RMC and the RRC. Our Risk Appetite Statement is articulated and applied consistently across the enterprise. Among other things, our risk appetite requires:

- that everything we do is guided by principles of honesty, integrity and respect, as well as high ethical standards;
- only taking risks that are transparent, understood, measured, monitored and managed;
- maintaining strong capital and liquidity and funding positions that meet or exceed regulatory requirements and the expectations of the market;
- subjecting new products and initiatives to a rigorous review and approval process to ensure all key risks and returns are understood and can be managed with appropriate controls;
- maintaining a robust recovery and resolution framework that enables an effective and efficient response in an extreme crisis;
- targeting an investment grade credit rating at a level that allows competitive access to funding;
- limiting exposure to low-frequency, high-severity events that could jeopardize BMO's credit ratings, capital position or reputation;
- incorporating risk measures into our performance management system;
- maintaining effective policies, procedures, guidelines, compliance standards and controls, training and management that guide the business practices and risk-taking activities of all employees to protect BMO's reputation and adhere to all regulatory and legal obligations; and
- protecting the assets of BMO and BMO's clients by maintaining a system of strong operational risk controls.

Risk Review and Approval

Risk review and approval processes are established based on the nature, size and complexity of the risks involved. Generally, this involves a formal review and approval of various categories by either an individual or a committee, independent of the originator. Delegated authorities and approvals by category are outlined below.

Portfolio transactions – Transactions are approved through risk assessment processes for all types of transactions, which include operating group recommendations and ERPM approval of credit risk and transactional and position limits for market risk.

Structured transactions – New structured products and transactions with significant reputation, legal, accounting, regulatory or tax risk are reviewed by the Reputation Risk Management Committee or the Trading Products Risk Committee, as appropriate.

Investment initiatives – Documentation of risk assessments is formalized through our investment spending approval process, which is reviewed and approved by Corporate Support areas.

New products and services – Policies and procedures for the approval of new or modified products and services offered to our customers are reviewed and approved by Corporate Support areas, as well as other senior management committees, including the Operational Risk Committee and Reputation Risk Management Committee, as appropriate.

Risk Monitoring

Enterprise-level risk transparency and monitoring and the associated reporting are critical components of our framework and operating culture that help senior management, committees and the Board of Directors to effectively exercise their business management, risk management and oversight responsibilities. Internal reporting includes a synthesis of key risks and associated metrics that the organization currently faces. This reporting highlights our most significant risks, including assessments of our top and emerging risks, to provide senior management and the Board of Directors with timely, actionable and forward-looking risk reporting. This reporting includes material to facilitate assessments of these risks relative to our risk appetite and the relevant limits established within our Risk Appetite Framework.

On a regular basis, reporting on risk is also provided to stakeholders, including regulators, external rating agencies and our shareholders, as well as to others in the investment community.

Risk-Based Capital Assessment

Two measures of risk-based capital are used by BMO: Economic Capital and Regulatory Capital. Both are aggregate measures of the risk that we undertake in pursuit of our financial targets. Our operating model provides for the direct management of each type of risk, as well as the management of risks on an integrated basis. Economic Capital is our integrated internal measure of the risk underlying BMO's business activities. It represents management's estimate of the magnitude of economic losses that could occur should adverse situations arise, and allows returns to be measured on a basis that considers the risks taken. Economic Capital is calculated for various types of risk – credit, market (trading and non-trading), operational and other – where measures are based on a time horizon of one year. Measuring the economic profitability of transactions or portfolios incorporates a combination of both expected and unexpected losses to assess the extent and correlation of risk before authorizing new exposures. Economic Capital methods and model inputs are reviewed and/or re-calibrated on an annual basis, as applicable. Our Economic Capital models provide a forward-looking estimate of the difference between our maximum potential loss in economic (or market) value and our expected loss, measured over a specified time interval and using a defined confidence level. Both expected and unexpected loss measures for either a transaction or portfolio reflect current market conditions and credit quality. As the recovery continues these measures decrease, reflecting portfolio quality improvements, offset somewhat by increases due to growth.

Stress Testing

Stress testing is a key element of our risk and capital management frameworks. It is inherently linked to our risk appetite and informs our strategy, business planning and decision-making processes. We conduct stress testing to evaluate the potential effects of low-frequency, high-severity events on our balance sheet, earnings, and liquidity and capital positions.

Governance

Governance over the stress testing framework resides with senior management, including the Stress Testing Steering Committee. This committee is comprised of business, risk and finance executives and is accountable to RMC for the oversight of BMO's stress testing framework and for reviewing and challenging stress test results. As a part of the Internal Capital Adequacy Assessment Process, enterprise-wide scenarios and stress testing results are presented to senior management and the board, together with recommended actions that BMO could take to manage the impact of the stress event.

Enterprise Stress Testing

Enterprise stress testing supports our internal capital adequacy assessment and target-setting through the analysis of macroeconomic scenarios that are consistently executed by business, risk and finance groups. Scenario selection is a multi-step process that considers the macroeconomic environment, prevailing risk concerns, the potential impact of new or emerging risks on our risk profile, historical credit losses and areas of potential enterprise-specific vulnerability. Scenarios may be defined by senior management, the board or regulators. The Economics group then translates the scenario into macroeconomic and market variables, including but not limited to GDP growth, yield curve estimates, unemployment rates, housing starts, real estate prices, stock index growth and changes in corporate profits.

Our stress testing process employs a bottom-up approach. We model the impact of a forward-looking scenario on our material risks, income statement and balance sheet over a forecast horizon to test the resilience of our capital. Stress test results, including mitigating actions, are benchmarked and challenged by relevant business units and senior management, including the Stress Testing Steering Committee.

Ad Hoc Stress Testing

Through our stress testing framework, we embed stress testing in strategy, business planning and decision-making. Ad hoc stress testing is conducted regularly by our operating and risk groups to support risk identification, business analysis and strategic decision-making.

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. This is the most significant measurable risk that BMO faces.

Credit and counterparty risk exists in every lending activity that BMO enters into, as well as in the sale of treasury and other capital markets products, the holding of investment securities and securitization activities. BMO's robust credit risk management framework is aligned with the three-lines-of-defence approach to managing risk. As the first line of defence, operating groups are accountable for recommending credit decisions based on the completion of appropriate due diligence, and they assume ownership of the risk. As the second line of defence, ERPM approves credit decisions and is accountable for providing independent oversight of the risks assumed by the operating groups. All of these experienced and skilled individuals are subject to a rigorous lending qualification process and operate in a disciplined environment with clear delegation of decision-making authority, including individually delegated lending limits. Credit decision-making is conducted at the management level appropriate to the size and risk of each transaction in accordance with comprehensive corporate policies, standards and procedures governing the conduct of credit risk activities.

Credit risk is assessed and measured using risk-based parameters:

Exposure at Default (EAD) represents an estimate of the outstanding amount of a credit exposure at the time a default may occur. For off-balance sheet amounts and undrawn amounts, EAD includes an estimate of any further amounts that may be drawn at the time of default.

Loss Given Default (LGD) is the amount that may not be recovered in the event of a default, presented as a proportion of the exposure at default. LGD takes into consideration the amount and quality of any collateral held.

Probability of Default (PD) represents the likelihood that a credit obligation (loan) will not be repaid and will go into default. A PD is assigned to each account, based on the type of facility, the product type and customer characteristics. The credit history of the counterparty/portfolio and the nature of the exposure are taken into account in the determination of a PD.

Expected Loss (EL) is a measure representing the loss that is expected to occur in the normal course of business in a given period of time. EL is calculated as a function of EAD, LGD and PD.

Under Basel II, there are three approaches available for the measurement of credit risk: Standardized, Foundation Internal Ratings Based and

Advanced Internal Ratings Based (AIRB). Subject to a transitional floor based on the Standardized Approach, we apply the AIRB Approach for calculations of credit risk in our portfolios, including portfolios of our subsidiary BMO Bankcorp, Inc. (now part of BMO Financial Corp.). The Standardized Approach is currently being used in the acquired M&I portfolio, but activities to transition to the AIRB Approach are well underway.

Risk Rating Systems

BMO's risk rating systems are designed to assess and measure the risk of any exposure. The rating systems differ for the consumer and small business portfolios and the commercial and corporate portfolios.

Consumer and Small Business

The consumer and small business portfolios are made up of a diversified group of individual customer accounts and include residential mortgages, personal loans, and credit card and small business loans. These loans are managed in pools of homogeneous risk exposures. For these pools, credit risk models and decision support systems are developed using established statistical techniques and expert systems for underwriting and monitoring purposes. Adjudication models, behavioural scorecards, decision trees and expert knowledge are combined to produce optimal credit decisions in a centralized and automated environment. The characteristics of both the borrower and the credit obligation, along with past portfolio experience, are used to predict the credit performance of new accounts. These metrics are used to define the overall credit risk profile of the portfolio, predict future performance of existing accounts for ongoing credit risk management and determine both Economic Capital and Basel II and Basel III regulatory capital. In addition, our consumer and small business ratings framework is utilized in the collective allowance process to quantify losses incurred but not identified for the performing loan portfolio. Exposures are segmented into homogeneous pools based on account characteristics such as credit bureau score, delinquency history, loan-to-value (LTV) ratio and loan balance. PDs and other credit risk parameters are then assigned to each pool based on the characteristics of the pool and historical loss experience, and the incurred loss is quantified. In the specific allowance process, certain significant consumer loans are individually assessed for impairment and individually immaterial consumer loans are collectively assessed for impairment on a pooled basis, taking into account historical loss experience, PDs, delinquency status, bankruptcy status, product category and type of collateral pledged. The exposure of each pool is assigned risk parameters (PD, LGD and EAD) based on the performance of the pool, and these assignments are reviewed and updated monthly for changes. The PD risk profile of the AIRB Retail portfolio can be found on page 46 of the Supplementary Financial Information.

Commercial and Corporate

Within the commercial and corporate portfolios, we utilize an enterprise-wide risk rating framework that is applied to all of our sovereign, bank, corporate and commercial counterparties. This framework is consistent with the principles of Basel II and Basel III, under which minimum regulatory capital requirements for credit risk are determined. One key element of this framework is the assignment of appropriate borrower risk ratings to help quantify potential credit risk. BMO's risk rating framework establishes counterparty risk ratings using methodologies and rating criteria based on the specific risk characteristics of each counterparty. The resulting rating is then mapped to a PD over a one-year time horizon. As counterparties migrate between risk ratings, the PD associated with the counterparty changes. The commercial and corporate risk rating framework is utilized in the collective allowance process to quantify losses incurred but not identified for the performing loan portfolio. For performing commercial and corporate accounts, risk ratings are mapped to PDs based on historical long-run default experience for a given portfolio. Borrower risk ratings are assigned within this framework using methodologies and rating criteria based on the specific risk characteristics of each counterparty. As counterparties migrate between risk ratings, the associated PDs also change, which is reflected in the incurred loss calculation. In the specific allowance process, risk ratings are assigned to impaired exposures in the commercial and corporate portfolios; however, these risk ratings reflect whether or not a loan has been classified as impaired and not the PD, since objective evidence of impairment already exists. Specific allowances and the related provisions for credit losses are determined at the individual account level based on the expected recoverable amount.

As demonstrated in the table below, our internal risk rating system corresponds in a logical manner to those of the external rating agencies.

Borrower Risk Rating Scale

BMO rating	Description of risk	Moody's Investors Service implied equivalent	Standard & Poor's implied equivalent
Investment grade			
I-1 to I-3	Undoubted to minimal	Aaa to Aa3	AAA to AA-
I-4 to I-5	Modest	A1 to Baa1	A+ to BBB+
I-6 to I-7	Average	Baa2 to Baa3	BBB to BBB-
Non-investment grade			
S-1 to S-2	Acceptable	Ba1 to Ba2	BB+ to BB
S-3 to S-4	Marginal	Ba3 to B1	BB- to B+
Watchlist			
P-1	Deteriorating	B2	B
P-2 to P-3	Watchlist	B3 to Ca	B- to CC
Default and impaired			
D-1 to D-4	Default/default and impaired	C	D

Policies and Standards

BMO's credit risk management framework is built on governing principles defined in a series of corporate policies and standards, which flow through to more specific guidelines and procedures. These are reviewed on a regular basis to keep them current and consistent with BMO's risk appetite. The structure, limits, collateral requirements, ongoing management, monitoring and reporting of our credit exposures are all governed by these credit risk management principles.

Credit Risk Governance

The RRC has oversight of the management of all risks faced by the enterprise, including credit risk. Operating practices include the ongoing monitoring of credit risk exposures and regular portfolio and sector reporting to the board and to senior management committees. Performing accounts are reviewed on a regular basis, with most commercial and corporate accounts reviewed at least annually. The frequency of review is increased in accordance with the likelihood and size of potential credit losses, with deteriorating higher-risk situations referred to specialized account management groups for closer attention, when appropriate. Corporate Audit Division reviews and tests management processes and controls and samples credit transactions for adherence to credit terms and conditions, as well as to governing policies, standards and procedures. In addition, regular portfolio and sector reviews are carried out, including stress testing and scenario analysis based on current, emerging or prospective risks.

Portfolio Management

BMO's credit risk governance policies provide for an acceptable level of diversification. Limits are in place for several portfolio dimensions, including industry, country, product and single-name concentrations, as well as transaction-specific limits. At year end, our credit assets consisted of a well-diversified portfolio comprised of millions of clients, the majority of them consumers and small to medium-sized businesses.

BMO employs a number of measures to mitigate and manage credit risk. These measures include, but are not limited to, strong underwriting

Material in blue-tinted font above is an integral part of the 2013 annual consolidated financial statements (see page 77).

MD&A

standards, qualified professional risk managers, a robust monitoring and review process, the redistribution of exposures, and the purchase or sale of insurance through guarantees or credit default swaps.

Collateral Management

Collateral is used for credit risk mitigation purposes and minimizes losses that would otherwise be incurred. Depending on the type of borrower, the assets available and the structure and term of the credit obligations, collateral can take various forms. Investment grade liquid securities are regularly pledged in support of treasury counterparty facilities. For corporate and commercial borrowers, collateral can take the form of pledges of the assets of a business, such as accounts receivable, inventory, machinery and real estate, or personal assets pledged in support of guarantees. On an ongoing basis, collateral is subject to regular revaluation specific to asset type.

For loans, collateral values are initially established at the time of origination, and the frequency of revaluation is dependent on the type of collateral. For investor-owned commercial real estate, a full external appraisal of the property is obtained at the time of loan origination, except where the loan is below a specified threshold amount, in which case an internal evaluation and a site inspection are completed. Internal evaluation methods may consider tax assessments, purchase price, real estate listing or realtor opinion. The case for an updated appraisal is reviewed annually, with consideration given to the borrower risk rating, existing tenants and lease contracts, as well as current market conditions. In the event a loan is classified as impaired, depending on its size, a current external appraisal, evaluation or restricted use appraisal is obtained and updated every twelve months while the loan is classified as impaired. For residential real estate, an external property appraisal is routinely obtained at the time of loan origination. For high LTV ratio insured mortgages, BMO relies on acceptance by the insurer to confirm the property's value. In limited low LTV ratio circumstances, BMO may use an external service provided by Canada Mortgage and Housing Corporation to assist in determining if a full property appraisal is required. Full external appraisals are obtained for all loans held for sale in the secondary market (i.e., through securitization vehicles) regardless of the LTV ratio.

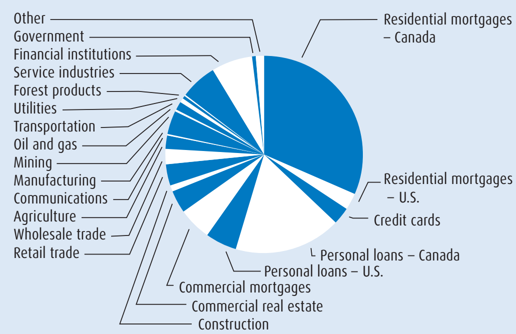
Credit Quality Information

Portfolio Review

Total enterprise-wide outstanding credit exposures were $508 billion at October 31, 2013, comprised of $323 billion in Canada, $156 billion in the United States and $29 billion in other jurisdictions. This represents an increase of $12 billion or 2% from the prior year.

BMO's loan book continues to be well diversified by industry and geographic region and, consistent with the prior year, the consumer portfolio represented the majority of loans. Gross loans and acceptances increased by $25 billion or 10% from the prior year to $281 billion at October 31, 2013. The geographic mix of our Canadian and U.S. portfolios was relatively unchanged from the prior year, and represented 72.9% and 24.5% of total loans, respectively, compared with 73.1% and 25.0% in 2012. The consumer loan portfolio represented 59.8% of the total portfolio, relatively unchanged from 60.0% in 2012, with approximately 88% of the portfolio secured in Canada and 97% in the United States. Corporate and commercial loans represented 40.2% of the total portfolio, relatively unchanged from 40.0% in 2012. The chart below provides a breakdown of our loan book by product and industry. Our loan portfolio is well-diversified by industry and we continue to proactively monitor industry sectors that we consider warrant closer attention, including Canadian consumer loans and U.S. real estate. Further details on our loan book, including detailed breakdowns by industry and geographic region, can be found in Tables 11 to 19 on pages 112 to 118 and in Note 6 on page 142 of the financial statements.

Gross Loans and Acceptances by Product and Industry
As at October 31, 2013



Details related to our credit exposures are discussed in Note 4, on page 137 of the financial statements. Our European exposure by country and counterparty is also summarized in the Select Geographic Exposures section on page 67 and in Tables 20 to 22 on pages 119 and 120.

Real Estate Secured Lending

Residential mortgage and home equity line of credit (HELOC) exposures are areas of interest in the current environment. BMO regularly performs stress testing on its residential mortgage and HELOC portfolios to evaluate the potential impact of high-impact events. These stress tests incorporate moderate to severe adverse scenarios. The credit losses forecast in these tests vary depending on the severity of the scenario and are considered to be manageable.

In 2012, new residential real estate lending rules were introduced for federally regulated lenders in Canada, including restrictions on LTV ratios for revolving HELOCs, on the waiver of confirmation of income and on debt service ratio maximums, as well as a maximum amortization of 25 years and a maximum home value of $1 million for high LTV ratio insured mortgages (LTV greater than 80%). The regulatory changes resulted in some adjustments to loan underwriting practices, including reducing the maximum LTV ratio on revolving HELOCs to 65% from the previous maximum of 80%.

Provision for Credit Losses (PCL)

Total PCL was $589 million in the current year, down 23% from $765 million in 2012. Detailed discussion of our PCL, including historical trends in PCL, is provided on page 42, on Table 19 on page 118 and in Note 4 on page 139 of the financial statements.

Gross Impaired Loans (GIL)

Total GIL, which excludes purchased credit impaired loans, decreased by $432 million or 15% from 2012 to $2,544 million in 2013 reflecting decreases in both Canada and the United States. This amount includes $928 million of GIL related to the purchased performing loan portfolio, of which $146 million is subject to a loss-sharing agreement with the Federal Deposit Insurance Corporation that expires in 2015 for commercial loans and 2020 for retail loans. GIL as a percentage of gross loans and acceptances also decreased over the prior year from 1.17% in 2012 to 0.91% in 2013.

Factors contributing to the change in GIL are outlined in the table below. Loans classified as impaired during the year, excluding the purchased performing loan portfolio, decreased from $1,680 million in 2012 to $1,563 million in 2013. Impaired loan formations related to the purchased performing loan portfolio were $886 million in 2013, down from $1,421 million in 2012. On a geographic basis, the United States

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accounted for the majority of impaired loan formations, comprising 64.0% of total formations in 2013, compared with 70.3% in 2012. Further details on the breakdown of impaired loans by geographic region and industry can be found on Table 15 on page 114 and in Note 4 on page 137 of the financial statements.

Changes in Gross Impaired Loans (GIL) and Acceptances (1)

($ millions, except as noted)

For the year ended October 31	2013	2012
GIL, beginning of year	**2,976**	2,685
Classified as impaired during the year	**2,449**	3,101
Transferred to not impaired during the year	**(728)**	(968)
Net repayments	**(1,058)**	(517)
Write-offs	**(939)**	(1,179)
Disposals of loans	**(343)**	(197)
Foreign exchange and other	**187**	51
GIL, end of year	**2,544**	2,976
Condition Ratios		
GIL as a % of gross loans and acceptances	**0.91**	1.17
GIL as a % of gross loans and acceptances, excluding purchased portfolios (2)	**0.61**	0.84

(1) GIL excludes purchased credit impaired loans.
(2) Ratio is presented excluding purchased portfolios, to provide for better historical comparisons.

Allowance for Credit Losses (ACL)

Across all loan portfolios, BMO employs a disciplined approach to provisioning and loan loss evaluation, with the prompt identification of problem loans being a key risk management objective. BMO maintains both specific and collective allowances for credit losses. Specific allowances reduce the aggregate carrying value of credit assets for which there is evidence of deterioration in credit quality. We also maintain a collective allowance in order to cover any impairment in the existing portfolio that cannot yet be associated with individually identified impaired loans. Our approach to establishing and maintaining the collective allowance is based on guidelines issued by our regulator, OSFI. For the purposes of calculating the collective allowance, we group loans on the basis of similar credit risk characteristics. Our methodology incorporates both quantitative and qualitative components to determine an appropriate level for the collective allowance. The quantitative component measures long-run expected losses based on PD and LGD risk parameters. For commercial and corporate loans, key factors that determine the incurred but not identified losses include the underlying risk rating of the borrower, industry sector, credit product and amount and quality of collateral held. For consumer and small business loans, exposures are pooled based on similar risk characteristics and the incurred loss parameters are determined from the long-run default and historical loss experience of each pool. The collective allowance is adjusted to reflect qualitative factors such as management's credit judgment with respect to current and near term macroeconomic and business conditions, portfolio-specific considerations, credit quality trends, changes in lending practices, model factors and the level of non-performing balances (impaired loans) for which a specific allowance has not yet been assessed. We review the collective allowance on a quarterly basis.

BMO maintains the allowance for credit losses at a level that we consider adequate to absorb credit-related losses. As at October 31, 2013, ACL was $1,970 million, comprised of $485 million of specific allowance and $1,485 million of collective allowance. This includes $41 million of specific allowance and $264 million of collective allowance related to undrawn commitments and letters of credit that are considered other credit instruments and recorded in other liabilities. Total ACL remained relatively stable year over year, increasing by $34 million or 2%. Our coverage ratios are trending positively with ACL as a percentage of GIL, including and excluding purchased portfolios, increasing year over year.

The collective allowance increased by $25 million from 2012 to $1,485 million in 2013. The collective allowance remains adequate and at year end represented 0.83% of credit risk-weighted assets, compared with 0.85% at the end of 2012.

Factors contributing to the change in ACL are outlined in the table below. Further details on changes in ACL by country and portfolio can be found in Tables 16 and 17 on page 116 and in Note 4 on page 137 of the financial statements.

Changes in Allowance for Credit Losses (1)

($ millions, except as noted)

For the year ended October 31	2013	2012
Specific ACL, beginning of year	**476**	559
Specific PCL (charge to income statement)	**599**	762
Recoveries of amounts written off in previous years	**772**	846
Write-offs	**(1,299)**	(1,594)
Foreign exchange and other	**(63)**	(97)
Specific ACL, end of year	**485**	476
Collective ACL, beginning of year	**1,460**	1,452
Collective PCL (charge to income statement)	**(10)**	3
Foreign exchange and other	**35**	5
Collective ACL, end of year	**1,485**	1,460
Total ACL	**1,970**	1,936
Comprised of: Loans	**1,665**	1,706
Specific allowance for other credit instruments	**41**	29
Collective allowance for other credit instruments	**264**	201
Coverage Ratios		
ACL as a % of GIL	**75.8**	64.1
ACL as a % of GIL, excluding purchased portfolios (2)	**108.2**	83.7

(1) Includes allowances related to other credit instruments that are included in other liabilities.
(2) Ratio is presented excluding purchased portfolios, to provide for better historical comparisons.

Derivative Transactions

With limited exceptions, we utilize the International Swaps and Derivatives Association (ISDA) Master Agreement to document our contractual trading relationships with our counterparties for over-the-counter (OTC) derivatives. ISDA Master Agreements set out the legal framework and standard terms that apply to all derivative transactions entered into bilaterally between the parties. In addition to providing Events of Default and Termination Events, which can lead to the early termination of transactions prior to their maturity date, ISDA Master Agreements also contain rules for the calculation and netting of termination values (also known as Close-out Amounts) for transactions between counterparties to identify a single net aggregate amount payable by one party to the other.

Credit Support Annexes (CSAs) are commonly included with ISDA Master Agreements to provide for the exchange of collateral between the parties where one party's OTC derivatives exposure to the other party exceeds an agreed amount (Threshold). The purpose of collateralization is to mitigate counterparty credit risk. Collateral can be exchanged as initial margin and/or variation margin. CSAs outline, among other things, provisions setting out acceptable collateral types (e.g., government treasuries and cash) and how they will be valued (discounts are often applied to the market values), as well as Thresholds, whether or not the collateral can be re-pledged by the recipient and how interest is calculated.

The following table represents the notional amounts of our OTC derivative contracts, comprised of those which are centrally cleared and settled through a designated clearing house and those which are non-centrally cleared. The notional amounts of our derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our Consolidated Balance Sheet. The fair values of OTC derivative contracts are recorded in our Consolidated Balance Sheet.

Over-the-Counter Derivatives (Notional amounts)

(Canadian $ in millions)	Non-centrally cleared		Centrally cleared		Total	
As at October 31	**2013**	2012	**2013**	2012	**2013**	2012
Interest Rate Contracts						
Swaps	**1,084,369**	1,563,766	**1,140,417**	401,410	**2,224,786**	1,965,176
Forward rate agreements	**52,137**	223,482	**347,614**	346,266	**399,751**	569,748
Purchased options	**18,283**	24,015	**–**	–	**18,283**	24,015
Written options	**23,020**	31,364	**–**	–	**23,020**	31,364
Total interest rate contracts	**1,177,809**	1,842,627	**1,488,031**	747,676	**2,665,840**	2,590,303
Foreign Exchange Contracts						
Cross-currency swaps	**44,834**	30,485	**–**	–	**44,834**	30,485
Cross-currency interest rate swaps	**255,337**	238,675	**–**	–	**255,337**	238,675
Forward foreign exchange contracts	**263,607**	217,345	**–**	–	**263,607**	217,345
Purchased options	**10,923**	8,682	**–**	–	**10,923**	8,682
Written options	**13,530**	10,588	**–**	–	**13,530**	10,588
Total foreign exchange contracts	**588,231**	505,775	**–**	–	**588,231**	505,775
Commodity Contracts						
Swaps	**15,122**	15,034	**–**	–	**15,122**	15,034
Purchased options	**8,081**	9,002	**–**	–	**8,081**	9,002
Written options	**4,285**	5,164	**–**	–	**4,285**	5,164
Total commodity contracts	**27,488**	29,200	**–**	–	**27,488**	29,200
Equity Contracts	**39,360**	30,000	**–**	–	**39,360**	30,000
Credit Default Swaps						
Purchased	**8,541**	11,682	**294**	–	**8,835**	11,682
Written	**13,072**	24,126	**216**	–	**13,288**	24,126
Total credit default swaps	**21,613**	35,808	**510**	–	**22,123**	35,808
Total	**1,854,501**	2,443,410	**1,488,541**	747,676	**3,343,042**	3,191,086

Market Risk

Market risk is the potential for adverse changes in the value of BMO's 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, as well as the risk of credit migration and default.

BMO incurs market risk in its trading and underwriting activities and structural banking activities.

As part of our enterprise-wide risk management framework, we apply extensive governance and management processes to our market risk-taking activities. These include:

- oversight by senior governance committees, including the Balance Sheet and Capital Management Committee, RMC and RRC;
- an Economic Capital process that incorporates market risk measures;
- independent valuation of trading positions and measurement of market risk;
- a broad set of policies and corporate standards;
- monitoring an extensive range of risk metrics as appropriate for the respective portfolios, including VaR, Stressed VaR, stress and scenario tests, risk sensitivities and operational metrics;
- a well-developed set of limits with appropriate monitoring, reporting and escalation of limit breaches; and
- a model risk management framework to control for model risk.

BMO's Market Risk group provides independent oversight of trading and underwriting portfolios with the goal of ensuring:

- market risk of our trading and underwriting activities is measured and modelled in compliance with corporate policies and standards;
- risk profiles of our trading and underwriting activities are maintained within our risk appetite, and are monitored and reported to traders, management, senior executives and board committees;
- proactive identification and reporting to management, senior executives and board committees of specific exposures or other factors that expose BMO to unusual, unexpected, inappropriate or otherwise not fully identified or quantified risks associated with market or traded credit exposures; and
- all individuals authorized to execute trading and underwriting activities on behalf of BMO are appropriately informed of BMO's risk-taking governance, authority structure and procedures and processes, and are given access to and guidance on the relevant corporate policies and standards.

BMO's Market Risk group also provides oversight of structural market risk, which is managed by BMO's Corporate Treasury group and described on page 91.

Key Trading and underwriting market risk measures include Value at Risk and Stressed Value at Risk, and key structural market risk measures include Earnings Sensitivity and Economic Value Sensitivity, as noted below.

Value at Risk (VaR) is measured for specific classes of risk in BMO's trading and underwriting activities: interest rate, foreign exchange rate, credit spreads, equity and commodity prices and their implied volatilities. This measure calculates the maximum loss likely to be experienced in the portfolios, measured at a 99% confidence level over a specified holding period.

Stressed Value at Risk (SVaR) is measured for specific classes of risk in BMO's trading and underwriting activities: interest rate, foreign exchange rate, credit spreads, equity and commodity prices and their implied volatilities, where model inputs are calibrated to historical data from a period of significant financial stress. This measure calculates the maximum loss likely to be experienced in the portfolios, measured at a 99% confidence level over a specified holding period.

Earnings Sensitivity is a measure of the impact of potential changes in interest rates on the projected 12-month after-tax net income of a portfolio of assets, liabilities and off-balance sheet positions in response to prescribed parallel interest rate movements.

Economic Value Sensitivity is a measure of the impact of potential changes in interest rates on the market value of a portfolio of assets, liabilities and off-balance sheet positions, in response to prescribed parallel interest rate movements.

Material in blue-tinted font above is an integral part of the 2013 annual consolidated financial statements (see page 77).

Linkages between Balance Sheet Items and Market Risk Disclosures ($ millions)

Below are parts of our consolidated balance sheet that are subject to market risk, showing balances that are mainly subject to traded risk and non-traded risk measurement techniques.

	Market risk measure						
	2013			2012			Main risk factors for non-traded risk balances
As at October 31	Total	Traded risk (1)	Non-traded risk (2)	Total	Traded risk (1)	Non-traded risk (2)	
Assets Subject to Market Risk							
Interest bearing deposits with banks	**6,518**	**1,511**	**5,007**	6,341	2,226	4,115	Interest rate
Securities							
Trading (3)(4)	**75,159**	**69,393**	**5,766**	70,109	62,599	7,510	Interest rate
Available for sale	**53,067**	**27,817**	**25,250**	56,382	31,029	25,353	Interest rate
Held to maturity	**6,032**	**–**	**6,032**	875	–	875	Interest rate
Other	**723**	**–**	**723**	958	–	958	Equity
Securities borrowed or purchased under resale agreements	**39,799**	**39,799**	**–**	47,011	47,011	–	Interest rate
Loans and acceptances (net of allowance for credit losses)	**279,095**	**–**	**279,095**	253,835	–	253,835	Interest rate, foreign exchange
Derivative instruments	**30,259**	**29,484**	**775**	48,071	46,575	1,496	Interest rate, foreign exchange
Other assets (4)	**8,971**	**828**	**8,143**	10,338	1,525	8,813	Interest rate
Liabilities Subject to Market Risk							
Deposits	**366,821**	**5,928**	**360,893**	323,702	4,301	319,401	Interest rate, foreign exchange
Derivative instruments	**31,974**	**31,184**	**790**	48,736	48,163	573	Interest rate, foreign exchange
Acceptances	**8,472**	**–**	**8,472**	8,019	–	8,019	Interest rate
Securities sold but not yet purchased	**22,446**	**22,446**	**–**	23,439	23,439	–	Interest rate
Securities lent or sold under repurchase agreements	**28,884**	**28,884**	**–**	39,737	39,737	–	Interest rate
Other liabilities (4)	**42,212**	**2,176**	**40,036**	46,596	3,981	42,615	Interest rate
Subordinated debt	**3,996**	**–**	**3,996**	4,093	–	4,093	Interest rate
Capital trust securities	**463**	**–**	**463**	462	–	462	Interest rate

(1) Includes BMO's balance sheet items subject to the trading and underwriting risk management framework.
(2) Includes BMO's balance sheet items subject to the structural balance sheet and insurance risk management framework.
(3) Includes securities designated at fair value through profit or loss.
(4) Includes balances relating to our insurance business.

Trading and Underwriting Market Risk

To capture the multi-dimensional aspects of market risk effectively, a number of metrics are used, including VaR, SVaR, stress testing, sensitivities, position concentrations, market and notional values and revenue losses.

VaR and stress testing are estimates of portfolio risk, but have limitations. Among the limitations of VaR is the assumption that all positions can be liquidated within the assigned one-day holding period (ten-day holding period for regulatory calculations), which may not be the case in illiquid market conditions, and that historical data can be used as a proxy to predict future market events. Generally, market liquidity horizons are reviewed for suitability and updated where appropriate for relevant risk metrics. Scenario analysis and probabilistic stress testing are performed daily to determine the impact of unusual and/or unexpected market changes on our portfolios. As well, historical and event stresses are tested on a weekly basis, including tests of scenarios such as the stock market crash of 1987 and the collapse of Lehman Brothers in 2008. *Ad hoc* analyses are run to examine our sensitivity to low-frequency, high-severity hypothetical scenarios. Scenarios are amended, added or deleted to better reflect changes in underlying market conditions. The results are reported to the lines of business, RMC and RRC on a regular basis. Stress testing is limited by the number of scenarios that can be run, and by the fact that not all downside scenarios can be predicted and effectively modelled. Neither VaR nor stress testing is viewed as a definitive predictor of the maximum amount of losses that could occur in any one day, because both measures are computed at prescribed confidence levels and their results could be exceeded in highly volatile market conditions. On a daily basis, exposures are aggregated by lines of business and risk type and monitored against delegated limit levels, and the results are reported to the appropriate stakeholders. BMO has a robust governance process in place to ensure adherence to delegated market risk limits. Amounts exceeding established limits are communicated to senior management on a timely basis for resolution and appropriate action.

Within the Market Risk group, the Valuation Product Control (VPC) group is responsible for independent valuation of all trading and available-for-sale portfolios within Capital Markets Trading Products and Corporate Treasury, to ensure that they are materially accurate by:

- developing and maintaining valuation adjustment policies and procedures in accordance with regulatory requirements and IFRS;
- establishing official rate sources for valuation of all portfolios; and
- providing an independent review of portfolios where trader prices are used for valuation. This would include instruments accounted for on a trading and AFS basis.

VPC processes include all OTC and exchange-traded instruments that are booked, including both trading and AFS securities.

Trader valuations are reviewed to determine whether they align with an independent assessment of the market value of the portfolio. If the valuation difference exceeds the prescribed tolerance threshold, a valuation adjustment is recorded in accordance with our accounting policy and regulatory requirements. Prior to the final month-end general ledger close, meetings are held between key stakeholders from the lines of business, Market Risk, Capital Markets Finance and the Chief Accountant's Group to review all valuation adjustments that are established by the Market Risk group.

The Valuation Steering Committee is BMO's senior management valuation committee. It meets at least quarterly to address the more challenging material valuation issues in BMO's portfolios and acts as a key forum for discussing positions categorized as Level 3 for financial reporting purposes and their inherent uncertainty.

Material in blue-tinted font above is an integral part of the 2013 annual consolidated financial statements (see page 77).

At a minimum, the following are considered when determining appropriate valuation adjustments: credit valuation adjustments, closeout costs, uncertainty, administrative costs, and liquidity and model risk. Also, a fair value hierarchy is used to categorize the inputs used in the valuation of securities, liabilities, derivative assets and derivative liabilities. Level 1 inputs consist of quoted market prices, Level 2 inputs consist of models that use observable market information and Level 3 inputs consist of models without observable market information. Details of Level 1, Level 2 and Level 3 fair value measurements can be found in Note 29 on page 178 of the financial statements.

Our models are used to determine market risk Economic Capital for each of our lines of business and to determine regulatory capital. For capital calculation purposes, longer holding periods and/or higher confidence levels are used than are employed in day-to-day risk management. Prior to use, models are subject to review under the Model Risk Corporate Standard by our Model Risk and Vetting group. The Model Risk Corporate Standard outlines minimum requirements for the identification, assessment, monitoring and management of models and model risk throughout the enterprise and is described on page 96.

We measure the market risk for trading and underwriting portfolios that meet regulatory criteria for trading book capital treatment using the Internal Models Approach. We also apply this approach in measuring the market risk for money market portfolios that are subject to AFS accounting rules under IFRS and are accorded banking book regulatory capital treatment. For trading and underwriting portfolios covered by the Internal Models Approach, VaR is computed using BMO's Trading Book VaR model. This is a Monte Carlo scenario simulation model, and its results are used for market risk management and reporting of exposures. The model computes one-day VaR results using a 99% confidence level and reflects the correlations between the different classes of market risk factors.

We use a variety of methods to verify the integrity of our risk models, including the application of back-testing against hypothetical losses. This process assumes there are no changes in the previous day's closing positions and then isolates the effects of each day's price movements against those closing positions. Models are validated by assessing how often the calculated hypothetical losses exceed the VaR measure over a defined period. This testing result is in line with regulatory-defined expectations and confirms the reliability of our models. The correlations and volatility data that underpin our models are updated monthly, so that VaR measures reflect current levels of volatility.

The total trading VaR decreased over the year due to reduced exposure in equity and credit risk factors, coupled with increased diversification. The total AFS VaR increase was the result of enhanced risk capture at the beginning of the year, additional assets and the impact of higher interest rates. Total trading SVaR increased modestly despite the benefit of increased diversification between risk factors. Model inputs for SVaR are calibrated to historical data from a period of significant financial stress, whereas model inputs for VaR are calibrated to data from a trailing one-year period.

Total Trading Value at Risk (VaR) Summary ($ millions)*

For the year ended October 31, 2013 (pre-tax Canadian equivalent)	Year-end	Average	High	Low	As at Oct. 31, 2012
Commodity VaR	**(0.4)**	**(0.6)**	**(1.0)**	**(0.2)**	(0.6)
Equity VaR	**(6.1)**	**(6.3)**	**(8.5)**	**(4.4)**	(6.6)
Foreign exchange VaR	**(0.5)**	**(1.6)**	**(4.4)**	**(0.1)**	(0.2)
Interest rate VaR	**(4.6)**	**(4.9)**	**(10.6)**	**(2.3)**	(4.5)
Credit VaR	**(5.0)**	**(5.4)**	**(9.4)**	**(4.1)**	(5.5)
Diversification	**7.5**	**9.3**	**nm**	**nm**	6.7
Total trading VaR	**(9.1)**	**(9.5)**	**(15.8)**	**(6.7)**	(10.7)
Total AFS VaR	**(10.1)**	**(11.0)**	**(14.5)**	**(7.2)**	(8.9)

Total Trading Stressed Value at Risk (SVaR) Summary

($ millions)* **

For the year ended October 31, 2013 (pre-tax Canadian equivalent)	Year-end	Average	High	Low	As at Oct. 31, 2012
Commodity SVaR	**(4.7)**	**(3.0)**	**(6.3)**	**(1.1)**	(2.1)
Equity SVaR	**(9.8)**	**(9.4)**	**(16.0)**	**(6.2)**	(10.5)
Foreign exchange SVaR	**(0.8)**	**(3.2)**	**(7.0)**	**(0.4)**	(0.3)
Interest rate SVaR	**(9.5)**	**(10.0)**	**(15.3)**	**(4.9)**	(11.4)
Credit SVaR	**(11.0)**	**(10.8)**	**(14.2)**	**(7.7)**	(9.3)
Diversification	**19.9**	**21.3**	**nm**	**nm**	18.9
Total trading SVaR	**(15.9)**	**(15.1)**	**(24.1)**	**(10.6)**	(14.7)

* The tables reflect updated first quarter 2013 metrics.
** Stressed VaR is produced weekly.
nm – not meaningful

MD&A

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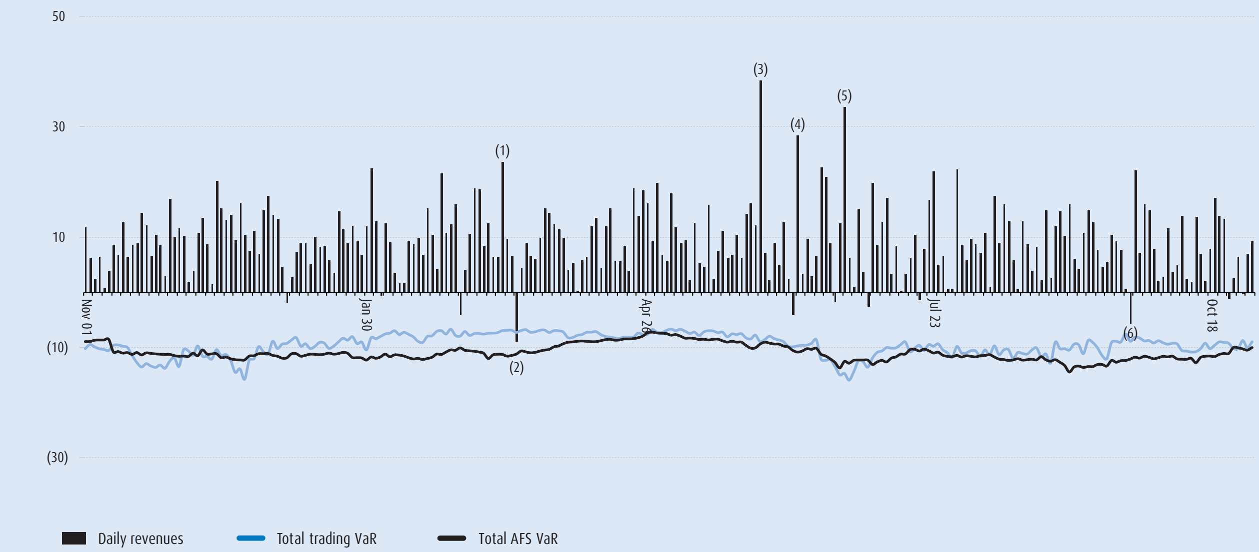
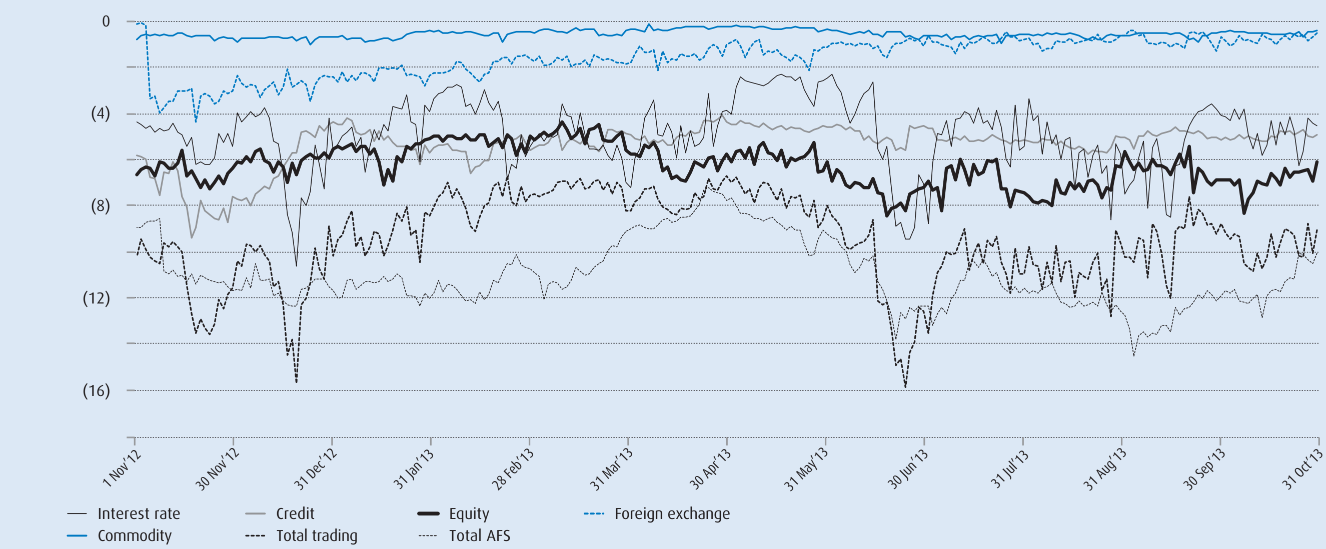
Trading Net Revenue versus Value at Risk
November 1, 2012 to October 31, 2013 ($ millions)

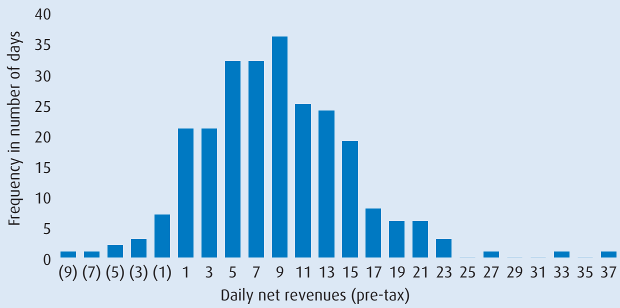


(1) March 13 – $23.5 million which primarily reflects normal trading activity.
(2) March 18 – $(8.9) million which primarily reflects credit valuation adjustments.
(3) May 31 – $38.3 million which primarily reflects normal trading activity and underwriting.
(4) June 12 – $28.3 million which primarily reflects normal trading activity.
(5) June 26 – $33.5 million which primarily reflects normal trading activity.
(6) September 24 – $(6.8) million which reflects normal trading activity and valuation adjustments.

VaR Risk Factors
November 1, 2012 to October 31, 2013 ($ millions)



Frequency Distribution of Daily Net Revenues
November 1, 2012 to October 31, 2013 ($ millions)



Structural Market Risk

Structural market risk is comprised of interest rate risk arising from our banking activities (loans and deposits) and foreign exchange risk arising from our foreign currency operations. Structural market risk is managed in support of high-quality earnings and maximization of sustainable product spreads. The RRC approves the market risk policy limits governing structural market risk and regularly reviews structural market risk positions. The Balance Sheet and Capital Management Committee and the RMC provide senior management oversight. BMO's Corporate Treasury group is responsible for the ongoing management of structural market risk across the enterprise, with independent oversight provided by the Market Risk group.

Structural interest rate risk arises primarily from interest rate mismatches and product embedded options. Interest rate mismatch risk results from differences in the scheduled maturity, repricing dates or reference rates of assets, liabilities and derivatives. Product embedded option risk results from product features that allow customers to alter scheduled maturity or repricing dates. Product embedded options include loan prepayment and deposit redemption privileges and committed rates on unadvanced mortgages. The net interest rate mismatch, representing residual assets funded by common shareholders' equity, is managed to a target duration, while product embedded options are managed to low risk levels. The net interest rate mismatch risk is primarily managed with interest rate swaps and securities. Product embedded option risk exposures are primarily managed through a dynamic hedging process or with purchased options.

Structural foreign exchange risk arises primarily from translation risk related to the net investment in our U.S. operations and from transaction risk associated with our U.S.-dollar-denominated net income.

Translation risk represents the impact changes in foreign exchange rates can have on BMO's reported shareholders' equity and capital ratios. When the Canadian dollar appreciates relative to the U.S. dollar, unrealized translation losses on our net investment in foreign operations, net of related hedging activities, are reported in other comprehensive income in shareholders' equity. In addition, the Canadian dollar equivalent of U.S.-dollar-denominated RWA decreases. The reverse is true when the Canadian dollar depreciates relative to the U.S. dollar. Consequently, we may hedge our net investment in foreign operations to ensure translation risk does not materially impact our capital ratios.

Transaction risk represents the impact on the Canadian dollar equivalent of BMO's U.S.-dollar-denominated results that fluctuations in the Canadian/U.S. dollar exchange rate may have. Exchange rate fluctuations will affect future results measured in Canadian dollars and the impact on those results is a function of the periods in which revenues, expenses and provisions for credit losses arise. Hedging transactions may be executed to partially offset the pre-tax effects of Canadian/U.S. dollar exchange rate fluctuations. If future results are consistent with results in 2013, each one cent increase (decrease) in the Canadian/U.S. dollar exchange rate would be expected to increase (decrease) adjusted net income before income taxes for the year by $15 million in the absence of hedging transactions.

We use a variety of metrics to measure and manage interest rate risk. These include simulations, sensitivity analysis, stress testing and gap analysis in addition to other traditional risk metrics. The interest rate gap position is disclosed in Note 19 on page 161 of the financial statements.

Structural interest rate sensitivity to an immediate parallel increase or decrease of 100 and 200 basis points in the yield curve is disclosed in the table below. This interest rate sensitivity analysis is performed and disclosed by many financial institutions and facilitates comparison with our peer group. Economic value interest rate sensitivity declined and earnings interest rate sensitivity increased from the prior year primarily due to higher short-term asset sensitivity. The asset-liability profile at the end of the year results in a structural earnings benefit from interest rate increases and structural earnings exposure to interest rate decreases.

Structural Balance Sheet Interest Rate Sensitivity (1) ($ millions)*

Canadian equivalent	As at October 31, 2013		As at October 31, 2012	
	Economic value sensitivity pre-tax	**12-month earnings sensitivity after tax**	Economic value sensitivity pre-tax	12-month earnings sensitivity after tax
100 basis point increase	**(503.1)**	**95.4**	(537.6)	20.1
100 basis point decrease	**340.1**	**(90.8)**	402.9	(74.6)
200 basis point increase	**(1,078.8)**	**158.1**	(1,223.1)	27.2
200 basis point decrease	**442.7**	**(113.7)**	783.6	(75.1)

* Exposures are in brackets and benefits are represented by positive amounts.

(1) Interest rate sensitivities associated with BMO's insurance businesses are not reflected in the table above. For our insurance businesses, a 100 basis point increase in interest rates results in an increase in earnings after tax of $81 million and an increase in economic value before tax of $335 million ($94 million and $560 million, respectively, at October 31, 2012). A 100 basis point decrease in interest rates results in a decrease in earnings after tax of $66 million and a decrease in economic value before tax of $399 million ($74 million and $634 million, respectively, at October 31, 2012). The change in interest rate sensitivities from the prior year reflects the growth in the insurance business, lower interest rates and changes in investment mix.

Models used to measure structural market risk project changes in interest rates and predict how customers would likely react to the changes. For customer loans and deposits with scheduled maturity and repricing dates (such as mortgages and term deposits), our models measure how customers are likely to use embedded options to alter those scheduled terms. For customer loans and deposits without scheduled maturity and repricing dates (such as credit card loans and chequing accounts), our models assume a maturity profile that considers historical and forecasted trends in changes in the balances due. These models have been developed using statistical analysis and are validated through regular model vetting, back-testing processes and ongoing dialogue with staff in the lines of business. Models used to predict customer behaviour are also used in support of product pricing and performance measurement. Stress testing is performed regularly to quantify the sensitivity of the structural market risk position to these behavioural assumptions.

Material in blue-tinted font above is an integral part of the 2013 annual consolidated financial statements (see page 77).

Liquidity and Funding Risk

Liquidity and funding risk is the potential for loss if BMO is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, investment and pledging commitments.

Management Framework Overview

Managing liquidity and funding risk is essential to maintaining the safety and soundness of the organization, depositor confidence and stability in earnings. It is BMO's policy to ensure that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress.

BMO's Liquidity and Funding Risk Management Framework is defined and managed under Board-approved corporate policies and management-approved standards. These policies and standards outline key management principles, liquidity and funding management metrics and related limits and guidelines, as well as roles and responsibilities for the management of liquidity and funding risk across the enterprise. BMO has robust limits and guidelines in place to manage liquidity and funding risk. These limits and guidelines establish the secured and unsecured funding appetite for both trading and structural activities, maturity concentration tolerances, counterparty liability diversification requirements and pledging activity. Guidelines are also established for the size and type of uncommitted and committed credit and liquidity facilities that may be outstanding to ensure liquidity and funding risk is appropriately managed. An enterprise-wide contingency plan that will facilitate effective management through a disruption is also in place. Early warning indicators identified in the contingency plan are regularly monitored to identify early signs of liquidity risk in the market or specific to BMO.

The RRC oversees liquidity and funding risk and annually approves applicable policies, limits and the contingency plan, and regularly reviews liquidity and funding positions. The RMC and Balance Sheet and Capital Management Committee provide senior management oversight and also review and discuss significant liquidity and funding policies, issues and action items that arise in the execution of our strategy. The Corporate Treasury group recommends the framework, risk appetite, limits and guidelines, monitors compliance with policy requirements and assesses the impact of market events on liquidity requirements on an ongoing basis.

BMO subsidiaries include regulated and foreign legal entities and branches, and therefore movements of funds between companies in the corporate group are subject to the liquidity, funding and capital adequacy considerations of the subsidiaries, as well as tax and regulatory considerations. As such, liquidity and funding positions are managed on both a consolidated and key legal entity basis. Liquidity and funding risk management policies and limits are in place for key legal entities that are informed by legal and regulatory requirements for each entity, and positions are regularly reviewed at the legal entity level to ensure compliance with applicable requirements.

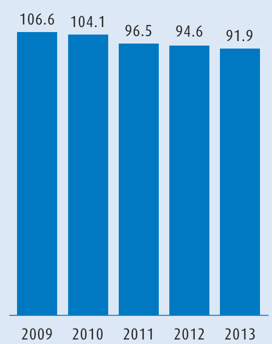
BMO employs fund transfer pricing and liquidity transfer pricing practices to ensure the appropriate economic signals are provided to the lines of business on the pricing of products for customers and to assess the performance of each business. These practices capture both the cost of funding assets and the value of deposits under normal operating conditions, as well as the cost of supplemental liquid assets held to support contingent liquidity requirements.

Funding Strategy

Our funding philosophy requires that secured and unsecured wholesale funding used to support loans and less liquid assets is 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) and is aligned with the liquidity of the assets being funded, subject to haircuts in order to reflect the potential for lower market values and liquidity during times of market stress, and subject to limits on aggregate maturities 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, along 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 include core deposits and larger retail and commercial fixed-rate customer deposits. Customer deposits totalled $220.3 billion at the end of the year, up from $203.5 billion in 2012. 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 totalled $43.3 billion as at October 31, 2013.

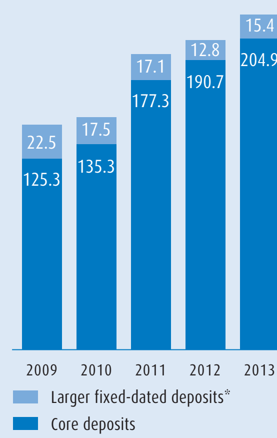
Customer Deposits-and-Capital-to-Total-Loans Ratio (%)



Our large customer base and strong capital position reduce our reliance on wholesale funding.

2010 and prior based on CGAAP.

Customer Deposits ($ billions)



Customer deposits provide a strong funding base.

*Excluding wholesale customer deposits.

Total wholesale funding outstanding, consisting of negotiable marketable securities, was $128.4 billion at October 31, 2013, with $32.7 billion sourced as secured funding and $95.7 billion sourced as unsecured funding. The mix and maturities of BMO's wholesale term funding are outlined in the table below. Additional information on deposit maturities can be found in Note 30 on page 185.

BMO maintains a sizeable portfolio of unencumbered liquid assets of $160.6 billion as of October 31, 2013, that can be monetized to meet potential funding requirements, as described in the Liquid Assets section below.

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

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a European Note Issuance Program, Canadian and U.S. Medium-Term Note Programs, Canadian and U.S. mortgage securitizations, Canadian credit card 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 incorporates expected maturities and stress testing results, asset and liability growth projected from our businesses through our forecasting and planning process, and assesses funding needs against available potential sources. The funding plan is regularly updated throughout the year to incorporate actual results and updated forecast information.

Wholesale Funding Maturities (1) ($ millions)

As at October 31, 2013	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	2 to 5 years	Over 5 years	Total
Unsecured (original term under 2 years)	12,093	24,435	8,998	8,725	54,251	394	–	–	54,645
Unsecured (original term 2 years or greater)	215	845	1,816	749	3,625	9,304	22,416	5,694	41,039
Total Unsecured (2)	12,308	25,280	10,814	9,474	57,876	9,698	22,416	5,694	95,684
Secured (original term 2 years or greater)									
Mortgage securitizations	712	1,409	945	318	3,384	2,445	7,552	4,754	18,135
Covered bonds	–	–	–	2,086	2,086	2,085	3,649	–	7,820
Credit card securitizations	500	–	–	–	500	–	3,763	–	4,263
FHLB* advances	–	–	–	–	–	–	2,477	–	2,477
Total Secured	1,212	1,409	945	2,404	5,970	4,530	17,441	4,754	32,695
Total	13,520	26,689	11,759	11,878	63,846	14,228	39,857	10,448	128,379

* Federal Home Loan Banks.

(1) Wholesale funding excludes repo transactions and bankers acceptances, which are disclosed in the contractual maturity table in Note 30 of the financial statements, and capital transactions, which are disclosed in Notes 17, 18 and 20 of the financial statements.

(2) Unsecured funding refers to funding through issuance of marketable, negotiable securities. Structured notes, which are predominantly retail in nature, are not included.

(3) Total wholesale funding consists of Canadian-dollar-denominated funds of $51.9 billion and $76.4 billion of funds denominated in U.S. dollars and other foreign currencies as at October 31, 2013.

Liquidity Risk Management

A key component of the liquidity risk framework is the measurement of liquidity and liquidity risk under stress. BMO uses the Net Liquidity Position (NLP) as a key measure of liquidity risk. The NLP represents the amount by which liquid assets exceed potential funding needs under a severe combined enterprise-specific and systemic stress scenario. Potential funding needs may arise from obligations to repay retail, commercial and wholesale deposits that are withdrawn or not renewed, fund drawdowns on available credit and liquidity lines, purchase collateral for pledging due to ratings downgrades or as a result of market volatility, as well as fund asset growth and strategic investments. Potential funding needs are quantified by applying factors to various business activities based on management's view of the relative liquidity risk of each activity. These factors vary depending on depositor classification (e.g., retail, small business, non-financial corporate and wholesale counterparties) and deposit type (e.g., insured, uninsured, operational and non-operational deposits) and by commitment type (e.g., uncommitted and committed credit or liquidity facilities by counterparty type). These funding needs are assessed under severely stressed systemic and enterprise-specific scenarios and a combination thereof. BMO targets to maintain a net liquidity position sufficient to withstand each scenario. Stress testing results are compared against BMO's stated risk tolerance, considered in management decisions on limit or guideline setting and internal liquidity transfer pricing, and help to shape the design of management plans and contingency plans. The liquidity and funding risk framework is also linked with enterprise-wide stress testing, including the Internal Capital Adequacy Assessment Process.

Liquid Assets

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. Liquid assets are primarily held in our trading businesses, and in supplemental liquidity pools that are maintained for contingent liquidity risk management purposes. The amount of liquidity recognized for different asset classes under our management framework is subject to reductions reflecting management's view of the liquidity value of those assets in a stress scenario. Liquid assets in the trading business include cash on deposit with central banks and short-term deposits with other financial institutions, highly-rated debt and equity securities and short-term reverse repurchase agreements. With the exception of certain equities, a large majority of trading assets qualify as liquid assets under Basel III. These equity holdings are largely hedged and can be liquidated in a crisis or if otherwise desired. Supplemental liquidity pool assets are predominantly comprised of cash on deposit with central banks and securities and short-term reverse repurchase agreements of highly rated Canadian federal and provincial and U.S. federal government and agency debt. Substantially all supplemental liquidity pool assets meet the definition of liquid assets under Basel III. Trading liquid assets are held in the parent bank, BMO Harris Bank and BMO's broker/dealer operations in Canada and internationally. Approximately 75% of the supplemental liquidity pool is held at the parent bank level in Canadian- and U.S.-dollar-denominated assets, with the residual supplemental liquidity pool contained in BMO Harris Bank in U.S.-dollar-denominated assets that may be subject to regulatory up-streaming restrictions. The size of the supplemental liquidity pool is calibrated to meet the potential funding needs outside of our trading businesses in each of the parent bank and BMO Harris Bank and achieve BMO's target NLP in each entity. To meet local regulatory requirements, certain of our legal entities maintain their own minimum liquidity positions that meet overall regulatory requirements. There may be legal and regulatory restrictions on our ability to use liquid assets in one legal entity to support liquidity requirements in another legal entity.

In the ordinary course of day-to-day activities, BMO may encumber a portion of cash and securities holdings as collateral to support trading activities and 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

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securities borrowed or purchased under resale agreements plus other off-balance sheet eligible collateral received less collateral encumbered, totalled $160.6 billion at October 31, 2013. BMO may also pledge other assets, including mortgages and loans, to raise long-term secured funding. As part of the Liquidity and Funding Risk Management Framework, a Pledging of Assets corporate policy is in place that sets out the framework and pledging limits for financial and non-financial assets.

See Table 5 on page 107 for more information on BMO's liquid assets, encumbered assets and net unencumbered assets. See Note 28 on page 177 of the financial statements for further information on pledged assets. BMO's cash and securities as a percentage of total assets were 31.2% at October 31, 2013, compared with 29.4% at October 31, 2012.

Regulatory Developments

In January 2012, the Basel Committee on Banking Supervision (BCBS) published final guidance on the LCR. The LCR is the ratio of the stock of high-quality liquid assets to stressed net cash outflows over a 30-day time period under a specified regulatory scenario. In addition to the LCR, the final guidance also sets out a suite of liquidity monitoring metrics (e.g., contractual maturity mismatch, concentration of funding, available unencumbered assets, LCR by significant currency and market-related monitoring tools) to aid supervisors in the assessment of the liquidity risk of an institution. Our expectation is that OSFI will provide guidance on the domestic implementation of these measures in 2014.

The Basel committee also has announced that they are working on finalizing the Net Stable Funding Ratio (NSFR). The NSFR is the ratio of the available amount of stable funding (one-year or greater) to the required amount of stable funding. Additional guidance on the measure is expected to be provided in 2014. BMO believes it is well positioned to meet these regulatory requirements.

Credit Ratings

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 the capital markets at competitive pricing levels. BMO's ratings are indicative of high-grade, high-quality issues. Should our credit ratings experience a material downgrade, our cost of funds 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 10 on page 147 of the financial statements.

As at October 31, 2013

Rating agency	Short-term debt	Senior long-term debt	Subordinated debt	Outlook
Moody's	P-1	Aa3	A3	Stable
S&P	A-1	A+	BBB+	Stable
Fitch	F1+	AA-	A+	Stable
DBRS	R-1 (high)	AA	AA (low)	Stable

Operational Risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk.

BMO is exposed to potential losses arising from a variety of operational risks, including process failure, theft and fraud, regulatory non-compliance, business disruption, information security breaches and exposure related to outsourcing, as well as damage to physical assets. Operational risk is inherent in all our business activities, including the processes and controls used to manage credit risk, market risk and all other risks we face. While operational risk can never be fully eliminated, it can be managed to reduce exposure to financial loss, reputational harm or regulatory sanctions.

The three-lines-of-defence operating model establishes appropriate accountability for operational risk management. The operating groups are responsible for the day-to-day management of operational risk in a manner consistent with our enterprise-wide principles. Independent risk management oversight is provided by operating group CROs, group Operational Risk Officers, Corporate Support areas and Enterprise Operational Risk Management. Operating group CROs and Operational Risk Officers independently assess group operational risk profiles, identify material exposures and potential weaknesses in controls, and recommend appropriate mitigation strategies and actions. Corporate Support areas develop the tools and processes to directly manage specialized operational risks across the organization. Enterprise Operational Risk Management establishes the Operational Risk Management Framework and the necessary governance framework.

Operational Risk Management Framework (ORMF)

The ORMF defines the processes we use to identify, measure, manage, mitigate, monitor and report key operational risk exposures. A primary objective of the ORMF is to ensure that our operational risk profile is consistent with our risk appetite and supported by adequate capital.

Executing our ORMF strategy also requires us to focus on change management and working to achieve a cultural shift toward greater awareness and understanding of operational risk through training, recruitment and retention of the best talent and through communication. The key programs, methodologies and processes we have developed to support the framework are highlighted below.

Governance

Operational risk management is governed by a robust committee structure supported by a comprehensive set of policies, standards and operating guidelines. The Operational Risk Committee (ORC), a sub-committee of the RMC, is the main decision-making committee for all operational risk management matters and has responsibility for the oversight of operational risk strategy, management and governance. ORC provides advice and guidance to the lines of business on operational risk assessments, measurement and mitigation, and related monitoring of change initiatives. ORC also oversees the development of policies, standards and operating guidelines that give effect to the governing principles of the ORMF. These governance documents incorporate industry best practices and are reviewed on a regular basis to ensure they are current and consistent with our risk appetite. We continue to enhance governance by increasing the number of Corporate Support areas that can provide additional oversight for specific operational sub-risks.

Risk and Control Assessment (RCA)

RCA is an established process used by our operating groups to identify the key risks associated with their businesses and the controls required for risk mitigation. The RCA process provides a forward-looking view of the impact of the business environment and internal controls on operating group risk profiles, enabling the proactive management, mitigation and prevention of risk. On an aggregate basis, RCA results also provide an enterprise-level view of operational risks relative to risk appetite, to ensure all key risks are adequately managed and mitigated.

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Process Risk Assessment (PRA)

The PRA provides a deeper focus on identifying key risks and controls in specific business processes. The PRA enables a greater understanding of our key processes to facilitate more effective oversight and to ensure risks are appropriately mitigated.

Key Risk Indicators (KRIs)

KRIs provide an early indication of any adverse changes in risk exposure. Operating groups and Corporate Support areas identify metrics related to their material risks. These KRIs are used to monitor operational risk profiles and their overall relation to our risk appetite and are linked to thresholds that trigger management action.

Event Data Collection and Analysis

Internal loss data serves as an important means of assessing our operational risk exposure and identifying opportunities for future risk prevention measures. Under this process, internal loss data is analyzed and benchmarked against external data. Material trends are regularly reported to the ORC, RMC and board RRC committees to ensure preventative and corrective action can be taken where appropriate. BMO is a member of the Operational Riskdata eXchange Association and the American Bankers Association, international and national associations of banks, respectively, that share loss data information anonymously to assist in risk identification, assessment and modelling.

Capital Quantification

BMO uses The Standardized Approach (TSA) to determine Basel II regulatory capital requirements for operational risk. We have implemented TSA processes and capital measures at both the consolidated enterprise and applicable legal entity levels. BMO has also developed a risk-sensitive capital model that is compliant with the Basel II Advanced Measurement Approach (AMA) requirements and can calculate AMA capital in parallel with TSA capital. BMO is currently moving ahead with its AMA application, consistent with regulatory guidelines and expectations.

Stress Testing and Scenario Analysis

Stress testing measures the potential impact of plausible operational, economic, market and credit events on our operations and capital. Scenario analysis provides management with a better understanding of low-frequency, high-severity events and assesses enterprise preparedness for events that could create risks that exceed our risk appetite. Under the AMA, we use scenario analysis for stress testing, to manage tail risk exposure to such events and to validate operational risk capital adequacy.

Reporting

Regular analysis and reporting of our enterprise operational risk profile to the ORC, RMC and RRC committees are important elements of our ORMF. A critical aspect of this reporting is the quality of our underlying sources and systems. Timely and comprehensive operational risk reporting enhances risk transparency and facilitates the proactive management of material and emerging operational risk exposures.

Training

BMO's operational risk management training program ensures employees are qualified and equipped to execute the ORMF strategy consistently, effectively and efficiently.

Business Continuity Management

Effective business continuity management ensures that we have the capability to sustain, manage and recover critical operations and processes in the event of a business disruption, thereby minimizing any adverse effects on our customers and other stakeholders.

Corporate Insurance Program

BMO's Corporate Risk & Insurance team provides a second level of mitigation for certain operational risk exposures. We purchase insurance in amounts that are expected to provide adequate protection against unexpected material loss and where insurance is required by law, regulation or contractual agreement.

MD&A

Insurance Risk

Insurance risk is the risk of loss due to actual experience being different from that assumed when an insurance product was designed and priced. It generally entails inherent unpredictability that can arise from assuming long-term policy liabilities or from the uncertainty of future events. Insurance risk exists in all our insurance products, including annuities and life, accident and sickness, and creditor insurance, as well as in our reinsurance business.

Insurance risk consists of:

- Claims risk – The risk that the actual magnitude or frequency of claims will differ from the levels assumed in the pricing or underwriting process, including risks such as mortality risk, morbidity risk, longevity risk and catastrophe risk;
- Policyholder behaviour risk – The risk that the behaviour of policyholders relating to premium payments, withdrawals or loans, policy lapses and surrenders and other voluntary terminations will differ from the behaviour assumed in the pricing calculations; and
- Expense risk – The risk that actual expenses associated with acquiring and administering policies and claims processing will exceed the expenses assumed in the pricing calculations.

Insurance risk approval authority is delegated by BMO's Board of Directors to senior management. A robust product approval process is a cornerstone for identifying, assessing and mitigating risks associated with new insurance products or changes to existing products. This process, combined with guidelines and practices for underwriting and claims management, promotes the effective identification, measurement and management of insurance risk. Reinsurance, which involves transactions that transfer insurance risk to independent reinsurance companies, is also used to manage our exposure to insurance risk by diversifying risk and limiting claims.

Insurance risk is monitored on a regular basis. Actuarial liabilities are estimates of the amounts required to meet insurance obligations. Liabilities are established in accordance with the standards of practice of the Canadian Institute of Actuaries and the Canadian Institute of Chartered Accountants. The liabilities are validated through extensive internal and external reviews and audits. Assumptions underlying actuarial liabilities are regularly updated to reflect emerging actual experience. The Appointed Actuaries of our insurance subsidiaries are appointed by those subsidiaries' boards of directors and have statutory responsibility for providing opinions on the adequacy of provisions for the policyholder liabilities, the solvency of the insurance companies and fairness of treatment of participating policyholders. In addition, the work of each Appointed Actuary is subject to an external, independent review by a qualified actuary every three years, in accordance with OSFI Guideline E-15.

BMO's Board of Directors establishes approval authorities and limits and delegates these to the management teams of the insurance subsidiaries. The boards of directors of our insurance subsidiaries are responsible for the stewardship of their respective insurance companies. Through oversight and monitoring, the boards are responsible for determining that the insurance companies are managed and function in accordance with established insurance strategies and policies. ERPM is responsible for providing risk management direction and independent oversight to these insurance companies. This group also has the authority to approve activities that exceed the authorities and limits delegated to the boards of the insurance subsidiaries, or that expose BMO to significant risk.

Our insurance subsidiaries provide independent evaluation and reporting of risk exposures to their boards of directors and at the enterprise level, including reporting to both management of Wealth Management and the RRC. Reporting involves an assessment of all risks facing the insurance subsidiaries, which include top-line and emerging risks, as well as key risk indicators. A comprehensive risk review process is in place to identify the key risks associated with insurance operations and products, as well as the controls required for risk mitigation.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of not complying with laws, contractual undertakings or other legal requirements, as well as regulatory requirements and regulators' expectations. Failure to properly manage legal and regulatory risk may result in litigation, financial losses, regulatory sanctions, an inability to execute our business strategies and harm to our reputation.

BMO's success also relies on our ability to manage prudently our exposure to judgments, fines or losses arising from the risk of not complying with laws, contractual undertakings, or meeting regulatory requirements or regulator expectations. Fiduciary risk relating to BMO's businesses providing products or services that give rise to fiduciary duties to clients is another area of focus for legal and compliance management and operating groups' risk committees. Of particular importance are the policies and practices that address a business' responsibilities to a client, including service requirements and expectations, client suitability determinations, and disclosure obligations and communications. Failure to properly manage these risks may result in harm to our reputation, cause a decline in investor confidence, and affect our ability to execute our business strategies.

Under the direction of the General Counsel, Legal and Compliance Group (LCG) maintains enterprise-wide frameworks to identify, measure, manage, monitor and report on legal (including fiduciary) and regulatory risk. These frameworks reflect the three lines-of-defence operating model described previously. The operating groups and Corporate Support areas must manage day-to-day risks in compliance with policies while LCG teams specifically aligned to designated operating groups provide advice and independent legal and regulatory risk management oversight. LCG also works with operating groups and Corporate Support areas to identify legal and regulatory requirements and potential risks, recommend mitigation strategies and actions, and oversee litigation involving BMO.

The General Counsel and Chief Compliance Officer (CCO) regularly report to the Audit and Conduct Review Committee of the board and to senior management on the effectiveness of our Enterprise Compliance Program (ECP) which, using a risk-based approach, identifies, assesses and manages legal and regulatory requirements. The ECP requires that operating groups and Corporate Support areas maintain compliance policies, procedures and controls to meet these requirements. Under the direction of the CCO, LCG identifies gaps and deficiencies and tracks remedial action plans.

BMO's code of conduct, *FirstPrinciples*, outlines our commitment to high standards of ethics and integrity, and requires that each employee take responsibility to follow both the letter and the spirit of the law. All directors and employees annually acknowledge their commitment to *FirstPrinciples*, and take required training that tests their knowledge and understanding of the code. This annual training also includes other important legal and regulatory subjects, including anti-money laundering, privacy and anti-corruption practices.

The financial services industry is highly regulated and continues to receive heightened attention under worldwide regulatory reform initiatives. BMO has experienced a significant increase in regulation and supervision, and such changes could have a significant impact on how we conduct business. LCG continues to work diligently in assessing and understanding the implications of these regulatory changes, and devotes substantial resources to implementing new regulations while helping the operating groups meet the needs and demands of BMO's clients.

Business Risk

Business risk arises from the specific business activities of a company and the effects these could have on its earnings.

Business risk encompasses the potential causes of earnings volatility that are distinct from credit, market or operational risk factors. The management of business risk identifies and addresses factors related to the risk that volumes will decrease or margins will shrink without the company having the ability to compensate for this decline by cutting costs.

BMO faces many risks that are similar to those faced by non-financial firms, principally that our profitability, and hence value, may be eroded by changes in the business environment or by failures of strategy or execution. Sources of these risks include, but are not limited to, changing client expectations, adverse business developments and relatively ineffective responses to industry changes.

Within BMO, each operating group is responsible for controlling its respective business risk by assessing, managing and mitigating the risks arising from changes in business volumes and cost structures, among other factors.

Model Risk

Model risk is the potential for loss due to the risk that a model may not perform or capture risk as designed. It also arises from the possibility of the use of an inappropriate model or the inappropriate use of a model.

BMO uses models that range from the very simple to those that value complex transactions or involve sophisticated portfolio and capital management methodologies. These models are used to inform strategic decision-making and to assist in making daily lending, trading, underwriting, funding, investment and operational decisions. Models have also been developed to measure exposure to specific risks and to measure total risk on an integrated basis, using Economic Capital. We have strong controls over the development, implementation and application of these models.

BMO uses a variety of models, which can be grouped within six categories:

- valuation models for the valuation of assets, liabilities or reserves;
- risk exposure models for measuring credit risk, market risk, liquidity risk and operational risk, which also address expected loss and its applications;

- capital and stress testing models for measuring capital, allocating capital and managing regulatory capital and Economic Capital;
- fiduciary models for asset allocation, asset optimization and portfolio management;
- major business strategy models to forecast the possible outcomes of new strategies in support of our business decision-making process; and
- models driven by regulatory and other stakeholder requirements.

Model Risk is governed by the enterprise-wide Model Risk Management Framework, which sets out end-to-end risk governance across the model activity cycle and ensures consistency between model risk and enterprise-wide risk appetite. The framework outlines explicit principles for managing model risk, describes processes and clearly defines roles and responsibilities. The Model Risk Corporate Standard, outlines the requirements for the oversight, identification, development, independent validation, implementation, use, monitoring and reporting of models and model risk throughout the enterprise. Prior to use, all models must receive approval and an assessment of their model risk by the Model Risk and Vetting (MRV) group. All models are assigned a risk rating as part of the vetting process, which determines the frequency of ongoing review. In addition to regularly scheduled model validation and vetting, model risk monitoring and oversight activities are in place to confirm that models perform and are managed and used as expected, thereby increasing the likelihood of early detection of emerging issues.

The Model Risk Management Forum, a cross-functional group representing all key stakeholders (model users, model owners and the MRV group), meets regularly to provide input into the development, implementation and maintenance of the Model Risk Management Framework and the requirements governing all models that are used across the enterprise.

BMO'S Risk Rating System Framework

The Risk Rating System framework utilized by BMO encompasses various methods, processes, controls, data collection and technology to support the assessment of credit risk of exposures. This framework also includes the assignment of the following credit risk parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), which are used for Regulatory Capital and Economic Capital estimation. The principles underlying the Risk Rating System are governed by internal policies and standards.

The design and quantification of models and methodologies to establish credit risk measures is a centralized function. An independent validation group reviews, validates and approves these models and methodologies prior to their implementation.

Ongoing monitoring of model performance, targeted model reviews, annual validations and related reporting processes ensure that the models and methodologies continue to perform as intended, and that any material changes in operating environment, business strategy that leads to portfolio shifts, or economic environment trigger appropriate and timely action. These processes are key to ensuring that BMO's risk rating systems continue to assign risk parameters that accurately reflect credit risks in our various portfolios.

We employ risk rating systems for our retail portfolios (consumer and small business) and wholesale portfolios (corporate, commercial, bank and sovereign).

Retail Risk Rating System

Retail Risk Rating System uses an approach that rates the borrower's risk on a narrow range of likely expected conditions, primarily more recent in nature (e.g. delinquency, loan to value ratio, utilization rate, etc.). Product lines within each of the three retail risk categories — mortgage, qualifying revolving, and other retail exposures — are separately modelled so the risk drivers capture the distinct nature of each product. The final segmentation scheme categorizes each exposure within a product line into homogeneous pools of retail risk that reflect common borrower risk drivers. Accordingly, each risk segment is then assigned a unique combination of PD, LGD and EAD parameters, capturing the segment-specific credit risk.

The retail risk rating system is designed to estimate values of credit risk parameters as precisely and accurately as possible. However, the risk parameter estimates are subject to uncertainty. In order to embed a level of conservatism to portfolio performance projections, adjustments are added to each parameter estimate at the segment level during the calibration process. Additionally, the retail parameters are calibrated on an annual basis to incorporate additional data points in the parameter estimation process. This ensures that the most recent experience is incorporated into the parameter assessment process.

Parameter Modelling Details (all are expressed as percentages, between 0% and 100%)

PD: assigned to each borrower and reflects default risk over a one-year time horizon. The PD parameter is calibrated based on BMO's internal default data from the period 2003 to 2012 and is meant to reflect long-run average default rates.

LGD: assigned to each credit exposure extended to a borrower and measures the potential economic loss at default during downturn conditions. The LGD parameter is calibrated based on internal loss data from 2003 to 2011, including a specific "downturn" buffer that incorporates the potential impact of PD and LGD correlation, and floored to the maximum realized loss given default rate.

EAD: assigned to each exposure extended to a borrower and measures the amount of a credit exposure that is likely to be drawn in the event the borrower defaults. This EAD amount is derived from the EAD ratio (or utilization given default) parameter and is based on BMO's internal realized loss data from 2003 to 2012. The EAD ratio parameter is calibrated with a long-run view, based on the average of historical realized utilization given default rates, with a margin of conservatism added for sources of uncertainty and to ensure the predicted EAD amount is greater than the maximum historical realized EAD amount.

Wholesale Risk Rating System

Wholesale Risk Rating system covers the assessment of credit risk of borrowers in non-retail asset classes (corporate, bank, and sovereign). Relative to Retail portfolio, Wholesale portfolio is characterized by a smaller number of larger exposures that cover a range of industries. Risk characteristics of these borrowers are captured by developing industry-specific risk rating models, and LGD and EAD modelling focuses on capturing the key risk drivers of individual facility types extended to these borrowers. Further details on each are provided below.

Parameter Modelling Details (all are expressed as percentages, between 0% and 100%)

PD: assigned to each borrower based on its risk rating and the asset class and reflects default risk over a one-year time horizon.

Risk ratings are assigned using the appropriate internal model. A suite of general and sector-specific risk rating models have been developed within each asset class to capture the key quantitative and qualitative risk factors associated with borrowers in different industries and portfolios. Borrower risk rating grades (BRRs) are assessed and assigned at loan inception and reviewed at least annually. More frequent reviews are performed for higher risk-rated borrowers, accounts that trigger a review through a rating change or that experience covenant breaches, and accounts requiring or requesting changes to facilities.

BMO employs a Master Scale with 14 BRRs, and for each grade within each asset class, grade PDs are assigned to reflect the long-run average of one-year default rates. PD estimates are based on internal default experience over a period of more than five years that covers at least one full economic cycle, supplemented by external benchmarking, as applicable.

LGD: assigned to each credit facility extended to a borrower and measures the potential economic loss at default during downturn conditions. LGD models are based on realized losses and calibrated to account for potential downturn conditions (with an added margin-of-conservatism adjustment for data uncertainty where necessary). LGD models have been developed for each asset class using internal data that covers a period of more than seven years (2000 to 2011), captures a full economic cycle and is supplemented by external data, as needed.

EAD: assigned to each facility extended to a borrower and measures the amount of a credit facility that is likely to be drawn in the event the borrower defaults within the next 12 months assuming downturn conditions. EAD is modelled using internal data that covers a period of more than seven years (2000 to 2010) and captures a full economic cycle. The EAD models are then calibrated to reflect downturn conditions based on the average of historical realized drawn-down amounts over downturn periods with a margin-of-conservatism adjustment for data uncertainty where necessary.

Model Back-testing

Back-testing requirements are governed under comprehensive Validation Guidelines. For probability of default, back-testing entails comparing the rating system's mapped probabilities of default against actual or realized default rates for each of the obligor ratings, and testing for statistical evidence that the realized default rates represent sampling variability and not different populations of default data. Back-testing the effectiveness of a risk rating system can be measured through the evaluation of calibration and discriminatory power with support from migration analysis. A comprehensive validation includes various prescribed tests and analyses that measure discriminatory power, calibration and dynamic properties. Additional tests or analyses may be used to validate BRR/PDs. As with any analysis, judgment can be applied in determining potentially limiting factors, such as data limitations, which may impact the overall relevance of validation approaches and/or interpretation of statistical analysis. For loss given default, back-testing follows similar testing requirements. Annual validations are performed independently by the Model Risk Vetting group.

Strategic Risk

Strategic risk is the potential for loss due to fluctuations in the external business environment and/or failure to properly respond to these fluctuations due to inaction, ineffective strategies or poor implementation of strategies.

Strategic risk arises from external risks inherent in the business environment within which BMO operates, as well as the risk of potential loss if BMO is unable to address those external risks effectively. While external strategic risks – including economic, political, regulatory, technological, social and competitive risks – cannot be controlled, the likelihood and magnitude of their impact can be mitigated through an effective strategic risk management process.

BMO's Strategy Group oversees our strategic planning processes and works with the lines of business, along with risk, finance and other corporate areas, to identify, monitor and mitigate strategic risk across the enterprise. A rigorous strategic management process encourages a consistent approach to the development of strategies and incorporates financial information linked to financial commitments.

The Strategy Group works with the lines of business and key corporate stakeholders during the strategy development process to promote consistency and adherence to strategic management standards. The potential impacts of the changing business environment, such as broad industry trends and the actions of competitors, are considered as part of this process and inform strategic decisions within each of our lines of business. Enterprise and group strategies are reviewed with the Management Committee and the Board of Directors annually in interactive sessions designed to challenge assumptions and strategies in the context of current and potential future business environments.

Performance objectives established through the strategic management process are regularly monitored and are reported upon quarterly, using both leading and lagging indicators of performance, so that strategies can be reviewed and adjusted where necessary. Regular strategic and financial updates are also monitored closely to identify any significant issues.

Reputation Risk

Reputation risk is the risk of a negative impact to BMO that results from the deterioration of BMO's reputation. Potential negative impacts include revenue loss, decline in client loyalty, litigation, regulatory sanction or additional oversight or decline in BMO's share price.

BMO's reputation is one of its most valuable assets. By protecting and maintaining our reputation, we can increase shareholder value, reduce our cost of capital and improve employee engagement.

Fostering a business culture in which integrity and ethical conduct are core values is key to effectively protecting and maintaining BMO's reputation.

We believe that active, ongoing and effective management of reputation risk is best achieved by considering reputation risk issues in the course of strategy development, strategic and operational implementation, and transactional or initiative decision-making. Reputation risk is also managed through our corporate governance practices, code of conduct and risk management framework.

All employees are responsible for conducting themselves in accordance with *FirstPrinciples*, BMO's code of conduct, thus building and maintaining BMO's reputation. The Reputation Risk Management Committee reviews significant or heightened issues of reputation risk to BMO, including those that may arise from complex credit or structured-finance transactions.

Environmental and Social Risk

Environmental and social risk is the risk of loss or damage to BMO's reputation resulting from environmental and social concerns related to BMO or its customers. Environmental and social risk is often associated with credit, operational and reputation risk.

Environmental and social risk is addressed in our board-approved corporate responsibility and sustainability policy. Environmental and social risk management activities are overseen by the Environmental, Social and Governance (ESG) group and the Environmental Sustainability group, with support from our lines of business and other Corporate Support areas. BMO's Sustainability Council, which is comprised of executives representing the various areas of the organization, provides insight and guidance for our environmental and social initiatives.

As part of our enterprise risk management framework, we evaluate the environmental and social impact of our clients' operations, as well as their industry sectors. Environmental and social risk covers a broad spectrum of issues, such as climate change, biodiversity and ecosystem health, pollution, waste and the unsustainable use of water and resources, as well as risks to the livelihoods, health and rights of communities and their cultural heritage. We work with external stakeholders to understand the impact of our operations and financing decisions in the context of these issues, and we use this understanding to determine the consequences for our businesses. BMO has developed and implemented specific financing guidelines on environmental and social risk for specific lines of business. Environmental and social risks associated with lending transactions are managed within BMO's credit and counterparty risk framework. Enhanced due diligence is applied to transactions with clients operating in environmentally sensitive industry sectors.

BMO is a signatory to the Equator Principles, a voluntary credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions. These principles have been integrated into our credit risk framework. We are also a signatory to and participate in the Carbon Disclosure Project, which provides corporate disclosure on greenhouse gas emissions and climate change management.

In 2013, BMO implemented ESG training for BMO Capital Markets employees to ensure that there is consistency in the understanding of environmental and social risks across the enterprise. The training includes identification of emerging issues, an overview of BMO's due diligence procedures and tools to assist employees in identifying and managing environmental, social and governance risks. We review our environmental and social risk policies and procedures on a periodic basis. To ensure that we are informed of emerging issues, we participate in global forums with our peers, maintain an open dialogue with our stakeholders and continuously monitor and evaluate policy and legislative changes in the jurisdictions in which we operate. Our environmental and social policies and practices are outlined in detail in our annual Environmental, Social and Governance Report and Public Accountability Statement, and on our Corporate Responsibility website. Our Environmental, Social and Governance Report also reports on our environmental and social performance according to the Global Reporting Initiative.

2012 Financial Performance Review

The preceding discussions in the MD&A focused on our performance in 2013. This section summarizes our performance in fiscal 2012 relative to fiscal 2011. As noted on page 26, certain prior year data has been reclassified to conform to the presentation in 2013, including restatements arising from transfers between operating groups, as well as restatements to report provisions for credit loss in the operating groups on an actual credit loss basis rather than on an expected loss basis. Further information on restatements is provided on page 45.

Net income increased $1,075 million or 35% to $4,189 million in fiscal 2012 and earnings per share (EPS) increased $1.31 or 27% to $6.15. Adjusted net income increased $817 million or 25% to $4,092 million and adjusted EPS increased $0.90 or 18% to $6.00, primarily due to the inclusion of eight additional months of M&I results compared to 2011.

Adjusting items are detailed in the Non-GAAP Measures section on page 34.

Return on equity and adjusted return on equity were 15.9% and 15.5%, respectively, compared to 15.1% and 16.0%, respectively, in 2011. There was an increase of $1,084 million in earnings ($826 million in adjusted earnings) available to common shareholders. Average common shareholders' equity increased by almost $6.0 billion from 2011, primarily due to the issuance of common shares to M&I shareholders in July 2011 as consideration for the acquisition, as well as internally generated capital.

Revenue increased $2,187 million or 16% in 2012 to $16,130 million. Adjusted revenue increased $1,325 million or 10% to $15,067 million. The inclusion of eight additional months of M&I results in 2012 increased adjusted revenue by $1,161 million or 8% relative to the prior year. The stronger U.S. dollar added $51 million to adjusted revenue growth, on a basis that excludes the impact of the acquired business. Excluding these two items, revenue increased $113 million or 1%, primarily due to growth in U.S. P&C and Wealth Management. For the fifth consecutive year, there was solid growth in both consolidated net interest income and non-interest revenue on a reported basis, with both growing at double-digit rates in 2012.

BMO recorded $765 million of provisions for credit losses in 2012, compared with $1,212 million in 2011. Adjusted provisions for credit losses were $471 million in 2012, compared with $1,108 million in 2011. The improvement was due to recoveries on the M&I purchased credit impaired loan portfolio and an improved credit environment.

Non-interest expense increased $1,497 million or 17% to $10,238 million in 2012. Adjusted non-interest expense increased $1,060 million or 13% to $9,513 million. The inclusion of eight additional months of M&I results in 2012 increased adjusted expense by $856 million or 10%. The stronger U.S. dollar increased costs in 2012 by $34 million, excluding the impact related to acquisitions. Excluding these two factors, expenses increased $170 million or 2%, primarily due to continued investment in our businesses, including technology development initiatives.

The provision for income taxes was $938 million in 2012, compared with $876 million in 2011. The adjusted provision for income taxes in 2012 was $991 million, compared with $906 million in 2011. The effective tax rate in 2012 was 18.3%, compared with 22.0% in 2011. The adjusted effective tax rate in 2012 was 19.5%, compared with 21.7% in 2011. The lower adjusted effective tax rate in 2012 was mainly attributable to a reduction of 1.6 percentage points in the statutory Canadian income tax rate in 2012 and higher recoveries of prior years' income taxes.

Net income in Canadian P&C in 2012 rose $60 million or 4% from 2011 to $1,775 million. Revenue increased $24 million to $6,212 million, as the effects of growth in balances and fees across most of the business were largely offset by lower net interest margin. Non-interest expense increased $50 million or 2% to $3,183 million, primarily due to investments in the business, including our distribution network, net of strong expense management.

Both net income and adjusted net income in U.S. P&C more than doubled in 2012, with net income increasing $321 million to $580 million and adjusted net income increasing $350 million to $644 million. On a U.S. dollar basis, net income increased $318 million and adjusted net income increased $345 million. Revenue increased $1,023 million or 51% to $3,024 million, and increased $990 million or 49% on a U.S. dollar basis, of which $939 million was attributable to the inclusion of eight additional months of M&I results in 2012. The remaining $51 million increase was primarily due to growth in both gains on the sale of newly originated mortgages and commercial lending fees. Adjusted non-interest expense increased $624 million or 53% to $1,807 million, and increased $603 million or 50% on a U.S. dollar basis, with $552 million of the increase due to the inclusion of eight additional months of M&I results in 2012. The remaining $51 million increase was largely attributable to increases in regulatory and other support costs and litigation accruals.

Net income in Wealth Management was $524 million, up $44 million or 9% from 2011. Adjusted net income was $545 million, up $55 million or 11%. Adjusted net income in wealth businesses was $387 million, up $28 million or 8%. Adjusted net income in insurance was $158 million, up $27 million or 21%. Revenue of $2,905 million in 2012 increased $313 million or 12%. Revenue in wealth businesses increased by 12%, as a result of acquisitions, including the incremental impact of M&I and LGM, earnings from a strategic investment and growth in revenues across most businesses. Insurance revenue increased 9% from the prior year. Insurance revenue was reduced in both 2012 and 2011 by the unfavourable impact of movements in long-term interest rates. In 2011, insurance revenue was also reduced by an unusually high $55 million charge in respect of reinsurance claims related to the earthquakes in Japan and New Zealand. Non-interest expense of $2,219 million increased $263 million or 13%. Adjusted non-interest expense of $2,190 million increased $246 million or 13%, primarily due to an increase in spending on our strategic priorities.

Net income in BMO Capital Markets increased $46 million to $1,021 million in 2012. The increase was driven by lower income taxes and a reduction in the provision for credit losses, partially offset by an increase in expenses. Revenue decreased by a modest $39 million to $3,276 million in a challenging market environment for some areas in our investment banking business. Net interest income decreased $38 million or 3% from the prior year. Non-interest revenue was consistent with the prior year. A significant increase in trading revenue was offset by a reduction in mergers and acquisitions and equity underwriting fees, reflecting lower activity levels, and reductions in both securities commissions and investment securities gains. The stronger U.S. dollar increased revenue by $21 million. Provisions for credit losses were $26 million lower in 2012. Non-interest expense increased $60 million or 3% to $1,956 million, primarily due to increases in employee costs and technology investments.

Corporate Services net income for the year was $289 million, compared with a net loss of $315 million in 2011. Adjusted net income was $96 million, compared with an adjusted net loss of $209 million in 2011. Adjusted revenue was essentially unchanged, while adjusted expense increased by $82 million, primarily due to the impact of the acquired businesses. Adjusted provisions for credit losses were $489 million lower, primarily due to a $509 million ($315 million after tax) recovery of provisions for credit losses on the M&I purchased credit impaired loan portfolio.

Review of Fourth Quarter 2013 Performance

Reported net income for the fourth quarter of 2013 was $1,088 million, up 1% or $6 million from a year ago. Adjusted net income for the fourth quarter was $1,102 million, down $23 million or 2% from a year ago. Adjusted results for the quarter exclude: $30 million after-tax net benefit for credit-related items in respect of the purchased performing loan portfolio; $60 million pre-tax ($37 million after tax) for integration costs of the acquired business; $26 million pre-tax ($20 million after tax) benefit from run-off structured credit activities; $5 million for income taxes related to the collective allowance on loans other than the - purchased loan portfolio; and $31 million pre-tax ($22 million after tax) of amortization of acquisition-related intangible assets. Summary income statements and data for the quarter and comparative quarters are outlined on page 103. Adjusting items are included in Corporate Services except the amortization of acquisition-related intangible assets, which is included across the operating groups.

Amounts in the rest of this Review of Fourth Quarter 2013 Performance section are stated on an adjusted basis.

There was particularly strong growth in Wealth Management, including higher securities gains, and good growth in Canadian P&C, offset by lower income in BMO Capital Markets and higher provisions for credit losses in the P&C businesses. Canadian P&C had good results, driven by strong volume growth across most products, partially offset by lower net interest margin, higher provisions for credit losses and modestly higher expenses. Wealth Management net income was up significantly, driven by a security gain and strong performance in the other wealth and insurance underlying businesses. BMO Capital Markets net income declined from strong results a year ago, primarily due to lower trading revenues reflecting market uncertainty. The prior year included strong trading revenues and a recovery of prior periods' income taxes. U.S. P&C results declined primarily due to an increase in the provisions for credit losses, which were above trend in the current quarter, and lower revenues. Corporate Services results declined, primarily due to lower revenues.

Revenue increased $140 million or 4% to $4,060 million. Revenue significantly increased in Wealth Management, reflecting a $191 million security gain and a 12% increase in the other wealth businesses, and there were good results in Canadian P&C, with declines in the other operating groups. The stronger U.S. dollar increased revenue growth by $60 million, net of hedging impacts.

Net interest income increased $12 million or 1% to $1,968 million. BMO's overall net interest margin decreased by 9 basis points from a year ago to 1.58%. Average earning assets increased $29.6 billion or 6% relative to a year ago, including a $9.5 billion increase as a result of the stronger U.S. dollar. There was strong growth in Canadian P&C and Wealth Management, growth in BMO Capital Markets and U.S. P&C, and a reduction in Corporate Services.

Non-interest revenue increased $128 million or 6% to $2,092 million, mainly due to a large security gain in Wealth Management and higher mutual fund revenues, partially offset by lower trading revenues in BMO Capital Markets. Most other types of non-interest revenue were also up, with the exception of insurance income, card fees and other. The stronger U.S. dollar increased non-interest revenue growth by $27 million, net of hedging impacts.

Non-interest expense increased $66 million or 3% to $2,502 million. Excluding the impact of the stronger U.S. dollar, non-interest expense increased by a modest $22 million or 1%, primarily due to higher employee-related costs, including pension, and higher regulatory-related costs.

The provision for credit losses (PCL) was $140 million, compared with $113 million in the fourth quarter of 2012. The increase in PCL was mainly due to above trend provisions in Canadian P&C and U.S. P&C, coupled with lower recoveries of credit losses on the purchased credit impaired loan portfolio in Corporate Services.

The provision for income taxes of $316 million increased $70 million from the fourth quarter of 2012. The effective tax rate for the quarter was 22.3%, compared with 17.9% a year ago, primarily due to lower recoveries of prior periods' income taxes and an increased proportion of income from higher tax-rate jurisdictions.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Summary Quarterly Earnings Trends

BMO's results and performance measures for the past eight quarters are outlined on page 103. Periodically, certain business lines and units within the business lines are transferred between client operating groups to more closely align BMO's organizational structure with its strategic priorities. Comparative figures have been restated to conform to the current presentation. During the first quarter of 2013, we commenced charging provisions for credit losses to BMO's operating groups based on actual credit losses incurred. Previously we had charged the groups with credit losses based on an expected loss provisioning methodology. See the 2013 Review of Operating Groups Performance on page 44.

We have remained focused on embracing a culture that places the customer at the centre of everything we do. Economic conditions were at times challenging for some of our businesses in 2012 and 2013, but conditions have improved overall and adjusted quarterly results have generally trended higher over the past two years.

BMO's quarterly earnings, revenue and expense are modestly affected by seasonal factors. Since our second fiscal quarter has 89 days (90 in a leap year) and other quarters have 92 days, second-quarter results are lower relative to other quarters because there are fewer calendar days, and thus fewer business days. The months of July (third quarter) and August (fourth quarter) are typically characterized by lower levels of capital markets activity, which has an effect on results in Wealth Management and BMO Capital Markets. The December holiday season also contributes to a slowdown in some activities.

Canadian P&C produced good fourth-quarter results to close out a strong second half of 2013. Strong volume growth in both the personal and commercial segments generated improved revenue growth in the third and fourth quarters compared to the first half of 2013. Net interest margin year-over-year declines have been abating. Expense growth continues to be modest as continued investment in the business is mitigated by strong expense management.

U.S. P&C results have benefited from the M&I acquisition, as well as increases in commercial loan balances. U.S. P&C had strong results in the first quarter of 2013, and results were relatively stable in the second and third quarters due to core commercial and industrial loan growth and lower expenses compared to the prior year's results offsetting lower margins and balances in certain portfolios. Results in the fourth quarter were negatively impacted by higher provisions for credit losses. Net interest margin has been declining, primarily due to lower deposit spreads in the low-rate environment, as well as lower loan spreads due to competitive pricing.

Wealth Management operating results were strong in 2013, continuing the improving trend from 2012. Quarterly results in our wealth businesses have grown on a relatively consistent basis, reflecting growth in client assets and a continued focus on productivity. The fourth quarter of the current year includes a large security gain. Quarterly results in insurance have been subject to variability, resulting primarily from changes in long-term interest rates.

BMO Capital Markets operating results in the first three quarters of 2012 were good, with significantly stronger results reported in the fourth quarter, driven by a recovery of prior periods' income taxes and an increase in revenue due to an improved market environment. This trend continued in 2013 with good performance in the first three quarters of the year. Performance in the fourth quarter was impacted by market uncertainty resulting in lower revenues.

BMO's PCL measured as a percentage of loans and acceptances have been trending lower in recent quarters relative to 2012, but increased in the fourth quarter of 2013. Adjusted PCL, which excludes provisions on the M&I purchased loan portfolio and changes in the collective allowance, was relatively consistent throughout 2012 and into the first half of 2013, and decreased significantly in the third quarter of 2013 mainly due to lower provisions in Canadian P&C and U.S. P&C, and higher recoveries of credit losses on the purchased credit impaired loan portfolio. Adjusted PCL increased in the fourth quarter of 2013, mainly due to above trend provisions in Canadian P&C and U.S. P&C, coupled with lower recoveries of credit losses on the purchased credit impaired loan portfolio.

Corporate Services quarterly net income can vary, in large part due to the inclusion of the adjusting items, which are largely recorded in Corporate Services. Adjusted results in Corporate Services were relatively steady in 2012, primarily due to significant recoveries of provisions on the purchased credit impaired loan portfolio. These recoveries can vary, and a decrease in recoveries in the first quarter of 2013, together with a reduction in revenues and an increase in expenses, lowered Corporate Services results that quarter. These recoveries increased in the last three quarters of 2013, increasing net income.

Fluctuations in exchange rates in 2012 and 2013 have been subdued. A stronger U.S. dollar increases the translated value of U.S.-dollar-denominated revenues, expenses, provisions for credit losses, income taxes and net income.

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.

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

Summarized Statement of Income and Quarterly Financial Measures

($ millions)	**Oct. 31 2013**	**July 31 2013**	**April 30 2013**	**Jan. 31 2013**	Oct. 31 2012	July 31 2012	April 30 2012	Jan. 31 2012	**2013**	2012	2011
Net interest income	**2,085**	**2,146**	**2,098**	**2,216**	2,145	2,225	2,120	2,318	**8,545**	8,808	7,474
Non-interest revenue	**2,103**	**1,904**	**1,846**	**1,865**	2,031	1,653	1,839	1,799	**7,718**	7,322	6,469
Total revenue	**4,188**	**4,050**	**3,944**	**4,081**	4,176	3,878	3,959	4,117	**16,263**	16,130	13,943
Provision for credit losses – specific	**189**	**57**	**175**	**178**	216	229	195	122	**599**	762	1,126
Provision for credit losses – general	**–**	**20**	**(30)**	**–**	(24)	8	–	19	**(10)**	3	86
Non-interest expense	**2,597**	**2,542**	**2,568**	**2,590**	2,701	2,484	2,499	2,554	**10,297**	10,238	8,741
Income before provision for income taxes	**1,402**	**1,431**	**1,231**	**1,313**	1,283	1,157	1,265	1,422	**5,377**	5,127	3,990
Provision for income taxes	**314**	**294**	**256**	**265**	201	187	237	313	**1,129**	938	876
Net income	**1,088**	**1,137**	**975**	**1,048**	1,082	970	1,028	1,109	**4,248**	4,189	3,114
Adjusted net income	**1,102**	**1,136**	**997**	**1,041**	1,125	1,013	982	972	**4,276**	4,092	3,275
Provision for credit losses – specific											
Canadian P&C	**166**	**126**	**154**	**128**	146	147	167	155	**574**	615	664
U.S. P&C	**96**	**40**	**55**	**32**	75	76	60	63	**223**	274	359
Personal and Commercial Banking	**262**	**166**	**209**	**160**	221	223	227	218	**797**	889	1,023
Wealth Management	**1**	**(1)**	**1**	**2**	11	5	1	5	**3**	22	10
BMO Capital Markets	**(17)**	**2**	**(6)**	**(15)**	(4)	–	19	(9)	**(36)**	6	32
Corporate Services, including T&O	**(57)**	**(110)**	**(29)**	**31**	(12)	1	(52)	(92)	**(165)**	(155)	61
BMO Financial Group provision for credit losses – specific	**189**	**57**	**175**	**178**	216	229	195	122	**599**	762	1,126
Operating group reported net income:											
Canadian P&C	**469**	**497**	**430**	**458**	442	459	433	441	**1,854**	1,775	1,715
U.S. P&C	**106**	**153**	**155**	**182**	140	139	142	159	**596**	580	259
Personal and Commercial Banking	**575**	**650**	**585**	**640**	582	598	575	600	**2,450**	2,355	1,974
Wealth Management	**312**	**218**	**141**	**163**	164	109	147	104	**834**	524	480
BMO Capital Markets	**229**	**280**	**275**	**310**	314	250	233	224	**1,094**	1,021	975
Corporate Services, including T&O	**(28)**	**(11)**	**(26)**	**(65)**	22	13	73	181	**(130)**	289	(315)
BMO Financial Group reported net income	**1,088**	**1,137**	**975**	**1,048**	1,082	970	1,028	1,109	**4,248**	4,189	3,114
Operating group adjusted net income:											
Canadian P&C	**472**	**500**	**431**	**461**	444	462	436	443	**1,864**	1,785	1,724
U.S. P&C	**118**	**165**	**168**	**195**	156	155	157	176	**646**	644	294
Personal and Commercial Banking	**590**	**665**	**599**	**656**	600	617	593	619	**2,510**	2,429	2,018
Wealth Management	**319**	**225**	**148**	**169**	169	114	153	109	**861**	545	490
BMO Capital Markets	**229**	**281**	**276**	**310**	315	250	233	224	**1,096**	1,022	976
Corporate Services, including T&O	**(36)**	**(35)**	**(26)**	**(94)**	41	32	3	20	**(191)**	96	(209)
BMO Financial Group adjusted net income	**1,102**	**1,136**	**997**	**1,041**	1,125	1,013	982	972	**4,276**	4,092	3,275
Information per Common Share ($)											
Dividends declared	**0.74**	**0.74**	**0.74**	**0.72**	0.72	0.70	0.70	0.70	**2.94**	2.82	2.80
Earnings											
Basic	**1.62**	**1.69**	**1.43**	**1.53**	1.59	1.42	1.52	1.65	**6.27**	6.18	4.90
Diluted	**1.62**	**1.68**	**1.42**	**1.53**	1.59	1.42	1.51	1.63	**6.26**	6.15	4.84
Adjusted earnings											
Basic	**1.65**	**1.69**	**1.46**	**1.52**	1.65	1.49	1.45	1.43	**6.31**	6.02	5.17
Diluted	**1.64**	**1.68**	**1.46**	**1.52**	1.65	1.49	1.44	1.42	**6.30**	6.00	5.10
Book value	**43.69**	**42.38**	**41.73**	**40.87**	40.25	39.43	38.06	37.85	**43.69**	40.25	36.76
Market price											
High	**73.90**	**65.99**	**64.50**	**64.70**	59.96	58.73	59.91	61.29	**73.90**	61.29	63.94
Low	**63.21**	**58.68**	**61.51**	**56.74**	56.72	53.15	56.54	54.38	**56.74**	53.15	55.02
Close	**72.62**	**63.87**	**63.19**	**62.99**	59.02	57.44	58.67	58.29	**72.62**	59.02	58.89
Financial Measures (%)											
Dividend yield	**4.1**	**4.6**	**4.7**	**4.6**	4.9	4.9	4.8	4.8	**4.0**	4.8	4.8
Return on equity	**15.0**	**15.6**	**14.2**	**14.9**	15.6	14.5	16.2	17.2	**14.9**	15.9	15.1
Adjusted return on equity	**15.2**	**15.6**	**14.5**	**14.8**	16.3	15.2	15.4	15.0	**15.0**	15.5	16.0
Net interest margin on earning assets	**1.67**	**1.75**	**1.79**	**1.85**	1.83	1.88	1.89	2.05	**1.77**	1.91	1.85
Adjusted net interest margin on earning assets	**1.58**	**1.63**	**1.64**	**1.67**	1.67	1.70	1.76	1.85	**1.63**	1.74	1.79
Efficiency ratio	**62.0**	**62.8**	**65.1**	**63.5**	64.7	64.1	63.1	62.0	**63.3**	63.5	62.7
Adjusted efficiency ratio	**61.6**	**63.2**	**63.9**	**63.8**	62.2	63.7	63.2	63.5	**63.1**	63.1	61.5
Operating leverage*	**4.2**	**2.2**	**(3.2)**	**(2.3)**	(1.7)	4.9	(4.4)	(5.4)	**0.2**	(1.4)	(0.8)
Adjusted operating leverage*	**0.9**	**0.9**	**(1.0)**	**(0.4)**	2.7	(4.4)	(3.3)	(7.6)	**0.1**	(2.8)	0.8
Provision for credit losses as a % of average net loans and acceptances	**0.27**	**0.11**	**0.22**	**0.28**	0.31	0.38	0.32	0.23	**0.22**	0.31	0.56
Effective tax rate	**22.4**	**20.6**	**20.8**	**20.2**	15.7	16.2	18.7	22.0	**21.0**	18.3	22.0
Adjusted effective tax rate	**22.3**	**20.1**	**20.0**	**19.9**	17.9	16.9	19.5	23.7	**20.6**	19.5	21.7
Canadian/U.S. dollar average exchange rate ($)	**1.042**	**1.038**	**1.018**	**0.995**	0.989	1.018	0.992	1.013	**1.024**	1.003	0.985
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**7.61**	**8.14**	**8.80**	**8.98**	9.30	9.15	9.34	8.74	**7.61**	9.30	8.98
Cash and securities-to-total assets	**31.2**	**30.8**	**30.1**	**30.6**	29.4	31.3	32.0	32.2	**31.2**	29.4	29.5
Capital Ratios (%)	**Basel III**				Basel II				**Basel III**	Basel II	
Common Equity Ratio	**9.9**	**9.6**	**9.7**	**9.4**	10.5	10.3	9.9	9.7	**9.9**	10.5	9.6
Tier 1 Capital Ratio	**11.4**	**11.2**	**11.3**	**11.1**	12.6	12.4	12.0	11.7	**11.4**	12.6	12.0
Total Capital Ratio	**13.7**	**13.5**	**13.7**	**13.4**	14.9	14.8	14.9	14.6	**13.7**	14.9	14.9

* Leverage ratios for 2011 reflect growth based on CGAAP in 2010 and IFRS in 2011.

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for the interim periods, includes all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and the ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

Adjusted results in this table are non-GAAP and are discussed in the Non-GAAP Measures section on page 34.

Supplemental Information

As of November 1, 2011, BMO's financial results have been reported in accordance with IFRS. The consolidated financial statements for comparative periods in fiscal year 2011 have been restated. Results for years prior to 2011 have not been restated and are presented in accordance with Canadian GAAP as defined at that time (CGAAP). As such, certain growth rates and compound annual growth rates (CAGR) may not be meaningful.

Adjusted results in this section are non-GAAP measures. Refer to the non-GAAP Measures section on page 34.

Table 1: Shareholder Value

As at or for the year ended October 31	**2013**	2012	2011	2010	2009	2008	2007	2006	2005	2004
Market Price per Common Share ($)										
High	**73.90**	61.29	63.94	65.71	54.75	63.44	72.75	70.24	62.44	59.65
Low	**56.74**	53.15	55.02	49.78	24.05	35.65	60.21	56.86	53.05	49.28
Close	**72.62**	59.02	58.89	60.23	50.06	43.02	63.00	69.45	57.81	57.55
Common Share Dividends										
Dividends declared per share ($)	**2.94**	2.82	2.80	2.80	2.80	2.80	2.71	2.26	1.85	1.59
Dividends paid per share ($)	**2.92**	2.80	2.80	2.80	2.80	2.80	2.63	2.13	1.80	1.50
Dividend payout ratio (%)	**46.9**	45.6	57.1	58.6	90.6	73.9	64.8	43.0	39.1	35.2
Dividend yield (%)	**4.0**	4.8	4.8	4.6	5.6	6.5	4.3	3.3	3.2	2.8
Dividends declared ($ millions)	**1,904**	1,820	1,690	1,571	1,530	1,409	1,354	1,133	925	796
Total Shareholder Return (%)										
Five-year average annual return	**17.0**	4.2	1.9	5.9	1.8	0.9	14.2	19.1	13.8	18.9
Three-year average annual return	**11.5**	10.8	17.4	4.5	(5.3)	(5.6)	6.6	15.6	18.4	23.0
One-year return	**28.8**	5.2	2.4	26.4	25.1	(27.9)	(5.8)	24.1	3.7	20.0
Common Share Information										
Number outstanding (in thousands)										
End of year	**644,130**	650,730	639,000	566,468	551,716	504,575	498,563	500,726	500,219	500,897
Average basic	**648,476**	644,407	591,403	559,822	540,294	502,062	499,950	501,257	500,060	501,656
Average diluted	**649,806**	648,615	607,068	563,125	542,313	506,697	508,614	511,173	510,845	515,045
Number of shareholder accounts	**56,241**	59,238	58,769	36,612	37,061	37,250	37,165	38,360	40,104	41,438
Book value per share ($)	**43.69**	40.25	36.76	34.09	31.95	32.02	28.29	28.89	26.48	24.20
Total market value of shares ($ billions)	**46.8**	38.4	37.6	34.1	27.6	21.7	31.4	34.8	28.9	28.8
Price-to-earnings multiple	**11.6**	9.6	12.2	12.7	16.3	11.4	15.3	13.5	12.5	13.1
Price-to-adjusted earnings multiple	**11.5**	9.8	11.5	12.5	12.5	9.2	11.6	13.4	12.9	13.4
Market-to-book value multiple	**1.66**	1.47	1.49	1.77	1.57	1.34	2.23	2.40	2.18	2.38

2010 and prior based on CGAAP.

Table 2: Summary Income Statement and Growth Statistics ($ millions, except as noted)

For the year ended October 31	**2013**	2012	2011	2010	2009	**5-year CAGR**	**10-year CAGR**
Income Statement – Reported Results							
Net interest income	**8,545**	8,808	7,474	6,235	5,570	**11.0**	**6.0**
Non-interest revenue	**7,718**	7,322	6,469	6,004	5,494	**8.5**	**6.2**
Total revenue	**16,263**	16,130	13,943	12,239	11,064	**9.8**	**6.1**
Provision for credit losses	**589**	765	1,212	1,049	1,603	**nm**	**nm**
Non-interest expense	**10,297**	10,238	8,741	7,619	7,381	**8.4**	**5.4**
Income before provision for income taxes	**5,377**	5,127	3,990	3,571	2,080	**22.1**	**8.2**
Provision for income taxes	**1,129**	938	876	687	217	**nm**	**5.6**
Non-controlling interest in subsidiaries (1)	**na**	na	na	74	76	**nm**	**nm**
Net income	**4,248**	4,189	3,114	2,810	1,787	**15.7**	**9.0**
Attributable to bank shareholders	**4,183**	4,115	3,041	2,810	1,787	**16.2**	**8.9**
Attributable to non-controlling interest in subsidiaries (1)	**65**	74	73	na	na	**nm**	**nm**
Net income	**4,248**	4,189	3,114	2,810	1,787	**15.7**	**9.0**
Income Statement – Adjusted Results							
Net interest income	**7,888**	8,029	7,248	6,235	5,570	**9.2**	**5.1**
Non-interest revenue	**7,684**	7,038	6,494	6,004	6,015	**6.8**	**6.2**
Total revenue	**15,572**	15,067	13,742	12,239	11,585	**8.0**	**5.6**
Provision for credit losses	**359**	471	1,108	1,049	1,543	**nm**	**nm**
Non-interest expense	**9,826**	9,513	8,453	7,583	7,220	**7.5**	**5.1**
Income before provision for income taxes	**5,387**	5,083	4,181	3,607	2,822	**15.1**	**7.7**
Provision for income taxes	**1,111**	991	906	691	450	**47.5**	**5.0**
Non-controlling interest in subsidiaries (1)	**na**	na	na	74	76	**nm**	**nm**
Adjusted net income	**4,276**	4,092	3,275	2,916	2,372	**11.2**	**8.6**
Attributable to bank shareholders	**4,211**	4,018	3,202	2,916	2,372	**10.9**	**8.4**
Attributable to non-controlling interest in subsidiaries (1)	**65**	74	73	na	na	**nm**	**nm**
Adjusted net income	**4,276**	4,092	3,275	2,916	2,372	**11.2**	**8.6**
Earnings per Share (EPS) ($)							
Basic	**6.27**	6.18	4.90	4.78	3.09	**10.6**	**6.0**
Diluted	**6.26**	6.15	4.84	4.75	3.08	**10.7**	**6.2**
Adjusted diluted	**6.30**	6.00	5.10	4.81	4.02	**6.2**	**5.8**
Year-over-Year Growth-Based Statistical Information (%)							
Net income growth	**1.4**	34.5	8.0	54.8	(9.2)	**na**	**na**
Adjusted net income growth	**4.5**	24.9	12.3	22.9	(5.6)	**na**	**na**
Diluted EPS growth	**1.8**	27.1	1.9	54.2	(18.1)	**na**	**na**
Adjusted diluted EPS growth	**5.0**	17.6	6.0	19.7	(13.9)	**na**	**na**

2010 and prior based on CGAAP. Five-year and ten-year CAGR based on CGAAP in 2008 and 2003, respectively, and on IFRS in 2013. 2011 growth rates based on CGAAP in 2010 and IFRS in 2011.

(1) Prior to 2011, under CGAAP, non-controlling interest in subsidiaries was deducted in the determination of net income.

nm – not meaningful

na – not applicable

Supplemental Information

Table 3: Returns on Equity and Assets ($ millions, except as noted)

For the year ended October 31	**2013**	2012	2011	2010	2009	2008	2007	2006	2005	2004
Reported net income	**4,248**	4,189	3,114	2,810	1,787	1,978	2,131	2,663	2,396	2,295
Attributable to non-controlling interest in subsidiaries (1)	**65**	74	73	na	na	na	na	na	na	na
Preferred dividends	**120**	136	146	136	120	73	43	30	30	31
Reported net income available to common shareholders	**4,063**	3,979	2,895	2,674	1,667	1,905	2,088	2,633	2,366	2,264
Average common shareholders' equity	**27,197**	25,106	19,145	17,980	16,865	14,612	14,506	13,703	12,577	11,696
Return on equity (%)	**14.9**	15.9	15.1	14.9	9.9	13.0	14.4	19.2	18.8	19.4
Return on average assets (%)	**0.75**	0.76	0.65	0.71	0.41	0.50	0.59	0.86	0.81	0.87
Return on average risk-weighted assets (%) (2)	**1.95**	1.98	1.70	1.74	0.97	1.07	1.20	1.71	1.63	1.67
Return on average assets available to common shareholders (%)	**0.73**	0.73	0.62	0.67	0.38	0.48	0.58	0.85	0.80	0.86
Average equity to average total assets (%)	**0.05**	0.05	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.04
Adjusted net income	**4,276**	4,092	3,275	2,916	2,372	2,513	2,881	2,752	2,386	2,260
Adjusted net income available to common shareholders	**4,091**	3,882	3,056	2,780	2,252	2,440	2,838	2,722	2,356	2,229
Adjusted return on equity (%)	**15.0**	15.5	16.0	15.0	12.9	16.2	19.0	19.3	18.3	18.9
Adjusted return on average assets (%)	**0.76**	0.74	0.68	0.71	0.52	0.61	0.78	0.87	0.78	0.85
Adjusted return on average risk-weighted assets (%) (2)	**1.97**	1.93	1.79	1.76	1.25	1.32	1.58	1.71	1.58	1.65
Adjusted return on average assets available to common shareholders (%)	**0.74**	0.71	0.65	0.68	0.50	0.59	0.77	0.86	0.77	0.84

2010 and prior based on CGAAP.

(1) Prior to 2011, under CGAAP, non-controlling interest in subsidiaries was deducted in the determination of net income.

(2) Beginning in 2008, return on average risk-weighted assets has been calculated under the Basel II guidelines; for all prior periods, return on average risk-weighted assets has been calculated using the Basel I methodology.

na – not applicable

Table 4: Summary Balance Sheet ($ millions)

As at October 31	**2013**	2012	2011	2010	2009
Assets					
Cash and cash equivalents	**26,083**	19,941	19,676	17,368	9,955
Interest bearing deposits with banks	**6,518**	6,341	5,980	3,186	3,340
Securities	**134,981**	128,324	122,115	123,399	110,813
Securities borrowed or purchased under resale agreements (1)	**39,799**	47,011	37,970	28,102	36,006
Net loans and acceptances	**279,095**	253,835	238,885	176,643	167,829
Other assets	**50,823**	69,997	75,949	62,942	60,515
Total assets	**537,299**	525,449	500,575	411,640	388,458
Liabilities and Shareholders' Equity					
Deposits	**366,821**	323,702	302,373	249,251	236,156
Other liabilities	**134,538**	167,102	164,197	135,933	126,719
Subordinated debt	**3,996**	4,093	5,348	3,776	4,236
Capital trust securities	**463**	462	821	800	1,150
Share capital					
Preferred	**2,265**	2,465	2,861	2,571	2,571
Common	**12,003**	11,957	11,332	6,927	6,198
Contributed surplus	**315**	213	113	92	79
Retained earnings	**15,224**	13,540	11,381	12,848	11,748
Accumulated other comprehensive gain (loss)	**602**	480	666	(558)	(399)
Non-controlling interest in subsidiaries	**1,072**	1,435	1,483	–	–
Total liabilities and shareholders' equity	**537,299**	525,449	500,575	411,640	388,458
Average Daily Balances					
Net loans and acceptances	**266,064**	246,119	215,414	171,554	182,097
Assets	**555,682**	544,264	469,934	398,474	438,548

2010 and prior based on CGAAP.

(1) Certain securities borrowed or purchased under resale agreements have been reclassified to loans and acceptances in 2012.

Supplemental Information

Table 5: Asset Encumbrance ($ millions)

As at October 31, 2013	On-balance sheet assets	Other cash and securities received	Encumbered (1) Pledged as collateral	Encumbered (1) Other encumbered	Net unencumbered Other unencumbered (3)	Net unencumbered Available as collateral
Cash and cash equivalents	**26,083**	**–**	**–**	**1,211**	**1,461**	**23,411**
Interest bearing deposits with banks	**6,518**	**–**	**–**	**–**	**–**	**6,518**
Securities and securities borrowed or purchased under resale agreements						
Government debt	**86,715**	**11,955**	**33,237**	**14,184**	**1,226**	**50,023**
Mortgage-backed securities and collateralized mortgage obligations	**10,891**	**1,199**	**1,547**	**–**	**168**	**10,375**
Corporate debt	**20,874**	**868**	**2,178**	**556**	**3,976**	**15,032**
Corporate equity	**56,300**	**14,231**	**26,387**	**7,124**	**1,445**	**35,575**
Total securities and securities borrowed or purchased under resale agreements	**174,780**	**28,253**	**63,349**	**21,864**	**6,815**	**111,005**
NHA mortgage-backed securities (reported as loans at amortized cost) (2)	**11,425**	**–**	**–**	**–**	**–**	**11,425**
Total liquid assets	**218,806**	**28,253**	**63,349**	**23,075**	**8,276**	**152,359**
Loans	**267,670**	**–**	**37,868**	**1,956**	**227,846**	**–**
Other assets	**50,823**	**–**	**–**	**–**	**50,823**	**–**
Total loans and other assets	**318,493**	**–**	**37,868**	**1,956**	**278,669**	**–**
Total	**537,299**	**28,253**	**101,217**	**25,031**	**286,945**	**152,359**

(1) Pledged as collateral refers to the portion of BMO-owned assets and 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 includes assets that are not available for use for legal or other reasons such as restricted cash, restricted OTC derivatives and short sales.

(2) Under IFRS, NHA mortgage-backed securities (MBS) that include BMO's originated mortgages as the underlying collateral are classified as loans. Unencumbered NHA MBS 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.

(3) Other unencumbered assets include select holdings management believes are not readily available to support BMO's liquidity requirements. These include cash and securities of $8.3 billion as at October 31, 2013, which include securities held in BMO's insurance subsidiary, structured investment vehicle, credit protection vehicle, significant equity investments, and certain investments held in our merchant banking business. Other unencumbered assets also include loans and other assets. A portion of these loans may be used as collateral to access central bank facilities under normal operations or securitized to access secured funding.

Table 6: Other Statistical Information

As at or for the year ended October 31	**2013**	2012	2011	2010	2009	2008	2007	2006	2005	2004
Other Information										
Employees (1)										
Canada	**30,301**	30,797	31,351	29,821	29,118	29,529	28,944	27,922	26,684	26,494
United States	**14,696**	14,963	15,184	7,445	6,732	7,256	6,595	6,785	6,901	6,900
Other	**634**	512	440	363	323	288	288	234	200	199
Total	**45,631**	46,272	46,975	37,629	36,173	37,073	35,827	34,941	33,785	33,593
Bank branches										
Canada	**933**	930	920	910	900	983	977	963	968	988
United States	**626**	638	688	321	290	292	243	215	208	182
Other	**4**	3	3	3	5	5	4	4	4	4
Total	**1,563**	1,571	1,611	1,234	1,195	1,280	1,224	1,182	1,180	1,174
Automated banking machines										
Canada	**2,900**	2,596	2,235	2,076	2,030	2,026	1,978	1,936	1,952	1,993
United States	**1,325**	1,375	1,366	905	636	640	583	547	539	479
Total	**4,225**	3,971	3,601	2,981	2,666	2,666	2,561	2,483	2,491	2,472
Rates										
Average Canadian prime rate (%)	**3.00**	3.00	3.00	2.46	2.70	5.21	6.08	5.57	4.30	4.05
Average U.S. prime rate (%)	**3.25**	3.25	3.25	3.25	3.34	5.69	8.19	7.76	5.85	4.17
Canadian/U.S. dollar exchange rates ($)										
High	**1.06**	1.05	1.06	1.08	1.30	1.29	1.19	1.20	1.27	1.40
Low	**0.98**	0.97	0.94	1.00	1.03	0.92	0.95	1.10	1.16	1.22
Average	**1.02**	1.00	0.99	1.04	1.16	1.03	1.09	1.13	1.21	1.31
End of year	**1.04**	1.00	1.00	1.02	1.08	1.20	0.94	1.12	1.18	1.22

(1) Reflects full-time equivalent number of employees, comprising full-time and part-time employees and adjustments for overtime hours.

Table 7: Revenue and Revenue Growth ($ millions, except as noted)

For the year ended October 31	2013	2012	2011	2010	2009	5-year CAGR	10-year CAGR
Net Interest Income	**8,545**	8,808	7,474	6,235	5,570	**11.0**	**6.0**
Year-over-year growth (%)	**(3.0)**	17.8	19.9	11.9	9.8	**na**	**na**
Adjusted Net Interest Income	**7,888**	8,029	7,248	6,235	5,570	**9.2**	**5.1**
Year-over-year growth (%)	**(1.8)**	10.8	16.2	11.9	9.8	**na**	**na**
Net Interest Margin (1)							
Average earning assets	**484,141**	460,205	404,195	332,468	341,848	**8.2**	**8.5**
Net interest margin (%)	**1.77**	1.91	1.85	1.88	1.63	**na**	**na**
Adjusted net interest margin (%)	**1.63**	1.74	1.79	1.88	1.63	**na**	**na**
Canadian dollar net interest margin (%)	**1.78**	1.85	1.99	2.12	1.78	**na**	**na**
U.S. dollar and other currencies net interest margin (%)	**1.74**	2.01	1.61	1.47	1.43	**na**	**na**
Non-Interest Revenue							
Securities commissions and fees	**1,182**	1,146	1,215	1,077	973	**1.3**	**2.8**
Deposit and payment service charges	**916**	929	834	802	820	**3.9**	**1.9**
Trading revenues	**849**	1,025	549	504	723	**9.2**	**11.9**
Lending fees	**715**	641	593	572	556	**10.7**	**9.3**
Card fees	**724**	708	689	233	121	**20.0**	**9.6**
Investment management and custodial fees	**726**	725	496	355	344	**16.4**	**9.1**
Mutual fund revenues	**799**	647	633	550	467	**6.3**	**9.6**
Securitization revenues	**–**	–	–	678	929	**(87.4)**	**(61.7)**
Underwriting and advisory fees	**488**	442	512	445	397	**6.7**	**6.2**
Securities gains (losses), other than trading	**285**	152	189	150	(354)	**nm**	**nm**
Foreign exchange, other than trading	**172**	153	130	93	53	**16.4**	**0.7**
Insurance income	**445**	335	283	321	295	**13.4**	**13.6**
Other revenues	**417**	419	346	224	170	**14.7**	**2.3**
Total non-interest revenue	**7,718**	7,322	6,469	6,004	5,494	**8.5**	**6.2**
Year-over-year growth (%)	**5.4**	13.2	7.7	9.3	7.0	**na**	**na**
Non-interest revenue as a % of revenue	**47.5**	45.4	46.4	49.1	49.7	**na**	**na**
Adjusted non-interest revenue	**7,684**	7,038	6,494	6,004	6,015	**6.8**	**6.2**
Year-over-year adjusted non-interest revenue growth (%)	**9.2**	8.4	8.1	(0.2)	8.9	**na**	**na**
Adjusted non-interest revenue as a % of adjusted revenue	**49.3**	46.7	47.3	49.1	51.9	**na**	**na**
Total Revenue	**16,263**	16,130	13,943	12,239	11,064	**9.8**	**6.1**
Year-over-year total revenue growth (%)	**0.8**	15.7	13.9	10.6	8.4	**na**	**na**
Total Adjusted Revenue	**15,572**	15,067	13,742	12,239	11,585	**8.0**	**5.6**
Year-over-year total adjusted revenue growth (%)	**3.4**	9.7	12.3	5.7	9.4	**na**	**na**

2010 and prior based on CGAAP. Five-year and ten-year CAGR based on CGAAP in 2008 and 2003, respectively, and on IFRS in 2013. 2011 growth rates based on CGAAP in 2010 and IFRS in 2011.

(1) Net interest margin is calculated based on average earning assets.

na – not applicable

nm – not meaningful

Table 8: Non-Interest Expense and Expense-to-Revenue Ratio ($ millions, except as noted)

For the year ended October 31	2013	2012	2011	2010	2009	5-year CAGR	10-year CAGR
Non-Interest Expense							
Employee compensation							
Salaries	**3,318**	3,208	2,646	2,285	2,395	**9.1**	**5.3**
Performance-based compensation	**1,686**	1,657	1,560	1,455	1,338	**5.4**	**4.8**
Employee benefits	**823**	763	621	624	652	**9.2**	**4.3**
Total employee compensation	**5,827**	5,628	4,827	4,364	4,385	**7.9**	**5.0**
Premises and equipment							
Rental of real estate	**416**	400	360	319	306	**8.3**	**9.1**
Premises, furniture and fixtures	**377**	368	310	269	272	**8.2**	**3.3**
Property taxes	**37**	36	30	28	30	**5.2**	**(3.4)**
Computers and equipment (1)	**1,047**	1,112	878	727	673	**6.4**	**5.3**
Total premises and equipment (1)	**1,877**	1,916	1,578	1,343	1,281	**7.1**	
Other expenses							
Amortization of intangible assets (1)	**352**	339	231	203	203	**30.2**	
Communications	**291**	301	259	229	221	**7.6**	**6.0**
Business and capital taxes	**39**	46	51	52	44	**(1.8)**	**(9.8)**
Professional fees	**527**	593	624	401	362	**6.5**	**7.5**
Travel and business development	**514**	491	382	343	309	**9.4**	**8.6**
Other	**870**	924	789	684	576	**9.5**	**8.3**
Total other expenses	**2,593**	2,694	2,336	1,912	1,715	**10.1**	**8.3**
Total Non-Interest Expense	**10,297**	10,238	8,741	7,619	7,381	**8.4**	**5.4**
Year-over-year total non-interest expense growth (%)	**0.6**	17.1	14.7	3.2	7.1	**na**	**na**
Total Adjusted Non-Interest Expense	**9,826**	9,513	8,453	7,583	7,220	**7.5**	**5.1**
Year-over-year total adjusted non-interest expense growth (%)	**3.3**	12.5	11.5	5.0	5.4	**na**	**na**
Non-interest expense-to-revenue ratio (Efficiency ratio) (%)	**63.3**	63.5	62.7	62.2	66.7	**na**	**na**
Adjusted non-interest expense-to-revenue ratio (Efficiency ratio) (%)	**63.1**	63.1	61.5	62.0	62.3	**na**	**na**
Government Levies and Taxes (2)							
Government levies other than income taxes							
Payroll levies	**249**	250	203	175	171	**8.7**	**4.8**
Property taxes	**37**	36	30	28	30	**5.2**	**(3.4)**
Provincial capital taxes	**31**	37	44	45	35	**(1.0)**	**(11.2)**
Business taxes	**7**	9	7	7	9	**(4.7)**	**1.7**
Harmonized sales tax, GST and other sales taxes	**262**	249	235	146	116	**13.0**	**5.2**
Sundry taxes	**1**	2	1	1	3	**nm**	**nm**
Total government levies other than income taxes	**587**	583	520	402	364	**19.7**	**2.2**
Provision for income taxes	**1,129**	938	876	687	217	**nm**	**5.6**
Total Government Levies and Taxes	**1,716**	1,521	1,396	1,089	581	**54.1**	**2.6**
Total government levies and taxes as a % of income available to pay government levies and taxes	**28.7**	26.6	31.0	27.4	23.8	**na**	**na**
Effective income tax rate (%)	**21.0**	18.3	22.0	19.2	10.5	**na**	**na**
Adjusted effective income tax rate (%)	**20.6**	19.5	21.7	19.2	15.9	**na**	**na**

2010 and prior based on CGAAP. Five-year and ten-year CAGR based on CGAAP in 2008 and 2003, respectively, and on IFRS in 2012. 2011 growth rates based on CGAAP in 2010 and IFRS in 2011.

(1) In 2009, we adopted new accounting requirements for intangible assets and reclassified certain computer equipment from premises and equipment to intangible assets. Computer and equipment expense and the amortization of intangible assets were restated, but not for years prior to 2007. As such, ten-year growth rates for these expense categories are not meaningful. Together, computer and equipment expense and the amortization of intangible assets increased at a compound annual growth rate of 8.0% over ten years. Together, total premises and equipment expense and the amortization of intangible assets increased at a compound annual growth rate of 6.9% over ten years.

(2) Government levies are included in various non-interest expense categories.

na – not applicable

nm – not meaningful

Table 9: Average Assets, Liabilities and Interest Rates ($ millions, except as noted)

For the year ended October 31	2013 Average balances	2013 Average interest rate (%)	2013 Interest income/ expense	2012 Average balances	2012 Average interest rate (%)	2012 Interest income/ expense	2011 Average balances	2011 Average interest rate (%)	2011 Interest income/ expense
Assets									
Canadian Dollar									
Deposits with other banks	2,466	1.28	32	2,418	1.22	30	2,650	0.84	22
Securities	82,592	1.82	1,503	80,683	1.84	1,486	73,622	1.90	1,393
Securities borrowed or purchased under resale agreements	22,309	0.54	121	20,898	1.11	232	14,409	1.08	156
Loans									
Residential mortgages	83,625	3.18	2,656	73,538	3.41	2,509	70,144	4.15	2,912
Non-residential mortgages	4,354	4.33	189	4,026	4.72	190	3,992	5.05	202
Consumer instalment and other personal	47,840	4.00	1,913	46,113	4.05	1,868	42,858	4.18	1,793
Credit cards	7,004	11.64	815	7,104	11.58	823	7,109	11.72	833
Businesses and governments	37,337	4.68	1,749	34,055	5.19	1,766	31,968	5.85	1,870
Total loans	180,160	4.06	7,322	164,836	4.34	7,156	156,071	4.87	7,610
Total Canadian dollar	287,527	3.12	8,978	268,835	3.31	8,904	246,752	3.72	9,181
U.S. Dollar and Other Currencies									
Deposits with other banks	35,093	0.61	213	38,666	0.54	209	29,993	0.41	123
Securities	48,488	1.32	640	47,840	1.63	779	44,969	1.74	783
Securities borrowed or purchased under resale agreements	32,578	0.17	57	27,907	0.32	89	22,890	0.54	124
Loans									
Residential mortgages	8,762	4.37	383	9,739	4.66	454	5,833	6.22	363
Non-residential mortgages	5,142	3.23	167	4,782	8.88	425	4,249	6.27	267
Consumer instalment and other personal	14,286	3.43	490	13,800	4.59	633	11,056	4.15	458
Credit cards	575	7.55	43	570	7.25	41	411	4.65	19
Businesses and governments	48,372	4.47	2,162	44,710	4.72	2,111	30,632	3.94	1,206
Total loans	77,137	4.21	3,245	73,601	4.98	3,664	52,181	4.43	2,313
Total U.S. dollar and other currencies	193,296	2.15	4,155	188,014	2.52	4,741	150,033	2.23	3,343
Other non-interest bearing assets	74,859			87,415			73,149		
Total All Currencies									
Total assets and interest income	555,682	2.36	13,133	544,264	2.51	13,645	469,934	2.67	12,524
Liabilities									
Canadian Dollar									
Deposits									
Banks	5,921	0.34	20	4,233	0.34	14	3,137	0.34	11
Businesses and governments	87,071	1.44	1,257	76,139	1.51	1,147	70,096	1.79	1,251
Individuals	82,258	0.96	789	81,031	1.00	808	78,357	1.13	885
Total deposits	175,250	1.18	2,066	161,403	1.22	1,969	151,590	1.42	2,147
Securities sold but not yet purchased	20,106	2.43	489	20,203	2.19	442	16,309	2.61	425
Securities lent or sold under repurchase agreements (1)	15,971	1.37	219	24,011	1.02	244	20,181	1.22	246
Subordinated debt and other interest bearing liabilities	29,270	3.43	1,004	35,635	3.37	1,202	38,664	3.44	1,329
Total Canadian dollar	240,597	1.57	3,778	241,252	1.60	3,857	226,744	1.83	4,147
U.S. Dollar and Other Currencies									
Deposits									
Banks	17,135	0.33	56	17,131	0.34	58	18,144	0.48	87
Businesses and governments	123,139	0.32	392	102,380	0.37	384	74,842	0.42	311
Individuals	40,684	0.29	119	40,503	0.41	167	27,183	0.54	148
Total deposits	180,958	0.31	567	160,014	0.38	609	120,169	0.45	546
Securities sold but not yet purchased	5,490	1.31	72	6,063	2.18	132	4,891	2.76	135
Securities lent or sold under repurchase agreements (1)	27,996	0.10	27	27,272	0.14	38	26,596	0.11	29
Subordinated debt and other interest bearing liabilities	4,325	3.32	144	3,830	5.26	201	3,323	5.80	193
Total U.S. dollar and other currencies	218,769	0.37	810	197,179	0.50	980	154,979	0.58	903
Other non-interest bearing liabilities	66,790			78,134			66,467		
Total All Currencies									
Total liabilities and interest expense	526,156	0.87	4,588	516,565	0.94	4,837	448,190	1.13	5,050
Shareholders' equity	29,526			27,699			21,744		
Total Liabilities, Interest Expense and Shareholders' Equity	555,682	0.83	4,588	544,264	0.89	4,837	469,934	1.07	5,050
Net interest margin									
– based on earning assets		1.77			1.91			1.85	
– based on total assets		1.54			1.62			1.59	
Net interest income based on total assets			8,545			8,808			7,474
Adjusted net interest margin									
– based on earning assets		1.63			1.74			1.79	
– based on total assets		1.42			1.48			1.54	
Adjusted net interest income based on total assets			7,888			8,029			7,248

(1) For the years ended October 31, 2013, 2012 and 2011, the maximum amount of securities lent or sold under repurchase agreements at any month end amounted to $53,898 million, $62,038 million and $51,109 million, respectively.

(2) Comparative periods have been reclassified to conform with the current year's presentation.

Table 10: Volume/Rate Analysis of Changes in Net Interest Income ($ millions)

For the year ended October 31	2013/2012 Increase (decrease) due to change in Average balance	Average rate	Total	2012/2011 Increase (decrease) due to change in Average balance	Average rate	Total
Assets						
Canadian Dollar						
Deposits with other banks	**1**	**1**	**2**	(2)	9	7
Securities	**35**	**(19)**	**16**	134	(43)	91
Securities borrowed or purchased under resale agreements	**16**	**(127)**	**(111)**	70	7	77
Loans						
Residential mortgages	**344**	**(197)**	**147**	141	(543)	(402)
Non-residential mortgages	**16**	**(17)**	**(1)**	2	(13)	(11)
Consumer instalment and other personal	**70**	**(25)**	**45**	134	(59)	75
Credit cards	**(12)**	**4**	**(8)**	–	(10)	(10)
Businesses and governments	**170**	**(187)**	**(17)**	122	(226)	(104)
Total loans	**588**	**(422)**	**166**	399	(851)	(452)
Change in Canadian dollar interest income	**640**	**(567)**	**73**	601	(878)	(277)
U.S. Dollar and Other Currencies						
Deposits with other banks	**(19)**	**23**	**4**	35	51	86
Securities	**11**	**(149)**	**(138)**	50	(54)	(4)
Securities borrowed or purchased under resale agreements	**15**	**(47)**	**(32)**	27	(62)	(35)
Loans						
Residential mortgages	**(46)**	**(25)**	**(71)**	243	(152)	91
Non-residential mortgages	**32**	**(291)**	**(259)**	33	125	158
Consumer instalment and other personal	**22**	**(166)**	**(144)**	114	61	175
Credit cards	**–**	**2**	**2**	7	15	22
Businesses and governments	**173**	**(121)**	**52**	554	351	905
Total loans	**181**	**(601)**	**(420)**	951	400	1,351
Change in U.S. dollar and other currencies interest income	**188**	**(774)**	**(586)**	1,063	335	1,398
Total All Currencies						
Change in total interest income (a)	**828**	**(1,341)**	**(513)**	1,664	(543)	1,121
Liabilities						
Canadian Dollar						
Deposits						
Banks	**6**	**–**	**6**	4	–	4
Businesses and governments	**165**	**(55)**	**110**	107	(211)	(104)
Individuals	**12**	**(32)**	**(20)**	30	(107)	(77)
Total deposits	**183**	**(87)**	**96**	141	(318)	(177)
Securities sold but not yet purchased	**(2)**	**49**	**47**	101	(84)	17
Securities lent or sold under repurchase agreements	**(82)**	**57**	**(25)**	47	(49)	(2)
Subordinated debt and other interest-bearing liabilities	**(214)**	**16**	**(198)**	(104)	(24)	(128)
Change in Canadian dollar interest expense	**(115)**	**35**	**(80)**	185	(475)	(290)
U.S. Dollar and Other Currencies						
Deposits						
Banks	**–**	**(2)**	**(2)**	(5)	(24)	(29)
Businesses and governments	**78**	**(70)**	**8**	114	(41)	73
Individuals	**1**	**(48)**	**(47)**	73	(54)	19
Total deposits	**79**	**(120)**	**(41)**	182	(119)	63
Securities sold but not yet purchased	**(12)**	**(48)**	**(60)**	32	(35)	(3)
Securities lent or sold under repurchase agreements	**1**	**(12)**	**(11)**	1	8	9
Subordinated debt and other interest-bearing liabilities	**26**	**(84)**	**(58)**	29	(21)	8
Change in U.S. dollar and other currencies interest expense	**94**	**(264)**	**(170)**	244	(167)	77
Total All Currencies						
Change in total interest expense (b)	**(21)**	**(229)**	**(250)**	429	(642)	(213)
Change in total net interest income (a – b)	**849**	**(1,112)**	**(263)**	1,235	99	1,334

Supplemental Information

Table 11: Net Loans and Acceptances – Segmented Information ($ millions) (6)

	Canada					United States					Other countries				
As at October 31	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009
Consumer															
Residential mortgages	**88,612**	76,649	68,190	40,730	36,916	**7,636**	7,416	7,945	4,982	6,160	**–**	–	–	–	–
Credit cards	**7,413**	7,381	7,564	3,056	2,574	**457**	433	474	252	–	**–**	–	–	–	–
Consumer instalment and other personal loans	**49,195**	47,955	45,584	41,112	35,296	**14,374**	13,419	13,802	10,000	10,477	**–**	–	–	–	–
Total consumer	**145,220**	131,985	121,338	84,898	74,786	**22,467**	21,268	22,221	15,234	16,637	**–**	–	–	–	–
Total businesses and governments	**59,242**	54,582	50,737	49,414	46,062	**46,039**	42,535	41,209	19,148	21,560	**7,348**	4,724	4,649	9,246	10,090
Total loans and acceptances, net of specific allowances	**204,462**	186,567	172,075	134,312	120,848	**68,506**	63,803	63,430	34,382	38,197	**7,348**	4,724	4,649	9,246	10,090
Collective allowance	**(791)**	(705)	(687)	(595)	(589)	**(694)**	(755)	(765)	(702)	(717)	**–**	–	–	–	–
Total net loans and acceptances	**203,671**	185,862	171,388	133,717	120,259	**67,812**	63,048	62,665	33,680	37,480	**7,348**	4,724	4,649	9,246	10,090

Table 12: Net Impaired Loans and Acceptances – Segmented Information ($ millions, except as noted)

	Canada					United States					Other countries				
As at October 31	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009
Consumer															
Residential mortgages	**157**	182	178	227	236	**359**	335	221	220	121	**–**	–	–	–	–
Consumer instalment and other personal loans	**100**	64	101	96	97	**284**	275	128	79	73	**–**	–	–	–	–
Total consumer	**257**	246	279	323	333	**643**	610	349	299	194	**–**	–	–	–	–
Businesses and governments	**253**	377	433	372	376	**944**	1,271	1,108	1,279	1,673	**3**	25	2	40	125
Total impaired loans and acceptances, net of specific allowances	**510**	623	712	695	709	**1,587**	1,881	1,457	1,578	1,867	**3**	25	2	40	125
Collective allowance	**(791)**	(705)	(687)	(595)	(589)	**(694)**	(755)	(765)	(702)	(717)	**–**	–	–	–	–
Total net impaired loans and acceptances (NIL)	**(281)**	(82)	25	100	120	**893**	1,126	692	876	1,150	**3**	25	2	40	125
Condition Ratios (6)															
NIL as a % of net loans and acceptances (1) (2)	**(0.14)**	(0.04)	0.01	0.07	0.10	**1.33**	1.83	1.15	2.62	3.07	**0.04**	0.53	0.04	0.43	1.24
NIL as a % of net loans and acceptances (1) (2)															
Consumer	**0.18**	0.19	0.23	0.38	0.45	**2.87**	2.87	1.57	1.96	1.17	**–**	–	–	–	–
Businesses and governments	**0.43**	0.66	0.85	0.76	0.82	**2.08**	2.99	2.69	6.78	7.76	**0.04**	0.53	0.04	0.43	1.24
NIL as a % of net loans and acceptances excluding purchased portfolios (1) (2)	**(0.14)**	(0.04)	0.01	0.07	0.10	**0.29**	1.03	1.86	2.66	3.07	**0.04**	0.53	0.04	0.43	1.24

2010 and prior in Tables 11 – 19 based on CGAAP.

(1) Aggregate balances are net of specific and collective allowances; the consumer and businesses and governments categories are stated net of specific allowances only.

(2) Ratio is presented including purchased portfolios and prior periods have been restated. The ratios are presented excluding purchased portfolios, to provide for better historical comparisons.

(3) Includes amounts returning to performing status, sales, repayments, the impact of foreign exchange, and offsets for consumer write-offs that are not recognized as formations.

(4) Results for years prior to 2011 have not been restated and are presented in accordance with Canadian GAAP as defined at the time. For 2011, the allowance for credit losses at the beginning of year has been restated to comply with the requirements of IFRS.

(5) Effective in 2011, total equity includes non-controlling interest in subsidiaries. In addition, geographic allocations are not available, as equity is not allocated on a country of risk basis.

(6) Certain balances and ratios (coverage, condition and performance) for fiscal 2012 were restated in the first quarter of 2013 to conform to the current period's presentation.

(7) Amounts for 2013 exclude specific allowances of $41 million related to Other Credit Instruments (2012 $29 million, 2011 $45 million, 2010 $9 million, 2009 nil) included in Other Liabilities.

(8) Adjusted provision for credit losses excludes provisions related to the M&I purchased performing loans portfolio and changes to the collective allowance.

un – unavailable

	Total				
	2013	2012	2011	2010	2009
	96,248	84,065	76,135	45,712	43,076
	7,870	7,814	8,038	3,308	2,574
	63,569	61,374	59,386	51,112	45,773
	167,687	153,253	143,559	100,132	91,423
	112,629	101,841	96,595	77,808	77,712
	280,316	255,094	240,154	177,940	169,135
	(1,485)	(1,460)	(1,452)	(1,297)	(1,306)
	278,831	253,634	238,702	176,643	167,829

	Total				
	2013	2012	2011	2010	2009
	516	517	399	447	357
	384	339	229	175	170
	900	856	628	622	527
	1,200	1,673	1,543	1,691	2,174
	2,100	2,529	2,171	2,313	2,701
	(1,485)	(1,460)	(1,452)	(1,297)	(1,306)
	615	1,069	719	1,016	1,395
	0.22	0.42	0.30	0.57	0.83
	0.54	0.56	0.44	0.62	0.58
	1.07	1.67	1.63	2.18	2.80
	(0.05)	0.14	0.30	0.57	0.83

Table 13: Net Loans and Acceptances – Segmented Information ($ millions) (6)

As at October 31	**2013**	2012	2011	2010	2009
Net Loans and Acceptances by Province					
Atlantic provinces	**13,072**	11,938	10,681	8,476	7,227
Quebec	**38,344**	36,064	28,603	22,194	19,396
Ontario	**77,050**	69,813	68,831	54,056	50,079
Prairie provinces	**38,715**	34,830	32,291	25,159	22,877
British Columbia and territories	**37,281**	33,922	31,669	24,427	21,269
Total net loans and acceptances in Canada	**204,462**	186,567	172,075	134,312	120,848
Net Businesses and Governments Loans by Industry					
Commercial mortgages	**15,152**	15,934	18,851	11,004	9,284
Commercial real estate	**10,422**	8,790	8,519	6,796	6,648
Construction (non-real estate)	**2,804**	2,400	2,298	1,802	1,795
Retail trade	**9,774**	8,495	7,129	5,751	4,864
Wholesale trade	**7,035**	6,406	5,330	3,174	2,854
Agriculture	**6,030**	5,078	4,488	3,839	3,505
Communications	**721**	505	556	932	1,041
Manufacturing	**10,810**	9,346	8,601	6,220	7,006
Mining	**931**	623	640	266	1,049
Oil and gas	**3,898**	3,456	3,466	3,678	4,280
Transportation	**2,046**	1,998	1,865	1,286	1,386
Utilities	**1,303**	1,165	838	1,101	1,197
Forest products	**616**	574	498	405	696
Service industries	**16,824**	13,452	11,982	8,605	8,879
Financial institutions	**18,771**	15,039	14,632	17,318	17,867
Government	**1,662**	1,272	782	580	601
Other	**3,830**	7,308	6,120	5,051	4,760
	112,629	101,841	96,595	77,808	77,712

Table 14: Net Impaired Loans and Acceptances – Segmented Information ($ millions)

As at October 31	**2013**	2012	2011	2010	2009
Net Impaired Businesses and Governments Loans					
Commercial mortgages	**483**	715	523	436	510
Commercial real estate	**146**	318	310	453	542
Construction (non-real estate)	**21**	38	28	66	9
Retail trade	**40**	41	68	56	40
Wholesale trade	**50**	37	17	27	48
Agriculture	**80**	98	96	41	100
Communications	**–**	5	7	1	–
Manufacturing	**57**	110	95	115	252
Mining	**5**	5	2	–	–
Oil and gas	**30**	1	2	10	44
Transportation	**17**	30	33	26	42
Utilities	**–**	2	2	2	–
Forest products	**19**	23	35	71	63
Service industries	**161**	164	82	115	142
Financial institutions	**58**	66	179	217	363
Government	**–**	–	–	2	–
Other	**33**	20	64	53	19
	1,200	1,673	1,543	1,691	2,174

Table 15: Changes in Gross Impaired Loans – Segmented Information ($ millions)

	Canada					United States					Other countries				
As at October 31	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009
Gross impaired loans and acceptances (GIL), beginning of year															
Consumer	**338**	371	412	417	315	**646**	388	309	194	91	**–**	–	–	–	–
Businesses and governments	**548**	586	540	533	488	**1,401**	1,326	1,551	1,967	1,403	**43**	14	82	186	90
Total GIL, beginning of year	**886**	957	952	950	803	**2,047**	1,714	1,860	2,161	1,494	**43**	14	82	186	90
Additions to impaired loans and acceptances															
Consumer	**584**	533	573	567	6	**637**	764	333	374	110	**–**	–	–	–	–
Businesses and governments	**294**	352	424	410	417	**931**	1,416	661	978	2,035	**3**	36	1	1	122
Total additions	**878**	885	997	977	423	**1,568**	2,180	994	1,352	2,145	**3**	36	1	1	122
Reductions to impaired loans and acceptances (3)															
Consumer	**(416)**	(386)	(413)	(352)	479	**(243)**	(45)	7	44	294	**–**	–	–	–	–
Businesses and governments	**(274)**	(314)	(242)	(287)	(304)	**(973)**	(880)	(597)	(1,052)	(731)	**(36)**	(6)	(40)	(103)	(26)
Total reductions due to net repayments and other	**(690)**	(700)	(655)	(639)	175	**(1,216)**	(925)	(590)	(1,008)	(437)	**(36)**	(6)	(40)	(103)	(26)
Write-offs															
Consumer	**(158)**	(180)	(201)	(220)	(383)	**(338)**	(461)	(261)	(303)	(301)	**–**	–	–	–	–
Businesses and governments	**(162)**	(76)	(136)	(116)	(68)	**(278)**	(461)	(289)	(342)	(740)	**(3)**	(1)	(29)	(2)	–
Total write-offs	**(320)**	(256)	(337)	(336)	(451)	**(616)**	(922)	(550)	(645)	(1,041)	**(3)**	(1)	(29)	(2)	–
Gross impaired loans and acceptances, end of year															
Consumer	**348**	338	371	412	417	**702**	646	388	309	194	**–**	–	–	–	–
Businesses and governments	**406**	548	586	540	533	**1,081**	1,401	1,326	1,551	1,967	**7**	43	14	82	186
Total GIL, end of year	**754**	886	957	952	950	**1,783**	2,047	1,714	1,860	2,161	**7**	43	14	82	186
Condition Ratios															
GIL as a % of Gross Loans (6)															
Consumer	**0.24**	0.26	0.31	0.48	0.56	**3.12**	3.03	1.74	2.03	1.17	**–**	–	–	–	–
Businesses and governments	**0.68**	1.00	1.15	1.11	1.15	**2.34**	3.28	3.20	7.99	9.00	**0.10**	0.91	0.30	0.88	1.83
Total Loans and Acceptances	**0.37**	0.47	0.56	0.71	0.78	**2.60**	3.20	2.69	5.37	5.61	**0.10**	0.91	0.30	0.88	1.83
GIL as a % of equity and allowance for credit losses (2) (5)	**un**	un	un	un	un	**un**	un	un	un	un	**un**	un	un	un	un
GIL as a % of equity and allowance for credit losses excluding purchased portfolios (2) (5)	**un**	un	un	un	un	**un**	un	un	un	un	**un**	un	un	un	un

Total				
2013	2012	2011	2010	2009
984	759	721	611	406
1,992	1,926	2,173	2,686	1,981
2,976	2,685	2,894	3,297	2,387
1,221	1,297	906	941	116
1,228	1,804	1,086	1,389	2,574
2,449	3,101	1,992	2,330	2,690
(659)	(431)	(406)	(308)	773
(1,283)	(1,200)	(879)	(1,442)	(1,061)
(1,942)	(1,631)	(1,285)	(1,750)	(288)
(496)	(641)	(462)	(523)	(684)
(443)	(538)	(454)	(460)	(808)
(939)	(1,179)	(916)	(983)	(1,492)
1,050	984	759	721	611
1,494	1,992	1,926	2,173	2,686
2,544	2,976	2,685	2,894	3,297
0.63	0.64	0.53	0.71	0.67
1.32	1.95	1.99	2.80	3.43
0.91	1.17	1.12	1.62	1.94
7.61	9.30	8.98	12.18	14.92
4.86	6.18	8.36	12.18	14.92

Table 16: Changes in Allowance for Credit Losses – Segmented Information ($ millions, except as noted)

	Canada					United States					Other Countries				
As at October 31	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009
Allowance for credit losses (ACL), beginning of year															
Consumer	**518**	464	454	327	245	**291**	270	145	41	20	**–**	–	–	–	–
Businesses and governments	**450**	468	473	503	463	**659**	797	859	970	978	**18**	12	42	61	41
Total ACL, beginning of year	**968**	932	927	830	708	**950**	1,067	1,004	1,011	998	**18**	12	42	61	41
Provision for credit losses															
Consumer	**523**	544	527	359	408	**262**	401	350	324	276	**–**	–	–	–	–
Businesses and governments	**133**	90	152	126	109	**(327)**	(267)	184	249	789	**(2)**	(3)	(1)	(9)	21
Total provision for credit losses	**656**	634	679	485	517	**(65)**	134	534	573	1,065	**(2)**	(3)	(1)	(9)	21
Recoveries															
Consumer	**81**	91	80	76	57	**95**	125	61	61	47	**–**	–	–	–	–
Businesses and governments	**(1)**	4	1	(3)	1	**597**	626	99	49	40	**–**	–	–	–	–
Total recoveries	**80**	95	81	73	58	**692**	751	160	110	87	**–**	–	–	–	–
Write-offs															
Consumer	**(509)**	(564)	(587)	(430)	(383)	**(347)**	(492)	(289)	(322)	(302)	**–**	–	–	–	–
Businesses and governments	**(160)**	(76)	(136)	(114)	(68)	**(280)**	(461)	(289)	(348)	(739)	**(3)**	(1)	(29)	(2)	–
Total write-offs	**(669)**	(640)	(723)	(544)	(451)	**(627)**	(953)	(578)	(670)	(1,041)	**(3)**	(1)	(29)	(2)	–
Other, including foreign exchange rate changes															
Consumer	**(11)**	(17)	(10)	(14)	–	**(23)**	(13)	3	39	–	**–**	–	–	–	–
Businesses and governments	**11**	(36)	(22)	22	(2)	**4**	(36)	(56)	(70)	(98)	**(9)**	10	–	(8)	(1)
Total Other, including foreign exchange rate changes	**–**	(53)	(32)	8	(2)	**(19)**	(49)	(53)	(31)	(98)	**(9)**	10	–	(8)	(1)
ACL, end of year (4)															
Consumer	**602**	518	464	318	327	**278**	291	270	143	41	**–**	–	–	–	–
Businesses and governments	**433**	450	468	534	503	**653**	659	797	850	970	**4**	18	12	42	61
Total ACL, end of year	**1,035**	968	932	852	830	**931**	950	1,067	993	1,011	**4**	18	12	42	61
Allocation of Write-offs by Market															
Consumer	**(509)**	(564)	(587)	(430)	(383)	**(347)**	(492)	(289)	(322)	(302)	**–**	–	–	–	–
Businesses and governments	**(160)**	(76)	(136)	(114)	(68)	**(280)**	(461)	(289)	(348)	(739)	**(3)**	(1)	(29)	(2)	–
Allocation of Recoveries by Market															
Consumer	**81**	91	80	76	57	**95**	125	61	61	47	**–**	–	–	–	–
Businesses and governments	**(1)**	4	1	(3)	1	**597**	626	99	49	40	**–**	–	–	–	–
Net write-offs as a % of average loans and acceptances (2) (6)	**un**	un	un	un	un	**un**	un	un	un	un	**un**	un	un	un	un
Net write-offs as a % of average loans and acceptances excluding purchased portfolios (2) (6)	**un**	un	un	un	un	**un**	un	un	un	un	**un**	un	un	un	un

Table 17: Allocation of Allowance for Credit Losses – Segmented Information ($ millions, except as noted)

	Canada					United States					Other countries				
As at October 31	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009	**2013**	2012	2011	2010	2009
Consumer															
Residential mortgages	**27**	36	38	42	33	**52**	30	34	10	–	**–**	–	–	–	–
Consumer instalment and other personal loans	**64**	55	54	47	51	**7**	7	5	–	–	**–**	–	–	–	–
Total consumer	**91**	91	92	89	84	**59**	37	39	10	–	**–**	–	–	–	–
Businesses and government	**153**	172	153	168	157	**137**	129	218	272	294	**4**	18	12	42	61
Off-balance sheet	**–**	–	–	–	–	**41**	29	45	9	–	**–**	–	–	–	–
Total specific allowances	**244**	263	245	257	241	**237**	195	302	291	294	**4**	18	12	42	61
Collective allowance	**791**	705	687	595	589	**694**	755	765	702	717	**–**	–	–	–	–
Allowance for credit losses	**1,035**	968	932	852	830	**931**	950	1,067	993	1,011	**4**	18	12	42	61
Coverage Ratios															
Allowance for credit losses as a % of gross impaired loans and acceptances (GIL) (2)															
Total	**137.3**	109.3	97.4	89.5	87.4	**49.9**	45.0	59.6	52.9	46.8	**57.1**	41.9	85.7	51.2	32.8
Consumer	**26.2**	27.0	24.8	21.6	20.1	**8.4**	5.7	10.1	3.2	–	**–**	–	–	–	–
Businesses and government	**37.7**	31.3	26.1	31.1	29.5	**12.7**	9.2	16.4	17.5	14.9	**57.1**	41.9	85.7	51.2	32.8
Allowance for credit losses as a % of GIL excluding purchased portfolios (2)															
Total	**137.3**	109.3	97.4	89.5	87.4	**82.9**	63.6	60.1	52.9	46.8	**57.1**	41.9	85.7	51.2	32.8

Supplemental Information

Total				
2013	2012	2011	2010	2009
809	734	599	368	265
1,127	1,277	1,374	1,534	1,482
1,936	2,011	1,973	1,902	1,747
785	945	877	683	684
(196)	(180)	335	366	919
589	765	1,212	1,049	1,603
176	216	141	137	104
596	630	100	46	41
772	846	241	183	145
(856)	(1,056)	(876)	(752)	(685)
(443)	(538)	(454)	(464)	(807)
(1,299)	(1,594)	(1,330)	(1,216)	(1,492)
(34)	(30)	(7)	25	–
6	(62)	(78)	(56)	(101)
(28)	(92)	(85)	(31)	(101)
880	809	734	461	368
1,090	1,127	1,277	1,426	1,534
1,970	1,936	2,011	1,887	1,902
(856)	(1,056)	(876)	(752)	(685)
(443)	(538)	(454)	(464)	(807)
176	216	141	137	104
596	630	100	46	41
0.20	0.30	0.51	0.60	0.70
0.30	0.43	0.52	0.60	0.70

Total				
2013	2012	2011	2010	2009
79	66	72	52	33
71	62	59	47	51
150	128	131	99	84
294	319	383	482	512
41	29	45	9	–
485	476	559	590	596
1,485	1,460	1,452	1,297	1,306
1,970	1,936	2,011	1,887	1,902
75.8	64.1	73.2	64.9	57.7
14.3	13.1	17.3	13.7	13.7
19.7	16.0	19.9	22.2	19.1
108.2	83.7	74.5	64.9	57.7

Table 18: Specific Allowances for Credit Losses – Segmented Information ($ millions)

As at October 31	**2013**	2012	2011	2010	2009
Business and Governments Specific Allowances by Industry					
Commercial mortgages	**36**	53	45	55	29
Commercial real estate	**32**	55	102	65	76
Construction (non-real estate)	**25**	21	16	40	7
Retail trade	**12**	13	13	12	8
Wholesale trade	**23**	6	8	23	28
Agriculture	**9**	8	8	17	19
Communications	**–**	1	–	1	–
Manufacturing	**28**	59	37	85	129
Mining	**3**	–	–	–	–
Oil and gas	**1**	2	3	2	6
Transportation	**4**	1	9	9	21
Utilities	**–**	1	–	–	–
Forest products	**11**	15	14	15	22
Service industries	**50**	65	45	51	43
Financial institutions	**29**	8	63	101	113
Government	**1**	1	2	2	2
Other	**30**	10	18	4	9
Total specific allowances for credit losses on businesses and governments loans (7)	**294**	319	383	482	512

Table 19: Provision for Credit Losses – Segmented Information ($ millions)

For the year ended October 31	**2013**	2012	2011	2010	2009
Consumer					
Residential mortgages	**129**	132	109	107	104
Cards	**307**	356	376	194	174
Consumer instalment and other personal loans	**313**	387	291	329	372
Total consumer	**749**	875	776	630	650
Businesses and Governments					
Commercial mortgages	**(116)**	(15)	109	87	114
Commercial real estate	**(118)**	(87)	70	91	277
Construction (non-real estate)	**37**	(12)	20	48	31
Retail trade	**3**	(1)	7	22	7
Wholesale trade	**15**	(16)	(1)	9	44
Agriculture	**6**	2	7	8	10
Communications	**(6)**	(5)	(9)	8	3
Manufacturing	**(3)**	23	47	9	237
Mining	**2**	(1)	–	–	–
Oil and gas	**–**	–	1	(1)	7
Transportation	**(8)**	5	7	18	32
Utilities	**–**	–	–	–	–
Forest products	**2**	6	4	(4)	17
Service industries	**11**	26	31	59	50
Financial institutions	**(17)**	(29)	45	66	62
Government	**(6)**	–	–	–	1
Other	**48**	(9)	12	(1)	1
Total businesses and governments	**(150)**	(113)	350	419	893
Total specific provisions	**599**	762	1,126	1,049	1,543
Collective provision for credit losses	**(10)**	3	86	–	60
Total provision for credit losses	**589**	765	1,212	1,049	1,603
Adjusted provision for credit losses (8)	**359**	471	1,108	1,049	1,543
Performance Ratios (%)					
PCL-to-average net loans and acceptances (2) (6)	**0.22**	0.31	0.56	0.61	0.88
PCL-to-segmented average net loans and acceptances (6)					
Consumer	**0.49**	0.62	0.57	0.66	0.70
Businesses and governments	**(0.18)**	(0.15)	0.45	0.55	1.00
Specific PCL-to-average net loans and acceptances	**0.23**	0.31	0.52	0.61	0.85
PCL-to-average net loans and acceptances excluding purchased portfolios (2) (6)	**0.32**	0.42	0.55	0.61	0.88
Adjusted PCL-to-average net loans and acceptances (2) (6)	**0.14**	0.21	0.54	0.61	0.85

Table 20: European Lending Exposure (1) by Country and Counterparty (Canadian $ in millions)

As at October 31, 2013

	Lending (2)							
	Commitments				Funded			
Country	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total
GIIPS								
Greece	–	–	–	–	–	–	–	–
Ireland (5)	–	–	–	–	–	–	–	–
Italy	2	–	–	2	2	–	–	2
Portugal	–	–	–	–	–	–	–	–
Spain	77	–	–	77	77	–	–	77
Total – GIIPS	**79**	**–**	**–**	**79**	**79**	**–**	**–**	**79**
Eurozone (excluding GIIPS)								
France	22	–	–	22	22	–	–	22
Germany	17	4	–	21	17	4	–	21
Netherlands	28	310	–	338	28	135	–	163
Other (6)	293	128	–	421	222	34	–	256
Total – Eurozone (excluding GIIPS)	**360**	**442**	**–**	**802**	**289**	**173**	**–**	**462**
Rest of Europe								
Denmark	15	–	–	15	15	–	–	15
Norway	16	–	–	16	16	–	–	16
Sweden	23	98	–	121	23	41	–	64
Switzerland	3	543	–	546	3	160	–	163
United Kingdom	333	152	–	485	152	70	–	222
Other (6)	450	26	–	476	450	26	–	476
Total – Rest of Europe	**840**	**819**	**–**	**1,659**	**659**	**297**	**–**	**956**
Total – All of Europe	**1,279**	**1,261**	**–**	**2,540**	**1,027**	**470**	**–**	**1,497**

Table 21: European Securities Exposure (1) by Country and Counterparty (Canadian $ in millions)

As at October 31, 2013

	Securities (3)							
	Gross				Net			
Country	Bank	Corporate	Sovereign (4)	Total	Bank	Corporate	Sovereign (4)	Total
GIIPS								
Greece	–	–	–	–	–	–	–	–
Ireland	–	–	26	26	–	–	–	–
Italy	57	23	116	196	–	–	–	–
Portugal	–	–	130	130	–	–	–	–
Spain	42	41	42	125	–	–	–	–
Total – GIIPS	**99**	**64**	**314**	**477**	**–**	**–**	**–**	**–**
Eurozone (excluding GIIPS)								
France	32	108	494	634	–	–	494	494
Germany	135	213	1,312	1,660	–	35	1,312	1,347
Netherlands	626	80	105	811	626	6	105	737
Other (6)	34	29	277	340	–	1	200	201
Total – Eurozone (excluding GIIPS)	**827**	**430**	**2,188**	**3,445**	**626**	**42**	**2,111**	**2,779**
Rest of Europe								
Denmark	532	2	592	1,126	532	–	592	1,124
Norway	1,250	–	–	1,250	1,250	–	–	1,250
Sweden	276	4	–	280	276	–	–	276
Switzerland	11	37	–	48	–	–	–	–
United Kingdom	60	223	82	365	–	40	82	122
Other (6)	–	–	341	341	–	–	–	–
Total – Rest of Europe	**2,129**	**266**	**1,015**	**3,410**	**2,058**	**40**	**674**	**2,772**
Total – All of Europe	**3,055**	**760**	**3,517**	**7,332**	**2,684**	**82**	**2,785**	**5,551**

(1) BMO also has exposure to entities in a number of European countries through our credit protection vehicle, U.S. customer securitization vehicle and structured investment vehicle. These exposures are not included in the tables due to the credit protection incorporated in their structures.
(2) Lending includes loans and trade finance. Amounts are net of write-offs and gross of specific allowances, both of which are not considered material.
(3) Securities include cash products, insurance investments and traded credit. Gross traded credit includes only the long positions and excludes offsetting short positions.
(4) Sovereign includes sovereign-backed bank cash products.
(5) Does not include our Irish subsidiary's reserves with the Irish Central Bank of $86 million.
(6) Includes countries with less than $500 million in gross exposure. Other Eurozone includes exposures to Austria, Belgium, Finland, Luxembourg, Slovakia and Slovenia. Other Europe includes exposures to Croatia, Czech Republic, Hungary, Iceland, Poland and Russian Federation.
(7) Repo-style transactions are all with bank counterparties.
(8) Derivatives amounts are marked-to-market, incorporating transaction netting and, for counterparties where a Credit Support Annex is in effect, collateral offsets. Derivative replacement risk net of collateral for all of Europe is approximately $2.7 billion.

Table 22: European Repo and Derivatives Exposure (1) by Country and Counterparty (Canadian $ in millions)

As at October 31, 2013	Repo-style transactions (7)		Derivatives (8)							
	Gross	Net of collateral	Gross				Net of collateral			
Country	Total	Total	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total
GIIPS										
Greece	–	–	–	–	–	–	–	–	–	–
Ireland	27	1	32	1	–	33	3	1	–	4
Italy	54	–	5	–	–	5	1	–	–	1
Portugal	–	–	–	–	–	–	–	–	–	–
Spain	–	–	7	–	–	7	1	–	–	1
Total – GIIPS	**81**	**1**	**44**	**1**	**–**	**45**	**5**	**1**	**–**	**6**
Eurozone (excluding GIIPS)										
France	2,966	9	190	–	–	190	45	–	–	45
Germany	1,098	2	54	–	–	54	30	–	–	30
Netherlands	1,112	4	51	1	–	52	14	1	–	15
Other (6)	23	2	61	–	1	62	12	–	1	13
Total – Eurozone (excluding GIIPS)	**5,199**	**17**	**356**	**1**	**1**	**358**	**101**	**1**	**1**	**103**
Rest of Europe										
Denmark	69	–	7	–	–	7	7	–	–	7
Norway	–	–	–	–	–	–	–	–	–	–
Sweden	111	–	1	–	–	1	–	–	–	–
Switzerland	330	7	3	–	–	3	19	–	–	19
United Kingdom	3,534	50	238	10	3	251	79	10	–	89
Other (6)	–	–	–	–	–	–	–	–	–	–
Total – Rest of Europe	**4,044**	**57**	**249**	**10**	**3**	**262**	**105**	**10**	**–**	**115**
Total – All of Europe	**9,324**	**75**	**649**	**12**	**4**	**665**	**211**	**12**	**1**	**224**

Table 23: Basel III Regulatory Capital (All-in basis) ($ millions)

As at October 31, 2013	
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share capital plus related stock surplus	**12,318**
Retained earnings	**15,224**
Accumulated other comprehensive income (and other reserves)	**602**
Goodwill and other intangibles (net of related tax liability)	**(4,910)**
Other common equity Tier 1 capital deductions	**(2,007)**
Common Equity Tier 1 capital (CET1)	**21,227**
Additional Tier 1 capital: instruments	
Directly issued capital instruments subject to phase-out from Additional Tier 1	**3,770**
Additional Tier 1 instruments (and CET1 instruments not otherwise included) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**11**
of which: instruments issued by subsidiaries subject to phase-out	**11**
Total regulatory adjustments applied to Additional Tier 1 capital	**(409)**
Additional Tier 1 capital (AT1)	**3,372**
Tier 1 capital (T1 = CET1 + AT1)	**24,599**
Tier 2 capital: instruments and provisions	
Directly issued capital instruments subject to phase-out from Tier 2	**4,444**
Tier 2 instruments (and CET1 and AT1 instruments not included) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	**176**
of which: instruments issued by subsidiaries subject to phase-out	**176**
Collective allowances	**331**
Total regulatory adjustments to Tier 2 capital	**(50)**
Tier 2 capital (T2)	**4,901**
Total capital (TC = T1 + T2)	**29,500**

Table 24: Risk-Weighted Assets ($ millions)

As at October 31	Basel III Exposure at Default Standardized Approach	Basel III Exposure at Default Advanced Approach (2)	Basel III Exposure at Default 2013 Total	Basel III Risk-weighted assets Standardized Approach	Basel III Risk-weighted assets Advanced Approach	Basel III Risk-weighted assets 2013 Total	Exposure at Default	Basel II Risk-weighted assets Standardized Approach	Basel II Risk-weighted assets Advanced Approach (2)	Basel II Risk-weighted assets 2012 Total
Credit Risk										
Wholesale										
Corporate, including specialized lending	**15,501**	**141,345**	**156,846**	**16,559**	**62,112**	**78,671**	145,802	26,563	44,278	70,841
Corporate small and medium-sized enterprises	**–**	**57,406**	**57,406**	**–**	**26,594**	**26,594**	46,541	–	22,120	22,120
Sovereign	**67**	**67,810**	**67,877**	**–**	**904**	**904**	59,691	–	645	645
Bank	**219**	**29,825**	**30,044**	**44**	**4,404**	**4,448**	53,318	2	4,851	4,853
Retail										
Residential mortgages, excluding home equity line of credit	**4,163**	**84,434**	**88,597**	**2,225**	**6,486**	**8,711**	78,113	2,966	5,612	8,578
Home equity line of credit	**1,532**	**41,291**	**42,823**	**841**	**5,738**	**6,579**	42,320	1,317	6,408	7,725
Qualifying revolving retail	**–**	**33,314**	**33,314**	**–**	**4,580**	**4,580**	42,204	–	5,622	5,622
Other retail, excluding small and medium-sized enterprises	**3,206**	**23,962**	**27,168**	**2,097**	**10,313**	**12,410**	24,520	2,372	9,141	11,513
Retail small and medium-sized enterprises	**337**	**3,220**	**3,557**	**266**	**1,269**	**1,535**	3,159	79	1,056	1,135
Equity	**–**	**1,887**	**1,887**	**–**	**1,366**	**1,366**	1,942	–	1,359	1,359
Trading book	**58**	**72,239**	**72,297**	**50**	**6,087**	**6,137**	69,340	223	6,109	6,332
Securitization	**–**	**22,407**	**22,407**	**–**	**4,598**	**4,598**	29,454	–	6,796	6,796
Other credit risk assets – non-counterparty managed assets	**–**	**73,229**	**73,229**	**–**	**14,822**	**14,822**	72,700	–	17,596	17,596
Scaling factor for credit risk assets under AIRB Approach (1)	**–**	**–**	**–**	**–**	**7,934**	**7,934**	–	–	6,840	6,840
Total Credit Risk	**25,083**	**652,369**	**677,452**	**22,082**	**157,207**	**179,289**	669,104	33,522	138,433	171,955
Market Risk				**2,358**	**6,796**	**9,154**		2,263	5,335	7,598
Operational Risk				**26,651**	**–**	**26,651**		25,677	–	25,677
Total Risk-Weighted Assets				**51,091**	**164,003**	**215,094**		61,462	143,768	205,230

(1) The scaling factor is applied to the risk-weighted assets amounts for credit risk under the AIRB Approach.
(2) The AIRB Approach RWA for BMO Harris Bank is adjusted to a transitional floor based on the Standardized Approach.

Table 25: Average Deposits ($ millions, except as noted)

	2013 Average balance	2013 Average rate paid (%)	2012 Average balance	2012 Average rate paid (%)	2011 Average balance	2011 Average rate paid (%)
Deposits Booked in Canada						
Demand deposits – interest bearing	**16,050**	**0.47**	15,292	0.44	17,489	0.41
Demand deposits – non-interest bearing	**24,365**	**–**	23,343	–	21,620	–
Payable after notice	**71,820**	**0.68**	60,116	0.61	49,282	0.53
Payable on a fixed date	**98,631**	**1.56**	92,314	1.65	89,469	1.90
Total deposits booked in Canada	**210,866**	**1.00**	191,065	1.02	177,860	1.14
Deposits Booked in the United States and Other Countries						
Banks located in the United States and other countries	**9,308**	**0.71**	9,213	0.58	8,619	0.53
Governments and institutions in the United States and other countries	**9,283**	**0.42**	8,381	0.35	9,909	0.54
Other demand deposits	**9,305**	**0.03**	7,546	0.02	4,497	0.03
Other deposits payable after notice or on a fixed date	**117,446**	**0.36**	105,212	0.51	70,874	0.79
Total deposits booked in the United States and other countries	**145,342**	**0.37**	130,352	0.48	93,899	0.70
Total average deposits	**356,208**	**0.74**	321,417	0.80	271,759	0.99

As at October 31, 2013, 2012 and 2011: deposits by foreign depositors in our Canadian bank offices amounted to $25,563 million, $24,693 million and $18,237 million, respectively; total deposits payable after notice included $31,700 million, $24,607 million and $24,995 million, respectively, of chequing accounts that would have been classified as demand deposits under U.S. reporting requirements; and total deposits payable on a fixed date included $21,953 million, $16,630 million and $17,365 million, respectively, of federal funds purchased, commercial paper issued and other deposit liabilities. These amounts would have been classified as short-term borrowings for U.S. reporting purposes.

Table 26: Unrealized Gains (Losses) on Available-for-Sale Securities ($ millions)

As at October 31	Amortized cost	Fair value (1)	Unrealized gains (losses) (2) 2013	2012	2011	2010	2009
Canadian governments debt	**16,696**	**16,813**	**117**	265	441	322	146
U.S. governments debt	**10,013**	**10,052**	**39**	165	246	293	70
Mortgage-backed securities – Canada	**2,271**	**2,277**	**6**	3	18	284	247
– United States	**6,535**	**6,528**	**(7)**	64	104	31	28
Corporate debt	**9,569**	**9,676**	**107**	151	41	116	123
Corporate equity	**1,411**	**1,558**	**147**	56	70	24	(6)
Other governments debt	**6,165**	**6,163**	**(2)**	5	5	29	47
Total available-for-sale securities	**52,660**	**53,067**	**407**	709	925	1,099	655

2010 and prior based on CGAAP.

(1) Available-for-sale securities are reflected in the balance sheet at fair value. Unrealized gains (losses) are included in other comprehensive income.
(2) Unrealized gains (losses) may be offset by related losses (gains) on liabilities or hedge contracts.

Statement of Management's Responsibility for Financial Information

Management of Bank of Montreal (the "bank") is responsible for preparation and presentation of the annual consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the applicable requirements of the Securities and Exchange Commission ("SEC") in the United States. The financial statements also comply with the provisions of the *Bank Act (Canada)* and related regulations, including interpretations of IFRS by our regulator, the Office of the Superintendent of Financial Institutions Canada.

The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators ("CSA") as well as Item 303 of Regulation S-K under the United States *Securities Act of 1933* and the *Securities Exchange Act of 1934,* and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because events and circumstances in the future may not occur as expected.

The financial information presented in the bank's Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability and timeliness of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls, disclosure controls and procedures, and internal control over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; escalation of relevant information for decisions regarding public disclosure; careful selection and training of personnel; and accounting policies that we regularly update. This structure ensures appropriate internal controls over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

As at October 31, 2013, we, as the bank's Chief Executive Officer and Chief Financial Officer, have determined that the bank's internal control over financial reporting is effective. We have certified Bank of Montreal's annual filings with the CSA and with the SEC pursuant to National Instrument 52-109 and the *Securities Exchange Act of 1934*.

In order to provide their audit opinions on our consolidated financial statements and on the bank's internal control over financial reporting, the Shareholders' Auditors audit our system of internal controls and conduct work to the extent that they consider appropriate. Their audit opinion on the bank's internal control over financial reporting is set forth on page 124.

The Board of Directors, based on recommendations from its Audit and Conduct Review Committee, reviews and approves the financial information contained in the Annual Report, including the MD&A. The Board of Directors and its relevant committees oversee management's responsibilities for the preparation and presentation of financial information, maintenance of appropriate internal controls, compliance with legal and regulatory requirements, management and control of major risk areas, and assessment of significant and related party transactions.

The Audit and Conduct Review Committee, which is comprised entirely of independent directors, is also responsible for selecting the Shareholders' Auditors and reviewing the qualifications, independence and performance of both the Shareholders' Auditors and internal audit. The Shareholders' Auditors and the bank's Chief Auditor have full and free access to the Board of Directors, its Audit and Conduct Review Committee and other relevant committees to discuss audit, financial reporting and related matters.

The Office of the Superintendent of Financial Institutions Canada conducts examinations and inquiries into the affairs of the bank as are deemed necessary to ensure that the provisions of the *Bank Act,* with respect to the safety of the depositors, are being duly observed and that the bank is in sound financial condition.

William A. Downe
Chief Executive Officer

Thomas E. Flynn
Chief Financial Officer

Toronto, Canada
December 3, 2013

Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders and Board of Directors of Bank of Montreal

We have audited the accompanying consolidated financial statements of Bank of Montreal (the "bank"), which comprise the consolidated balance sheets as at October 31, 2013 and October 31, 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended October 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the bank as at October 31, 2013 and October 31, 2012, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended October 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the bank's internal control over financial reporting as of October 31, 2013, based on the criteria established in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated December 3, 2013 expressed an unmodified (unqualified) opinion on the effectiveness of the bank's internal control over financial reporting.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
December 3, 2013
Toronto, Canada

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Bank of Montreal

We have audited Bank of Montreal's (the "bank") internal control over financial reporting as of October 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included under the heading "Management's Annual Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting" in the accompanying "Management's Discussion and Analysis". Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the bank maintained, in all material respects, effective internal control over financial reporting as of October 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the bank as at October 31, 2013 and 2012, the consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended October 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information, and our report dated December 3, 2013 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
December 3, 2013
Toronto, Canada

Consolidated Statement of Income

For the Year Ended October 31 (Canadian $ in millions, except as noted)	**2013**	2012	2011
Interest, Dividend and Fee Income			
Loans	**$ 10,746**	$ 11,141	$ 10,203
Securities (Note 3)	**2,143**	2,265	2,176
Deposits with banks	**244**	239	145
	13,133	13,645	12,524
Interest Expense			
Deposits	**2,633**	2,578	2,693
Subordinated debt	**145**	165	157
Capital trust securities (Note 18)	**47**	51	76
Other liabilities	**1,763**	2,043	2,124
	4,588	4,837	5,050
Net Interest Income	**8,545**	8,808	7,474
Non-Interest Revenue			
Securities commissions and fees	**1,182**	1,146	1,215
Deposit and payment service charges	**916**	929	834
Trading revenues	**849**	1,025	549
Lending fees	**715**	641	593
Card fees	**724**	708	689
Investment management and custodial fees	**726**	725	496
Mutual fund revenues	**799**	647	633
Underwriting and advisory fees	**488**	442	512
Securities gains, other than trading (Note 3)	**285**	152	189
Foreign exchange, other than trading	**172**	153	130
Insurance income	**445**	335	283
Other	**417**	419	346
	7,718	7,322	6,469
Total Revenue	**16,263**	16,130	13,943
Provision for Credit Losses (Note 4)	**589**	765	1,212
Non-Interest Expense			
Employee compensation (Notes 22 and 23)	**5,827**	5,628	4,827
Premises and equipment (Note 11)	**1,877**	1,916	1,578
Amortization of intangible assets (Note 13)	**352**	339	231
Travel and business development	**514**	491	382
Communications	**291**	301	259
Business and capital taxes	**39**	46	51
Professional fees	**527**	593	624
Other	**870**	924	789
	10,297	10,238	8,741
Income Before Provision for Income Taxes	**5,377**	5,127	3,990
Provision for income taxes (Note 24)	**1,129**	938	876
Net Income	**$ 4,248**	$ 4,189	$ 3,114
Attributable to:			
Bank shareholders	**4,183**	4,115	3,041
Non-controlling interest in subsidiaries (Note 18)	**65**	74	73
Net Income	**$ 4,248**	$ 4,189	$ 3,114
Earnings Per Share (Canadian $) (Note 25)			
Basic	**$ 6.27**	$ 6.18	$ 4.90
Diluted	**6.26**	6.15	4.84

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

William A. Downe
Chief Executive Officer

Philip S. Orsino
Chairman, Audit and Conduct Review Committee

Consolidated Statement of Comprehensive Income

For the Year Ended October 31 (Canadian $ in millions)	2013	2012	2011
Net income	$ 4,248	$ 4,189	$ 3,114
Other Comprehensive Income (Loss)			
Net change in unrealized (losses) on available-for-sale securities			
Unrealized gains (losses) on available-for-sale securities arising during the year (1)	(10)	24	18
Reclassification to earnings of (gains) in the year (2)	(50)	(81)	(104)
	(60)	(57)	(86)
Net change in unrealized gains (losses) on cash flow hedges			
Gains (losses) on cash flow hedges arising during the year (3)	(25)	(62)	328
Reclassification to earnings of (gains) on cash flow hedges (4)	(125)	(107)	(21)
	(150)	(169)	307
Net gain on translation of net foreign operations			
Unrealized gain (loss) on translation of net foreign operations	741	75	(90)
Impact of hedging unrealized gain (loss) on translation of net foreign operations (5)	(409)	(35)	123
	332	40	33
Other Comprehensive Income (Loss)	122	(186)	254
Total Comprehensive Income	$ 4,370	$ 4,003	$ 3,368
Attributable to:			
Bank shareholders	4,305	3,929	3,295
Non-controlling interest in subsidiaries (Note 18)	65	74	73
Total Comprehensive Income	$ 4,370	$ 4,003	$ 3,368

(1) Net of income tax (provision) recovery of $9 million, $(13) million and $(11) million for the years ended, respectively.
(2) Net of income tax provision of $22 million, $39 million and $51 million for the years ended, respectively.
(3) Net of income tax (provision) recovery of $12 million, $10 million and $(137) million for the years ended, respectively.
(4) Net of income tax provision of $45 million, $38 million and $9 million for the years ended, respectively.
(5) Net of income tax (provision) recovery of $146 million, $13 million and $(26) million for the years ended, respectively.

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

Consolidated Balance Sheet

As at October 31 (Canadian $ in millions)	2013	2012
Assets		
Cash and Cash Equivalents (Note 2)	$ 26,083	$ 19,941
Interest Bearing Deposits with Banks (Note 2)	6,518	6,341
Securities (Note 3)		
Trading	75,159	70,109
Available-for-sale	53,067	56,382
Held-to-maturity	6,032	875
Other	723	958
	134,981	128,324
Securities Borrowed or Purchased Under Resale Agreements (Note 4)	39,799	47,011
Loans (Notes 4 and 8)		
Residential mortgages	99,328	87,870
Consumer instalment and other personal	63,640	61,436
Credit cards	7,870	7,814
Businesses and governments	101,450	90,402
	272,288	247,522
Customers' liability under acceptances	8,472	8,019
Allowance for credit losses (Note 4)	(1,665)	(1,706)
	279,095	253,835
Other Assets		
Derivative instruments (Note 10)	30,259	48,071
Premises and equipment (Note 11)	2,191	2,120
Goodwill (Note 13)	3,893	3,717
Intangible assets (Note 13)	1,530	1,552
Current tax assets	1,065	1,293
Deferred tax assets (Note 24)	2,914	2,906
Other (Note 14)	8,971	10,338
	50,823	69,997
Total Assets	$ 537,299	$ 525,449
Liabilities and Equity		
Deposits (Note 15)		
Banks	$ 20,591	$ 18,102
Businesses and governments	220,798	186,570
Individuals	125,432	119,030
	366,821	323,702
Other Liabilities		
Derivative instruments (Note 10)	31,974	48,736
Acceptances (Note 16)	8,472	8,019
Securities sold but not yet purchased (Note 16)	22,446	23,439
Securities lent or sold under repurchase agreements (Note 16)	28,884	39,737
Current tax liabilities	443	404
Deferred tax liabilities (Note 24)	107	171
Other (Note 16)	42,212	46,596
	134,538	167,102
Subordinated Debt (Note 17)	3,996	4,093
Capital Trust Securities (Note 18)	463	462
Equity		
Share capital (Note 20)	14,268	14,422
Contributed surplus	315	213
Retained earnings	15,224	13,540
Accumulated other comprehensive income	602	480
Total shareholders' equity	30,409	28,655
Non-controlling interest in subsidiaries (Note 20)	1,072	1,435
Total Equity	31,481	30,090
Total Liabilities and Equity	$ 537,299	$ 525,449

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

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

Consolidated Statement of Changes in Equity

For the Year Ended October 31 (Canadian $ in millions)	2013	2012	2011
Preferred Shares (Note 20)			
Balance at beginning of year	$ 2,465	$ 2,861	$ 2,571
Issued during the year	–	–	290
Redeemed during the year	(200)	(396)	–
Balance at End of Year	2,265	2,465	2,861
Common Shares (Note 20)			
Balance at beginning of year	11,957	11,332	6,927
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan (Note 20)	130	543	179
Issued under the Stock Option Plan (Note 22)	116	80	122
Repurchased for cancellation (Note 20)	(200)	–	–
Issued on the exchange of shares of a subsidiary corporation	–	2	1
Issued on the acquisition of a business	–	–	4,103
Balance at End of Year	12,003	11,957	11,332
Contributed Surplus			
Balance at beginning of year	213	113	91
Stock option expense/exercised (Note 22)	(5)	4	22
Foreign exchange on redemption of preferred shares (Note 20)	107	96	–
Balance at End of Year	315	213	113
Retained Earnings			
Balance at beginning of year	13,540	11,381	10,181
Net income attributable to bank shareholders	4,183	4,115	3,041
Dividends – Preferred shares (Note 20)	(120)	(136)	(146)
– Common shares (Note 20)	(1,904)	(1,820)	(1,690)
Common shares repurchased for cancellation	(475)	–	–
Share issue expense	–	–	(5)
Balance at End of Year	15,224	13,540	11,381
Accumulated Other Comprehensive Income on Available-for-Sale Securities			
Balance at beginning of year	265	322	408
Unrealized gains (losses) on available-for-sale securities arising during the year (1)	(10)	24	18
Reclassification to earnings of (gains) in the year (2)	(50)	(81)	(104)
Balance at End of Year	205	265	322
Accumulated Other Comprehensive Income on Cash Flow Hedges			
Balance at beginning of year	142	311	4
Gains (losses) on cash flow hedges arising during the year (3)	(25)	(62)	328
Reclassification to earnings of (gains) on cash flow hedges (4)	(125)	(107)	(21)
Balance at End of Year	(8)	142	311
Accumulated Other Comprehensive Income on Translation of Net Foreign Operations			
Balance at beginning of year	73	33	–
Unrealized gain (loss) on translation of net foreign operations	741	75	(90)
Impact of hedging unrealized gain (loss) on translation of net foreign operations (5)	(409)	(35)	123
Balance at End of Year	405	73	33
Total Accumulated Other Comprehensive Income	602	480	666
Total Shareholders' Equity	$ 30,409	$ 28,655	$ 26,353
Non-controlling Interest in Subsidiaries			
Balance at beginning of year	1,435	1,483	1,501
Net income attributable to non-controlling interest	65	74	73
Dividends to non-controlling interest	(73)	(73)	(71)
Preferred share redemption (Note 20)	(359)	–	–
Other	4	(49)	(20)
Balance at End of Year	1,072	1,435	1,483
Total Equity	$ 31,481	$ 30,090	$ 27,836

(1) Net of income tax (provision) recovery of $9 million, $(13) million and $(11) million for the year ended, respectively.

(2) Net of income tax provision of $22 million, $39 million and $51 million for the year ended, respectively.

(3) Net of income tax (provision) recovery of $12 million, $10 million and $(137) million for the year ended, respectively.

(4) Net of income tax provision of $45 million, $38 million and $9 million for the year ended, respectively.

(5) Net of income tax (provision) recovery of $146 million, $13 million and $(26) million for the year ended, respectively.

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

Consolidated Statement of Cash Flows

For the Year Ended October 31 (Canadian $ in millions)	**2013**	2012	2011
Cash Flows from Operating Activities			
Net Income	**$ 4,248**	$ 4,189	$ 3,114
Adjustments to determine net cash flows provided by (used in) operating activities			
Impairment write-down of securities, other than trading (Note 3)	**17**	5	4
Net (gain) on securities, other than trading (Note 3)	**(302)**	(157)	(193)
Net (increase) decrease in trading securities	**(4,392)**	(251)	1,987
Provision for credit losses (Note 4)	**589**	765	1,212
Change in derivative instruments – (Increase) decrease in derivative asset	**20,240**	6,651	(6,621)
– Increase (decrease) in derivative liability	**(19,195)**	(1,840)	4,015
Amortization of premises and equipment (Note 11)	**360**	364	307
Amortization of intangible assets (Note 13)	**352**	339	231
Net decrease in deferred income tax asset	**96**	486	163
Net (decrease) in deferred income tax liability	**(65)**	(143)	(245)
Net decrease in current income tax asset	**389**	37	109
Net increase (decrease) in current income tax liability	**25**	(182)	27
Change in accrued interest – (Increase) decrease in interest receivable	**122**	10	(19)
– Increase (decrease) in interest payable	**(129)**	(109)	62
Changes in other items and accruals, net	**(516)**	(6,240)	(270)
Net increase in deposits	**35,724**	19,331	15,129
Net (increase) in loans	**(21,479)**	(14,972)	(4,917)
Net increase (decrease) in securities sold but not yet purchased	**(1,221)**	3,243	6,143
Net increase (decrease) in securities lent or sold under repurchase agreements	**(12,090)**	8,092	(8,648)
Net (increase) decrease in securities borrowed or purchased under resale agreements	**8,660**	(9,360)	(9,974)
Net Cash Provided by Operating Activities	**11,433**	10,258	1,616
Cash Flows from Financing Activities			
Net (decrease) in liabilities of subsidiaries	**(397)**	(637)	(3,466)
Proceeds from issuance (maturities) of Covered Bonds	**(1,354)**	2,000	3,495
Proceeds from issuance (repayment) of subordinated debt (Note 17)	**–**	(1,200)	1,500
Redemption of preferred shares	**(200)**	(396)	–
Proceeds from issuance of preferred shares	**–**	–	290
Redemption of securities of a subsidiary (Note 20)	**(359)**	–	–
Redemption of Capital Trust Securities (Note 18)	**–**	(400)	(400)
Share issue expense	**–**	–	(5)
Proceeds from issuance of common shares (Note 20)	**122**	88	129
Common shares repurchased for cancellation (Note 20)	**(675)**	–	–
Cash dividends paid	**(1,896)**	(1,419)	(1,663)
Cash dividends paid to non-controlling interest	**(73)**	(73)	(71)
Net Cash (Used in) Financing Activities	**(4,832)**	(2,037)	(191)
Cash Flows from Investing Activities			
Net (increase) decrease in interest bearing deposits with banks	**43**	(347)	967
Purchases of securities, other than trading	**(32,007)**	(37,960)	(27,093)
Maturities of securities, other than trading	**13,233**	12,672	11,958
Proceeds from sales of securities, other than trading	**17,288**	18,868	15,869
Premises and equipment – net purchases	**(377)**	(366)	(368)
Purchased and developed software – net purchases	**(259)**	(313)	(271)
Purchase of Troubled Asset Relief Program preferred shares and warrants	**–**	–	(1,642)
Acquisitions (Note 12)	**140**	(21)	677
Net Cash Provided by (Used in) Investing Activities	**(1,939)**	(7,467)	97
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**1,480**	(489)	694
Net increase in Cash and Cash Equivalents	**6,142**	265	2,216
Cash and Cash Equivalents at Beginning of Year	**19,941**	19,676	17,460
Cash and Cash Equivalents at End of Year	**$ 26,083**	$ 19,941	$ 19,676
Represented by:			
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 24,593**	$ 18,347	$ 18,320
Cheques and other items in transit, net	**1,490**	1,594	1,356
	$ 26,083	$ 19,941	$ 19,676
Supplemental Disclosure of Cash Flow Information			
Net cash provided by operating activities includes:			
Amount of interest paid in the year	**$ 4,707**	$ 4,948	$ 4,951
Amount of income taxes paid in the year	**$ 577**	$ 654	$ 787
Amount of interest and dividend income received in the year	**$ 13,150**	$ 13,555	$ 12,438

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

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

Notes to Consolidated Financial Statements

Note 1: Basis of Presentation

Bank of Montreal ("the bank") is a public company incorporated in Canada having its registered office in Montreal, Canada. We are a highly diversified financial services provider and provide a broad range of retail banking, wealth management and investment banking products and services. The bank is a chartered bank under the *Bank Act (Canada)*.

We have prepared these financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). We also comply with interpretations of IFRS by our regulator, the Office of the Superintendent of Financial Institutions Canada ("OSFI").

Our consolidated financial statements have been prepared on a historic cost basis, except the revaluation of the following items: assets and liabilities held for trading; financial instruments designated at fair value through profit or loss; available-for-sale financial assets; financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships; cash-settled share-based payment liabilities; defined benefit pension and other employee future benefit liabilities; and insurance-related liabilities.

These consolidated financial statements were authorized for issue by the Board of Directors on December 3, 2013.

Basis of Consolidation

These consolidated financial statements are inclusive of the financial statements of our subsidiaries as at October 31, 2013. We conduct business through a variety of corporate structures, including subsidiaries, joint ventures, associates and special purpose entities ("SPEs"). Subsidiaries are those entities where we exercise control through our ownership of the majority of the voting shares. Joint ventures are those entities where we exercise joint control through an agreement with other shareholders. We also hold interests in SPEs, which we consolidate where we control the SPE. These are more fully described in Note 9. All of the assets, liabilities, revenues and expenses of our subsidiaries, and consolidated SPEs, and our proportionate share of the assets, liabilities, revenues and expenses of our joint ventures are included in our consolidated financial statements. All significant intercompany transactions and balances are eliminated on consolidation.

We hold investments in associates, where we exert significant influence over operating, investing and financing decisions (companies in which we own between 20% and 50% of the voting shares). These are recorded at cost and are adjusted for our proportionate share of any net income or loss, other comprehensive income or loss and dividends. They are recorded as securities, other in our Consolidated Balance Sheet and our proportionate share of the net income or loss of these companies is recorded in interest, dividend and fee income, securities, in our Consolidated Statement of Income.

Non-controlling interest in subsidiaries is presented in the Consolidated Balance Sheet as a separate component of equity that is distinct from our shareholders' equity. The net income attributable to non-controlling interest in subsidiaries is presented separately in the Consolidated Statement of Income.

Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements, we have disclosed our significant accounting policies throughout the following notes with the related financial disclosures by major caption:

Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and present our consolidated financial statements in Canadian dollars, which is our functional currency. Monetary assets and liabilities, as well as non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies, are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities not measured at fair value are translated into Canadian dollars at historical rates. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the year.

Unrealized gains and losses arising from translating our net investment in foreign operations into Canadian dollars, net of related hedging activities and applicable income taxes, are included in our Consolidated Statement of Comprehensive Income within net gain (loss) on translation of net foreign operations. When we dispose of a foreign operation such that control, significant influence or joint control is lost, the cumulative amount of the translation gain (loss) and any applicable hedging activity and related income taxes are reclassified to profit or loss as part of the gain or loss on disposition. All other foreign currency translation gains and losses are included in foreign exchange, other than trading, in our Consolidated Statement of Income as they arise.

Foreign currency translation gains and losses on available-for-sale debt securities that are denominated in foreign currencies are included in foreign exchange, other than trading, in our Consolidated Statement of Income.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. Realized and unrealized gains and losses that arise on the mark-to-market of foreign exchange contracts related to economic hedges are included in foreign exchange, other than trading, in our Consolidated Statement of Income. Changes in fair value on forward contracts that qualify as accounting hedges are recorded in our Consolidated Statement of Comprehensive Income, with the spot/forward differential (the difference between the foreign currency rate at the inception of the contract and the rate at the end of the contract) being recorded in interest income (expense) over the term of the hedge.

Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Balance Sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Dividend and Fee Income

Dividend income

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities.

Fee income

Fee income (including commissions) is recognized based on the services or products for which the fee is paid. See Note 4 for the accounting treatment for lending fees.

Securities commissions and fees and underwriting and advisory fees are recorded as revenue when the related services are completed.

Deposit and payment service charges and insurance fees are recognized over the period that the related services are provided.

Card fees primarily include interchange income, late fees, cash advance fees and annual fees. Card fees are recorded as billed, except for annual fees, which are recorded evenly throughout the year.

Use of Estimates and Assumptions

The preparation of the consolidated financial statements requires management to use estimates and assumptions that affect the carrying amounts of certain assets and liabilities, certain amounts reported in net income and other related disclosures.

The most significant assets and liabilities for which we must make estimates include: allowance for credit losses; purchased loans; acquired deposits; pension and other employee future benefits; impairment; income taxes; goodwill and intangible assets; insurance-related liabilities; and provisions. We make judgments in assessing whether substantially all risks and rewards have been transferred in respect of transfers of financial assets and whether we control SPEs. These judgments are discussed in Notes 8 and 9, respectively. Note 29 discusses the judgments made in determining the fair value of financial instruments. If actual results differ from the estimates, the impact would be recorded in future periods.

We have established detailed policies and control procedures that are intended to ensure these judgments are well controlled, independently reviewed and consistently applied from period to period. We believe that our estimates of the value of our assets and liabilities are appropriate.

Allowance for credit losses

The allowance for credit losses adjusts the value of loans to reflect their estimated realizable value. In assessing their estimated realizable value, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These include economic factors, developments affecting companies in particular industries, and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Additional information regarding the allowance for credit losses is included in Note 4.

Purchased loans

Significant judgment and assumptions were applied to determine the fair value of the Marshall & Ilsley Corporation ("M&I") loan portfolio. Loans are either purchased performing loans or purchased credit impaired loans ("PCI loans"), both of which were recorded at fair value at the time of acquisition. Determining the fair value involved estimating the expected cash flows to be received and determining the discount rate to be applied to the cash flows from the loan portfolio. In determining the possible discount rates, we considered various factors, including our cost to raise funds in the current market, the risk premium associated with the loans and the cost to service the portfolios. PCI loans are those where the timely collection of interest and principal was no longer reasonably assured as at the date of acquisition. Subsequent to the acquisition date, we regularly re-evaluate what we expect to collect on PCI loans. Changes in expected cash flows could result in the recognition of impairment or a recovery in our provision for credit losses. Assessing the timing and amount of cash flows requires significant management judgment regarding key assumptions, including the probability of default, severity of loss and timing of payment receipts, as well as the valuation of collateral. All of these factors are inherently subjective and can result in significant changes in cash flow estimates over the life of a loan.

Subsequent to the determination of the initial fair value, the purchased performing loans are subject to the credit review processes applied to loans we originate.

Additional information regarding the accounting for purchased loans is included in Note 4.

Acquired deposits

M&I deposit liabilities were recorded at fair value at acquisition. The determination of fair value involved estimating the expected cash flows to be paid and determining the discount rate applied to the cash flows. Assessing the timing and amount of cash flows requires significant management judgment regarding the likelihood of early redemption by us and the timing of withdrawal by the client. Discount rates were based on the prevailing rates we were paying on similar deposits at the date of acquisition.

Additional information on the accounting for deposits is included in Note 15.

Pension and other employee future benefits

Our pension and other employee future benefits expense is calculated by our independent actuaries using assumptions determined by management. If actual experience differs from the assumptions used, pension and other employee future benefits expense could increase or decrease in future years. The expected rate of return on plan assets is a management estimate that significantly affects the calculation of pension expense. Our expected rate of return on plan assets is determined using the plan's target asset allocation and estimated rates of return for each asset class. Estimated rates of return are based on expected returns from fixed income securities, which take into consideration bond yields. An equity risk premium is then applied to estimate equity returns. Expected returns from other asset classes are established to reflect the risks of these asset classes relative to fixed income and equity assets. The impact of changes in expected rates of return on plan assets is not significant for our other employee future benefits expense since only small amounts of assets are held in these plans.

Pension and other employee future benefits expense and obligations are also sensitive to changes in discount rates. We determine discount rates at each year end for our Canadian and U.S. plans using high-quality corporate bonds with terms matching the plans' specific cash flows.

Additional information regarding our accounting for pension and other employee future benefits is included in Note 23.

Impairment

We have investments in securities issued or guaranteed by Canadian, U.S. and other governments, corporate debt and equity securities, mortgage-backed securities and collateralized mortgage obligations, which are classified as available-for-sale securities. We review held-to-maturity, available-for-sale and other securities at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment.

For held-to-maturity, available-for-sale and other securities, impairment losses are recognized if, there is objective evidence of impairment, as a result of an event that reduces the estimated future cash flows from the security and the impact can be reliably estimated.

Objective evidence of impairment includes default or delinquency by a debtor, restructuring of an amount due to us on terms that we would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment.

The decision to record a write-down, the amount and the period in which it is recorded could change if management's assessment of the factors change. We do not record impairment write-downs on debt securities when impairment is due to changes in market interest rates, if future contractual cash flows associated with the debt security are still expected to be recovered.

Additional information regarding our accounting for held-to-maturity securities, available-for-sale securities and other securities and the determination of fair value is included in Note 3.

Income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in our Consolidated Statements of Income or Changes in Equity. In determining the provision for income taxes, we interpret tax legislation in a variety of jurisdictions and make assumptions about the expected timing of the reversal of deferred tax assets and liabilities. If our interpretations differ from those of tax authorities or if the timing of reversals is not as expected, our provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated.

Additional information regarding our accounting for income taxes is included in Note 24.

Goodwill

For the purpose of impairment testing, goodwill is allocated to our cash generating units ("CGUs"), which represent the lowest level within the bank at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, and whenever there is an indication that a CGU may be impaired, by comparing the carrying value and the recoverable amount of the CGU to which goodwill has been allocated to determine whether the recoverable amount of the group is greater than its carrying value. If the carrying value were to exceed the recoverable amount of the group, we would recognize an impairment loss.

Fair value less costs to sell was used to perform the impairment test in 2013 and 2012. In determining fair value less costs to sell, we employ a discounted cash flow model consistent with those used when we acquire businesses. This model is dependent on assumptions related to revenue growth, discount rates, synergies achieved on acquisition and the availability of comparable acquisition data. Changes in each of these assumptions would affect the determination of fair value for each of the business units in a different manner. Management must exercise its judgment and make assumptions in determining fair value less costs to sell, and differences in judgments and assumptions could affect the determination of fair value and any resulting impairment write-down.

Additional information regarding goodwill is included in Note 13.

Insurance-related liabilities

Insurance claims and policy benefit liabilities represent current claims and estimates of future insurance policy benefits. Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method, which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and updated to reflect actual experience and market conditions. The most significant impact on the valuation of a liability results from a change in the assumption for future investment yields. Future investment yields may be sensitive to variations in reinvestment interest rates, which may affect the valuation of policy benefit liabilities.

Additional information regarding insurance-related liabilities is included in Note 16.

Provisions

The bank and its subsidiaries are involved in various legal actions in the ordinary course of business.

Provisions are recorded at the best estimate of the amounts required to settle any obligations related to these legal actions as at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Management and internal and external experts are involved in estimating any provisions. The actual costs of resolving these claims may be substantially higher or lower than the amounts of the provisions.

Additional information regarding provisions is provided in Note 28.

Future Changes in IFRS

Employee benefits

In June 2011, the IASB issued amendments to IAS 19 *Employee Benefits* ("IAS 19 revised"). The revised standard is effective for our fiscal year beginning November 1, 2013. Under the revised standard, actuarial gains and losses are to be recognized immediately in other comprehensive income and may no longer be deferred and amortized. Additionally, the expected return on plan assets will be set equal to the discount rate used to determine the plan obligation. This will result in a higher pension obligation and pension expense. Retroactive application of the amendments would increase our defined benefit liability by $538 million, reduce accumulated other comprehensive income by $459 million and reduce retained earnings by $79 million as at November 1, 2012.

Fair value measurement

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* ("IFRS 13"), which replaces the existing standard for fair value measurement. The new standard provides a common definition of fair value and establishes a framework for measuring fair value. The new standard also requires additional disclosures about fair value measurements. IFRS 13 is effective for our fiscal year beginning November 1, 2013. The adoption of the new standard will result in additional disclosures. We do not expect this new standard to have a significant impact on how we determine fair value.

Impairment of assets

In May 2013, the IASB issued narrow-scope amendments to IAS 36 *Impairment of Assets.* These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are effective for our fiscal year beginning November 1, 2014. We do not expect the amendments to have a significant impact on our consolidated financial statements.

Consolidated financial statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), which provides a single consolidation model that defines control and establishes control as the basis for consolidation for all types of interests. Under IFRS 10, we would control an entity when we have power over the entity, exposure or rights to variable returns from our involvement, and the ability to exercise power to affect the amount of our returns. IFRS 10 is effective for our fiscal year beginning November 1, 2013. The adoption of IFRS 10 is expected to result in the deconsolidation of two of our funding vehicles and Canadian securitization vehicles. This will result in $802 million of subordinated debt and $463 million of capital trust securities being reclassified to deposit liabilities and $640 million of other assets being reclassified as available-for-sale securities in our Consolidated Balance Sheet as at November 1, 2012. We expect no other significant impacts on our consolidated financial statements from the adoption of the new standard.

Investments in associates and joint ventures

In May 2011, the IASB issued IFRS 11 *Joint Arrangements* ("IFRS 11"), which requires that joint ventures be accounted for using the equity method. IFRS 11 is effective for our fiscal year beginning November 1, 2014. The adoption of IFRS 11 will result in our joint venture being accounted for using the equity method of accounting. This change will not have a significant impact on our consolidated financial statements.

Offsetting financial assets and financial liabilities

In December 2011, the IASB issued amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* ("IAS 32") and to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* ("IFRS 7"). The amendments clarify that an entity has a legally enforceable right to offset if that right is not contingent on a future event; and that right is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. These amendments also contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting agreements or similar agreements. The disclosure amendments are effective for our fiscal year beginning November 1, 2013 and the classification amendments are effective for our fiscal year beginning November 1, 2014. The amendments will result in additional disclosures. We do not expect this new standard to have a significant impact on our consolidated financial statements.

Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"), which sets out the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard requires disclosure of the nature of, and risks associated with, an entity's interests in other entities and the effects of these interests on its financial position, financial performance and cash flows. The new standard is effective for our fiscal year beginning November 1, 2013, and will result in additional disclosures.

Financial instruments

In December 2011, the IASB issued IFRS 9 ("IFRS 9"), which sets out requirements for the classification and measurement of financial assets and financial liabilities. This is the first phase of a three-phase project to replace the current standard for accounting for financial instruments. The new standard specifies that financial assets are to be measured at either amortized cost or fair value on the basis of the reporting entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial liabilities designated at fair value through profit or loss remain generally unchanged; however, fair value changes attributable to changes in the credit risk for financial liabilities designated at fair value through profit or loss are to be recorded in other comprehensive income unless they offset amounts recorded in income.

In November 2013, the IASB issued an amendment to IFRS 9 which sets out a new general hedge accounting model. This amendment does not address portfolio or macro hedging which will be addressed at a later time. The new model expands the scope of eligible hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. Under the new IFRS 9 model, it will be necessary to demonstrate an economic relationship between the hedged item and hedging instrument, however there will no longer be a specified quantitative measure and retrospective hedge effectiveness testing will no longer be required. Increased disclosures will be required about our risk management strategy, cash flows from hedging activities and the impact of hedge accounting on financial statements.

The other phase of this project, which is currently under development, addresses impairment. In July 2013, the IASB tentatively decided to defer the effective date of IFRS 9 to an unspecified date pending the finalization of the impairment and hedge accounting phases of the project. We are currently assessing the impact of this new standard on our future financial results in conjunction with the completion of the other phases of the IASB's financial instruments project.

In June 2013, the IASB issued amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. These amendments allow hedge accounting to continue when derivatives are novated to effect clearing with a central counterparty as a result of laws or regulations, if specific conditions are met. The amendments are to be applied retrospectively and are effective for our fiscal year beginning November 1, 2014. We do not expect the amendments to have a significant impact on our consolidated financial statements.

Investment entities

In October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27 Separate Financial Statements, which introduce an exception to the principle that all subsidiaries are to be consolidated. The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating all subsidiaries in its consolidated financial statements. The amendments are effective for our fiscal year beginning November 1, 2014. We do not expect these amendments to have a significant impact on our consolidated financial statements.

Note 2: Cash Resources and Interest Bearing Deposits with Banks

(Canadian $ in millions)	2013	2012
Cash and deposits with banks (1)	**24,593**	18,347
Cheques and other items in transit, net	**1,490**	1,594
Total cash and cash equivalents	**26,083**	19,941

(1) Deposits with banks include deposits with the Bank of Canada, the U.S. Federal Reserve and other banks.

Cheques and Other Items in Transit, Net

Cheques and other items in transit are recorded at cost and represent the net position of the uncleared cheques and other items in transit between us and other banks.

Cash Restrictions

Some of our foreign operations are required to maintain reserves or minimum balances with central banks in their respective countries of operation, amounting to $1,211 million as at October 31, 2013 ($1,059 million in 2012).

Interest Bearing Deposits with Banks

Deposits with banks are recorded at amortized cost and include acceptances we have purchased that were issued by other banks. Interest income earned on these deposits is recorded on an accrual basis.

Note 3: Securities

Securities are divided into four types, each with a different purpose and accounting treatment. The types of securities we hold are as follows:

Trading securities are securities that we purchase for resale over a short period of time. We report these securities at their fair value and record the fair value changes and transaction costs in our Consolidated Statement of Income in trading revenues.

Securities Designated at Fair Value
Securities designated at fair value through profit or loss are financial instruments that are accounted for at fair value, with changes in fair value recorded in income provided they meet certain criteria. Securities designated at fair value through profit or loss must have reliably measurable fair values and satisfy one of the following criteria: (1) accounting for them at fair value eliminates or significantly reduces an inconsistency in measurement or recognition that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; (2) the securities are part of a group of financial assets, financial liabilities or both that is managed and has its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and is reported to key management personnel on a fair value basis; or (3) the securities are hybrid financial instruments with one or more embedded derivatives that would otherwise have to be bifurcated and accounted for separately from the host contract. Financial instruments must be designated on initial recognition, and the designation is irrevocable. If these securities were not designated at fair value, they would be accounted for as available-for-sale securities with unrealized gains and losses recorded in other comprehensive income.

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 fair value of these investments as at October 31, 2013 of $5,766 million ($5,561 million in 2012) is recorded in securities, trading in our Consolidated Balance Sheet. The impact of recording these investments at fair value through profit or loss was a decrease of $178 million in non-interest revenue, insurance income for the year ended October 31, 2013 (increase of $286 million in 2012). Changes in the insurance liability balances are also recorded in non-interest revenue, insurance income.

We designate investments held by our credit protection vehicle and our structured investment vehicle (our "structured credit vehicles") at fair value through profit or loss, which aligns the accounting result with the way the portfolio is managed on a fair value basis. At October 31, 2013, these vehicles held only cash. The fair value of the investments held in these vehicles at October 31, 2012 was $1,849 million and was recorded in securities, trading 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, trading revenues of $40 million for the year ended October 31, 2013 (increase of $183 million in 2012). We recognized offsetting amounts for derivative contracts that are held to hedge changes in the fair value of these investments. Additional information regarding our structured credit vehicles is included in Note 9.

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 October 31, 2013 of $488 million ($654 million in 2012) 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 $18 million in our Consolidated Statement of Income for the year ended October 31, 2013 (decrease of $41 million in 2012).

Available-for-sale securities consist of debt and equity securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs.

Available-for-sale securities are initially recorded at fair value plus transaction costs. They are subsequently re-measured at fair value with unrealized gains and losses recorded in unrealized gains (losses) on available-for-sale securities in our Consolidated Statement of Comprehensive Income until the security is sold. Gains and losses on disposal and impairment losses are recorded in our Consolidated Statement of Income in non-interest revenue, securities gains, other than trading. Interest income earned and dividends received on available-for-sale securities are recorded in our Consolidated Statement of Income in interest, dividend and fee income, securities.

Investments held by our insurance operations are classified as available-for-sale or other securities, except for those investments that support the policy benefit liabilities on our insurance contracts, which are designated at fair value through profit or loss as discussed above. Interest and other fee income on available-for-sale securities is recognized when earned in our Consolidated Statement of Income in non-interest revenue, insurance income.

Held-to-maturity securities are debt securities that we have the intention and ability to hold to maturity. These securities are initially recorded at fair value plus transaction costs and subsequently re-measured at amortized cost using the effective interest method. Gains and losses on disposal and impairment losses are recorded in our Consolidated Statement of Income in securities gains (losses), other than trading. Interest income earned and amortization of premiums or discounts on the debt securities are recorded in our Consolidated Statement of Income in interest, dividend and fee income, securities.

Other securities are investments in companies where we exert significant influence over operating, investing and financing decisions (companies in which we own between 20% and 50% of the voting share) and certain securities held by our merchant banking business.

We account for all of our securities transactions using settlement date accounting in our Consolidated Balance Sheet. Changes in fair value between the trade date and settlement date are recorded in net income. For available-for-sale securities, changes in fair value between the trade date and settlement date are recorded in other comprehensive income.

Impairment Review

For available-for-sale, held-to-maturity and other securities, impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows from the security and the impact can be reliably estimated.

For equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment.

The impairment loss on available-for-sale securities is the difference between the cost/amortized cost and current fair value, less any previously recognized impairment losses. The impairment loss on held-to-maturity securities is measured as the difference between a security's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If there is objective evidence of impairment, a write-down is recorded in our Consolidated Statement of Income in securities gains, other than trading.

For debt securities, a previous impairment loss is reversed through net income if an event occurs after the impairment was recognized that can be objectively attributed to an increase in fair value, to a maximum of the original impairment charge. Reversals of impairment losses on held-to-maturity securities are recorded to a maximum of the amortized cost of the investment before the original impairment charge. For equity securities, previous impairment losses are not reversed through net income and any subsequent increases in fair value are recorded in other comprehensive income.

As at October 31, 2013, we had 979 available-for-sale securities (248 in 2012) with unrealized losses totalling $96 million (unrealized losses of $86 million in 2012). Of these available-for-sale securities, 44 have been in an unrealized loss position continuously for more than one year (28 in 2012), amounting to an unrealized loss position of $5 million (unrealized loss position of $5 million in 2012). Unrealized losses on these instruments, excluding corporate equities, resulted from changes in interest rates and not from deterioration in the creditworthiness of the issuers. We expect full recovery of principal and interest payments from certain debt securities due to governmental support and/or overcollateralization provided. The share prices and valuations of many equity securities that we hold have also appreciated from earlier levels. Based on these factors, we have determined that there is no significant impairment.

We did not own any securities issued by a single non-government entity where the book value, as at October 31, 2013 or 2012, was greater than 10% of our shareholders' equity.

Fair Value Measurement

For traded securities, quoted market value is considered to be fair value. Quoted market value is based on bid prices. For securities where market quotes are not available, we use estimation techniques to determine fair value. Discussion of fair value measurement is included in Note 29.

(Canadian $ in millions, except as noted)	Term to maturity					2013	2012
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Total
Trading Securities							
Issued or guaranteed by:							
Canadian federal government	2,253	4,004	1,249	2,023	1,295	10,824	10,907
Canadian provincial and municipal governments	644	758	636	1,840	1,833	5,711	5,515
U.S. federal government	905	2,397	1,415	717	469	5,903	7,052
U.S. states, municipalities and agencies	20	412	154	162	11	759	447
Other governments	1	117	14	–	4	136	521
Mortgage-backed securities and collateralized mortgage obligations	23	386	170	35	38	652	1,510
Corporate debt	1,090	2,076	1,586	1,569	4,766	11,087	14,319
Corporate equity	–	–	–	–	40,087	40,087	29,838
Total trading securities	4,936	10,150	5,224	6,346	48,503	75,159	70,109
Available-for-Sale Securities							
Issued or guaranteed by:							
Canadian federal government							
Amortized cost	5,591	2,726	4,007	625	40	12,989	17,050
Fair value	5,652	2,761	4,029	632	41	13,115	17,277
Yield (%)	1.60	1.39	1.38	2.36	2.97	1.53	1.76
Canadian provincial and municipal governments							
Amortized cost	191	866	1,040	1,483	127	3,707	2,642
Fair value	195	870	1,043	1,461	129	3,698	2,680
Yield (%)	1.46	1.08	1.70	2.65	3.82	2.00	1.86
U.S. federal government							
Amortized cost	1,094	3,400	156	–	–	4,650	10,010
Fair value	1,095	3,407	158	–	–	4,660	10,099
Yield (%)	0.28	0.37	1.44	–	–	0.39	0.53
U.S. states, municipalities and agencies							
Amortized cost	1,644	1,164	346	1,377	832	5,363	4,390
Fair value	1,645	1,174	358	1,387	828	5,392	4,462
Yield (%)	0.45	1.05	2.19	1.02	0.82	0.90	1.16
Other governments							
Amortized cost	1,715	2,511	1,939	–	–	6,165	6,591
Fair value	1,713	2,515	1,935	–	–	6,163	6,596
Yield (%)	1.80	1.00	1.54	–	–	1.39	1.57
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)							
Amortized cost	159	813	1,299	–	–	2,271	432
Fair value	184	775	1,318	–	–	2,277	435
Yield (%)	1.00	1.64	2.07	–	–	1.83	5.64
Mortgage-backed securities and collateralized mortgage obligations – U.S.							
Amortized cost	2	7	16	159	6,351	6,535	5,705
Fair value	2	7	16	159	6,344	6,528	5,773
Yield (%)	0.24	3.90	3.31	2.23	1.13	1.16	1.36
Corporate debt							
Amortized cost	861	5,479	2,958	240	31	9,569	7,724
Fair value	862	5,536	2,997	246	35	9,676	7,875
Yield (%)	1.32	1.20	1.60	3.76	2.83	1.40	1.46
Corporate equity							
Amortized cost	–	–	–	–	1,411	1,411	1,129
Fair value	–	–	–	–	1,558	1,558	1,185
Yield (%)	–	–	–	–	1.90	1.90	2.16
Total cost or amortized cost	11,257	16,966	11,761	3,884	8,792	52,660	55,673
Total fair value	11,348	17,045	11,854	3,885	8,935	53,067	56,382
Yield (%)	1.31	1.03	1.61	2.06	1.28	1.33	1.43
Held-to-Maturity Securities							
Issued or guaranteed by:							
Canadian federal government							
Amortized cost	–	427	2,005	–	–	2,432	600
Fair value	–	427	2,009	–	–	2,436	600
Canadian provincial and municipal governments							
Amortized cost	–	461	1,217	467	139	2,284	275
Fair value	–	462	1,220	466	141	2,289	275
Mortgage-backed securities and collateralized mortgage obligations – Canada							
Amortized cost	–	1,074	242	–	–	1,316	–
Fair value	–	1,069	247	–	–	1,316	–
Total cost or amortized cost	–	1,962	3,464	467	139	6,032	875
Total fair value	–	1,958	3,476	466	141	6,041	875
Other Securities							
Carrying value	18	26	11	17	651	723	958
Fair value	18	26	11	17	864	936	1,126
Total carrying value or amortized cost of securities	16,211	29,104	20,460	10,714	58,085	134,574	127,615
Total securities value	16,302	29,183	20,553	10,715	58,228	134,981	128,324
Total by Currency (in Canadian $ equivalent)							
Canadian dollar	10,201	13,457	13,020	7,390	45,213	89,281	77,829
U.S. dollar	4,988	14,713	6,861	3,324	12,804	42,690	46,564
Other currencies	1,113	1,013	672	1	211	3,010	3,931
Total securities	16,302	29,183	20,553	10,715	58,228	134,981	128,324

(1) These amounts are supported by insured mortgages.

Yields in the table above are calculated using the cost of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts. Tax effects are not taken into consideration. The term to maturity included in the table above is based on the contractual maturity date of the security. The term to maturity of mortgage-backed securities and collateralized mortgage obligations is based on average expected maturities. Actual maturities could differ as issuers may have the right to call or prepay obligations. Securities with no maturity date are included in the over 10 years category.

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

Unrealized Gains and Losses

(Canadian $ in millions)

	Available-for-sale securities 2013				Available-for-sale securities 2012			
	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	**12,989**	**129**	**3**	**13,115**	17,050	265	38	17,277
Canadian provincial and municipal governments	**3,707**	**23**	**32**	**3,698**	2,642	39	1	2,680
U.S. federal government	**4,650**	**10**	**–**	**4,660**	10,010	89	–	10,099
U.S. states, municipalities and agencies	**5,363**	**41**	**12**	**5,392**	4,390	83	11	4,462
Other governments	**6,165**	**7**	**9**	**6,163**	6,591	10	5	6,596
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	**2,271**	**6**	**–**	**2,277**	432	3	–	435
Mortgage-backed securities and collateralized mortgage obligations – U.S.	**6,535**	**24**	**31**	**6,528**	5,705	78	10	5,773
Corporate debt	**9,569**	**115**	**8**	**9,676**	7,724	169	18	7,875
Corporate equity	**1,411**	**148**	**1**	**1,558**	1,129	59	3	1,185
Total	**52,660**	**503**	**96**	**53,067**	55,673	795	86	56,382

(1) These amounts are supported by insured mortgages.

Unrealized Losses

(Canadian $ in millions)

	Available-for-sale securities in an unrealized loss position for 2013						Available-for-sale securities in an unrealized loss position for 2012					
	Less than 12 months		12 months or longer		Total		Less than 12 months		12 months or longer		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Issued or guaranteed by:												
Canadian federal government	**3**	**721**	**–**	**–**	**3**	**721**	38	811	–	–	38	811
Canadian provincial and municipal governments	**30**	**1,662**	**2**	**26**	**32**	**1,688**	1	107	–	–	1	107
U.S. federal government	**–**	**–**	**–**	**–**	**–**	**–**	–	1,155	–	–	–	1,155
U.S. states, municipalities and agencies	**11**	**1,385**	**1**	**317**	**12**	**1,702**	11	244	–	3	11	247
Other governments	**8**	**1,142**	**1**	**1,316**	**9**	**2,458**	1	2,455	4	1,059	5	3,514
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	**–**	**74**	**–**	**–**	**–**	**74**	–	41	–	4	–	45
Mortgage-backed securities and collateralized mortgage obligations – U.S.	**30**	**4,005**	**1**	**143**	**31**	**4,148**	10	1,551	–	–	10	1,551
Corporate debt	**8**	**2,753**	**–**	**37**	**8**	**2,790**	17	526	1	31	18	557
Corporate equity	**1**	**96**	**–**	**2**	**1**	**98**	3	17	–	2	3	19
Total	**91**	**11,838**	**5**	**1,841**	**96**	**13,679**	81	6,907	5	1,099	86	8,006

(1) These amounts are supported by insured mortgages.

Income from securities has been included in our consolidated financial statements as follows:

(Canadian $ in millions)	2013	2012	2011
Reported in Consolidated Statement of Income:			
Interest, Dividend and Fee Income (1)			
Trading securities (2)	**1,409**	1,621	1,492
Available-for-sale securities	**610**	561	626
Held-to-maturity securities	**47**	1	–
Other securities	**77**	82	58
	2,143	2,265	2,176
Non-Interest Revenue			
Available-for-sale securities			
Gross realized gains	**90**	153	223
Gross realized losses	**(3)**	(24)	(85)
Unrealized gain on investment reclassified from equity method accounting to available-for-sale	**191**	–	–
Other securities, net realized and unrealized gains (losses)	**24**	28	55
Impairment write-downs	**(17)**	(5)	(4)
Securities gains (losses), other than trading (1)	**285**	152	189
Trading securities, net realized and unrealized gains (losses) (1) (2)	**477**	374	546
Total income from securities	**2,905**	2,791	2,911

(1) The following amounts of income related to our insurance operations were included in non-interest revenue, insurance income in our Consolidated Statement of Income:
Interest, dividend and fee income of $263 million for the year ended October 31, 2013 ($253 million in 2012 and $226 million in 2011). Securities gains (losses), other than trading of $1 million for the year ended October 31, 2013 ($nil in 2012 and $15 million in 2011).

(2) The following amounts of trading securities, net realized and unrealized gains (losses) are related to our insurance operations:
Trading securities, net realized and unrealized gains (losses) of $(190) million for the year ended October 31, 2013 ($286 million in 2012 and $6.5 million in 2011).

Note 4: Loans, Customers' Liability under Acceptances and Allowance for Credit Losses

Loans

Loans are initially measured at fair value plus directly attributable costs, and are subsequently measured at amortized cost using the effective interest method. The effective interest method allocates interest income over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is defined as the rate that exactly discounts estimated future cash receipts through the expected term of the loan to the net carrying amount of the loan. The treatment of interest income for impaired loans is described below.

We amortize deferred loan origination costs that are directly attributable and incremental to the origination of a loan using the effective interest method. We record the amortization as a reduction in interest, dividend and fee income, loans, over the term of the resulting loan. Under the effective interest method, the amount recognized in interest, dividend and fee income, loans, varies over the term of the loan based on the principal outstanding.

Securities Borrowed or Purchased Under Resale Agreements

Securities borrowed or purchased under resale agreements represent the amounts we will receive as a result of our commitment to resell securities that we have purchased, back to the original seller, on a specified date at a specified price. We account for these instruments as if they were loans.

Lending Fees

The accounting treatment for lending fees varies depending on the transaction. Some loan origination, restructuring and renegotiation fees are recorded as interest income over the term of the loan, while other lending fees, to a certain threshold are taken into income at the time of loan origination. Commitment fees are recorded as interest income over the term of the loan, unless we believe the loan commitment will not be used. In the latter case, commitment fees are recorded as lending fees over the commitment period. Loan syndication fees are included in lending fees as the syndication is completed, unless the yield on any loans we retain is less than that of other comparable lenders involved in the financing. In the latter case, an appropriate portion of the syndication fee is recorded as interest income over the term of the loan.

Customers' Liability under Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers, which we guarantee for a fee. We have offsetting claims, equal to the amount of the acceptances, against our customers in the event of a call on these commitments. The amount due under acceptances is recorded in other liabilities and our corresponding claim is recorded as a loan in our Consolidated Balance Sheet.

Fees earned are recorded in lending fees in our Consolidated Statement of Income over the term of the acceptance.

Impaired Loans

Generally consumer loans in both Canada and the U.S. are classified as impaired when payment is contractually 90 days past due, or one year past due for residential mortgages if guaranteed by the Government of Canada. Credit card loans are immediately written off when principal or interest payments are 180 days past due, and are not reported as impaired. In Canada, consumer installment loans, other personal loans and some small business loans are normally written off when they are one year past due. In the US, all consumer loans are written off when they are 180 days past due, except for non-real estate term loans which are written off at 120 days. For the purpose of measuring the amount to be written off, the determination of the recoverable amount includes an estimate of future recoveries.

Corporate and commercial loans are classified as impaired when we determine there is no longer reasonable assurance that principal or interest will be collected in its entirety on a timely basis. Generally, corporate and commercial loans are considered impaired when payments are 90 days past due, or for fully secured loans, when payments are 180 days past due. Corporate and commercial loans are written off following a review on an individual loan basis that confirms all recovery attempts have been exhausted.

Our average gross impaired loans and acceptances were $2,800 million for the year ended October 31, 2013 ($2,812 million in 2012). Our average impaired loans, net of the specific allowance, were $2,354 million for the year ended October 31, 2013 ($2,296 million in 2012).

During the year ended October 31, 2013, we recorded a net gain of $46 million (net gain of $4 million in 2012) on the sale of impaired loans.

Once a loan is identified as impaired, we continue to recognize interest income based on the original effective interest rate of the loan.

Interest income on impaired loans of $133 million was recognized for the year ended October 31, 2013 ($159 million in 2012).

A loan will be reclassified back to performing status when we determine that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

Allowance for Credit Losses

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, customers' liability under acceptances and other credit instruments. The portion related to other credit instruments is recorded in other liabilities in our Consolidated Balance Sheet. As at October 31, 2013, there was $305 million in allowance for credit losses related to other credit instruments included in other liabilities ($230 million in 2012).

The allowance is comprised of a specific allowance and a collective allowance.

Specific Allowance

These allowances are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. We review our loans and acceptances on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded (other than credit card loans, which are classified as impaired and written off when principal or interest payments are 180 days past due, as discussed under impaired loans). The review of problem loans is conducted at least quarterly by the account managers, each of whom assesses the ultimate collectability and estimated recoveries for a specific loan based on all events and conditions that are relevant to the loan. This assessment is then approved by an independent credit officer.

Individually Significant Impaired Loans

To determine the amount we expect to recover from an individually significant impaired loan, we use the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized loan reflects the expected realization of the underlying security net of expected costs and any amounts legally required to be paid to the borrower. Security can vary by type of loan and may include cash, securities, real properties, accounts receivable, guarantees, inventory or other capital assets.

Individually Insignificant Impaired Loans

Residential mortgages, consumer instalment and other personal loans are individually insignificant and thus are collectively assessed for impairment, taking into account historical loss experience. In the periods following the recognition of impairment, adjustments to the allowance for these loans reflecting the time value of money are recognized and presented as interest income.

Collective Allowance

We maintain a collective allowance in order to cover any impairment in the existing portfolio for loans that have not yet been individually identified as impaired. Our approach to establishing and maintaining the collective allowance is based on the guideline issued by OSFI and is reviewed by management on a quarterly basis.

The collective allowance methodology incorporates both quantitative and qualitative factors to determine an appropriate level for the collective allowance. For the purpose of calculating the collective allowance, we group loans on the basis of similarities in credit risk characteristics. The loss factors for groups of loans are determined based on a minimum of five years of historical data and a one-year loss emergence period except for credit cards, where a seven-month loss emergence period is used. The loss factors are back-tested and calibrated on a regular basis to ensure that they continue to reflect our best estimate of losses that have been incurred, but not yet identified, on an individual basis, within the pools of loans. Historical loss experience is also reviewed to determine loss factors. Qualitative factors are based on current observable data such as current macroeconomic and business conditions, portfolio-specific considerations, model risk factors, and the level of non-performing loans (impaired loans) for which a specific allowance has not yet been assessed.

Provision for Credit Losses

Changes in the value of our loan portfolio due to credit-related losses or recoveries of amounts previously provided for or written off are included in the provision for credit losses in our Consolidated Statement of Income.

Loans, including customers' liability under acceptances and allowance for credit losses, by category are as follows:

(Canadian $ in millions)	Residential mortgages			Credit card, consumer instalment and other personal loans			Business and government loans			Customers' liability under acceptances			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Gross loan balances at end of year	**99,328**	87,870	81,075	**71,510**	69,250	67,483	**101,450**	90,402	84,883	**8,472**	8,019	7,227	**280,760**	255,541	240,668
Specific allowance at beginning of year	**76**	74	52	**62**	59	47	**338**	426	481	**–**	–	10	**476**	559	590
Specific provisions for credit losses	**129**	132	109	**620**	743	667	**(150)**	(113)	360	**–**	–	(10)	**599**	762	1,126
Recoveries	**24**	60	8	**152**	156	133	**596**	630	100	**–**	–	–	**772**	846	241
Write-offs	**(104)**	(173)	(92)	**(752)**	(883)	(784)	**(443)**	(538)	(454)	**–**	–	–	**(1,299)**	(1,594)	(1,330)
Foreign exchange and other	**(26)**	(17)	(3)	**(11)**	(13)	(4)	**(26)**	(67)	(61)	**–**	–	–	**(63)**	(97)	(68)
Specific allowance at end of year	**99**	76	74	**71**	62	59	**315**	338	426	**–**	–	–	**485**	476	559
Collective allowance at beginning of year	**47**	36	23	**624**	565	477	**759**	817	839	**30**	34	44	**1,460**	1,452	1,383
Collective provision for credit losses	**40**	11	13	**(4)**	59	88	**(35)**	(63)	(5)	**(11)**	(4)	(10)	**(10)**	3	86
Foreign exchange and other	**1**	–	–	**2**	–	–	**32**	5	(17)	**–**	–	–	**35**	5	(17)
Collective allowance at end of year	**88**	47	36	**622**	624	565	**756**	759	817	**19**	30	34	**1,485**	1,460	1,452
Total allowance	**187**	123	110	**693**	686	624	**1,071**	1,097	1,243	**19**	30	34	**1,970**	1,936	2,011
Comprised of: Loans	**167**	113	108	**693**	686	624	**786**	877	1,017	**19**	30	34	**1,665**	1,706	1,783
Other credit instruments (1)	**20**	10	2	**–**	–	–	**285**	220	226	**–**	–	–	**305**	230	228
Net loan balances at end of year	**99,161**	87,757	80,967	**70,817**	68,564	66,859	**100,664**	89,525	83,866	**8,453**	7,989	7,193	**279,095**	253,835	238,885

(1) The total specific and collective allowances related to other credit instruments are included in other liabilities.
Included in loans as at October 31, 2013 are $81,069 million ($72,904 million in 2012 and $72,211 million in 2011) of loans denominated in U.S. dollars and $947 million ($622 million in 2012 and $723 million in 2011) of loans denominated in other foreign currencies.

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

Loans, including customers' liability under acceptances and allowance for credit losses, by geographic region are as follows:

(Canadian $ in millions)	Gross amount		Specific allowance (2)		Collective allowance (3)		Net amount	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
By geographic region (1):								
Canada	**204,706**	186,830	**244**	263	**726**	660	**203,736**	185,907
United States	**68,702**	63,969	**196**	166	**495**	599	**68,011**	63,204
Other countries	**7,352**	4,742	**4**	18	**–**	–	**7,348**	4,724
Total	**280,760**	255,541	**444**	447	**1,221**	1,259	**279,095**	253,835

(1) Geographic region is based upon the country of ultimate risk.
(2) Excludes specific allowance of $41 million for other credit instruments ($29 million in 2012), which is included in other liabilities.
(3) Excludes collective allowance of $264 million for other credit instruments ($201 million in 2012), which is included in other liabilities.
Certain comparative figures have been reclassified to conform with the current year's presentation.

Impaired loans, including the related allowances, are as follows:

(Canadian $ in millions)	Gross impaired amount		Specific allowance (3)		Net of specific allowance	
	2013	2012	**2013**	2012	**2013**	2012
Residential mortgages	**595**	583	**79**	66	**516**	517
Consumer instalment and other personal loans	**455**	401	**71**	62	**384**	339
Business and government loans	**1,494**	1,992	**294**	319	**1,200**	1,673
Total (1)	**2,544**	2,976	**444**	447	**2,100**	2,529
By geographic region (2):						
Canada	**754**	886	**244**	263	**510**	623
United States	**1,783**	2,047	**196**	166	**1,587**	1,881
Other countries	**7**	43	**4**	18	**3**	25
Total	**2,544**	2,976	**444**	447	**2,100**	2,529

(1) Excludes purchased credit impaired loans.
(2) Geographic region is based upon the country of ultimate risk.
(3) Excludes specific allowance of $41 million for other credit instruments ($29 million in 2012), which is included in other liabilities.

Fully secured loans with past due amounts between 90 and 180 days that we have not classified as impaired totalled $256 million and $546 million as at October 31, 2013 and 2012, respectively.

Specific provisions for credit losses, by geographic region are as follows:

(Canadian $ in millions)	Residential mortgages		Credit card, consumer instalment and other personal loans		Business and government loans (2)		Total	
For the year ended October 31	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
By geographic region (1):								
Canada	**4**	14	**433**	476	**133**	124	**570**	614
United States	**125**	118	**187**	267	**(281)**	(234)	**31**	151
Other countries	**–**	–	**–**	–	**(2)**	(3)	**(2)**	(3)
Total	**129**	132	**620**	743	**(150)**	(113)	**599**	762

(1) Geographic region is based upon the country of ultimate risk.
(2) Includes provisions relating to customers' liability under acceptances in the amount of $nil and $nil as at October 31, 2013 and 2012, respectively.

Foreclosed Assets

Property or other assets that we have received from borrowers to satisfy their loan commitments are classified as either held for use or held for sale according to management's intention and are recorded at the lower of carrying amount or fair value (less costs to sell). Fair value is determined based on market prices where available. Otherwise, fair value is determined using other methods, such as analysis of discounted cash flows or market prices for similar assets.

During the year ended October 31, 2013, we foreclosed on impaired loans and received $301 million of real estate properties that we classified as held for sale ($438 million in 2012).

As at October 31, 2013, real estate properties held for sale totalled $278 million ($425 million in 2012). These properties are disposed of when considered appropriate. During the year ended October 31, 2013, we recorded an impairment loss of $36 million on real estate properties classified as held for sale ($36 million in 2012).

Renegotiated Loans

From time to time we modify the contractual terms of loans due to the poor financial condition of the borrower. We assess renegotiated loans for impairment consistent with our existing policies for impairment. When renegotiation leads to significant concessionary modifications to the contractual terms of the loan and the concessions are for economic or legal reasons related to the borrower's financial difficulty that we would not otherwise consider, the loan is classified as impaired. We consider one or a combination of the following to be significant concessions: (1) a reduction of the stated interest rate, (2) an extension of the maturity date or dates at a stated interest rate lower than the current market rate for a new loan with a similar term, or (3) forgiveness of principal or accrued interest.

Renegotiated loans are permitted to remain in performing status if the modifications are not considered to be significant concessions or are returned to performing status when none of the criteria for classification as impaired continue to apply.

The carrying value of our renegotiated loans was $388 million as at October 31, 2013 ($367 million in 2012). Renegotiated loans of $155 million were classified as performing during the year ended October 31, 2013 ($91 million in 2012). Renegotiated loans of $59 million and $73 million were written off in the years ended October 31, 2013 and 2012, respectively.

Insured Mortgages

Included in the residential mortgages balance are Canadian government and corporate-insured mortgages of $52 billion as at October 31, 2013 ($49 billion in 2012). Included in the consumer instalment and other personal loans balance are Canadian government-insured real estate personal loans of $nil as at October 31, 2013 ($nil in 2012).

Purchased Loans

We record all loans that we purchase at fair value on the day that we acquire the loans. The fair value of the acquired loan portfolio includes an estimate of the interest rate premium or discount on the loans calculated as the difference between the contractual rate of interest on the loans and prevailing interest rates (the "interest rate mark"). Also included in fair value is an estimate of expected credit losses (the "credit mark") as of the acquisition date. The credit mark consists of two components: an estimate of the amount of losses that exist in the acquired loan portfolio on the acquisition date but that haven't been specifically identified on that date (the "incurred credit mark") and an amount that represents future expected losses (the "future credit mark"). Because we record the loans at fair value, no allowance for credit losses is recorded in our Consolidated Balance Sheet on the day we acquire the loans. Fair value is determined by estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. We estimate cash flows expected to be collected based on specific loan reviews for commercial loans. For retail loans, we use models that incorporate management's best estimate of current key assumptions such as default rates, loss severity and the timing of prepayments, as well as collateral.

Acquired loans are classified into the following categories: those that on the acquisition date continued to make timely principal and interest payments (the "purchased performing loans") and those for which on the acquisition date the timely collection of interest and principal was no longer reasonably assured (the "purchased credit impaired loans" or "PCI loans"). Because purchased credit impaired loans are recorded at fair value at acquisition based on the amount expected to be collected, none of the purchased credit impaired loans are considered to be impaired at acquisition.

Subsequent to the acquisition date, we account for each type of loan as follows:

Purchased Performing Loans

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 on net interest income for the year ended October 31, 2013 was $48 million ($97 million in 2012 and $52 million in 2011). 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 in the provision for credit losses until the accumulated collective allowance related to these loans is exhausted. Any additional decrease is recorded in net interest income.

The impact of the re-measurement of incurred credit losses for performing loans with fixed terms for the year ended October 31, 2013 was $nil in the provision for credit losses and $143 million in net interest income ($nil and $104 million, respectively, in 2012 and $14 million and $nil, respectively, in 2011).

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 year ended October 31, 2013 was $123 million ($179 million in 2012 and $81 million in 2011).

As performing loans are repaid, the related unamortized credit mark remaining is recorded as net interest income during the period in which the cash is received. The impact on net interest income of such repayments for the year ended October 31, 2013 was $241 million ($301 million in 2012 and $110 million in 2011).

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 accounting policy for loans we originate. The total specific provision for credit losses for purchased performing loans for the year ended October 31, 2013 was $240 million ($291 million in 2012 and $19 million in 2011).

As at October 31, 2013, the amount of purchased performing loans remaining on the balance sheet was $16.6 billion ($21.1 billion in 2012). As at October 31, 2013, the credit mark remaining on performing term loans, revolving loans and other performing loans was $425 million, $156 million and $6 million, respectively ($849 million, $301 million and $23 million, respectively, in 2012). Of the total credit mark for performing loans of $587 million, $329 million represents the credit mark that will be amortized over the remaining life of the portfolio. The remaining $258 million represents the incurred credit mark and will be re-measured each reporting period.

Purchased Credit Impaired Loans

Subsequent to the acquisition date, we regularly re-evaluate what we expect to collect on the purchased credit impaired 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 purchased credit impaired 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 year ended October 31, 2013 was a $410 million recovery in the specific provision for credit losses ($509 million recovery in 2012 and $nil in 2011).

As at October 31, 2013, the amount of purchased credit impaired loans remaining on the balance sheet was $0.7 billion ($1.2 billion in 2012). As at October 31, 2013, the credit mark remaining related to purchased credit impaired loans was $128 million ($445 million in 2012).

Unfunded Commitments and Letters of Credit Acquired

As part of our acquisition of M&I, we recorded a liability related to unfunded commitments and letters of credit. The total credit mark and interest rate mark associated with unfunded commitments and letters of credit are amortized into net interest income on a straight-line basis over the contractual term of the acquired liabilities. As the credit mark is amortized, an appropriate collective allowance is recorded, consistent with our methodology for the collective allowance.

As at October 31, 2013, the credit mark remaining on unfunded commitments and letters of credit acquired was $15 million ($99 million in 2012).

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.

We recorded net recoveries of $15 million for the year ended October 31, 2013 ($27 million in 2012). These amounts are net of the amounts expected to be reimbursed by the FDIC.

Note 5: Other Credit Instruments

We use off-balance sheet credit instruments as a method of meeting the financial needs of our customers. Summarized below are the types of instruments that we use:

- Standby letters of credit and guarantees represent our obligation to make payments to third parties on behalf of another party if that party is unable to make the required payments or meet other contractual requirements. Standby letters of credit and guarantees include our guarantee of a subsidiary's debt to a third party;
- Securities lending represents our credit exposure when we lend our securities, or our customers' securities, to third parties should a securities borrower default on its redelivery obligation;
- Documentary and commercial letters of credit represent our agreement to honour drafts presented by a third party upon completion of specific activities; and
- Commitments to extend credit represent our commitment to our customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to their meeting certain conditions.

The contractual amount of our other credit instruments represents the maximum undiscounted potential credit risk if the counterparty does not perform according to the terms of the contract, before possible recoveries under recourse and collateral provisions. Collateral requirements for these instruments are consistent with collateral requirements for loans.

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.

We strive to limit credit risk by dealing only with counterparties that we believe are creditworthy, and we manage our credit risk for other credit instruments using the same credit risk process that is applied to loans and other credit assets.

Summarized information related to various commitments is as follows:

(Canadian $ in millions)	**2013**	2012
	Contractual amount	Contractual amount
Credit Instruments		
Standby letters of credit and guarantees	**13,470**	11,851
Securities lending	**3,772**	1,531
Documentary and commercial letters of credit	**1,205**	999
Commitments to extend credit (1)		
– Original maturity of one year and under	**13,107**	15,429
– Original maturity of over one year	**58,428**	44,556
Total	**89,982**	74,366

(1) Commitments to extend credit exclude personal lines of credit and credit card lines of credit that are unconditionally cancellable at our discretion.
Certain comparative figures have been reclassified to conform with the current year's presentation.

Notes

Note 6: Risk Management

We have an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the 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

We are exposed to credit risk arising from the possibility that counterparties may default on their financial obligations to us. 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. Our risk management practices and key measures are disclosed in the text and tables presented in a blue-tinted font in Management's Discussion and Analysis on pages 83 to 84 of this report. Additional information on loans and derivative-related credit risk is disclosed in Notes 4 and 10, respectively.

Concentrations of Credit and Counterparty Risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, are located in the same geographic region or have similar economic characteristics such that their ability to meet contractual obligations could be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate a related sensitivity of our performance to developments affecting a particular counterparty, industry or geographic location. At year end, our credit assets consisted of a well-diversified portfolio representing millions of clients, the majority of them consumers and small to medium-sized businesses.

From an industry viewpoint, our most significant exposure as at year end was to individual consumers, captured in the "individual" sector, comprising $181.6 billion ($177.6 billion in 2012). Additional information on the composition of our loans and derivatives exposure is disclosed in Notes 4 and 10, respectively.

Basel III Framework

We use the Basel III Framework as our capital management framework. We use the Advanced Internal Ratings Based ("AIRB") approach to determine credit risk-weighted assets in our portfolio except for acquired loans in our M&I and other select portfolios, for which we use the Standardized Approach. The framework uses exposure at default to assess credit and counterparty risk. Exposures are classified as follows:

- Drawn loans include loans, acceptances, deposits with regulated financial institutions, and certain securities. Exposure at default ("EAD") represents an estimate of the outstanding amount of a credit exposure at the time a default may occur. For off-balance sheet amounts and undrawn amounts, EAD includes an estimate of any further amounts that may be drawn at the time of default.
- Undrawn commitments cover all unutilized authorizations, including those which are unconditionally cancellable. EAD for undrawn commitments is model generated based on internal empirical data.
- Over-the-counter ("OTC") derivatives are those in our proprietary accounts that attract credit risk in addition to market risk. EAD for OTC derivatives is equal to the net gross replacement cost plus any potential credit exposure amount.
- Other off-balance sheet exposures include items such as guarantees, standby letters of credit and documentary credits. EAD for other off-balance sheet items is based on management's best estimate.
- Repo-style transactions include repos, reverse repos and securities lending transactions, which represent both asset and liability exposures. EAD for repo-style transactions is the total amount drawn, adding back any write-offs.
- Adjusted EAD represents exposures that have been redistributed to a more favourable probability of default band or a different Basel asset class as a result of applying credit risk mitigation.

Total non-trading exposure at default by industry sector, as at October 31, 2013 and 2012, based on the Basel III classifications are as follows:

(Canadian $ in millions)	Drawn		Commitments (undrawn)		OTC derivatives		Other off-balance sheet items		Repo-style transactions		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Financial institutions	**60,448**	46,398	**12,693**	10,887	**–**	104	**2,978**	2,544	**27,515**	55,471	**103,634**	115,404
Governments	**43,142**	44,190	**1,581**	1,292	**–**	–	**1,333**	1,002	**9,503**	14,537	**55,559**	61,021
Manufacturing	**11,617**	10,053	**9,125**	5,502	**14**	20	**1,061**	941	**–**	–	**21,817**	16,516
Real estate	**18,532**	17,462	**4,639**	2,094	**–**	1	**1,122**	762	**–**	–	**24,293**	20,319
Retail trade	**9,394**	8,666	**4,675**	3,396	**–**	1	**532**	463	**–**	–	**14,601**	12,526
Service industries	**22,999**	19,483	**8,161**	5,293	**6**	29	**3,547**	2,558	**–**	949	**34,713**	28,312
Wholesale trade	**7,465**	8,554	**3,927**	3,738	**–**	7	**365**	1,370	**–**	–	**11,757**	13,669
Oil and gas	**3,831**	3,492	**5,807**	4,801	**–**	–	**401**	189	**–**	–	**10,039**	8,482
Individual	**139,905**	130,385	**41,576**	47,166	**–**	–	**67**	40	**–**	21	**181,548**	177,612
Others (1)	**33,028**	28,515	**13,370**	10,274	**3**	4	**3,270**	2,980	**–**	34	**49,671**	41,807
Total exposure at default	**350,361**	317,198	**105,554**	94,443	**23**	166	**14,676**	12,849	**37,018**	71,012	**507,632**	495,668

(1) Includes industries having a total exposure of less than 2%.

Additional information about our credit risk exposure by geographic region and product category for loans, including customers' liability under acceptances, is provided in Note 4.

Credit Quality

We assign risk ratings based on probabilities as to whether counterparties will default on their financial obligations to us. Our process for assigning risk ratings is discussed in the text presented in a blue-tinted font in the Enterprise-Wide Risk Management section of Management's Discussion and Analysis on page 83 of this report.

Based on the Basel III classifications, the following tables present our retail and wholesale credit exposure by risk rating on an adjusted exposure at default basis as at October 31, 2013 and 2012. Wholesale includes all loans that are not classified as retail.

Wholesale Credit Exposure by Risk Rating

(Canadian $ in millions)	Drawn			Undrawn (1)			2013 Total exposure	2012 Total exposure
	Bank	Corporate	Sovereign	Bank	Corporate	Sovereign		
Investment grade	**19,987**	**72,930**	**91,288**	**2,252**	**42,606**	**1,595**	**230,658**	196,679
Non-investment grade	**3,816**	**32,841**	**122**	**149**	**14,717**	**14**	**51,659**	35,838
Watchlist	**12**	**2,001**	**8**	**4**	**445**	**–**	**2,470**	2,470
Default	**39**	**1,942**	**–**	**–**	**105**	**–**	**2,086**	1,600
Total	**23,854**	**109,714**	**91,418**	**2,405**	**57,873**	**1,609**	**286,873**	236,587

(1) Included in the undrawn amounts are uncommitted exposures of $23,662 million in 2013 ($15,374 million in 2012).

Retail Credit Drawn Exposure by Portfolio and Risk Rating

(Canadian $ in millions)	Residential mortgages and home equity lines of credit		Qualifying revolving retail (1)		Other retail and retail small and medium-sized enterprises	
	2013	2012	**2013**	2012	**2013**	2012
Risk profile (probability of default):						
Exceptionally Low (≤ 0.05%)	**983**	997	**320**	634	**71**	60
Very low (> 0.05% to 0.20%)	**47,622**	34,347	**1,711**	1,822	**7,521**	6,296
Low (> 0.20% to 0.75%)	**11,216**	14,623	**2,578**	2,656	**7,995**	7,435
Medium (> 0.75% to 7.00%)	**8,925**	10,896	**2,073**	2,649	**7,255**	6,031
High (> 7.00% to 99.99%)	**3,503**	958	**293**	448	**294**	364
Default (100%)	**829**	756	**36**	32	**86**	69
Total	**73,078**	62,577	**7,011**	8,241	**23,222**	20,255

(1) Qualifying revolving retail includes exposures to individuals that are revolving, unsecured and uncommitted up to a maximum amount of $125,000 to a single individual.

Loans Past Due Not Impaired

Loans that are past due but not classified as impaired are loans where our customers have failed to make payments when contractually due, but for which we expect the full amount of principal and interest payments to be collected. The following table presents the loans that are past due but not classified as impaired as at October 31, 2013 and 2012:

Loans Past Due Not Impaired

(Canadian $ in millions)	1 to 29 days		30 to 89 days		90 days or more		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Residential mortgages (1)	**641**	543	**524**	505	**65**	124	**1,230**	1,172
Credit card, consumer instalment and other personal loans	**1,747**	1,535	**434**	407	**95**	104	**2,276**	2,046
Business and government loans	**805**	1,009	**294**	800	**183**	511	**1,282**	2,320
Customers' liability under acceptances	**–**	–	**59**	–	**–**	–	**59**	–
Total	**3,193**	3,087	**1,311**	1,712	**343**	739	**4,847**	5,538

(1) The percentage of loans 90 days or more past due but not impaired, that were guaranteed by the Government of Canada is 5% for 2013 and 3% for 2012.

Loan Maturities and Rate Sensitivity

The following table provides gross loans and acceptances by contractual maturity and by country of ultimate risk:

(Canadian $ in millions)	1 year or less		Over 1 year to 5 years		Over 5 years		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Canada								
Consumer	**46,552**	38,172	**91,653**	87,924	**7,106**	5,980	**145,311**	132,076
Commercial and corporate (excluding real estate)	**36,744**	36,892	**10,572**	6,898	**1,356**	1,751	**48,672**	45,541
Commercial real estate	**5,405**	4,685	**4,540**	3,850	**778**	678	**10,723**	9,213
United States	**19,065**	21,193	**34,998**	30,595	**14,639**	12,181	**68,702**	63,969
Other countries	**6,758**	4,168	**594**	574	**–**	–	**7,352**	4,742
Total	**114,524**	105,110	**142,357**	129,841	**23,879**	20,590	**280,760**	255,541

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

The following table analyzes net loans and acceptances by interest rate sensitivity:

(Canadian $ in millions)	**2013**	2012
Fixed rate	**139,832**	114,607
Floating rate	**130,797**	131,214
Non-interest sensitive (1)	**8,466**	8,014
Total	**279,095**	253,835

(1) Non-interest sensitive loans and acceptances include customers' liability under acceptances.

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

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, as well as the risk of credit migration and default. We incur market risk in our trading and underwriting activities and in the management of structural market risk in our banking and insurance activities.

Our market risk management practices and key measures are outlined in the text and tables presented in a blue-tinted font in the Enterprise-Wide Risk Management section of Management's Discussion and Analysis on pages 87 to 91 of this report.

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. It is our policy to ensure that sufficient liquid assets and funding capacity are available to meet financial commitments, including liabilities to depositors and suppliers, and lending, investment and pledging commitments, even in times of stress. Managing liquidity and funding risk is essential to maintaining both depositor confidence and stability in earnings.

Our liquidity and funding risk management practices and key measures are outlined in the text presented in a blue-tinted font in the Enterprise-Wide Risk Management section of Management's Discussion and Analysis on pages 92 to 94 of this report.

Note 7: Guarantees

In the normal course of business, we enter into a variety of guarantees. Guarantees include contracts where we may be required to make payments to a counterparty, based on changes in the value of an asset, liability or equity security that the counterparty holds, due to changes in an underlying interest rate, foreign exchange rate or other variable. In addition, contracts under which we may be required to make payments to reimburse the counterparty for a loss if a third party does not perform according to the terms of a contract or does not make payments when due under the terms of a debt instrument, and contracts under which we provide indirect guarantees of the indebtedness of another party, are considered guarantees.

Guarantees that qualify as derivatives are accounted for in accordance with the policy for derivative instruments (see Note 10). For guarantees that do not qualify as a derivative, the liability is initially recorded at fair value, which is generally the fee to be received. Subsequently, guarantees are recorded at the higher of the initial fair value, less amortization to recognize any fee income earned over the period, and the best estimate of the amount required to settle the obligation. Any increase in the liability is reported in the Consolidated Statement of Income.

The most significant guarantees are as follows:

Standby Letters of Credit and Guarantees

Standby letters of credit and guarantees represent our obligation to make payments to third parties on behalf of another party if that party is unable to make the required payments or meet other contractual requirements. The maximum amount payable under standby letters of credit and guarantees totalled $13,470 million as at October 31, 2013 ($11,851 million in 2012). The majority have a term of one year or less. Collateral requirements for standby letters of credit and guarantees are consistent with our collateral requirements for loans. 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.

As at October 31, 2013, $41 million ($29 million in 2012) was included in other liabilities related to guaranteed parties that were unable to meet their obligations to a third party (see Note 4). No other amount was included in our Consolidated Balance Sheet as at October 31, 2013 and 2012 related to these standby letters of credit and guarantees.

Backstop and Other Liquidity Facilities

Backstop liquidity facilities are provided to asset-backed commercial paper ("ABCP") programs administered by either us or third parties as an alternative source of financing in the event that such programs are unable to access ABCP markets or when predetermined performance measures of the financial assets owned by these programs are not met. The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy of the borrower. The facilities' terms are generally no longer than one year, but can be several years.

The maximum amount payable under these backstop and other liquidity facilities totalled $4,512 million as at October 31, 2013 ($4,467 million in 2012). As at October 31, 2013, $145 million was outstanding from facilities drawn in accordance with the terms of the backstop liquidity facilities ($107 million in 2012).

Credit Enhancement Facilities

Where warranted, we provide partial credit enhancement facilities to transactions within ABCP programs administered by either us or third parties. Credit enhancement facilities are included in backstop liquidity facilities.

Senior Funding Facility

In addition to our investment in the notes subject to the Montreal Accord, we have provided a senior loan facility of $232 million as at October 31, 2013 ($295 million in 2012). No amounts were drawn as at October 31, 2013 and 2012.

Derivatives

Certain of our derivative instruments meet the accounting definition of a guarantee when they require the issuer to make payments to reimburse the holder for a loss incurred because a debtor fails to make payment when due under the terms of a debt instrument. In order to reduce our exposure to these derivatives, we enter into contracts that hedge the related risks.

Written credit default swaps require us to compensate a counterparty following the occurrence of a credit event in relation to a specified reference obligation, such as a bond or a loan. The maximum amount payable under credit default swaps is equal to their notional amount of $13,288 million as at October 31, 2013 ($24,126 million in 2012). The terms of these contracts range from less than one year to 10 years. The fair value of the related derivative liabilities included in derivative instruments in our Consolidated Balance Sheet was $102 million as at October 31, 2013 ($156 million in 2012).

Exchange and Clearinghouse Guarantees

We are a member of several securities and futures exchanges and clearinghouses. Membership in certain of these organizations may require us to pay a pro rata share of the losses incurred by the organization in the event of default of another member. Such obligations vary with different organizations. These obligations may be limited to members who dealt with the defaulting member, an amount related to our contribution to a member's guarantee fund, or an amount specified in the membership agreement. It is difficult to estimate our maximum exposure under these membership agreements, since this would require an assessment of future claims that may be made against us that have not yet occurred. Based on historical experience, we expect the risk of loss to be remote.

Indemnification Agreements

In the normal course of operations, we enter into various agreements that provide general indemnifications. These indemnifications typically occur in connection with sales of assets, securities offerings, service contracts, membership agreements, clearing arrangements, derivatives contracts and leasing transactions. We also have a securities lending business that lends securities owned by clients to borrowers who have been evaluated for credit risk using the same credit risk process that is applied to loans and other credit assets. In connection with these activities, we provide an indemnification to lenders against losses resulting from the failure of the borrower to return loaned securities when due. All borrowings are fully collateralized with cash or marketable securities. As securities are loaned, we require borrowers to maintain collateral which is equal to or in excess of 100% of the fair value of the securities borrowed. The collateral is revalued on a daily basis. The amount of securities loaned subject to indemnification was $4,778 million as at October 31, 2013 ($4,343 million in 2012). No amount was included in our Consolidated Balance Sheet as at October 31, 2013 and 2012 related to these indemnifications.

Note 8: Asset Securitization

Periodically, we securitize loans to obtain alternate sources of funding. Securitization involves selling loans to trusts ("securitization vehicles"), which buy the loans and then issue either interest bearing or discounted investor certificates.

We use a bank securitization vehicle to securitize our Canadian credit card loans. We are required to consolidate this vehicle. See Note 9 for further information. We also 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.

Under these programs, we are entitled to the payment over time of the excess of the sum of interest and fees collected from customers, in connection with the loans that were sold, over the yield paid to investors in the securitization vehicle or third-party securitization program, less credit losses and other costs.

We assess whether the loans qualify for off-balance sheet treatment based on the transfer of the risks and rewards.

The loans sold to third-party securitization programs or directly to third parties do not qualify for off-balance sheet recognition as we have determined that the transfer of these loans has not resulted in the transfer of substantially all the risks and rewards, since we continue to be exposed to substantially all of the prepayment, interest rate and/or credit risk associated with the securitized financial assets. We continue to recognize the loans in our Consolidated Balance Sheet, and we recognize the instruments issued as a liability representing a secured financing. The grouped payments received may be held on behalf of the investors in the securitization vehicles or designated accounts until principal payments are required to be made on the associated liabilities. In order to compare all assets supporting the associated liabilities, the payments held in the securitization vehicles or designated accounts on behalf of the investors are added to the carrying value of the securitized assets in the table below. The interest and fees collected, net of the yield paid to investors is recorded in net interest income using the effective interest method over the term of the securitization. Credit losses associated with the loans are recorded in the provision for credit losses. During the year ended October 31, 2013, we sold $6,704 million of loans to third-party securitization programs which does not include amounts that were transferred and repurchased during the year ($6,548 million in 2012).

The following table shows the carrying amounts related to securitization activities with third parties that are recorded on our Consolidated Balance Sheet, together with the associated liabilities, for each category of asset on the balance sheet:

(Canadian $ in millions)	**2013** (1)		2012	
	Carrying amount of assets	**Associated liabilities**	Carrying amount of assets	Associated liabilities
Available-for-sale securities	**–**		428	
Residential mortgages	**9,956**		9,020	
	9,956		9,448	
Other related assets (2)	**8,660**		11,105	
Total	**18,616**	**18,235**	20,553	20,312

(1) The fair value of the securitized assets is $18,687 million and the fair value of the associated liabilities is $18,454 million, for a net position of $233 million. Securitized assets are those which we have transferred to third parties, including other related assets.

(2) 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 liability. In order to compare all assets supporting the associated liability, this amount is added to the carrying value of the securitized assets in the above table.

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

Note 9: Special Purpose Entities

We enter into certain transactions in the ordinary course of business which involve the establishment of special purpose entities ("SPEs") to facilitate or secure customer transactions and to obtain alternative sources of funding. We are required to consolidate a SPE if we control the entity. The following circumstances are considered when assessing whether we, in substance, control the SPE and consequently are required to consolidate:

- the activities of the SPE are being conducted on our behalf according to our specific business needs so that we obtain benefits from the SPE's operations;
- we have the decision-making powers necessary to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, we have delegated these decision-making powers;
- we have rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- we retain the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

We consider all aspects of the relationship between us and the SPE to determine whether we ultimately have the power to govern the financial and operating policies of the SPE, so as to obtain the majority of the benefits from the SPE's activities.

We perform a re-assessment of consolidation whenever there is a change in the substance of the relationship.

Total assets and liabilities included in our Consolidated Balance Sheet related to our unconsolidated SPEs and our related exposure to losses are summarized in the following table:

(Canadian $ in millions)	2013		2012	
	Canadian customer securitization vehicles	**Structured finance vehicles**	Canadian customer securitization vehicles	Structured finance vehicles
On-balance sheet assets at carrying value				
Trading securities	**–**	**12,120**	20	10,324
Available-for-sale securities	**13**	**–**	98	–
Loans	**81**	**–**	–	–
Other	**–**	**119**	–	–
	94	**12,239**	118	10,324
On-balance sheet liabilities at carrying value				
Deposits	**–**	**6,584**	–	5,175
Derivatives	**–**	**985**	–	607
Other	**–**	**4,582**	–	4,350
	–	**12,151**	–	10,132
Exposure to loss				
Securities held	**94**	**12,116**	118	10,324
Drawn facilities	**–**	**–**	–	–
Undrawn facilities (1)	**3,866**	**na**	3,691	na
Derivative assets	**–**	**–**	–	–
	3,960	**12,116**	3,809	10,324

(1) These facilities are backstop liquidity facilities provided to our Canadian customer securitization vehicles. None of the backstop liquidity facilities provided to our Canadian customer securitization vehicles related to credit support as at October 31, 2013 and 2012.

na – not applicable

Total assets and liabilities included in our Consolidated Balance Sheet related to our consolidated SPEs and our exposure to losses are summarized in the following table, with the exception of our compensation trusts, which are described in further detail below:

(Canadian $ in millions)	2013						2012					
	Bank securitization vehicle	**Canadian customer securitization vehicles**	**U.S. customer securitization vehicle**	**Credit protection vehicle (1)**	**Structured investment vehicles (2)**	**Capital and funding vehicles (3)**	Bank securitization vehicle	Canadian customer securitization vehicles	U.S. customer securitization vehicle	Credit protection vehicle	Structured investment vehicles	Capital and funding vehicles (3)
On-balance sheet assets at carrying value												
Cash and cash equivalents	**–**	**–**	**370**	**1,430**	**7**	**319**	–	–	10	2,069	–	433
Trading securities	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	157	1,597	–
Available-for-sale securities	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Loans	**7,190**	**–**	**3,537**	**–**	**–**	**20,717**	7,264	–	3,364	–	–	13,230
Other	**25**	**640**	**3**	**–**	**–**	**40**	46	574	4	–	–	33
	7,215	**640**	**3,910**	**1,430**	**7**	**21,076**	7,310	574	3,378	2,226	1,597	13,696
On-balance sheet liabilities at carrying value												
Deposits	**–**	**–**	**3,578**	**–**	**–**	**–**	–	–	3,118	–	–	–
Subordinated debt	**–**	**–**	**–**	**–**	**–**	**802**	–	–	–	–	–	802
Capital Trust Securities	**–**	**–**	**–**	**–**	**–**	**463**	–	–	–	–	–	462
Other	**4,328**	**–**	**2**	**530**	**7**	**18**	5,186	–	5	819	184	18
	4,328	**–**	**3,580**	**530**	**7**	**1,283**	5,186	–	3,123	819	184	1,282
Exposure to loss												
Securities held	**1,499**	**640**	**–**	**922**	**–**	**842**	192	574	–	1,385	–	842
Drawn facilities	**–**	**–**	**264**	**–**	**–**	**18,579**	–	–	58	–	1,440	11,132
Undrawn facilities	**–**	**–**	**4,417**	**–**	**–**	**7,026**	–	7	4,144	522	40	2,973
Derivative assets	**–**	**–**	**–**	**20**	**–**	**84**	–	–	2	104	1	91
	1,499	**640**	**4,681**	**942**	**–**	**26,531**	192	581	4,204	2,011	1,481	15,038

(1) During the year ended October 31, 2013, the senior funding facility provided to our credit protection vehicle was terminated.

(2) During the year ended October 31, 2013, Links Finance Corporation sold its remaining assets and fully repaid our liquidity facility.

(3) The loans balance primarily consists of mortgages transferred to our covered bond programs. Mortgages in excess of the amount of covered bonds outstanding plus minimum required over-collateralization amounts under these programs are readily available to the bank. The undrawn facilities also primarily relate to our covered bond programs; the bank retains the authority to determine whether the facilities are utilized.

Customer Securitization Vehicles

We sponsor customer securitization vehicles (also referred to as bank-sponsored multi-seller conduits) that provide our customers with alternate sources of funding through the securitization of their assets. These vehicles provide clients with access to financing in the asset-backed commercial paper ("ABCP") markets by allowing them to sell their assets into these vehicles, which then issue ABCP to investors to fund the purchases. We do not service the transferred assets because the responsibility is retained by the client. If there are losses on the assets, the seller is the first to take the loss. We do not sell assets to these customer securitization vehicles. We earn fees for providing services related to the securitizations, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicles. For our Canadian customer securitization vehicles, we determined that we control and must consolidate certain of these vehicles, as we have the right to obtain the majority of the benefits through our ownership of ABCP.

For our U.S. customer securitization vehicle, we determined that we control and must consolidate this vehicle, as we have key decision-making powers to obtain the majority of the benefits from the vehicle's activities.

Bank Securitization Vehicle

We use a bank securitization vehicle to securitize our Canadian credit card loans in order to obtain alternate sources of funding. The structure of this vehicle limits the types of activities it can undertake and the types of assets it can hold, and the vehicle has limited decision-making authority. This vehicle issues term asset-backed securities to fund its activities. We control and must consolidate this vehicle, as we have key decision-making powers to obtain the majority of the benefits of its activities.

Credit Protection Vehicle

We sponsor a credit protection vehicle, Apex Trust ("Apex"), that provides credit protection to investors on investments in corporate debt portfolios through credit default swaps. In May 2008, upon the restructuring of Apex, we entered into credit default swaps with swap counterparties and offsetting swaps with Apex. In 2013, Apex redeemed $742 million of its outstanding medium-term notes, of which $480 million were held by us. We continue to hold $934 million of outstanding medium-term notes. As at October 31, 2013 and 2012, we have hedged our exposure to our holdings of notes issued by Apex. Since 2008, a third party has held its exposure to Apex through a total return swap with us on $600 million of notes. We control and must consolidate this vehicle.

Structured Investment Vehicles

Structured investment vehicles ("SIVs") provide investment opportunities in customized, diversified debt portfolios in a variety of asset and rating classes. At October 31, 2013, we held interests in Links Finance Corporation ("Links"), which we consolidate, as we have key decision-making powers to obtain the majority of the benefits of its activities. During the year ended October 31, 2013, Links sold its remaining assets and fully repaid our senior liquidity facility. During the year ended October 31, 2012, Parkland Finance Corporation sold its remaining assets, fully repaid our liquidity facility and distributed the remaining proceeds to its capital note holders.

Structured Finance Vehicles

We facilitate development of investment products by third parties, including mutual funds, unit investment trusts and other investment funds that are sold to retail investors. We enter into derivatives with these funds to provide the investors their desired exposure, and we hedge our exposure related to these derivatives by investing in other funds through SPEs. We are not required to consolidate these vehicles.

Capital and Funding Vehicles

Capital and Funding vehicles are created to issue notes or capital trust securities or to guarantee payments due to bondholders on bonds issued by us. These vehicles purchase notes from us, or we may sell assets to the vehicles in exchange for promissory notes. We control and must consolidate these vehicles, as the majority of the activities of these vehicles are conducted on our behalf. See Note 1 and Note 18 for further information related to the Capital Trusts.

Compensation Trusts

We have established trusts in order to administer our employee share ownership plan. Under this plan, employees can direct a portion of their gross salary towards the purchase of our common shares and we match 50% of employees' contributions up to 6% of their individual gross salary. Our matching contributions are paid into trusts, which purchase our shares on the open market for distribution to employees once employees are entitled to the shares under the terms of the plan. Total assets held by our compensation trusts amounted to $1,343 million as at October 31, 2013 ($1,140 million in 2012). We are not required to consolidate these compensation trusts.

Other SPEs

We are involved with other entities that may potentially be SPEs. This involvement can include, for example, acting as a derivatives counterparty, liquidity provider, investor, fund manager or trustee. These activities do not cause us to control these SPEs. As a result, we are not required to consolidate these SPEs. Transactions with these SPEs are conducted at market rates, and individual creditor investment decisions are based upon the analysis of the specific SPE, taking into consideration the quality of the underlying assets. We record and report these transactions in the same manner as other transactions. For example, derivative contracts are recorded in accordance with our derivatives accounting policy as outlined in Note 10. Liquidity facilities and indemnification agreements are described in Note 7.

Note 10: Derivative Instruments

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices.

Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. We use these instruments for trading purposes, as well as to manage our exposures, mainly to currency and interest rate fluctuations, as part of our asset/liability management program.

Types of Derivatives

Swaps

Swaps are contractual agreements between two parties to exchange a series of cash flows. The various swap agreements that we enter into are as follows:

Interest rate swaps – counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Cross-currency swaps – fixed rate interest payments and principal amounts are exchanged in different currencies.

Cross-currency interest rate swaps – fixed and/or floating rate interest payments and principal amounts are exchanged in different currencies.

Commodity swaps – counterparties generally exchange fixed and floating rate payments based on a notional value of a single commodity.

Equity swaps – counterparties exchange the return on an equity security or a group of equity securities for the return based on a fixed or floating interest rate or the return on another equity security or group of equity securities.

Credit default swaps – one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or failure to pay.

Total return swaps – one counterparty agrees to pay or receive from the other cash amounts based on changes in the value of a reference asset or group of assets, including any returns such as interest earned on these assets, in exchange for amounts that are based on prevailing market funding rates.

The main risks associated with these instruments are related to exposure to movements in interest rates, foreign exchange rates, credit quality, securities values or commodities prices, as applicable, and the possible inability of counterparties to meet the terms of the contracts.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell a specified amount of a currency, commodity, interest-rate-sensitive financial instrument or security at a specified price and date in the future.

Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts and from movements in commodities prices, securities values, interest rates and foreign exchange rates, as applicable.

Options

Options are contractual agreements that convey to the purchaser the right but not the obligation to either buy or sell a specified amount of a currency, commodity, interest-rate-sensitive financial instrument or security at a fixed future date or at any time within a fixed future period.

For options written by us, we receive a premium from the purchaser for accepting market risk.

For options purchased by us, we pay a premium for the right to exercise the option. Since we have no obligation to exercise the option, our primary exposure to risk is the potential credit risk if the writer of an over-the-counter contract fails to meet the terms of the contract.

Caps, collars and floors are specialized types of written and purchased options. They are contractual agreements in which the writer agrees to pay the purchaser, based on a specified notional amount, the difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

A swaption is an option granting its owner the right but not the obligation to enter into an underlying swap.

A future option is an option contract in which the underlying instrument is a single futures contract.

Use of Derivatives

Trading Derivatives

Trading derivatives include derivatives entered into with customers to accommodate their risk management needs, derivatives transacted to generate trading income from our own proprietary trading positions and certain derivatives that do not qualify as hedges for accounting purposes ("economic hedges").

We structure and market derivative products to enable customers to transfer, modify or reduce current or expected risks.

Proprietary activities include market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning activities involve managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products.

We may also take proprietary trading positions in various capital market instruments and derivatives that, taken together, are designed to profit from anticipated changes in market conditions.

Trading derivatives are marked to fair value. Realized and unrealized gains and losses are recorded in trading revenues (losses) in our Consolidated Statement of Income. Unrealized gains on trading derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in our Consolidated Balance Sheet.

Hedging Derivatives

In accordance with our risk management strategy, we enter into various derivative contracts to hedge our interest rate and foreign currency exposures.

Risks Hedged

Interest Rate Risk

We manage interest rate risk through bonds, interest rate futures, interest rate swaps and options, which are linked to and adjust the interest rate sensitivity of a specific asset, liability, forecasted transaction or firm commitment, or a specific pool of transactions with similar risk characteristics.

Foreign Currency Risk

We manage foreign currency risk through currency futures, foreign currency options, cross-currency swaps and forward contracts. These derivatives are marked to market, with realized and unrealized gains and losses recorded in non-interest revenue, consistent with the accounting treatment for gains and losses on the economically hedged item. Changes in fair value on forward contracts that qualify as accounting hedges are recorded in other comprehensive income, with the spot/forward differential (the difference between the foreign currency exchange rate at inception of the contract and the rate at the end of the contract) being recorded in interest expense over the term of the hedge.

We also sometimes economically hedge U.S. dollar earnings through forward foreign exchange contracts to minimize fluctuations in our Canadian dollar earnings due to the translation of our U.S. dollar earnings. These contracts are marked to fair value, with gains and losses recorded as non-interest revenue in foreign exchange, other than trading.

Accounting Hedges

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on-balance sheet items caused by the risk being hedged or changes in the amount of future cash flows.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. Any ineffectiveness in the hedging relationship is recognized in non-interest revenue, other, in our Consolidated Statement of Income as it arises.

Cash Flow Hedges

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments and assets and liabilities denominated in foreign currencies. Our cash flow hedges, which have a maximum remaining term to maturity of eleven years, are hedges of floating rate loans and deposits as well as assets and liabilities denominated in foreign currencies.

We record interest that we pay or receive on these derivatives as an adjustment to net interest income in our Consolidated Statement of Income over the life of the hedge.

To the extent that changes in the fair value of the derivative offset changes in the fair value of the hedged item, they are recorded in other comprehensive income. The excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item (the "ineffectiveness of the hedge") is recorded directly in non-interest revenue, other, in our Consolidated Statement of Income.

For cash flow hedges that are discontinued before the end of the original hedge term, the unrealized gain or loss recorded in other comprehensive income is amortized to net interest income in our Consolidated Statement of Income as the hedged item affects earnings. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in net interest income in our Consolidated Statement of Income. The amount of unrealized gain that we expect to reclassify to our Consolidated Statement of Income over the next 12 months is $107 million ($79 million after tax). This will adjust the interest recorded on assets and liabilities that were hedged.

Fair Value Hedges

Fair value hedges modify exposure to changes in a fixed rate instrument's fair value caused by changes in interest rates. These hedges convert fixed rate assets and liabilities to floating rate. Our fair value hedges include hedges of fixed rate securities, deposits and subordinated debt.

We record interest receivable or payable on these derivatives as an adjustment to net interest income in our Consolidated Statement of Income over the life of the hedge.

For fair value hedges, not only is the hedging derivative recorded at fair value but fixed rate assets and liabilities that are part of a hedging relationship are adjusted for the changes in value of the risk being hedged ("quasi fair value"). To the extent that the change in the fair value of the derivative does not offset changes in the quasi fair value of the hedged item (the "ineffectiveness of the hedge"), the net amount is recorded directly in non-interest revenue, other, in our Consolidated Statement of Income.

For fair value hedges that are discontinued, we cease adjusting the hedged item to quasi fair value. The quasi fair value adjustment of the hedged item is then amortized as an adjustment to the net interest income on the hedged item over its remaining term to maturity. If the hedged item is sold or settled, any remaining quasi fair value adjustment is included in the determination of the gain or loss on sale or settlement. We did not hedge any commitments during the years ended October 31, 2013 and 2012.

Net Investment Hedges

Net investment hedges mitigate our exposure to foreign currency exchange rate fluctuations related to our net investment in foreign operations. Deposit liabilities denominated in foreign currencies are designated as hedges of this exposure. The foreign currency translation of our net investment in foreign operations and the corresponding hedging instrument is recorded in net gain (loss) on translation of net foreign operations in other comprehensive income. To the extent that the hedging instrument is not effective, amounts are included in the Consolidated Statement of Income in foreign exchange, other than trading. There was no hedge ineffectiveness associated with net investment hedges for the years ended October 31, 2013 and 2012. We use foreign currency deposits with a term to maturity of zero to three months as hedging instruments in net investment hedges, and the fair value of such deposits was $7,547 million as at October 31, 2013 ($6,867 million in 2012).

Fair Value Hedging Relationships

The following table presents the impact of fair value hedges on our financial results.

(Canadian $ in millions)	Pre-tax gains/(losses) recorded in income		
Contract type	Amount of gain/(loss) on hedging derivatives (1)	Quasi fair value adjustment (2)	Hedge ineffectiveness recorded in non-interest revenue – other
Interest rate contracts – **2013**	**(371)**	**360**	**(11)**
2012	42	(44)	(2)
2011	245	(276)	(31)

(1) Unrealized gains (losses) on hedging derivatives are recorded in Other Assets – Derivative instruments or Other Liabilities – Derivative instruments in the Consolidated Balance Sheet.

(2) Unrealized gains (losses) on hedged items are recorded in Securities – Available for sale, Subordinated Debt and Deposits.

Cash Flow Hedging Relationships

The following table presents the impact of cash flow hedges on our financial results.

(Canadian $ in millions)			Pre-tax gains/(losses) recorded in income	
Contract type	Fair value change recorded in other comprehensive income	Fair value change recorded in non-interest revenue – other	Reclassification of gains (losses) on designated hedges from other comprehensive income to net interest income	Amortization of spot/forward differential on foreign exchange contracts to interest expense
2013				
Interest rate	**(86)**	**–**	**195**	**–**
Foreign exchange	**49**	**–**	**–**	**(25)**
Total	**(37)**	**–**	**195**	**(25)**
2012				
Interest rate	(44)	3	177	–
Foreign exchange	(27)	–	–	(32)
Total	(71)	3	177	(32)
2011				
Interest rate	345	8	98	–
Foreign exchange	120	–	–	(66)
Total	465	8	98	(66)

Embedded Derivatives

From time to time, we purchase or issue financial instruments containing embedded derivatives. The embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. To the extent that we cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value, with changes in fair value reflected in income. Embedded derivatives in certain of our equity linked notes are accounted for separately from the host instrument.

Contingent Features

Certain over-the-counter derivative instruments contain provisions that link the amount of collateral we are required to post or payment requirements to our credit ratings (as determined by the major credit rating agencies). If our credit ratings were to be downgraded, certain counterparties to these derivative instruments could demand immediate and ongoing collateralization overnight on derivative liability positions or request immediate payment. The aggregate fair value of all derivative instruments with collateral posting requirements that were in a liability position on October 31, 2013 is $4.6 billion, for which we have posted collateral of $5.2 billion. If our credit rating had been downgraded to A and A- on October 31, 2013 (per Standard & Poor's Ratings Services), we would have been required to post collateral or meet payment demands of an additional $0.1 billion and $0.4 billion, respectively.

Fair Value

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Discussion of the fair value measurement of derivatives is included in Note 29.

Notes

Fair values of our derivative instruments are as follows:

(Canadian $ in millions)			2013			2012
	Gross assets	**Gross liabilities**	**Net**	Gross assets	Gross liabilities	Net
Trading						
Interest Rate Contracts						
Swaps	**21,251**	**(20,327)**	**924**	36,040	(35,207)	833
Forward rate agreements	**5**	**(5)**	**–**	98	(104)	(6)
Futures	**1**	**(3)**	**(2)**	1	(3)	(2)
Purchased options	**595**	**–**	**595**	1,180	–	1,180
Written options	**–**	**(672)**	**(672)**	–	(1,208)	(1,208)
Foreign Exchange Contracts						
Cross-currency swaps	**1,156**	**(897)**	**259**	1,159	(1,406)	(247)
Cross-currency interest rate swaps	**3,459**	**(3,641)**	**(182)**	4,408	(4,193)	215
Forward foreign exchange contracts	**1,552**	**(1,549)**	**3**	1,713	(1,768)	(55)
Purchased options	**100**	**–**	**100**	140	–	140
Written options	**–**	**(88)**	**(88)**	–	(109)	(109)
Commodity Contracts						
Swaps	**501**	**(543)**	**(42)**	804	(1,180)	(376)
Purchased options	**238**	**–**	**238**	428	–	428
Written options	**–**	**(290)**	**(290)**	–	(561)	(561)
Equity Contracts	**536**	**(3,067)**	**(2,531)**	367	(2,268)	(1,901)
Credit Default Swaps						
Purchased	**90**	**–**	**90**	237	–	237
Written	**–**	**(102)**	**(102)**	–	(156)	(156)
Total fair value – trading derivatives	**29,484**	**(31,184)**	**(1,700)**	46,575	(48,163)	(1,588)
Average fair value (1)	**38,016**	**(39,565)**	**(1,549)**	49,911	(50,212)	(301)
Hedging						
Interest Rate Contracts						
Cash flow hedges – swaps	**110**	**(169)**	**(59)**	134	(146)	(12)
Fair value hedges – swaps	**260**	**(348)**	**(88)**	737	(396)	341
Total swaps	**370**	**(517)**	**(147)**	871	(542)	329
Foreign Exchange Contracts						
Cash flow hedges – forward foreign exchange contracts	**405**	**(273)**	**132**	625	(31)	594
Total foreign exchange contracts	**405**	**(273)**	**132**	625	(31)	594
Total fair value – hedging derivatives (2)	**775**	**(790)**	**(15)**	1,496	(573)	923
Average fair value (1)	**1,100**	**(674)**	**426**	2,287	(768)	1,519
Total fair value – trading and hedging derivatives	**30,259**	**(31,974)**	**(1,715)**	48,071	(48,736)	(665)
Less: impact of master netting agreements	**(27,493)**	**27,493**	**–**	(35,087)	35,087	–
Total	**2,766**	**(4,481)**	**(1,715)**	12,984	(13,649)	(665)

(1) Average fair value amounts are calculated using a five-quarter rolling average.
(2) The fair values of hedging derivatives wholly or partially offset the changes in fair values of the related on-balance sheet financial instruments or future cash flows.

Assets are shown net of liabilities to customers where we have a legally enforceable right to offset amounts and we intend to settle contracts on a net basis.
Certain comparative figures have been reclassified to conform with the current year's presentation.

Derivative instruments recorded in our Consolidated Balance Sheet are as follows:

(Canadian $ in millions)	Assets		Liabilities	
	2013	2012	**2013**	2012
Fair value of trading derivatives	**29,484**	46,575	**31,184**	48,163
Fair value of hedging derivatives	**775**	1,496	**790**	573
Total	**30,259**	48,071	**31,974**	48,736

Notional Amounts

The notional amounts of our derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our Consolidated Balance Sheet.

(Canadian $ in millions)				2013				2012
		Hedging				Hedging		
	Trading	Cash flow	Fair value	Total	Trading	Cash flow	Fair value	Total
Interest Rate Contracts								
Over-the-counter								
Swaps	**2,139,706**	**41,138**	**43,942**	**2,224,786**	1,880,368	35,802	49,006	1,965,176
Forward rate agreements	**399,751**	**–**	**–**	**399,751**	569,748	–	–	569,748
Purchased options	**18,283**	**–**	**–**	**18,283**	24,015	–	–	24,015
Written options	**23,020**	**–**	**–**	**23,020**	31,364	–	–	31,364
	2,580,760	**41,138**	**43,942**	**2,665,840**	2,505,495	35,802	49,006	2,590,303
Exchange-traded								
Futures	**111,913**	**–**	**–**	**111,913**	76,306	–	–	76,306
Purchased options	**16,534**	**–**	**–**	**16,534**	16,307	–	–	16,307
Written options	**15,429**	**–**	**–**	**15,429**	13,818	–	–	13,818
	143,876	**–**	**–**	**143,876**	106,431	–	–	106,431
Total interest rate contracts	**2,724,636**	**41,138**	**43,942**	**2,809,716**	2,611,926	35,802	49,006	2,696,734
Foreign Exchange Contracts								
Over-the-counter								
Cross-currency swaps	**44,607**	**227**	**–**	**44,834**	30,245	240	–	30,485
Cross-currency interest rate swaps	**255,337**	**–**	**–**	**255,337**	238,675	–	–	238,675
Forward foreign exchange contracts	**249,412**	**14,195**	**–**	**263,607**	209,947	7,398	–	217,345
Purchased options	**10,923**	**–**	**–**	**10,923**	8,682	–	–	8,682
Written options	**13,530**	**–**	**–**	**13,530**	10,588	–	–	10,588
	573,809	**14,422**	**–**	**588,231**	498,137	7,638	–	505,775
Exchange-traded								
Futures	**621**	**–**	**–**	**621**	767	–	–	767
Purchased options	**2,608**	**–**	**–**	**2,608**	3,505	–	–	3,505
Written options	**616**	**–**	**–**	**616**	1,404	–	–	1,404
	3,845	**–**	**–**	**3,845**	5,676	–	–	5,676
Total foreign exchange contracts	**577,654**	**14,422**	**–**	**592,076**	503,813	7,638	–	511,451
Commodity Contracts								
Over-the-counter								
Swaps	**15,122**	**–**	**–**	**15,122**	15,034	–	–	15,034
Purchased options	**8,081**	**–**	**–**	**8,081**	9,002	–	–	9,002
Written options	**4,285**	**–**	**–**	**4,285**	5,164	–	–	5,164
	27,488	**–**	**–**	**27,488**	29,200	–	–	29,200
Exchange-traded								
Futures	**24,037**	**–**	**–**	**24,037**	21,743	–	–	21,743
Purchased options	**8,044**	**–**	**–**	**8,044**	9,315	–	–	9,315
Written options	**9,894**	**–**	**–**	**9,894**	10,762	–	–	10,762
	41,975	**–**	**–**	**41,975**	41,820	–	–	41,820
Total commodity contracts	**69,463**	**–**	**–**	**69,463**	71,020	–	–	71,020
Equity Contracts								
Over-the-counter	**39,360**	**–**	**–**	**39,360**	30,000	–	–	30,000
Exchange-traded	**5,851**	**–**	**–**	**5,851**	9,930	–	–	9,930
Total equity contracts	**45,211**	**–**	**–**	**45,211**	39,930	–	–	39,930
Credit Default Swaps								
Over-the-counter purchased	**8,835**	**–**	**–**	**8,835**	11,682	–	–	11,682
Over-the-counter written	**13,288**	**–**	**–**	**13,288**	24,126	–	–	24,126
Total credit default swaps	**22,123**	**–**	**–**	**22,123**	35,808	–	–	35,808
Total	**3,439,087**	**55,560**	**43,942**	**3,538,589**	3,262,497	43,440	49,006	3,354,943

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

Derivative-Related Market Risk

Derivative instruments are subject to market risk. Market risk arises from the potential for a negative impact on the balance sheet and/or income statement resulting from adverse changes in the value of derivative instruments as a result of changes in certain market variables. These variables include interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, as well as credit spreads, credit migration and default. We strive to limit market risk by employing comprehensive governance and management processes for all market risk-taking activities.

Derivative-Related Credit Risk

Over-the-counter derivative instruments are subject to credit risk arising from the possibility that counterparties may default on their obligations. The credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts generally expose us to potential credit loss if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. The credit risk is represented by the positive fair value of the derivative instrument. We strive to limit credit risk by dealing with counterparties that we believe are creditworthy, and we manage our credit risk for derivatives using the same credit risk process that is applied to loans and other credit assets.

We also pursue opportunities to reduce our exposure to credit losses on derivative instruments, including entering into master netting agreements with counterparties. The credit risk associated with favourable contracts is eliminated by master netting agreements to the extent that unfavourable contracts with the same counterparty cannot be settled before favourable contracts.

Exchange-traded derivatives have no potential for credit exposure as they are settled net with each exchange.

Terms used in the credit risk table are as follows:

Replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It represents in effect the unrealized gains on our derivative instruments. Replacement costs disclosed below represent the net of the asset and liability to a specific counterparty where we have a legally enforceable right to offset the amount owed to us with the amount owed by us and we intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Credit risk equivalent represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Guideline.

Risk-weighted assets represent the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

(Canadian $ in millions)			2013			2012
	Replacement cost	Credit risk equivalent	Risk-weighted assets	Replacement cost	Credit risk equivalent	Risk-weighted assets
Interest Rate Contracts						
Swaps	**21,621**	**26,813**	**–**	36,911	41,412	–
Forward rate agreements	**5**	**40**	**–**	98	68	–
Purchased options	**589**	**657**	**–**	1,174	1,270	–
Total interest rate contracts	**22,215**	**27,510**	**1,758**	38,183	42,750	2,355
Foreign Exchange Contracts						
Cross-currency swaps	**1,156**	**4,091**	**–**	1,159	2,690	–
Cross-currency interest rate swaps	**3,459**	**15,671**	**–**	4,408	15,317	–
Forward foreign exchange contracts	**1,957**	**3,854**	**–**	2,338	4,423	–
Purchased options	**90**	**227**	**–**	105	190	–
Total foreign exchange contracts	**6,662**	**23,843**	**2,448**	8,010	22,620	1,836
Commodity Contracts						
Swaps	**501**	**2,289**	**–**	804	2,380	–
Purchased options	**66**	**1,045**	**–**	100	1,248	–
Total commodity contracts	**567**	**3,334**	**621**	904	3,628	667
Equity Contracts	**520**	**3,054**	**113**	347	2,416	102
Credit Default Swaps	**90**	**448**	**310**	237	746	588
Total derivatives	**30,054**	**58,189**	**5,250**	47,681	72,160	5,548
Less: impact of master netting agreements	**(27,493)**	**(38,607)**	**–**	(35,087)	(51,297)	–
Total	**2,561**	**19,582**	**5,250**	12,594	20,863	5,548

The total derivatives and impact of master netting agreements for replacement cost do not include exchange-traded derivatives with a fair value of $205 million as at October 31, 2013 ($390 million in 2012).

Transactions are conducted with counterparties in various geographic locations and industry sectors. Set out below is the replacement cost of contracts before and after the impact of master netting agreements with customers located in the following countries, based on country of ultimate risk.

(Canadian $ in millions, except as noted)	Before master netting agreements				After master netting agreements			
	2013		2012		**2013**		2012	
Canada	**12,425**	**41**	18,283	38	**1,389**	**54**	7,309	58
United States	**7,193**	**24**	12,654	27	**728**	**28**	3,279	26
United Kingdom	**4,761**	**16**	8,210	17	**148**	**6**	636	5
Other countries (1)	**5,675**	**19**	8,534	18	**296**	**12**	1,370	11
Total	**30,054**	**100%**	47,681	100%	**2,561**	**100%**	12,594	100%

(1) No other country represented 10% or more of our replacement cost in 2013 or 2012.

Transactions are conducted with various counterparties. Set out below is the replacement cost of contracts (before the impact of master netting agreements) with customers in the following industries:

As at October 31, 2013 (Canadian $ in millions)	Interest rate contracts	Foreign exchange contracts	Commodity contracts	Equity contracts	Credit default swaps	Total
Financial institutions	**18,212**	**4,045**	**201**	**293**	**58**	**22,809**
Governments	**2,094**	**1,633**	**20**	**–**	**–**	**3,747**
Natural resources	**44**	**38**	**84**	**–**	**–**	**166**
Energy	**126**	**85**	**85**	**–**	**–**	**296**
Other	**1,739**	**861**	**177**	**227**	**32**	**3,036**
Total	**22,215**	**6,662**	**567**	**520**	**90**	**30,054**

As at October 31, 2012 (Canadian $ in millions)	Interest rate contracts	Foreign exchange contracts	Commodity contracts	Equity contracts	Credit default swaps	Total
Financial institutions	32,454	4,797	315	145	106	37,817
Governments	3,263	2,343	21	–	–	5,627
Natural resources	57	44	178	–	–	279
Energy	96	7	96	–	–	199
Other	2,313	819	294	202	131	3,759
Total	38,183	8,010	904	347	237	47,681

Credit Derivatives

Credit derivatives – protection sold by ratings/maturity profile:

	Maximum payout/Notional				Fair value
As at October 31, 2013 (Canadian $ in millions)	Within 1 year	1 to 5 years	Over 5 years	Total	Liability
Credit default swaps					
Investment grade (1)	**2,714**	**9,751**	**–**	**12,465**	**80**
Non-investment grade (1)	**267**	**163**	**–**	**430**	**16**
Non-rated	**7**	**241**	**145**	**393**	**6**
Total (2)	**2,988**	**10,155**	**145**	**13,288**	**102**

	Maximum payout/Notional				Fair value
As at October 31, 2012 (Canadian $ in millions)	Within 1 year	1 to 5 years	Over 5 years	Total	Liability
Credit default swaps					
Investment grade (1)	10,463	12,414	63	22,940	128
Non-investment grade (1)	344	384	223	951	27
Non-rated	9	166	60	235	1
Total (2)	10,816	12,964	346	24,126	156

(1) Credit ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings. These credit ratings largely reflect those assigned by external rating agencies and represent the payment or performance risk of the underlying security or referenced asset.

(2) As at October 31, 2013, the notional value and net carrying value of credit protection sold in which we held purchased protection with identical underlying assets was $4.3 billion and $41 million ($0.6 billion and $18 million in 2012).

Term to Maturity

Our derivative contracts have varying maturity dates. The remaining contractual term to maturity for the notional amounts of our derivative contracts is set out below:

(Canadian $ in millions)	Term to maturity					2013	2012
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total notional amounts	Total notional amounts
Interest Rate Contracts							
Swaps	**720,271**	**594,450**	**572,820**	**277,659**	**59,586**	**2,224,786**	1,965,176
Forward rate agreements, futures and options	**512,479**	**63,823**	**4,687**	**3,687**	**254**	**584,930**	731,558
Total interest rate contracts	**1,232,750**	**658,273**	**577,507**	**281,346**	**59,840**	**2,809,716**	2,696,734
Foreign Exchange Contracts							
Cross-currency swaps	**1,463**	**24,149**	**7,645**	**7,463**	**4,114**	**44,834**	30,485
Cross-currency interest rate swaps	**49,748**	**90,106**	**58,095**	**44,827**	**12,561**	**255,337**	238,675
Forward foreign exchange contracts, futures and options	**283,607**	**7,008**	**1,205**	**72**	**13**	**291,905**	242,291
Total foreign exchange contracts	**334,818**	**121,263**	**66,945**	**52,362**	**16,688**	**592,076**	511,451
Commodity Contracts							
Swaps	**9,492**	**4,807**	**496**	**327**	**–**	**15,122**	15,034
Futures and options	**35,418**	**15,880**	**2,842**	**201**	**–**	**54,341**	55,986
Total commodity contracts	**44,910**	**20,687**	**3,338**	**528**	**–**	**69,463**	71,020
Equity Contracts	**23,240**	**9,958**	**11,096**	**10**	**907**	**45,211**	39,930
Credit Contracts	**5,127**	**13,528**	**2,675**	**793**	**–**	**22,123**	35,808
Total notional amount	**1,640,845**	**823,709**	**661,561**	**335,039**	**77,435**	**3,538,589**	3,354,943

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

Note 11: Premises and Equipment

We record all premises and equipment at cost less accumulated amortization, except land, which is recorded at cost. Buildings, computer equipment and operating system software, other equipment and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. The maximum estimated useful lives we use to amortize our assets are as follows:

Buildings	10 to 40 years
Computer equipment and operating system software	15 years
Other equipment	10 years
Leasehold improvements	Lease term to a maximum of 10 years

Gains and losses on disposal are included in other non-interest expense in our Consolidated Statement of Income.

Amortization methods, useful lives and the residual values of premises and equipment are reviewed annually for any change in circumstances and are adjusted if appropriate. At least annually, we review whether there are any indications that premises and equipment need to be tested for impairment. If there is an indication that an asset may be impaired, we test for impairment by comparing the asset's carrying value to its recoverable amount. The recoverable amount is calculated as the higher of the value in use and the fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset. An impairment charge is recorded when the recoverable amount is less than the carrying value.

When major components of buildings have different useful lives, they are accounted for separately and amortized over each component's useful life.

Amortization expense for the years ended October 31, 2013, 2012 and 2011 amounted to $360 million, $364 million and $307 million, respectively.

There were no significant write-downs of premises and equipment due to impairment during the years ended October 31, 2013 and 2012.

Lease Commitments

We have entered into a number of non-cancellable leases for premises and equipment. Our computer and software leases are typically fixed for one term and our premises leases have various renewal options and rights. Our total contractual rental commitments as at October 31, 2013 were $1,798 million. The commitments for each of the next five years and thereafter are $278 million for 2014, $262 million for 2015, $234 million for 2016, $210 million for 2017, $174 million for 2018 and $640 million thereafter. Included in these amounts are the commitments related to 794 leased branch locations as at October 31, 2013.

Net rent expense for premises and equipment reported in our Consolidated Statement of Income for the years ended October 31, 2013, 2012 and 2011 was $434 million, $418 million and $380 million, respectively.

(Canadian $ in millions)						2013						2012
	Land	**Buildings**	**Computer Equipment**	**Other Equipment**	**Leasehold Improvements**	**Total**	Land	Buildings	Computer Equipment	Other Equipment	Leasehold Improvements	Total
Cost:												
Balance at beginning of year	**291**	**1,554**	**1,467**	**764**	**961**	**5,037**	304	1,539	1,459	893	993	5,188
Additions	**8**	**118**	**237**	**50**	**80**	**493**	4	81	257	86	117	545
Disposals (1)	**(4)**	**(34)**	**(82)**	**(63)**	**(7)**	**(190)**	(16)	(69)	(228)	(228)	(148)	(689)
Additions from acquisitions (2)	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	1	–	1
Foreign exchange and other	**2**	**43**	**6**	**19**	**11**	**81**	(1)	3	(21)	12	(1)	(8)
Balance at end of year	**297**	**1,681**	**1,628**	**770**	**1,045**	**5,421**	291	1,554	1,467	764	961	5,037
Accumulated Depreciation and impairment:												
Balance at beginning of year	**–**	**815**	**1,074**	**470**	**558**	**2,917**	–	768	1,099	634	626	3,127
Disposals (1)	**–**	**(5)**	**(57)**	**(23)**	**(4)**	**(89)**	–	(19)	(187)	(221)	(146)	(573)
Amortization	**–**	**33**	**147**	**58**	**122**	**360**	–	65	164	57	78	364
Foreign exchange and other	**–**	**57**	**16**	**2**	**(33)**	**42**	–	1	(2)	–	–	(1)
Balance at end of year	**–**	**900**	**1,180**	**507**	**643**	**3,230**	–	815	1,074	470	558	2,917
Net carrying value	**297**	**781**	**448**	**263**	**402**	**2,191**	291	739	393	294	403	2,120

(1) Includes fully depreciated assets written off.

(2) Premises and equipment are recorded at the fair value on the date of acquisition.

Note 12: Acquisitions

The cost of an acquisition is measured at the fair value of the consideration transferred, including contingent consideration. Acquisition-related costs are recognized as an expense in the period in which they are incurred. The identifiable assets acquired and liabilities assumed and contingent consideration are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred over the net of the amounts of identifiable assets acquired and liabilities assumed. The results of operations of acquired businesses are included in our consolidated financial statements beginning on the date of acquisition.

Aver Media LP ("Aver")

On April 1, 2013, we completed the acquisition of the assets of Aver Media LP, a private Canadian-based film and TV media lending company, for cash consideration of $260 million, subject to a post-closing adjustment based on net assets, plus contingent consideration of approximately $10 million to be paid over eighteen months after the acquisition date. Acquisition-related costs of $1 million were expensed in non-interest expense, other in our Consolidated Statement of Income. This acquisition is predominantly of the Aver loan portfolio and provides us with additional opportunities to grow our commercial loan business by expanding our presence in the film and television production industry. Goodwill related to this acquisition is deductible for tax purposes. As part of this acquisition, we acquired a customer relationship intangible asset which is being amortized on an accelerated basis over 10 years. Aver is part of our Canadian Personal and Commercial Banking reporting segment. The acquisition was accounted for as a business combination.

Asian Wealth Management Business ("AWMB")

On January 25, 2013, we completed the acquisition of an Asian-based wealth management business for cash consideration of $33 million. During the year ended October 31, 2013, the purchase price increased to $34 million due to a post-closing adjustment based upon working capital. Acquisition costs of $4 million were expensed in non-interest expense, other in our Consolidated Statement of Income. The business provides private banking services to high net worth individuals in the Asia-Pacific region and provides an important opportunity for us to expand our offering to high net worth individuals in this region. Goodwill related to this acquisition is deductible for tax purposes. As part of this acquisition, we acquired a customer relationship intangible asset which is being amortized on a straight-line basis over 15 years, and software intangible assets which are being amortized over their remaining useful lives. AWMB is part of our Wealth Management reporting segment.

CTC Consulting, LLC ("CTC")

On June 11, 2012, we completed the acquisition of United States-based CTC Consulting, LLC for cash consideration of $20 million. During the year ended October 31, 2012, we increased the purchase price by $1 million to $21 million based on a revaluation of equity. Acquisition-related costs of less than $1 million were expensed in non-interest expense, other in our Consolidated Statement of Income. The acquisition of CTC helped us to expand and enhance our manager research and advisory capabilities and investment offering to ultra-high net worth clients and select multi-family offices and wealth advisors. This will allow us to further strengthen and expand our presence in the United States. As part of this acquisition, we acquired a customer relationship intangible asset which is being amortized on an accelerated basis over 15 years. Goodwill related to this acquisition is not deductible for tax purposes. CTC is part of our Wealth Management reporting segment.

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

(Canadian $ in millions)		**2013**	2012
	Aver	**AWMB**	CTC
Cash resources	**–**	**434**	2
Loans	**232**	**310**	–
Premises and equipment	**–**	**1**	1
Goodwill	**20**	**17**	7
Intangible assets	**16**	**17**	11
Other assets	**3**	**2**	2
Total assets	**271**	**781**	23
Deposits	**–**	**746**	–
Other liabilities	**1**	**1**	2
Total liabilities	**1**	**747**	2
Purchase price	**270**	**34**	21

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

COFCO Trust Co. ("COFCO")

On August 1, 2012, we acquired a 19.99% interest in COFCO Trust Co., a subsidiary of COFCO Group, one of China's largest state-owned enterprises with operations across a variety of sectors, including agriculture and financial services. We recorded our investment in COFCO at cost and adjust our investment for our proportionate share of any net income or loss, other comprehensive income or loss and dividends. The investment provides an important opportunity for us to expand our offering to high net worth and institutional clients in China. COFCO is part of our Wealth Management reporting segment.

Note 13: Goodwill and Intangible Assets

Goodwill

When we complete an acquisition, we allocate the purchase price paid to the assets acquired, including identifiable intangible assets and the liabilities assumed. Any excess of the consideration transferred over the fair value of those net assets is considered to be goodwill. Goodwill is not amortized.

Fair value less costs to sell was the measurement we used to perform the impairment test for goodwill in 2013 and 2012. We determined the fair value less costs to sell for each cash generating unit ("CGU") by discounting cash flow projections. Cash flows were projected for the first 10 years based on actual operating results, expected future business performance and past experience. Beyond the first 10 years, cash flows were assumed to grow at perpetual annual rates of up to 3%, a rate that is consistent with long-term nominal GDP growth. The discount rates we applied in determining the recoverable amounts range from 7.8% to 18.1% (8.3% to 15.5% in 2012), and are based on our estimate of the cost of capital for each CGU. The cost of capital for each CGU was estimated using the Capital Asset Pricing Model, based on the historical betas of publicly traded peer companies that are comparable to the CGU.

There were no write-downs of goodwill due to impairment during the years ended October 31, 2013 and 2012.

The key assumptions described above may change as market and economic conditions change. However, we estimate that reasonably possible changes in these assumptions are not expected to cause recoverable amounts to decline below carrying amounts.

A continuity of our goodwill by CGU for the years ended October 31, 2013 and 2012 is as follows:

(Canadian $ in millions)			Personal and Commercial Banking					Wealth Management	BMO Capital Markets	Corporate Services	Total
	Canadian P&C	U.S. P&C	Total	Client Investing	Global Asset* Management	Private Banking	Insurance	Total		Technology and Operations	
Goodwill as at October 31, 2011	122	2,545	2,667	68	377	344	2	791	191	–	3,649
Acquisitions during the year	–	–	–	–	–	7	–	7	–	–	7
Other (1)	–	48	48	–	4	6	–	10	3	–	61
Goodwill as at October 31, 2012	122	2,593	2,715	68	381	357	2	808	194	–	3,717
Acquisitions during the year	**20**	**–**	**20**	**–**	**–**	**17**	**–**	**17**	**–**	**–**	**37**
Other (1)	**–**	**110**	**110**	**–**	**7**	**17**	**–**	**24**	**5**	**–**	**139**
Goodwill as at October 31, 2013	**142** (2)	**2,703** (3)	**2,845**	**68** (4)	**388** (5)	**391** (6)	**2** (7)	**849**	**199** (8)	**–**	**3,893**

(1) Other changes in goodwill included the effects of translating goodwill denominated in foreign currencies into Canadian dollars and purchase accounting adjustments related to prior-year purchases.
(2) Relates primarily to Moneris Solutions Corporation, bcpbank Canada and Diners Club and Aver Media LP.
(3) Relates primarily to New Lenox State Bank, First National Bank of Joliet, Household Bank branches, Mercantile Bancorp, Inc., Villa Park Trust Savings Bank, First National Bank & Trust, Ozaukee Bank, Merchants and Manufacturers Bancorporation, Inc., AMCORE and M&I.
(4) Relates to BMO Nesbitt Burns Inc.
(5) Relates to Guardian Group of Funds Ltd., Pyrford International plc, Integra GRS, LGM and M&I.
(6) Relates primarily to Harris myCFO Inc., Stoker Ostler Wealth Advisors, Inc., M&I, CTC Consulting, LLC and AWMB.
(7) Relates to AIG.
(8) Relates to Gerard Klauer Mattison & Co., Inc., BMO Nesbitt Burns Inc., Griffin, Kubik, Stephens & Thompson, Inc., Paloma Securities L.L.C. and M&I.
* Formerly Investment Products.

Intangible Assets

Intangible assets related to our acquisitions are recorded at their fair value at the acquisition date. Software is recorded at cost less accumulated amortization. The following table presents the change in the balance of the intangible assets:

(Canadian $ in millions)	Customer relationships	Core deposits	Branch distribution networks	Purchased software – amortizing	Developed software – amortizing	Software under development	Other	Total
Intangible assets cost as at October 31, 2011	397	721	148	549	1,181	119	26	3,141
Additions/disposals/other	(2)	–	2	(11)	316	37	2	344
Acquisitions	11	–	–	–	–	–	–	11
Foreign exchange	1	2	–	–	(3)	–	1	1
Intangible assets cost as at October 31, 2012	407	723	150	538	1,494	156	29	3,497
Additions/disposals/other	**10**	**–**	**(3)**	**2**	**104**	**85**	**–**	**198**
Acquisitions	**23**	**–**	**–**	**–**	**–**	**–**	**–**	**23**
Foreign exchange	**15**	**31**	**7**	**4**	**17**	**2**	**–**	**76**
Intangible assets cost as at October 31, 2013	**455**	**754**	**154**	**544**	**1,615**	**243**	**29**	**3,794**

The following table presents the accumulated amortization of the intangible assets:

(Canadian $ in millions)	Customer relationships	Core deposits	Branch distribution networks	Purchased software – amortizing	Developed software – amortizing	Software under development	Other	Total
Accumulated amortization at October 31, 2011	98	207	147	480	621	–	26	1,579
Disposals/other	(2)	–	–	(29)	57	–	2	28
Amortization	35	98	1	32	173	–	–	339
Foreign exchange	–	–	–	1	(2)	–	–	(1)
Accumulated amortization at October 31, 2012	131	305	148	484	849	–	28	1,945
Disposals/other	**1**	**–**	**(5)**	**(27)**	**(40)**	**–**	**(2)**	**(73)**
Amortization	**44**	**76**	**3**	**29**	**198**	**–**	**2**	**352**
Foreign exchange	**4**	**16**	**6**	**3**	**11**	**–**	**–**	**40**
Accumulated amortization at October 31, 2013	**180**	**397**	**152**	**489**	**1,018**	**–**	**28**	**2,264**
Carrying value at October 31, 2013	**275**	**357**	**2**	**55**	**597**	**243**	**1**	**1,530**
Carrying value at October 31, 2012	276	418	2	54	645	156	1	1,552

Intangible assets are amortized to income over the period during which we believe the assets will benefit us on either a straight-line or an accelerated basis, over a period not to exceed 15 years. We have no intangible assets with indefinite lives.

The useful lives of intangible assets are reviewed annually for any changes in circumstances. We test intangible assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. If any intangible assets are determined to be impaired, we write them down to their recoverable amount, the higher of the value in use and the fair value less costs to sell, when this is less than the carrying value.

There were no write-downs of intangible assets due to impairment during the years ended October 31, 2013 and 2012.

Note 14: Other Assets

(Canadian $ in millions)	2013	2012
Accounts receivable, prepaid expenses and other items	**6,626**	7,813
Accrued interest receivable	**753**	861
Due from clients, dealers and brokers	**503**	526
Insurance-related assets (1)	**566**	630
Pension asset (Note 23)	**523**	508
Total	**8,971**	10,338

(1) Includes reinsurance assets related to our life insurance business in the amount of $383 million as at October 31, 2013 ($472 million in 2012).

Note 15: Deposits

(Canadian $ in millions)	Payable on demand – Interest bearing		Payable on demand – Non-interest bearing		Payable after notice		Payable on a fixed date		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Deposits by:										
Banks	**679**	2,116	**928**	611	**4,076**	2,653	**14,908**	12,722	**20,591**	18,102
Businesses and governments	**13,947**	12,205	**23,479**	21,431	**54,178**	49,208	**129,194**	103,726	**220,798**	186,570
Individuals	**2,579**	2,545	**11,448**	10,388	**69,853**	63,770	**41,552**	42,327	**125,432**	119,030
Total (1) (2)	**17,205**	16,866	**35,855**	32,430	**128,107**	115,631	**185,654**	158,775	**366,821**	323,702
Booked in:										
Canada	**15,440**	16,011	**25,545**	24,280	**76,414**	65,810	**108,082**	97,243	**225,481**	203,344
United States	**1,153**	596	**10,211**	8,007	**51,262**	48,968	**59,800**	49,614	**122,426**	107,185
Other countries	**612**	259	**99**	143	**431**	853	**17,772**	11,918	**18,914**	13,173
Total	**17,205**	16,866	**35,855**	32,430	**128,107**	115,631	**185,654**	158,775	**366,821**	323,702

(1) Includes structured notes designated at fair value through profit or loss.
(2) As at October 31, 2013 and 2012, total deposits payable on a fixed date included $19,496 million and $17,613 million, respectively, of federal funds purchased, commercial paper issued and other deposit liabilities. Included in deposits as at October 31, 2013 and 2012 are $176,236 million and $146,003 million, respectively, of deposits denominated in U.S. dollars, and $4,822 million and $4,777 million, respectively, of deposits denominated in other foreign currencies.

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

Deposits

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 purchased by our customers to earn interest over a fixed period, such as term deposits and guaranteed investment certificates. The terms of these deposits can vary from one day to 10 years.
- Federal funds purchased, which are overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank. As at October 31, 2013, we had borrowed $181 million of federal funds ($1,674 million in 2012).
- Commercial paper, which totalled $4,753 million as at October 31, 2013 ($4,513 million in 2012).
- Covered bonds, which totalled $7,964 million as at October 31, 2013 ($9,053 million in 2012).

During the year ended October 31, 2013, the €1,000,000 4.25% Covered Bond-Series 1 deposit matured.

During the year ended October 31, 2012, we issued US$2.0 billion Covered Bond-Series 5. This deposit pays interest of 1.95% and matures on January 30, 2017.

The following table presents the maturity schedule for our deposits payable on a fixed date:

Payable on a Fixed Date (2)

(Canadian $ in millions)	2013	2012
Within 1 year	**113,924**	112,062
1 to 2 years	**21,198**	12,110
2 to 3 years	**20,127**	15,113
3 to 4 years	**10,989**	6,978
4 to 5 years	**10,931**	8,899
Over 5 years (1)	**8,485**	3,613
Total	**185,654**	158,775

(1) The over 5 years category includes deposits with no fixed maturity date.
(2) Includes $161,942 million of deposits, each greater than one hundred thousand dollars, of which $89,379 million were booked in Canada, $54,791 million were booked in the United States and $17,772 million were booked in other countries ($134,146 million, $79,223 million, $43,005 million and $11,918 million, respectively, in 2012). Of the $89,379 million of deposits booked in Canada, $31,304 million mature in less than three months, $4,079 million mature in three to six months, $6,861 million mature in six to 12 months and $47,134 million mature after 12 months ($79,223 million, $35,023 million, $5,250 million, $7,979 million and $30,971 million, respectively, in 2012). We have unencumbered liquid assets of $152,358 million to support these and other deposit liabilities ($154,606 million in 2012). A portion of these liquid assets have been pledged.

Notes

The following table presents the average deposit balances and average rates of interest paid during 2013 and 2012:

(Canadian $ in millions)	Average balances 2013	Average balances 2012	Average rate paid (%) 2013	Average rate paid (%) 2012
Deposits Booked in Canada				
Demand deposits – interest bearing	**16,050**	15,292	**0.47**	0.44
Demand deposits – non-interest bearing	**24,365**	23,343	**–**	–
Payable after notice	**71,820**	60,116	**0.68**	0.61
Payable on a fixed date	**98,631**	92,314	**1.56**	1.65
Total deposits booked in Canada	**210,866**	191,065	**1.00**	1.02
Deposits Booked in the United States and Other Countries				
Banks located in the United States and other countries	**9,308**	9,213	**0.71**	0.58
Governments and institutions in the United States and other countries	**9,283**	8,381	**0.42**	0.35
Other demand deposits	**9,305**	7,546	**0.03**	0.02
Other deposits payable after notice or on a fixed date	**117,446**	105,212	**0.36**	0.51
Total deposits booked in the United States and other countries	**145,342**	130,352	**0.37**	0.48
Total average deposits	**356,208**	321,417	**0.74**	0.80

As at October 31, 2013 and 2012, deposits by foreign depositors in our Canadian bank offices amounted to $26,561 million and $24,639 million, respectively.

A portion of our structured note liabilities have been designated at fair value through profit or loss and are accounted for at fair value, which better aligns the accounting result with the way the portfolio is managed. The change in fair value of these structured notes was recorded as an increase in non-interest revenue, trading revenues of $5 million for the year ended October 31, 2013 (increase of $19 million in 2012). This includes a decrease of $53 million attributable to changes in our credit spread (decrease of $20 million in 2012). We hold derivatives and other financial instrument contracts to partially hedge changes in the fair value of these structured notes.

The change in fair value related to changes in our credit spread that has been recognized since the notes were designated at fair value through profit or loss to October 31, 2013 was an unrealized loss of approximately $52 million. We may enter into positions to manage the exposure to changes in our credit spread.

The fair value and amount due at contractual maturity of these notes as at October 31, 2013 were $5,928 million and $6,028 million, respectively ($4,301 million and $4,284 million, respectively, in 2012).

Note 16: Other Liabilities

(Canadian $ in millions)	2013	2012
Acceptances	**8,472**	8,019
Securities sold but not yet purchased	**22,446**	23,439
Securities lent or sold under repurchase agreements	**28,884**	39,737
	59,802	71,195

Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have an offsetting claim, equal to the amount of the acceptances, against our customers. The amount due under acceptances is recorded as a liability and our corresponding claim is recorded as a loan in our Consolidated Balance Sheet.

Securities Lending and Borrowing

Securities lending and borrowing transactions are generally collateralized by securities or cash. Cash advanced or received as collateral is recorded in other assets or other liabilities, respectively. The transfer of the securities to counterparties is only reflected in our Consolidated Balance Sheet if the risks and rewards of ownership have also been transferred. Securities borrowed are not recognized in our Consolidated Balance Sheet unless they are then sold to third parties, in which case the obligation to return the securities is recorded in Securities sold but not yet purchased.

Securities Sold but not yet Purchased

Securities sold but not yet purchased represent our obligations to deliver securities that we did not own at the time of sale. These obligations are recorded at their market value. Adjustments to the market value as at the balance sheet date and gains and losses on the settlement of these obligations are recorded in trading revenues in our Consolidated Statement of Income.

Securities Lent or Sold Under Repurchase Agreements

Securities lent or sold under repurchase agreements represent short-term funding transactions in which we sell securities that we own and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. The obligation to repurchase these securities is recorded at the amount owing. The interest expense related to these liabilities is recorded on the accrual basis.

Other Liabilities

The components of the other liabilities balance as at October 31, 2013 and 2012 were as follows:

(Canadian $ in millions)	2013	2012
Securitization and SPE liabilities	**22,362**	25,481
Accounts payable, accrued expenses and other items	**7,915**	8,924
Accrued interest payable	**857**	977
Liabilities of subsidiaries, other than deposits	**3,857**	4,116
Insurance-related liabilities	**6,115**	6,040
Pension liability (Note 23)	**52**	43
Other employee future benefits liability (Note 23)	**1,054**	1,015
Total	**42,212**	46,596

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

Liabilities related to the notes issued by our credit protection vehicle and our structured investment vehicles 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 these 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 October 31, 2013 of $511 million ($946 million in 2012) is recorded in other liabilities in our Consolidated Balance Sheet. The change in fair value of these note liabilities resulted in a decrease of $24 million in non-interest revenue, trading revenues for the year ended October 31, 2013 (decrease of $228 million in 2012).

We designate the obligations related to certain annuity contracts at fair value through profit or loss, which eliminates a measurement inconsistency that would otherwise arise from measuring the annuity liabilities and offsetting changes in the fair value of the investments supporting them on a different basis. The fair value of these annuity liabilities as at October 31, 2013 of $329 million ($317 million in 2012) is recorded in other liabilities in our Consolidated Balance Sheet. The change in fair value of these annuity liabilities resulted in an increase of $7 million in non-interest revenue, insurance income for the year ended October 31, 2013 (decrease of $23 million in 2012). Changes in the fair value of investments backing these annuity liabilities are also recorded in non-interest revenue, insurance income.

Insurance-Related Liabilities

We are engaged in insurance businesses related to life and health insurance, annuities and reinsurance.

Insurance claims and policy benefit liabilities represent current claims and estimates of future insurance policy benefits. Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method, which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and updated to reflect actual experience and market conditions. Insurance claims and policy benefit liabilities are included in Other liabilities – Insurance-related liabilities. The effect of changes in actuarial assumptions on policy benefit liabilities was not material during the years ended October 31, 2013 or 2012.

A reconciliation of the change in the Insurance-related liabilities is as follows:

(Canadian $ in millions)	**2013**	2012
Insurance-related liabilities, beginning of year	**6,040**	5,380
Increase (decrease) in life insurance policy benefit liabilities from:		
New business	**324**	245
In-force policies	**(55)**	260
Changes in actuarial assumptions	**(201)**	92
Foreign currency	**1**	(1)
Net increase in life insurance policy benefit liabilities	**69**	596
Change in other insurance-related liabilities	**6**	64
Insurance-related liabilities, end of year	**6,115**	6,040

Reinsurance

In the ordinary course of business, our insurance subsidiaries reinsure risks to other insurance and reinsurance companies in order to provide greater diversification, limit loss exposure to large risks and provide additional capacity for future growth. These ceding reinsurance arrangements do not relieve our insurance subsidiaries from their direct obligation to the insureds. We evaluate the financial condition of the reinsurers and monitor their credit ratings to minimize our exposure to losses from reinsurer insolvency.

Reinsurance assets related to our life insurance business are included in other assets, insurance-related assets. Reinsurance amounts included in non-interest revenue, insurance income in our Consolidated Statement of Income for the years ended October 31, 2013, 2012 and 2011 are shown in the table below.

(Canadian $ in millions)	**2013**	2012	2011
Direct premium income	**1,567**	1,357	1,348
Ceded premiums	**(434)**	(410)	(392)
	1,133	947	956

Note 17: Subordinated Debt

Subordinated debt represents our direct unsecured obligations, in the form of notes and debentures, to our debt holders and forms part of our Basel III regulatory capital. Subordinated debt is recorded at amortized cost using the effective interest rate method. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require approval from the Office of the Superintendent of Financial Institutions Canada ("OSFI") before we can redeem any part of our subordinated debt. Where appropriate, we enter into fair value hedges to hedge the risks caused by changes in interest rates (see Note 10).

During the year ended October 31, 2013, we did not issue or redeem any of our subordinated debt. During the year ended October 31, 2012, we redeemed all of our Series D Medium-Term Notes, Tranche 2 at a redemption amount equal to $1,000, representing an aggregate redemption price of $1.2 billion, plus unpaid accrued interest up to, but excluding, the date fixed for redemption.

The term to maturity and repayments of our subordinated debt required over the next four years and thereafter are as follows:

(Canadian $ in millions, except as noted)	Face value	Maturity date	Interest rate (%)	Redeemable at our option beginning in	**2013 Total** (7)	2012 Total
Debentures Series 16	100	February 2017	10.00	February 2012 (1)	**100**	100
Debentures Series 20	150	December 2025 to 2040	8.25	Not redeemable	**150**	150
Series C Medium-Term Notes Tranche 2	500	April 2020	4.87	April 2015 (2)	**500**	500
Series D Medium-Term Notes Tranche 1	700	April 2021	5.10	April 2016 (3)	**700**	700
Series F Medium-Term Notes Tranche 1	900	March 2023	6.17	March 2018 (4)	**900**	900
Series G Medium-Term Notes Tranche 1	1,500	July 2021	3.98	July 2016 (5)	**1,500**	1,500
Total (6)					**3,850**	3,850

(1) Redeemable at the greater of par and the Canada Yield Price after their redemption date of February 20, 2012 until their maturity date of February 20, 2017.
(2) Redeemable at the greater of par and the Canada Yield Price prior to April 22, 2015, and redeemable at par commencing April 22, 2015.
(3) Redeemable at the greater of par and the Canada Yield Price prior to April 21, 2016, and redeemable at par commencing April 21, 2016.
(4) Redeemable at the greater of par and the Canada Yield Price prior to March 28, 2018, and redeemable at par commencing March 28, 2018.
(5) Interest on this issue is payable semi-annually at a fixed rate of 3.979% until July 8, 2016, and at a floating rate equal to the three-month Canadian Dealer Offered Rate ("CDOR") plus 1.09%, paid quarterly, thereafter to maturity. This issue is redeemable at par commencing July 8, 2016.
(6) Certain subordinated debt amounts include fair value hedge adjustments that increased their carrying value as at October 31, 2013 by $146 million ($243 million in 2012); see Note 10 for further details.
(7) All of our subordinated debt has a term to maturity of four years or more.

Please refer to the offering circular related to each of the above issues for further details on Canada Yield Price calculations and the definition of CDOR.

Notes

Note 18: Capital Trust Securities

We issue BMO Capital Trust Securities ("BMO BOaTS") and BMO Tier 1 Notes – Series A ("BMO T1Ns – Series A") through our consolidated subsidiaries BMO Capital Trust and BMO Capital Trust II, respectively (the "Trusts"). The proceeds of BMO BOaTS and BMO T1Ns – Series A are used for general corporate purposes. We consolidate the Trusts, and the BMO BOaTS are reported in our Consolidated Balance Sheet either as non-controlling interest in subsidiaries or as capital trust securities, depending on the terms of the BMO BOaTS. The BMO T1Ns – Series A are reported in our Consolidated Balance Sheet as capital trust securities.

Holders of the BMO BOaTS and BMO T1Ns – Series A are entitled to receive semi-annual non-cumulative fixed cash distributions as long as we declare dividends on our preferred shares or, if no shares are outstanding, on our common shares in accordance with our ordinary dividend practice.

(Canadian $ in millions, except Distribution)	Distribution dates	Distribution per BOaTS (1) / BMO T1Ns	Redemption date At the option of the Trust	Principal amount 2013	2012
Capital Trust Securities					
BMO T1Ns – Series A (2)	June 30, December 31	51.11 (3)	December 31, 2013	**450**	450
				450	450
Non-Controlling Interest					
BMO BOaTS					
Series D	June 30, December 31	27.37 (4)	December 31, 2009	**600**	600
Series E	June 30, December 31	23.17 (5)	December 31, 2010	**450**	450
				1,050	1,050
Total Capital Trust Securities				**1,500**	1,500

(1) Distribution paid on each trust security that has a par value of $1,000.
(2) The carrying value includes issuance costs and accrued interest of $13 million as at October 31, 2013 ($12 million in 2012).
(3) Starting on December 31, 2018 and on every fifth anniversary of such date thereafter until December 31, 2103, the interest rate on the BMO T1Ns – Series A will be reset to an interest rate per annum equal to the Government of Canada Yield plus 10.50%.
(4) After December 31, 2014, the distribution will be at the Bankers' Acceptance Rate plus 1.5%.
(5) After December 31, 2015, the distribution will be at the Bankers' Acceptance Rate plus 1.5%.

Redemption by the Trust

On or after the redemption dates indicated above, and subject to the prior approval of OSFI, the Trusts may redeem the securities in whole without the consent of the holders.

During the year ended October 31, 2012, we redeemed all of our BMO Capital Trust Securities – Series C ("BMO BOaTS – Series C") at a redemption amount equal to $1,000, for an aggregate redemption of $400 million, plus unpaid distributions which had been declared.

Conversion by the Holders

BMO BOaTS Series D and E and BMO T1Ns – Series A cannot be converted at the option of the holder.

Automatic Exchange

The BMO BOaTS Series D and E and BMO T1Ns – Series A will each be automatically exchanged for 40 Class B non-cumulative preferred shares of the bank, Series 11, 12 and 20, respectively, without the consent of the holders on the occurrence of specific events, such as a wind-up of the bank, a regulatory requirement to increase capital or violations of regulatory capital requirements.

Note 19: Interest Rate Risk

We earn interest on interest bearing assets and we pay interest on interest bearing liabilities. We also have derivative instruments, such as interest rate swaps and interest rate options, whose values are sensitive to changes in interest rates. To the extent that we have assets, liabilities and derivative instruments maturing or repricing at different points in time, we are exposed to interest rate risk.

Interest Rate Gap Position

The determination of the interest rate sensitivity or gap position by necessity encompasses numerous assumptions. It is based on the earlier of the repricing date or maturity date of assets, liabilities and derivatives used to manage interest rate risk.

The gap position presented is as at October 31, 2013 and 2012. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on customer behaviour and the application of our asset and liability management strategies.

The assumptions for the year ended October 31, 2013 were as follows:

Assets

Fixed rate, fixed term assets, such as residential mortgage loans and consumer loans, are reported based upon the scheduled repayments and estimated prepayments that reflect expected borrower behaviour.

Trading and underwriting (mark-to-market) assets and interest bearing assets on which the customer interest rate changes with the prime rate or other short-term market rates are reported in the zero to three months category.

Goodwill and intangible and fixed assets are reported as non-interest sensitive. Other fixed rate and non-interest bearing assets with no defined maturity are reported based upon an assumed maturity profile that considers historical and forecasted trends in balances.

Liabilities

Fixed rate, fixed term liabilities, such as investment certificates, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behaviour.

Interest bearing deposits on which the customer interest rate changes with the prime rate or other short-term market rates are reported in the zero to three months category.

Fixed rate and non-interest bearing liabilities with no defined maturity are reported based upon an assumed maturity profile that considers historical and forecasted trends in balances.

Capital

Common shareholders' equity is reported as non-interest sensitive.

Yields

Yields are based upon the effective interest rates for the assets or liabilities on October 31, 2013.

Interest Rate Gap Position

($ in millions, except as noted)

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Total
Assets											
Cash and cash equivalents	**23,784**	**810**	**(71)**	**24,523**	**1.21**	**965**	**1.02**	**(17)**	**–**	**612**	**26,083**
Interest bearing deposits with banks	**6,518**	**–**	**–**	**6,518**	**0.78**	**–**	**–**	**–**	**–**	**–**	**6,518**
Securities	**95,833**	**2,791**	**4,628**	**103,252**	**1.45**	**23,511**	**2.23**	**7,330**	**3.94**	**888**	**134,981**
Securities borrowed or purchased under resale agreements	**37,208**	**1,789**	**802**	**39,799**	**1.72**	**–**	**–**	**–**	**–**	**–**	**39,799**
Loans	**151,499**	**12,214**	**20,865**	**184,578**	**3.31**	**80,873**	**4.06**	**5,178**	**4.56**	**8,466**	**279,095**
Other assets	**33,226**	**235**	**1,096**	**34,557**	**na**	**9,089**	**na**	**327**	**na**	**6,850**	**50,823**
Total assets	**348,068**	**17,839**	**27,320**	**393,227**		**114,438**		**12,818**	**–**	**16,816**	**537,299**
Liabilities and Equity											
Deposits	**213,373**	**16,408**	**16,910**	**246,691**	**0.73**	**109,619**	**1.10**	**10,511**	**2.23**	**–**	**366,821**
Securities sold but not yet purchased	**22,446**	**–**	**–**	**22,446**	**1.48**	**–**	**–**	**–**	**–**	**–**	**22,446**
Securities lent or sold under repurchase agreements	**28,831**	**53**	**–**	**28,884**	**0.68**	**–**	**–**	**–**	**–**	**–**	**28,884**
Other liabilities	**46,988**	**1,382**	**919**	**49,289**	**na**	**15,760**	**na**	**8,908**	**na**	**9,251**	**83,208**
Subordinated debt, Capital trust securities and preferred share liability	**157**	**–**	**–**	**157**	**na**	**3,700**	**–**	**602**	**–**	**–**	**4,459**
Total equity	**377**	**150**	**275**	**802**	**na**	**2,747**	**na**	**–**	**–**	**27,932**	**31,481**
Total liabilities and shareholders' equity	**312,172**	**17,993**	**18,104**	**348,269**		**131,826**		**20,021**		**37,183**	**537,299**
Asset/liability gap position	**35,896**	**(154)**	**9,216**	**44,958**		**(17,388)**		**(7,203)**		**(20,367)**	**–**
Notional amounts of derivatives	**(34,914)**	**(2,612)**	**(3,833)**	**(41,359)**		**33,039**		**8,320**		**–**	**–**
Total interest rate gap position - 2013											
Canadian dollar	**3,171**	**(3,706)**	**4,876**	**4,341**		**15,636**		**1,442**		**(21,419)**	**–**
Foreign currency	(2,189)	940	507	(742)		15		(325)		1,052	–
Total Gap	**982**	**(2,766)**	**5,383**	**3,599**	**–**	**15,651**	**–**	**1,117**	**–**	**(20,367)**	**–**
Total interest rate gap position - 2012											
Canadian dollar	**3,615**	**(2,801)**	**1,765**	**2,579**		**14,782**		**2,707**		**(20,068)**	**–**
Foreign currency	(4,589)	4,027	4,258	3,696		(4,268)		(463)		1,035	–
Total Gap	**(974)**	**1,226**	**6,023**	**6,275**	**–**	**10,514**	**–**	**2,244**	**–**	**(19,033)**	**–**

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

Notes

Note 20: Equity

Share Capital

Outstanding

As at October 31
(Canadian $ in millions, except as noted)

	2013			2012			2011		
	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share
Preferred Shares – Classified as Equity									
Class B – Series 5	–	–	–	8,000,000	200	1.33	8,000,000	200	1.33
Class B – Series 10 (1)	–	–	–	–	–	–	12,000,000	396	1.49
Class B – Series 13	**14,000,000**	**350**	**1.13**	14,000,000	350	1.13	14,000,000	350	1.13
Class B – Series 14	**10,000,000**	**250**	**1.31**	10,000,000	250	1.31	10,000,000	250	1.31
Class B – Series 15	**10,000,000**	**250**	**1.45**	10,000,000	250	1.45	10,000,000	250	1.45
Class B – Series 16	**6,267,391**	**157**	**1.19**	12,000,000	300	1.30	12,000,000	300	1.30
Class B – Series 17	**5,732,609**	**143**	**0.17**	–	–	–	–	–	–
Class B – Series 18	**6,000,000**	**150**	**1.63**	6,000,000	150	1.63	6,000,000	150	1.63
Class B – Series 21	**11,000,000**	**275**	**1.63**	11,000,000	275	1.63	11,000,000	275	1.63
Class B – Series 23	**16,000,000**	**400**	**1.35**	16,000,000	400	1.35	16,000,000	400	1.35
Class B – Series 25	**11,600,000**	**290**	**0.98**	11,600,000	290	0.98	11,600,000	290	0.69
		2,265			2,465			2,861	
Common Shares									
Balance at beginning of year	**650,729,644**	**11,957**		638,999,563	11,332		566,468,440	6,927	
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	**2,069,269**	**130**		9,738,842	543		2,947,748	179	
Issued under the Stock Option Plan and other stock-based compensation plans (Note 22)	**2,068,132**	**116**		1,763,389	80		3,039,597	122	
Issued on the exchange of shares of a subsidiary corporation	–	–		227,850	2		24,105	1	
Repurchased for cancellation (Note 20)	**(10,737,100)**	**(200)**		–	–		–	–	
Issued on the acquisition of a business	–	–		–	–		66,519,673	4,103	
Balance at End of Year	**644,129,945**	**12,003**	**2.94**	650,729,644	11,957	2.82	638,999,563	11,332	2.80
Share Capital		**14,268**			14,422			14,193	

(1) Dividend amounts are in U.S. dollars. During the year ended October 31, 2012, we redeemed all of our Class B – Series 10 Preferred shares. Dividends declared for the year ended October 31, 2012 were $0.37 per share and 12,000,000 shares were outstanding at the time of dividend declaration.

Preferred Shares

We are authorized by our shareholders to issue an unlimited number of Class A Preferred shares and Class B Preferred shares without par value, in series, for unlimited consideration. Class B Preferred shares may be issued in a foreign currency.

During the year ended October 31, 2013, we redeemed all of our Non-cumulative Class B Preferred shares, Series 5, at a redemption price of $25.00 per share plus declared and unpaid dividends up to but excluding the date fixed for redemption. We also redeemed all of the outstanding 7⅜% Non-cumulative Exchangeable Preferred Stock, Series A, issued by one of our subsidiaries at a redemption price of US$25.00 per share, plus unpaid dividends up to the date of redemption for an aggregate redemption of US$250 million. Prior to the redemption, these preferred shares were reported in our Consolidated Balance Sheet as non-controlling interest in subsidiaries. We recognized a gain of $107 million in contributed surplus related to foreign exchange upon redemption of these preferred shares.

During the year ended October 31, 2012, we redeemed all of our U.S. dollar-denominated Non-cumulative Class B Preferred shares, Series 10, at a price of US$25.00 per share plus all declared and unpaid dividends up to but excluding the date fixed for redemption. We recognized a gain of $96 million in contributed surplus related to foreign exchange rate upon redemption of these preferred shares.

Preferred Share Rights and Privileges

Class B – Series 5 shares were redeemed for $25 cash per share on February 25, 2013. The shares carried a non-cumulative quarterly dividend of $0.33125 per share.

Class B – Series 13 shares have been redeemable at our option since February 25, 2012 for $25.00 cash per share, plus a premium if we redeem the shares before February 25, 2016. The shares carry a non-cumulative quarterly dividend of $0.28125 per share.

Class B – Series 14 shares have been redeemable at our option since November 25, 2012 for $25.00 cash per share, plus a premium if we redeem the shares before November 25, 2016. The shares carry a non-cumulative quarterly dividend of $0.328125 per share.

Class B – Series 15 shares have been redeemable at our option since May 25, 2013 for $25.00 cash per share, plus a premium if we redeem the shares before May 25, 2017. The shares carry a non-cumulative quarterly dividend of $0.3625 per share.

Class B – Series 16 shares have been redeemable at our option since August 25, 2013. On July 22, 2013, we announced that we did not intend to exercise our right to redeem the Non-cumulative 5-Year Rate Reset Class B Preferred shares, Series 16 (Series 16 Preferred shares). As a result, subject to certain conditions, the holders of the Series 16 Preferred shares had the right, at their option, to elect by August 12, 2013 to convert all or part of their Series 16 Preferred shares on a one-for-one basis into Non-cumulative Floating Rate Class B Preferred shares, Series 17 (Series 17 Preferred shares), effective August 26, 2013. As at October 31, 2013, 6.3 million Series 16 and 5.7 million Series 17 Preferred shares were outstanding for the five-year period commencing on August 26, 2013 and ending on August 25, 2018. Holders of the Series 17 Preferred shares have the option to convert back to Series 16 Preferred shares, and holders of Series 16 Preferred shares have the option to convert to Series 17 Preferred shares, on subsequent redemption dates. The Series 16 Preferred shares carry a non-cumulative quarterly dividend based on prevailing 5-year market rates plus a predetermined spread, established at each redemption date. The Series 17 Preferred shares carry a non-cumulative quarterly dividend based on the prevailing 3-month market rates plus a pre-determined spread, established prior to each dividend declaration date.

Class B – Series 18 shares are redeemable at our option on February 25, 2014 and every five years thereafter for $25.00 cash per share. If the shares are not redeemed on the redemption dates, investors have the option to convert the shares into Class B – Series 19 Preferred shares and, if converted, have the option to convert back to Series 18 Preferred shares on subsequent redemption dates. The Series 18 Preferred shares carry a non-cumulative quarterly dividend of $0.40625 per share until February 25, 2014. Dividends payable after February 25, 2014 on the Series 18 and Series 19 Preferred shares will be set based on prevailing market rates plus a predetermined spread.

Class B – Series 21 shares are redeemable at our option on May 25, 2014 and every five years thereafter for $25.00 cash per share. If the shares are not redeemed on the redemption dates, investors have the option to convert the shares into Class B – Series 22 Preferred shares and, if converted, have the option to convert back to Series 21 Preferred shares on subsequent redemption dates. The Series 21 Preferred shares carry a non-cumulative quarterly dividend of $0.40625 per share until May 25, 2014. Dividends payable after May 25, 2014 on the Series 21 and Series 22 Preferred shares will be set based on prevailing market rates plus a predetermined spread.

Class B – Series 23 shares are redeemable at our option on February 25, 2015 and every five years thereafter for $25.00 cash per share. If the shares are not redeemed on the redemption dates, investors have the option to convert the shares into Class B – Series 24 Preferred shares and, if converted, have the option to convert back to Series 23 Preferred shares on subsequent redemption dates. The Series 23 Preferred shares carry a non-cumulative quarterly dividend of $0.3375 per share until February 25, 2015. Dividends payable after February 25, 2015 on the Series 23 and Series 24 Preferred shares will be set based on prevailing market rates plus a predetermined spread.

Class B – Series 25 shares are redeemable at our option on August 25, 2016 and every five years thereafter for $25.00 cash per share. If the shares are not redeemed on the redemption dates, investors have the option to convert the shares into Class B – Series 26 Preferred shares and, if converted, have the option to convert back to Series 25 Preferred shares on subsequent redemption dates. The Series 25 Preferred shares carry a non-cumulative quarterly dividend of $0.24375 per share until August 25, 2016. Dividends payable after August 25, 2016 on the Series 25 and Series 26 Preferred shares will be set based on prevailing market rates plus a predetermined spread.

Common Shares

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, for unlimited consideration. Our common shares are not redeemable or convertible. Dividends are declared by our Board of Directors on a quarterly basis and the amount can vary from quarter to quarter.

During the year ended October 31, 2013, we issued 4,137,401 common shares primarily through our dividend reinvestment and share purchase plan and the exercise of stock options (11,730,081 in 2012).

Normal Course Issuer Bid

On February 1, 2013, we commenced our normal course issuer bid, effective for one year, to repurchase for cancellation up to 15,000,000 of our common shares. During the year, we repurchased 10,737,100 of our common shares at an average cost of $62.89 per share.

Our previous normal course issuer bid, which allowed us to repurchase for cancellation up to 15,000,000 of our common shares, expired on December 15, 2011. During the year ended October 31, 2012, we did not repurchase any common shares.

Issuances Exchangeable into Common Shares

One of our subsidiaries, Bank of Montreal Securities Canada Limited ("BMSCL"), had issued various classes of non-voting shares that could be exchanged at the option of the holder for our common shares, based on a formula. During the year ended October 31, 2012, all of these BMSCL shares were converted into 227,850 of our common shares.

Share Redemption and Dividend Restrictions

OSFI must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we would be, as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the *Bank Act*. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

In addition, we have agreed that if either BMO Capital Trust or BMO Capital Trust II (the "Trusts"), two of our subsidiaries, fail to pay any required distribution on their capital trust securities, we will not declare dividends of any kind on any of our preferred or common shares for a period of time following the Trusts' failure to pay the required distribution (as defined in the applicable prospectuses) unless the Trusts first pay such distribution to the holders of their capital trust securities (see Note 18).

Shareholder Dividend Reinvestment and Share Purchase Plan

We offer a dividend reinvestment and share purchase plan ("DRIP") for our shareholders. Participation in the plan is optional. Under the terms of the plan, cash dividends on common shares are reinvested to purchase additional common shares. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. Commencing with the dividend paid in the fourth quarter of 2013, common shares to supply the DRIP were purchased on the open market.

We may issue these common shares at an average of the closing price of our common shares on the Toronto Stock Exchange based on the five trading days prior to the last business day of the month or we may purchase them on the open market at market prices. During the year ended October 31, 2013, we issued a total of 2,069,269 common shares from treasury (9,738,842 in 2012) and purchased 700,362 common shares (Nil in 2012) in the open market under the plan.

Potential Share Issuances

As at October 31, 2013, we had reserved 9,320,400 common shares (11,389,669 in 2012) for potential issuance in respect of our Shareholder Dividend Reinvestment and Share Purchase Plan. We also have reserved 15,801,966 common shares (15,801,966 in 2012) for the potential exercise of stock options, as further described in Note 22.

Treasury Shares

When we purchase our common shares as part of our trading business, we record the cost of those shares as a reduction in shareholders' equity. If those shares are resold at a price higher than their cost, the premium is recorded as an increase in contributed surplus. If those shares are resold at a price below their cost, the discount is recorded as a reduction first to contributed surplus and then to retained earnings for any amounts in excess of total contributed surplus related to treasury shares.

Non-Controlling Interest

Included in non-controlling interest in subsidiaries as at October 31, 2013 were capital trust securities including accrued interest totalling $1,068 million ($1,068 million in 2012) related to non-controlling interest in subsidiaries and formed part of our Tier 1 regulatory capital. During 2013, we redeemed the U.S. $250 million, 7.375% preferred shares issued by Harris Preferred Capital Corporation, a U.S. subsidiary.

Note 21: 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.

Our approach includes establishing limits, targets and performance measures for the management of balance sheet positions, risk levels and minimum capital amounts, as well as issuing and redeeming capital instruments to obtain a cost-effective capital structure.

Regulatory capital requirements and risk-weighted assets for the consolidated entity are determined on a Basel III basis.

Adjusted common shareholders' equity, known as Common Equity Tier 1 capital under Basel III, is the most permanent form of capital. It is comprised of common shareholders' equity less a deduction for goodwill, excess intangible assets and deductions for certain other items under Basel III. Tier 1 capital is primarily comprised of regulatory common equity, preferred shares and innovative hybrid instruments net of Tier 1 capital deductions. Total capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debentures and the eligible portion of the collective allowance for credit losses, net of certain Tier 2 capital deductions. Details of components of our capital position are presented in Notes 13, 16, 17, 18 and 20.

Our Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio, Total Capital Ratio and Assets-to-Capital Multiple are the primary regulatory capital measures.

- The Common Equity Tier 1 Capital Ratio is defined as common shareholders' equity net of capital adjustments divided by risk-weighted assets.
- The Tier 1 Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets.
- The Total Capital Ratio is defined as Total capital divided by risk-weighted assets.
- The Assets-to-Capital Multiple is calculated by dividing total assets, including specified off-balance sheet items net of other specified deductions, by total capital calculated on a Basel III transitional basis.

Regulatory Capital and Risk-Weighted Assets

(Canadian $ in millions, except as noted)	**Basel III 2013**	Basel II 2012
Common Equity Tier 1 Capital	**21,227**	21,635
Tier 1 Capital	**24,599**	25,896
Tier 2 Capital	**4,901**	4,773
Total Capital	**29,500**	30,669
Risk-Weighted Assets	**215,094**	205,230
Common Equity Tier 1 Capital Ratio	**9.9%**	10.5%
Tier 1 Capital Ratio	**11.4%**	12.6%
Total Capital Ratio	**13.7%**	14.9%
Assets-to-Capital Multiple	**15.6**	15.2

All 2013 balances above are on a Basel III "all-in" basis. In 2012, we presented Basel II balances. Basel II amounts and ratios may not be comparable to Basel III amounts and ratios.

We have met OSFI's stated minimum capital ratio requirements as at October 31, 2013.

Note 22: Employee Compensation – Stock-Based Compensation

Stock Option Plan

We maintain a Stock Option Plan for designated officers and employees. Options are granted at an exercise price equal to the closing price of our common shares on the day before the grant date. Options vest in tranches over a four-year period starting from their grant date. Each tranche (i.e. the 25% portion that vests each year) is treated as a separate award with a different vesting period. A portion of the options can only be exercised once certain performance targets are met. All options expire 10 years from their grant date.

We determine the fair value of stock options on their grant date and record this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, we issue shares and record the amount of proceeds, together with the amount recorded in contributed surplus, in share capital. Stock options granted to employees eligible to retire are expensed at the date of grant.

The following table summarizes information about our Stock Option Plan:

(Canadian $, except as noted)		**2013**		2012		2011
	Number of stock options	**Weighted-average exercise price**	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Outstanding at beginning of year	**15,801,966**	**79.96**	16,989,499	84.28	15,232,139	48.74
Granted	**2,003,446**	**60.11**	2,526,345	56.00	1,798,913	57.78
Granted as part of the M&I acquisition	**–**	**–**	–	–	3,676,632	193.12
Exercised	**2,069,588**	**47.95**	1,766,318	40.17	3,040,825	37.34
Forfeited/cancelled	**5,558**	**56.35**	54,565	40.77	34,758	48.20
Expired	**761,555**	**150.78**	1,892,995	126.62	642,602	52.92
Outstanding at end of year	**14,968,711**	**78.17**	15,801,966	79.96	16,989,499	84.28
Exercisable at end of year	**7,283,321**	**98.79**	7,900,710	103.87	9,311,241	108.54
Available for grant	**5,201,062**		6,897,964		8,728,782	
Outstanding stock options as a percentage of outstanding shares	**2.32%**		2.43%		2.66%	

Employee compensation expense related to this plan for the years ended October 31, 2013, 2012 and 2011 was $14 million, $17 million and $17 million before tax, respectively ($13 million, $16 million and $16 million after tax, respectively).

The intrinsic value of a stock option grant is the difference between the current market price of our common shares and the strike price of the option. The aggregate intrinsic value of stock options outstanding at October 31, 2013, 2012 and 2011 was $215 million, $79 million and $107 million, respectively. The aggregate intrinsic value of stock options exercisable at October 31, 2013, 2012 and 2011 was $107 million, $47 million and $66 million, respectively.

Options outstanding and exercisable at October 31, 2013 and 2012 by range of exercise price were as follows:

(Canadian $, except as noted)						2013						2012
	Options outstanding			**Options exercisable**			Options outstanding			Options exercisable		
Range of exercise prices	**Number of stock options**	**Weighted-average remaining contractual life (years)**	**Weighted-average exercise price**	**Number of stock options**	**Weighted-average remaining contractual life (years)**	**Weighted-average exercise price**	Number of stock options	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of stock options	Weighted-average remaining contractual life (years)	Weighted-average exercise price
$30.01 to $40.00	**1,044,175**	**5.1**	**34.12**	**1,044,175**	**5.1**	**34.12**	1,660,235	6.1	34.12	1,174,327	6.1	34.12
$40.01 to $50.00	**262,959**	**5.6**	**42.44**	**262,959**	**5.6**	**42.44**	632,548	4.0	42.07	554,261	4.5	42.22
$50.01 to $60.00	**6,934,041**	**6.0**	**55.78**	**2,845,945**	**6.1**	**55.57**	7,906,485	6.6	55.67	2,247,120	5.0	55.09
$60.01 to $70.00	**4,886,738**	**5.6**	**62.28**	**1,289,444**	**3.2**	**63.94**	3,303,883	4.2	63.71	1,626,187	4.2	63.77
$70.01 and over (1)	**1,840,798**	**3.1**	**234.78**	**1,840,798**	**3.1**	**234.78**	2,298,815	3.7	230.42	2,298,815	3.7	230.42

(1) Issued as part of the acquisition of M&I.

The following table summarizes non-vested stock option activity for the years ended October 31, 2013 and 2012:

(Canadian $, except as noted)		2013		2012
	Number of stock options	**Weighted-average grant date fair value**	Number of stock options	Weighted-average grant date fair value
Non-vested at beginning of year	**7,901,256**	**7.81**	7,678,258	8.70
Granted	**2,003,446**	**5.29**	2,526,345	5.53
Vested	**2,218,762**	**7.59**	2,299,347	8.28
Forfeited/cancelled	**550**	**9.46**	4,000	9.46
Non-vested at end of year	**7,685,390**	**7.18**	7,901,256	7.81

The following table summarizes further information about our Stock Option Plan:

(Canadian $ in millions, except as noted)	2013	2012	2011
Unrecognized compensation cost for non-vested stock option awards	**6**	9	12
Weighted-average period over which it will be recognized (in years)	**2.1**	2.3	2.5
Total intrinsic value of stock options exercised	**35**	31	72
Cash proceeds from stock options exercised	**99**	71	114
Actual tax benefits realized on stock options exercised	**–**	4	4
Weighted-average share price for stock options exercised	**64.8**	57.8	60.9

The fair value of options granted was estimated using a binomial option pricing model. The weighted-average fair value of options granted during the years ended October 31, 2013, 2012 and 2011 was $5.29, $5.54 and $3.87, respectively, of which the weighted-average fair value of options granted as part of the M&I acquisition was $2.22 for a total of 3,676,632 stock options. To determine the fair value of the stock option tranches (i.e. the 25% portion that vests each year) on the grant date, the following ranges of values were used for each option pricing assumption:

	2013	2012	2011
Expected dividend yield	**6.0% – 6.2%**	6.8% – 7.2%	5.5% – 6.4%
Expected share price volatility	**18.1% – 18.6%**	21.3% – 22.3%	18.7% – 22.8%
Risk-free rate of return	**1.7% – 1.9%**	1.5% – 1.8%	1.8% – 3.0%
Expected period until exercise (in years)	**5.5 – 7.0**	5.5 – 7.0	4.6 – 7.0

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

Expected dividend yield is based on market expectations of future dividends on our common shares. Expected volatility is determined based on the market consensus implied volatility for traded options on our common shares. The risk-free rate is based on the yields of a Canadian swap curve with maturities similar to the expected period until exercise of the options. The weighted-average exercise price on the grant date for the years ended October 31, 2013, 2012 and 2011 was $60.11, $56.00 and $57.78, respectively. The weighted-average exercise price on the grant date for the options granted as part of the M&I acquisition was $193.12 for the year ended October 31, 2011.

Stock-Based Compensation

Share Purchase Plan

We offer our employees the option of directing a portion of their gross salary toward the purchase of our common shares. We match 50% of employee contributions up to 6% of their individual gross salary. The shares held in the employee share purchase plan are purchased on the open market and are considered outstanding for purposes of computing earnings per share. The dividends earned on our common shares held by the plan are used to purchase additional common shares on the open market.

We account for our contribution as employee compensation expense when it is contributed to the plan.

Employee compensation expense related to this plan for the years ended October 31, 2013, 2012 and 2011 was $50 million, $48 million and $45 million, respectively. There were 19,272,978, 19,311,585 and 18,288,382 common shares held in this plan for the years ended October 31, 2013, 2012 and 2011, respectively.

Mid-Term Incentive Plans

We offer mid-term incentive plans for executives and certain senior employees. Depending on the plan, the recipient receives either a single cash payment at the end of the three-year period of the plan, or cash payments over the three years of the plan. The amount of the payment is adjusted to reflect reinvested dividends and changes in the market value of our common shares.

Mid-term incentive plan units granted during the years ended October 31, 2013, 2012 and 2011 totalled 5,823,533, 6,379,562 and 5,154,479, respectively. We entered into agreements with third parties to assume most of our obligations related to these plans in exchange for cash payments of $292 million, $310 million and $267 million in the years ended October 31, 2013, 2012 and 2011, respectively. Amounts paid under these agreements were recorded in our Consolidated Balance Sheet in other assets and are recorded as employee compensation expense evenly over the period prior to payment to employees. Amounts related to units granted to employees who are eligible to retire are expensed at the time of grant. We no longer have any liability for the obligations transferred to third parties because any future payments required will be the responsibility of the third parties. The amount deferred and recorded in other assets in our Consolidated Balance Sheet totalled $172 million and $152 million as at October 31, 2013 and 2012, respectively. The deferred amount as at October 31, 2013 is expected to be recognized over a weighted-average period of 1.8 years (1.8 years in 2012). Employee compensation expense related to these plans for the years ended October 31, 2013, 2012 and 2011 was $279 million, $280 million and $245 million before tax, respectively ($206 million, $204 million and $176 million after tax, respectively).

For the remaining obligations related to plans for which we have not entered into agreements with third parties, the fair value of the amount of compensation expense is recognized as an expense and a liability over the period from the grant date to payment date to employees. This liability is re-measured to fair value each reporting period. Amounts related to employees who are eligible to retire are expensed at the time of grant. Mid-term incentive plan units granted under these plans during the years ended October 31, 2013, 2012 and 2011 totalled 981,242, 1,133,980 and 769,933, respectively. The weighted-average grant date fair value of the units granted during the years ended October 31, 2013, 2012 and 2011 was $50 million, $65 million and $46 million, respectively. Payments made under these plans for the years ended October 31, 2013, 2012 and 2011 were $37 million, $44 million and $22 million, respectively. The intrinsic value of the vested plan units recorded in other liabilities in our Consolidated Balance Sheet as at October 31, 2013, 2012 and 2011 was $126 million, $85 million and $71 million, respectively.

Employee compensation expense related to plans for which we have not entered into agreements with third parties for the years ended October 31, 2013, 2012 and 2011 was $63 million, $48 million and $40 million before tax, respectively ($47 million, $35 million and $29 million after tax, respectively). We economically hedge the impact of the change in the market value of our common shares by entering into total return swaps. Hedging gains recognized for the years ended October 31, 2013, 2012 and 2011 were $32 million, $3 million and $1 million, respectively, resulting in net employee compensation expense of $31 million, $45 million and $39 million before tax, respectively ($23 million, $33 million and $28 million after tax, respectively).

A total of 15,278,975, 14,695,481 and 14,586,051 mid-term incentive plan units were outstanding for the years ended October 31, 2013, 2012 and 2011, respectively.

Deferred Incentive Plans

We offer deferred incentive plans for members of our Board of Directors, executives and key employees in BMO Capital Markets and Wealth Management. Under these plans, fees, annual incentive payments and/or commissions can be deferred as stock units of our common shares. These stock units are either fully vested on the grant date or vest at the end of three years. The value of these stock units is adjusted to reflect reinvested dividends and changes in the market value of our common shares.

Deferred incentive payments are paid upon the participant's departure from the bank. As a result of changes to the deferred share unit plan terms effective September 30, 2013, the deferred incentive payments can now only be made in cash.

Employee compensation expense for these plans is recorded in the year the fees, incentive payments and/or commissions are earned. Changes in the amount of the incentive payments as a result of dividends and share price movements are recorded as employee compensation expense in the period of the change.

Deferred incentive plan units granted during the years ended October 31, 2013, 2012 and 2011 totalled 364,193, 360,596 and 298,256, respectively. The weighted-average grant date fair value of the units granted during the years ended October 31, 2013, 2012 and 2011 was $22 million, $21 million and $18 million, respectively.

Liabilities related to these plans are recorded in other liabilities in our Consolidated Balance Sheet and totalled $349 million and $262 million as at October 31, 2013 and 2012, respectively. Payments made under these plans for the years ended October 31, 2013, 2012 and 2011 were $16 million, $19 million and $13 million, respectively.

Employee compensation expense related to these plans for the years ended October 31, 2013, 2012 and 2011 was $85 million, $22 million and $7 million before tax, respectively ($63 million, $16 million and $5 million after tax, respectively). We have entered into derivative instruments to hedge our exposure related to these plans. Changes in the fair value of these derivatives are recorded as employee compensation expense in the period in which they arise. Hedging gains (losses) for the years ended October 31, 2013, 2012 and 2011 of $75 million, $9 million and $(2) million before tax, respectively, were also recognized, resulting in net employee compensation expense of $10 million, $13 million and $9 million before tax, respectively ($7 million, $9 million and $6 million after tax, respectively).

A total of 4,339,207, 4,026,338 and 3,930,175 deferred incentive plan units were outstanding for the years ended October 31, 2013, 2012 and 2011, respectively.

Note 23: Employee Compensation – Pension and Other Employee Future Benefits

Pension and Other Employee Future Benefit Plans

We have a number of arrangements in Canada, the United States and the United Kingdom that provide pension and other employee future benefits to our retired and current employees.

Pension arrangements include defined benefit pension plans, as well as supplemental arrangements that provide pension benefits in excess of statutory limits. Generally, under these plans we provide retirement benefits based on an employee's years of service and average annual earnings over a period of time prior to retirement. We are responsible for meeting our statutory obligations for funding of the pension plans. Some groups of employees are eligible to make voluntary contributions in order to receive enhanced benefits. Our pension and other employee future benefit expenses, recorded in employee compensation expense, mainly comprise the current service cost plus the interest cost on plan liabilities less the expected return on plan assets.

We also provide defined contribution pension plans to employees in some of our subsidiaries. Under these plans, we are responsible for contributing a predetermined amount to a participant's retirement savings, based on a percentage of that employee's salary. The costs of these plans, recorded in employee compensation expense, are equal to our contributions to the plans.

We also provide other employee future benefits, including health and dental care benefits and life insurance, for current and retired employees.

Short-term employee benefits, such as salaries, paid absences, bonuses and other benefits, are accounted for on an accrual basis over the period in which the employees provide the related services.

Pension and Other Employee Future Benefit Liabilities

We have the following types of benefit liabilities: defined benefit and other employee future benefit liabilities. These benefit liabilities represent the amount of pension and other employee future benefits that our employees and retirees have earned as at year end.

Our actuaries perform valuations of our benefit liabilities for pension and other employee future benefits as at October 31 of each year using the projected unit credit method based on management's assumptions about discount rates, rate of compensation increase, retirement age, mortality and health care cost trend rates.

The discount rates for the main Canadian and U.S. pension and other employee future benefit plans were selected using high-quality corporate bonds with terms matching the plans' cash flows.

Components of the change in our benefit liabilities year over year and our pension and other employee future benefit expense are as follows:

Benefits earned by employees represent benefits earned in the current year. They are determined with reference to the current workforce and the amount of benefits to which employees will be entitled upon retirement, based on the provisions of our benefit plans.

Interest cost on benefit liabilities represents the increase in the liabilities that results from the passage of time.

Actuarial gains or losses may arise in two ways. First, each year our actuaries recalculate the benefit liabilities and compare them to those estimated as at the previous year end. Any differences that result from changes in assumptions or from plan experience being different from management's expectations at the previous year end are considered actuarial gains or losses. Secondly, actuarial gains and losses arise when there are differences between expected and actual returns on plan assets.

At the beginning of each year, we determine whether the unrecognized actuarial gain or loss is more than 10% of the greater of our plan asset or benefit liability balances. Any unrecognized actuarial gain or loss in excess of this 10% threshold is recognized in employee compensation expense over the expected remaining service period of active employees. Amounts below the 10% threshold are not recognized in income.

Plan amendments are changes in our benefit liabilities that result from changes to provisions of the plans. The effects of plan amendments are recognized immediately to the extent that benefits are vested and are otherwise recognized over the average period until benefits are vested on a straight-line basis.

Expected return on assets represents management's best estimate of the long-term rate of return on plan assets applied to the fair value of plan assets. We establish our estimate of the expected rate of return on plan assets based on the plan's target asset allocation and estimated rates of return for each asset class. Estimated rates of return are based on expected returns from fixed income securities, which take into consideration bond yields. Long-term returns are then estimated for global equity markets. Returns from other asset classes are set to reflect the relative risks of these classes as compared to fixed income and equity assets. Differences between expected and actual returns on plan assets are included in our actuarial gain or loss balance, as described above.

Settlements occur when benefit liabilities for plan participants are settled, usually through lump sum cash payments, and as a result we no longer have any obligation to provide such participants with benefit payments in the future.

For pension benefit plans that are in a net benefit asset position, the recognized asset is limited to the total of any unrecognized actuarial losses and past service costs plus the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling").

Funding of Pension and Other Employee Future Benefit Plans

Our defined benefit pension plans in Canada and the United States are funded by us in accordance with statutory requirements and the assets in these plans are used to pay benefits to retirees.

Our supplementary pension plans in Canada are funded, while in the United States the supplementary plan is unfunded.

Our other employee future benefit plans in the United States and Canada are either partially funded or unfunded. Pension and benefit payments related to these plans are either paid through the respective plan or paid directly by us.

We measure the fair value of plan assets for our plans in Canada and the United States as at October 31. In addition to actuarial valuations for accounting purposes, we are required to prepare valuations for determining our pension contributions (our "funding valuation"). The most recent funding valuation for our main Canadian plan was performed as at October 31, 2013. The next funding valuation for this plan will be performed as at October 31, 2014. An annual funding valuation is also required for our plan in the United States. The most recent valuation was performed as at January 1, 2013.

Summarized information for the past three years is as follows:

(Canadian $ in millions)	Pension benefit plans			Other employee future benefit plans		
	2013	2012	2011	**2013**	2012	2011
Defined benefit liability	**6,181**	6,012	5,124	**1,174**	1,175	977
Fair value of plan assets	**6,267**	5,802	5,338	**95**	81	72
Surplus (deficit)	**86**	(210)	214	**(1,079)**	(1,094)	(905)
(Gain) loss in the benefit liability arising from changes in assumptions	**(93)**	693	73	**(53)**	152	(66)
Excess (shortfall) of actual returns over expected returns on plan assets	**188**	177	(87)	**5**	4	1

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

Asset Allocations

The investment policy for plan assets is to have a diversified mix of quality investments that are expected to provide a superior rate of return over the long term, while limiting performance volatility. Plan assets are rebalanced within ranges around target allocations.

Risk Management

The plans are exposed to various risks, including market risk (interest rate, equity and foreign currency risks), credit risk, operational risk, surplus risk and longevity risk. We follow a number of approaches to monitor and actively manage these risks, including:

- Monitoring surplus-at-risk, which measures a plan's risk in an asset-liability framework.
- Stress testing and scenario analyses to evaluate the volatility of the plans' financial positions and their impact on the bank.
- Hedging of currency exposures and interest rate risk within policy limits.
- Controls related to asset mix allocations, geographic allocations, portfolio duration, credit quality, liquidity, sector guidelines, issuer/counterparty limits, and others.
- Ongoing monitoring of exposures, performance and risk levels.

The weighted-average actual and target asset allocations of the plans, based on the fair market values at October 31, are as follows:

	Pension benefit plans				Other employee future benefit plans			
	Target 2013	**Actual 2013**	Actual 2012	Actual 2011	**Target 2013**	**Actual 2013**	Actual 2012	Actual 2011
Equities	**40%**	**43%**	39%	47%	**50%**	**50%**	50%	50%
Fixed income investments	**45%**	**42%**	47%	44%	**50%**	**49%**	49%	49%
Other	**15%**	**15%**	14%	9%	**–**	**1%**	1%	1%

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		
	2013	2012	2011	**2013**	2012	2011
Annual Benefits Expense						
Benefits earned by employees	**225**	186	163	**26**	18	21
Interest cost on accrued benefit liability	**260**	266	253	**52**	54	53
Actuarial loss recognized in expense	**17**	1	–	**–**	–	–
Plan amendment costs recognized in expense	**–**	–	25	**(4)**	(3)	(3)
Expected return on plan assets (1)	**(328)**	(313)	(323)	**(6)**	(5)	(5)
Benefits expense	**174**	140	118	**68**	64	66
Canada and Quebec pension plan expense	**69**	67	64	**–**	–	–
Defined contribution expense	**8**	7	7	**–**	–	–
Total annual pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	**251**	214	189	**68**	64	66

(1) The actual return on plan assets for the pension benefit plans and other employee future benefit plans was $516 million and $11 million in 2013, respectively ($490 million and $9 million in 2012, respectively).

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

(Canadian $ in millions, except as noted)	Pension benefit plans			Other employee future benefit plans		
	2013	2012	2011	**2013**	2012	2011
Weighted-average assumptions used to determine benefit expenses						
Estimated average service period of active employees (in years)	**10**	10	11	**15**	14	14
Average period until benefits are vested (in years)	**na**	na	na	**12**	11	11
Discount rate at beginning of year	**4.2%**	5.1%	5.2%	**4.4%**	5.6%	5.4%
Expected long-term rate of return on plan assets	**5.7%**	5.9%	6.3%	**7.0%**	7.0%	7.0%
Rate of compensation increase	**2.9%**	3.3%	3.2%	**3.2%**	3.2%	3.0%
Assumed overall health care cost trend rate	**na**	na	na	**5.4%** (1)	5.4% (1)	5.6% (2)

(1) Trending to 4.5% in 2030 and remaining at that level thereafter.
(2) Trending to 4.4% in 2030 and remaining at that level thereafter.

na – not applicable

Notes

Changes in the estimated financial positions of our pension benefit plans and other employee future benefit plans are as follows:

(Canadian $ in millions, except as noted)	Pension benefit plans			Other employee future benefit plans		
	2013	2012	2011	**2013**	2012	2011
Benefit liability						
Benefit liability at beginning of year	**6,012**	5,124	4,839	**1,175**	977	992
Opening adjustment for acquisitions	**–**	–	17	**–**	–	8
Benefits earned by employees	**225**	186	163	**26**	18	21
Interest cost on benefit liability	**260**	266	253	**52**	54	53
Benefits paid to pensioners and employees	**(286)**	(264)	(243)	**(30)**	(29)	(30)
Voluntary employee contributions	**11**	10	9	**–**	–	–
(Gain) loss on the benefit liability arising from changes in assumptions	**(93)**	693	73	**(53)**	152	(66)
Plan settlement	**–**	–	1	**–**	–	–
Plan amendments	**–**	–	25	**–**	–	–
Other, primarily foreign exchange	**52**	(3)	(13)	**4**	3	(1)
Benefit liability at end of year	**6,181**	6,012	5,124	**1,174**	1,175	977
Wholly or partially funded benefit liability	**6,075**	5,938	5,066	**104**	102	102
Unfunded benefit liability	**106**	74	58	**1,070**	1,073	875
Total benefit liability	**6,181**	6,012	5,124	**1,174**	1,175	977
Weighted-average assumptions used to determine the benefit liability						
Discount rate at end of year	**4.6%**	4.2%	5.1%	**4.7%**	4.4%	5.6%
Rate of compensation increase	**2.9%**	2.9%	3.3%	**2.7%**	3.2%	3.2%
Assumed overall health care cost trend rate	**na**	na	na	**5.4%** (1)	5.4% (1)	5.5% (1)
Fair value of plan assets						
Fair value of plan assets at beginning of year	**5,802**	5,338	5,185	**81**	72	67
Expected return on plan assets	**328**	313	323	**6**	5	5
Excess (shortfall) of actual returns over expected returns on plan assets	**188**	177	(87)	**5**	4	1
Employer contributions	**178**	223	171	**30**	29	30
Voluntary employee contributions	**11**	10	9	**–**	–	–
Benefits paid to pensioners and employees	**(286)**	(264)	(239)	**(30)**	(29)	(30)
Settlement payments	**–**	–	(3)	**–**	–	–
Other, primarily foreign exchange	**46**	5	(21)	**3**	–	(1)
Fair value of plan assets at end of year	**6,267**	5,802	5,338	**95**	81	72
Plan funded status	**86**	(210)	214	**(1,079)**	(1,094)	(905)
Unrecognized actuarial loss (a)	**385**	675	160	**25**	83	(63)
Unrecognized (benefit) of plan amendments (b)	**–**	–	–	**–**	(4)	(7)
Net benefit asset (liability) at end of year	**471**	465	374	**(1,054)**	(1,015)	(975)
Recorded in:						
Other assets	**523**	508	411	**–**	–	–
Other liabilities	**(52)**	(43)	(37)	**(1,054)**	(1,015)	(975)
Net benefit asset (liability) at end of year	**471**	465	374	**(1,054)**	(1,015)	(975)

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

The plans paid $3 million for the year ended October 31, 2013 ($4 million in 2012) to us and certain of our subsidiaries for investment management, record-keeping, custodial and administrative services rendered on the same terms that we offer to our customers for these services. The plans did not hold any of our shares directly as at October 31, 2013 and 2012.

(1) Trending to 4.5% in 2030 and remaining at that level thereafter.

na – not applicable

(a) A continuity of our actuarial (gains) losses is as follows:

(Canadian $ in millions)	Pension benefit plans			Other employee future benefit plans		
	2013	2012	2011	**2013**	2012	2011
Unrecognized actuarial (gain) loss at beginning of year	**675**	160	–	**83**	(63)	–
(Gain) loss on the benefit liability arising from changes in assumptions	**(93)**	693	73	**(53)**	152	(66)
Shortfall (excess) of actual returns over expected returns on plan assets	**(188)**	(177)	87	**(5)**	(4)	(1)
Recognition in expense of a portion of the unrecognized actuarial loss	**(17)**	(1)	–	**–**	–	–
Impact of foreign exchange and other	**8**	–	–	**–**	(2)	4
Unrecognized actuarial (gain) loss at end of year	**385**	675	160	**25**	83	(63)

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

(b) A continuity of the unrecognized benefit of plan amendments is as follows:

(Canadian $ in millions)	Pension benefit plans			Other employee future benefit plans		
	2013	2012	2011	**2013**	2012	2011
Unrecognized (benefit) of plan amendments at beginning of year	**–**	–	–	**(4)**	(7)	(10)
Cost of plan amendments initiated during the year	**–**	–	25	**–**	–	–
Recognition in expense of a portion of the unrecognized cost (benefit) of plan amendments	**–**	–	(25)	**4**	3	3
Impact of foreign exchange and other	**–**	–	–	**–**	–	–
Unrecognized (benefit) of plan amendments at end of year	**–**	–	–	**–**	(4)	(7)

Sensitivity of Assumptions

Key weighted-average economic assumptions used in measuring the pension benefit liability, the other employee future benefit liability and related expenses are outlined in the adjacent table. The sensitivity analysis provided in the table should be used with caution as it is hypothetical and the impact of changes in each key assumption may not be linear. The sensitivities to changes in each key variable have been calculated independently of the impact of changes in other key variables. Actual experience may result in simultaneous changes in a number of key assumptions. Changes in one factor may result in changes in another, which would amplify or reduce certain sensitivities.

	Pension benefit plans		Other employee future benefit plans	
(Canadian $ in millions, except as noted)	Benefit liability	Benefit expense	Benefit liability	Benefit expense
Discount rate (%)	4.6	4.2	4.7	4.4
Impact of: 1% increase ($)	(743)	(39)	(113)	–
1% decrease ($)	930	105	176	4
Rate of compensation increase (%)	2.9	2.9	2.7	3.2
Impact of: 0.25% increase ($)	43	11	1	–
0.25% decrease ($)	(42)	(9)	(1)	–
Expected rate of return on assets (%)	na	5.7	na	7.0
Impact of: 1% increase ($)	na	(57)	na	(1)
1% decrease ($)	na	57	na	1
Assumed overall health care cost trend rate (%)	na	na	5.4 (1)	5.4 (1)
Impact of: 1% increase ($)	na	na	96	7
1% decrease ($)	na	na	(94)	(7)

(1) Trending to 4.5% in 2030 and remaining at that level thereafter.

na – not applicable

Cash Flows

Cash payments we made during the year in connection with our employee future benefit plans are as follows:

(Canadian $ in millions)	Pension benefit plans			Other employee future benefit plans		
	2013	2012	2011	**2013**	2012	2011
Contributions to defined benefit plans	**154**	198	150	**–**	–	–
Contributions to defined contribution plans	**7**	7	7	**–**	–	–
Benefits paid directly to pensioners	**24**	25	21	**30**	29	30
Total	**185**	230	178	**30**	29	30

Our best estimate of the amounts we expect to contribute for the year ending October 31, 2014 is approximately $257 million to our pension benefit plans and $41 million to our other employee future benefit plans.

Estimated Future Benefit Payments

Estimated future benefit payments in the next five years and thereafter are as follows:

(Canadian $ in millions)	Pension benefit plans	Other employee future benefit plans
2014	308	41
2015	338	43
2016	341	46
2017	351	48
2018	363	51
2019-2023	2,006	294

Note 24: Income Taxes

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes, with the exception of repatriation of retained earnings from our foreign subsidiaries, as noted below.

In addition, we record an income tax expense or benefit directly in shareholders' equity when the taxes relate to amounts recorded in shareholders' equity. For example, income tax expense (recovery) on hedging gains (losses) related to our net investment in foreign operations is recorded in our Consolidated Statement of Comprehensive Income as part of net gain (loss) on translation of net foreign operations.

Current tax is the amount of income tax recoverable (payable) in respect of the taxable loss (profit) for a period.

Deferred income tax assets and liabilities are measured at the tax rates expected to apply when temporary differences reverse. Changes in deferred income tax assets and liabilities related to a change in tax rates are recorded in income in the period the tax rate is substantively enacted, except to the extent that the tax arises from a transaction or event which is recognized in either other comprehensive income or directly in equity.

Included in deferred income tax assets is $178 million related to Canadian tax loss carryforwards that will expire in 2030 to 2033 and $1,307 million related to U.S. operations that will expire in various amounts in U.S. taxation years from 2028 through 2032. On the evidence available, including management projections of income, management believes that there will be sufficient taxable income generated by our business operations to support these deferred tax assets.

The amount of tax on temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the statement of financial position is $205 million. Deferred tax assets have not been recognized in respect of these items because it is not probable that realization of these assets will occur.

Income that we earn in foreign countries through our branches or subsidiaries is generally subject to tax in those countries. We are also subject to Canadian taxation on the income earned in our foreign branches. Canada allows a credit for foreign taxes paid on this income. Upon repatriation of earnings from certain foreign subsidiaries, we would be required to pay tax on certain of these earnings. As repatriation of such earnings is not planned in the foreseeable future, we have not recorded the related deferred income tax liability.

The amount of temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures for which deferred tax liabilities have not been recognized is $20 billion as at October 31, 2013 ($18 billion in 2012).

Components of Deferred Income Tax Balances

(Canadian $ in millions)	Allowance for credit losses	Employee future benefits	Deferred compensation benefits	Other comprehensive income	Tax loss carry-forwards	Other	Total
Deferred Income Tax Assets (1)							
As at October 31, 2011	1,809	252	291	(43)	1,122	485	3,916
Benefit (expense) to income statement	(718)	21	18	–	355	(9)	(333)
Benefit to equity	–	–	–	10	–	–	10
Translation and other	6	–	1	(14)	–	1	(6)
As at October 31, 2012	1,097	273	310	(47)	1,477	477	3,587
Benefit (expense) to income statement	**(216)**	**45**	**30**	**–**	**(35)**	**(14)**	**(190)**
Benefit to equity	**–**	**–**	**–**	**16**	**–**	**–**	**16**
Translation and other	**33**	**–**	**4**	**2**	**43**	**1**	**83**
As at October 31, 2013	**914**	**318**	**344**	**(29)**	**1,485**	**464**	**3,496**

(Canadian $ in millions)	Premises and equipment	Pension benefits	Goodwill and intangible assets	Securities	Other	Total
Deferred Income Tax Liabilities (2)						
As at October 31, 2011	(259)	(121)	(267)	(197)	(31)	(875)
Benefit (expense) to income statement	(60)	(3)	36	48	18	39
Translation and other	(1)	–	(1)	1	(15)	(16)
As at October 31, 2012	(320)	(124)	(232)	(148)	(28)	(852)
Acquisitions	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Benefit (expense) to income statement	**6**	**(13)**	**(35)**	**113**	**108**	**179**
Translation and other	**(6)**	**1**	**(6)**	**–**	**(3)**	**(14)**
As at October 31, 2013	**(320)**	**(136)**	**(275)**	**(35)**	**77**	**(689)**

(1) Deferred tax assets of $2,914 million and $2,906 million as at October 31, 2013 and 2012, respectively, are presented on the balance sheet net by legal jurisdiction.
(2) Deferred tax liabilities of $107 million and $171 million as at October 31, 2013 and 2012, respectively, are presented on the balance sheet net by legal jurisdiction.

Provision for Income Taxes

(Canadian $ in millions)	2013	2012	2011
Consolidated Statement of Income			
Current			
Provision for income taxes for the current period	**1,147**	756	1,034
Adjustments in respect of current tax for prior periods	**(29)**	(112)	(39)
Deferred			
Origination and reversal of temporary differences	**12**	301	(121)
Effect of changes in tax rates	**(1)**	(7)	2
	1,129	938	876
Shareholders' Equity			
Income tax expense (recovery) related to:			
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	**(31)**	(26)	(40)
Gains (losses) on cash flow hedges	**(57)**	(48)	128
Hedging of unrealized (gains) losses on translation of net foreign operations	**(146)**	(13)	26
Total	**895**	851	990

Components of Total Provision for Income Taxes

(Canadian $ in millions)	2013	2012	2011
Canada: Current income taxes			
Federal	**484**	316	608
Provincial	**319**	201	333
	803	517	941
Canada: Deferred income taxes			
Federal	**(137)**	30	(29)
Provincial	**(96)**	17	(14)
	(233)	47	(43)
Total Canadian	**570**	564	898
Foreign: Current income taxes	**96**	50	140
Deferred income taxes	**229**	237	(48)
Total foreign	**325**	287	92
Total	**895**	851	990

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that we have recorded in our Consolidated Statement of Income:

(Canadian $ in millions, except as noted)	2013		2012		2011	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**1,420**	**26.4%** (1)	1,364	26.6% (1)	1,125	28.2% (1)
Increase (decrease) resulting from:						
Tax-exempt income from securities	**(250)**	**(4.7)**	(188)	(3.7)	(161)	(4.0)
Foreign operations subject to different tax rates	**(8)**	**(0.2)**	(30)	(0.6)	(80)	(2.0)
Change in tax rate for deferred income taxes	**(1)**	**–**	(7)	(0.1)	2	0.1
Run-off of structured credit activities	**(6)**	**(0.1)**	(67)	(1.3)	14	0.3
Adjustments in respect of current tax for prior periods	**(29)**	**(0.5)**	(112)	(2.2)	(39)	(1.0)
Other	**3**	**0.1**	(22)	(0.4)	15	0.4
Provision for income taxes and effective tax rate	**1,129**	**21.0%**	938	18.3%	876	22.0%

(1) The combined statutory tax rate changed during the year as a result of legislation that became substantively enacted with respect to the year.

Notes

Note 25: Earnings Per Share

Basic Earnings per Share

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

Basic Earnings per Share
(Canadian $ in millions, except as noted)

	2013	2012	2011
Net income attributable to bank shareholders	**4,183**	4,115	3,041
Dividends on preferred shares	**(120)**	(136)	(146)
Net income available to common shareholders	**4,063**	3,979	2,895
Average number of common shares outstanding (in thousands)	**648,476**	644,407	591,403
Basic earnings per share (Canadian $)	**6.27**	6.18	4.90

Diluted Earnings per Share

Diluted earnings per share represents what our earnings per share would have been if instruments convertible into common shares that would have had the impact of reducing our earnings per share had been converted, either at the beginning of the year for instruments that were outstanding at the beginning of the year or from the date of issue for instruments issued during the year.

Convertible Shares
In determining diluted earnings per share, we increase net income available to common shareholders by the aggregate amount of dividends paid on convertible preferred shares and interest on capital trust securities, as these distributions would not have been paid if the instruments had been converted at the beginning of the year. Similarly, we increase the average number of common shares outstanding by the number of shares that would have been issued had the conversion taken place at the beginning of the year or on the date of issue, if later.

Employee Stock Options
In determining diluted earnings per share, we increase the average number of common shares outstanding by the number of shares that would have been issued if all stock options with a strike price below the average share price for the year had been exercised. When performance targets have not been met, affected options are excluded from the calculation. We also decrease the average number of common shares outstanding by the number of our common shares that we could have repurchased if we had used the proceeds from the exercise of stock options to repurchase them on the open market at the average share price for the year. We do not adjust for stock options with a strike price above the average share price for the year because including them would increase our earnings per share, not dilute it.

Diluted Earnings per Share
(Canadian $ in millions, except as noted)

	2013	2012	2011
Net income available to common shareholders adjusted for dilution effect	**4,063**	3,989	2,935
Average number of common shares outstanding (in thousands)	**648,476**	644,407	591,403
Convertible shares	**–**	3,040	13,536
Stock options potentially exercisable (1)	**10,656**	6,353	7,928
Common shares potentially repurchased	**(9,326)**	(5,185)	(5,799)
Average diluted number of common shares outstanding (in thousands)	**649,806**	648,615	607,068
Diluted earnings per share (Canadian $)	**6.26**	6.15	4.84

(1) In computing diluted earnings per share, we excluded average stock options outstanding of 2,677,737, 6,226,858 and 4,549,499 with weighted-average exercise prices of $201.93, $132.63 and $100.73 for the years ended October 31, 2013, 2012 and 2011, respectively, as the average share price for the period did not exceed the exercise price.

Note 26: Operating and Geographic Segmentation

Operating Groups

We conduct our business through three operating groups, each of which has a distinct mandate. We determine our operating groups based on our management structure and therefore these groups, and results attributed to them, may not be comparable with those of other financial services companies. We evaluate the performance of our groups using measures such as net income, revenue growth, return on equity, net economic profit and non-interest expense-to-revenue (productivity) ratio, as well as cash operating leverage.

Personal and Commercial Banking

Personal and Commercial Banking ("P&C") is comprised of two operating segments: Canadian Personal and Commercial Banking and U.S. Personal and Commercial Banking.

Canadian Personal and Commercial Banking
Canadian Personal and Commercial Banking ("Canadian P&C") serves personal and commercial banking customers through an integrated national network of BMO Bank of Montreal branches, automated banking machines ("ABMs"), telephone, mobile and online banking, along with the expertise of our mortgage specialists and financial planners. Personal banking provides financial solutions for everyday banking, financing, investing, credit cards and creditor insurance needs. Commercial banking provides our small business, medium-sized enterprise and mid-market banking customers with a broad suite of integrated commercial and capital markets products, as well as financial advisory services.

U.S. Personal and Commercial Banking
U.S. Personal and Commercial Banking ("U.S. P&C") offers a broad range of products and services to individuals and small and mid-sized business customers. Our retail and small and mid-sized business banking customers are served through our network of BMO Harris Bank branches, call centre, online and mobile banking platforms, and ABMs across eight states.

Wealth Management

BMO's group of wealth management businesses serves a full range of client segments from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and solutions including insurance products. Wealth Management ("WM") operates in both Canada and the United States, as well as in select global markets including Asia and Europe.

BMO Capital Markets

BMO Capital Markets ("BMO CM") provides capital-raising, strategic advisory and risk management, and integrated sales, trading and research services to corporate, institutional, and government clients in Canada, the United States and select international locations.

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 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 Corporate Units and T&O services are largely transferred to the three client operating groups (P&C, WM and BMO CM), and only relatively minor amounts are retained in Corporate Services results. As such, Corporate Services operating results largely reflect the impact of certain asset-liability management activities, the elimination of taxable equivalent adjustments, the results from certain impaired asset portfolios, the recovery of credit losses on the M&I purchased credit impaired loan portfolio, credit-related items on the M&I purchased performing loan portfolio, run-off structured credit activities, M&I integration costs, adjustments to the collective allowance for credit losses and restructuring costs.

Basis of Presentation

The results of these operating groups are based on our internal financial reporting systems. The accounting policies used in these segments are generally consistent with those followed in the preparation of our consolidated financial statements as disclosed in Note 1 and throughout the consolidated financial statements. A notable accounting measurement difference is the taxable equivalent basis adjustment as described below.

Taxable Equivalent Basis

We analyze net interest income on a taxable equivalent basis ("teb") at the operating group level. This basis includes an adjustment which increases reported revenues and the reported provision for income taxes by an amount that would raise revenues on certain tax-exempt securities to a level that incurs tax at the statutory rate. The operating groups' teb adjustments are eliminated in Corporate Services.

Inter-Group Allocations

Various estimates and allocation methodologies are used in the preparation of the operating groups' financial information. We allocate expenses directly related to earning revenue to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to operating groups using allocation formulas applied on a consistent basis. Operating group net interest income reflects internal funding charges and credits on the groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in Corporate Services.

Effective 2013, we changed the way we evaluate our operating groups to reflect the provision for credit losses on an actual loss basis. The change in allocation methodology enhances the assessment of performance against our peer group. Previously, provisions for credit losses were allocated to each group based on an expected losses basis for that group, with the difference between expected losses and actual losses reported in Corporate Services. Prior year results have been restated to reflect this change.

Geographic Information

We operate primarily in Canada and the United States but we also have operations in the United Kingdom, Europe, the Caribbean and Asia, which are grouped in Other countries. We allocate our results by geographic region based on the location of the unit responsible for managing the related assets, liabilities, revenues and expenses, except for the consolidated provision for credit losses, which is allocated based upon the country of ultimate risk.

Effective 2013, we refined our methodology for the allocation of revenue in Corporate Services by geographic region. As a consequence, we have reallocated certain revenues reported in prior years from Canada to the United States.

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

(Canadian $ in millions)	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total	Canada	United States	Other countries
2013 (2)									
Net interest income	**4,429**	**2,378**	**564**	**1,238**	**(64)**	**8,545**	**5,247**	**3,222**	**76**
Non-interest revenue	**1,912**	**559**	**2,890**	**2,190**	**167**	**7,718**	**5,233**	**2,093**	**392**
Total Revenue	**6,341**	**2,937**	**3,454**	**3,428**	**103**	**16,263**	**10,480**	**5,315**	**468**
Provision for credit losses	**574**	**223**	**3**	**(36)**	**(175)**	**589**	**656**	**(65)**	**(2)**
Amortization	**164**	**172**	**81**	**45**	**250**	**712**	**425**	**274**	**13**
Non-interest expense	**3,086**	**1,668**	**2,259**	**2,004**	**568**	**9,585**	**5,784**	**3,527**	**274**
Income before taxes and non-controlling interest in subsidiaries	**2,517**	**874**	**1,111**	**1,415**	**(540)**	**5,377**	**3,615**	**1,579**	**183**
Provision for income taxes	**663**	**278**	**277**	**321**	**(410)**	**1,129**	**690**	**443**	**(4)**
Reported net income	**1,854**	**596**	**834**	**1,094**	**(130)**	**4,248**	**2,925**	**1,136**	**187**
Non-controlling interest in subsidiaries	**–**	**–**	**–**	**–**	**65**	**65**	**54**	**11**	**–**
Net Income attributable to bank shareholders	**1,854**	**596**	**834**	**1,094**	**(195)**	**4,183**	**2,871**	**1,125**	**187**
Average Assets	**177,749**	**64,277**	**22,143**	**247,578**	**43,935**	**555,682**	**345,737**	**189,693**	**20,252**
Goodwill (As at)	**142**	**2,703**	**849**	**199**	**–**	**3,893**	**466**	**3,312**	**115**
2012 (2) (3)									
Net interest income	4,365	2,456	561	1,191	235	8,808	5,259	3,495	54
Non-interest revenue	1,847	568	2,344	2,085	478	7,322	4,909	1,961	452
Total Revenue	6,212	3,024	2,905	3,276	713	16,130	10,168	5,456	506
Provision for credit losses	615	274	22	6	(152)	765	634	134	(3)
Amortization	153	191	67	39	253	703	403	292	8
Non-interest expense	3,030	1,710	2,152	1,917	726	9,535	5,690	3,617	228
Income before taxes and non-controlling interest in subsidiaries	2,414	849	664	1,314	(114)	5,127	3,441	1,413	273
Provision for income taxes	639	269	140	293	(403)	938	578	367	(7)
Reported net income	1,775	580	524	1,021	289	4,189	2,863	1,046	280
Non-controlling interest in subsidiaries	–	–	1	–	73	74	55	19	–
Net Income attributable to bank shareholders	1,775	580	523	1,021	216	4,115	2,808	1,027	280
Average Assets	162,019	61,534	20,354	251,562	48,795	544,264	332,882	190,801	20,581
Goodwill (As at)	122	2,593	808	194	–	3,717	447	3,177	93
2011 (2) (3)									
Net interest income	4,381	1,653	462	1,229	(251)	7,474	5,304	2,120	50
Non-interest revenue	1,807	348	2,130	2,086	98	6,469	4,779	1,445	245
Total Revenue	6,188	2,001	2,592	3,315	(153)	13,943	10,083	3,565	295
Provision for credit losses	664	359	10	32	147	1,212	669	534	9
Amortization	143	113	43	28	211	538	364	169	5
Non-interest expense	2,990	1,119	1,913	1,868	313	8,203	5,469	2,531	203
Income before taxes and non-controlling interest in subsidiaries	2,391	410	626	1,387	(824)	3,990	3,581	331	78
Provision for income taxes	676	151	146	412	(509)	876	810	64	2
Reported net income	1,715	259	480	975	(315)	3,114	2,771	267	76
Non-controlling interest in subsidiaries	–	–	–	–	73	73	54	19	–
Net Income attributable to bank shareholders	1,715	259	480	975	(388)	3,041	2,717	248	76
Average Assets	153,782	40,166	17,483	216,306	42,197	469,934	302,745	145,630	21,559
Goodwill (As at)	122	2,545	791	191	–	3,649	448	3,108	93

(1) Corporate Services includes Technology and Operations.
(2) Operating groups report on a taxable equivalent basis – see Basis of Presentation section.
(3) Comparative periods have been reclassified to conform with the current year's presentation.

Note 27: Related Party Transactions

Related parties include subsidiaries, associates, joint ventures, key management personnel and employee future benefit plans. Key management personnel are defined as those persons having authority and responsibility for planning, directing and/or controlling the activities of an entity, being the directors and nine most senior executives in 2013 (nine in 2012).

Key Management Personnel Compensation

The following table presents the compensation of key management personnel.

(Canadian $ in millions)	**2013**	2012
Base salary and incentives	**15**	14
Share-based payments (1)	**22**	23
Total key management personnel compensation	**37**	37

Excluded from the table above are post-employment benefits of $2 million in 2013 and 2012. Termination benefits and other long-term benefits were $nil in 2013 and 2012.

(1) Amounts included in share-based payments are the fair values of awards granted in the year.

We provide certain banking services and loans to our key management personnel at market terms and conditions. Loans to key management personnel totalled $3 million and $2 million as at October 31, 2013 and 2012, respectively. Interest on these loans was less than $1 million in the years ended October 31, 2013 and 2012. None of the loans or mortgages to key management personnel are at preferred rates.

Deferred Share Units

Members of our Board of Directors are required to take 100% of their annual retainers and other fees in the form of either our common shares (purchased on the open market) or deferred share units until such time as the directors' shareholdings are greater than eight times their annual retainers as directors. Directors receive a specified amount of their annual retainer fee in either common shares or deferred share units. They may elect to take all or part of the remainder of the retainer fee in cash, or in additional common shares or deferred share units.

Deferred share units granted under these deferred share unit plans are adjusted to reflect dividends and changes in the market value of our common shares. The value of these deferred share units is paid upon termination of service as a director.

Liabilities related to these plans are recorded in other liabilities in our Consolidated Balance Sheet and totalled $37 million and $31 million as at October 31, 2013 and 2012, respectively.

Members of the Board of Directors of our wholly owned subsidiary, BMO Financial Corp., are required to take a specified minimum amount of their annual retainers and other fees in the form of deferred share units.

Joint Ventures and Associates

We provide banking services to our joint ventures and associates on the same terms that we offer to our customers for these services.

Our common share investment in a joint venture of which we own 50% totalled $125 million as at October 31, 2013 ($442 million in 2012).

Our investments in associates over which we exert significant influence totalled $225 million as at October 31, 2013 ($291 million in 2012).

Employees

A select suite of customer loan and mortgage products is offered to employees at rates normally accorded to preferred customers. We also offer employees a fee-based subsidy on annual credit card fees.

Note 28: Provisions and Contingent Liabilities

(a) Provisions

Provisions are recognized when we have an obligation as a result of past events, such as contractual commitments, legal or other obligations. We recognized as a provision the best estimate of the amount required to settle the obligation as of the balance sheet date, taking into account the risks and uncertainties surrounding the obligations.

Contingent liabilities are potential obligations that may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within our control. Contingent liabilities are disclosed in our consolidated financial statements.

Changes in the provision balance during the year are as follows:

(Canadian $ in millions)	**2013**	2012
Balance at beginning of year	**237**	142
Additional provisions/increase in provisions	**138**	263
Provisions utilized	**(150)**	(136)
Amounts reversed	**(15)**	(32)
Exchange differences and other movements	**(1)**	–
Balance at end of year	**209**	237

(b) Legal Proceedings

BMO Nesbitt Burns Inc., an indirect subsidiary of the bank, has been named as a defendant in several individual actions and proposed class actions in Canada and the United States brought on behalf of shareholders of Bre-X Minerals Ltd. Many of the actions have been resolved as to BMO Nesbitt Burns Inc., including two during the year ended October 31, 2010. Management believes that there are strong defenses to the remaining claims and will vigorously defend them.

The bank and its subsidiaries are party to other legal proceedings, including regulatory investigations, in the ordinary course of business. While there is inherent difficulty in predicting the outcome of these proceedings, management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or the results of operations of the bank.

(c) Collateral

When entering into trading activities such as purchases under resale agreements, securities borrowing and lending activities or financing and derivative transactions, we require our counterparties to provide us with collateral that will protect us from losses in the event of the counterparty's default. The fair value of collateral that we are permitted to sell or repledge (in the absence of default by the owner of the collateral) was $38,606 million as at October 31, 2013 ($31,972 million in 2012).

The fair value of collateral that we have sold or repledged was $24,795 million as at October 31, 2013 ($26,228 million in 2012).

Collateral transactions (received or pledged) are typically conducted under terms that are usual and customary in standard trading activities. If there is no default, the securities or their equivalents must be returned to or returned by the counterparty at the end of the contract.

(d) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. The following tables summarize our pledged assets, to whom they are pledged and in relation to what activity:

(Canadian $ in millions)	2013	2012
Cash and Securities		
Issued or guaranteed by Canada	**8,917**	8,813
Issued or guaranteed by a Canadian province, municipality or school corporation	**4,749**	4,000
Other	**28,421**	30,512
Mortgages, securities borrowed or purchased under resale agreements and other	**54,630**	64,264
Total assets pledged (1) (2)	**96,717**	107,589

Excludes restricted cash resources disclosed in Note 2.

(Canadian $ in millions)	2013	2012
Assets pledged to:		
Clearing systems, payment systems and depositories	**1,449**	1,150
Bank of Canada	**2,303**	2,415
Foreign governments and central banks	**2**	2
Assets pledged in relation to:		
Obligations related to securities lent or sold under repurchase agreements	**17,121**	28,155
Securities borrowing and lending	**23,819**	19,215
Derivatives transactions	**9,676**	9,089
Securitization	**26,435**	28,676
Covered bonds	**7,604**	11,302
Other	**8,308**	7,585
Total assets pledged (1) (2)	**96,717**	107,589

Excludes cash pledged with central banks disclosed as restricted cash in Note 2.
Excludes collateral received that has been sold or repledged as disclosed in the collateral section of this note.

(1) Excludes rehypothecated assets of $4,500 million ($7,370 million in 2012) pledged in relation to securities borrowing transactions.

(2) Includes assets pledged in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

(e) Other Commitments

As a participant in merchant banking activities, we enter into commitments to fund external private equity funds and investments in equity and debt securities at market value at the time the commitments are drawn. In addition, we act as underwriter for certain new issuances under which we alone or together with a syndicate of financial institutions purchase the new issue for resale to investors. In connection with these activities, our related commitments were $4,280 million as at October 31, 2013 ($3,280 million in 2012).

Note 29: Fair Value of Financial Instruments

We record trading assets and liabilities, derivatives, available-for-sale securities and securities sold but not yet purchased at fair value, and other non-trading assets and liabilities at amortized cost less allowances or write-downs for impairment. The fair values in this note are based upon the estimated amounts for individual assets and liabilities and do not include an estimate of the fair value of any of the legal entities or underlying operations that comprise our business.

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value represents our estimate of the amounts for which we could exchange our financial instruments with willing third parties who were interested in acquiring the instruments. Some financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. Where there is no quoted market price, we determine fair value using management's best estimates based on a range of valuation techniques and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

Financial Instruments Whose Book Value Approximates Fair Value

Fair value is assumed to equal book value for acceptance-related assets and liabilities, due to the short-term nature of these assets and liabilities. Fair value is also assumed to equal book value for our cash resources, certain other assets and certain other liabilities.

Securities

For traded securities, quoted market value is considered to be fair value. Quoted market value is based on bid prices. Securities for which no active market exists are valued using all reasonably available market information. Our fair value methodologies are described below.

Government Securities

The fair value of government issued or guaranteed debt securities in active markets is determined by reference to recent transaction prices, broker quotes or third-party vendor prices. The fair value of securities that are not traded in an active market are modelled using implied yields derived from the prices of actively traded similar government securities and observable spreads. Market inputs to the model include coupon, maturity and duration.

Mortgage-Backed Securities and Collateralized Mortgage Obligations

The fair value of mortgage-backed securities and collateralized mortgage obligations is determined by obtaining independent prices from third-party vendors, broker quotes and relevant market indices, as applicable. If such prices are not available, fair value is determined using cash flow models that make maximum use of observable market inputs or benchmark prices to similar instruments. Mortgage-backed security and collateralized mortgage obligation valuation assumptions include the discount rates, expected prepayments, credit spreads and recoveries.

Corporate Debt Securities

The fair value of corporate debt securities is determined using the most recently executed transaction prices. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discounting curves and spreads observed through independent dealers, brokers and multi-contributor pricing sources.

Corporate Equity Securities

The fair value of equity securities is based on quoted prices in active markets, where available. Where quoted prices in active markets are not readily available, fair value is determined based on quoted market prices for similar securities or through valuation techniques, including discounted cash flow analysis and multiples of earnings.

Privately Issued Securities
Privately issued debt and equity securities are valued using recent market transactions, where available. Otherwise, fair value is derived from valuation models using a market or income approach. These models consider various factors, including projected cash flows, earnings, revenue and other third-party evidence as available. The fair value of limited partnership investments is based upon net asset values published by third-party fund managers.

Prices from brokers and multi-contributor pricing sources are corroborated as part of our independent review process, which may include using valuation techniques or obtaining consensus or composite prices from other pricing services. We validate the estimates of fair value by independently obtaining multiple quotes of external market prices and input values. We review the approach taken by third-party vendors to ensure that the vendor employs a valuation model which maximizes the use of observable inputs such as benchmark yields, bid-ask spreads, underlying collateral, weighted-average terms to maturity and prepayment rate assumptions. Fair value estimates from internal valuation techniques are verified, where possible, by reference to prices obtained from third-party vendors.

Loans

In determining the fair value of our fixed rate and floating rate performing loans and customers' liability under acceptances, we discount the remaining contractual cash flows, adjusted for estimated prepayment, at market interest rates currently offered for loans with similar terms.

The value of our loan balances determined using this approach is further adjusted by a credit mark that represents an estimate of the expected credit losses in our loan portfolio.

Derivative Instruments

A number of well-established valuation techniques are employed to estimate fair value, including discounted cash flow analysis, the Black-Scholes model, Monte Carlo simulation and other accepted market models. These vetted models incorporate current market measures for interest rates, currency exchange rates, equity and commodity prices and indices, credit spreads, recovery rates, corresponding market volatility levels, spot prices, correlation levels and other market-based pricing factors. Option implied volatilities, an input into many valuation models, are either obtained directly from market sources or calculated from market prices. Multi-contributor pricing sources are used wherever possible.

In determining the fair value of complex and customized derivatives, we consider all reasonably available information, including dealer and broker quotations, multi-contributor pricing sources and any relevant observable market inputs. Our model calculates fair value based on inputs specific to the type of contract, which may include stock prices, correlation for multiple assets, interest rates, foreign exchange rates, yield curves and volatilities.

We calculate a credit valuation adjustment ("CVA") to recognize the risk that any given derivative counterparty may not ultimately be able to fulfill its obligations. The CVA is derived from market-observed credit spreads or proxy credit spreads and our assessment of the net counterparty credit risk exposure, taking into account credit mitigants such as collateral, master netting arrangements and settlements through clearing houses.

Deposits

In determining the fair value of our deposits, we incorporate the following assumptions:

- For fixed rate, fixed maturity deposits, we discount the remaining contractual cash flows for these deposits, adjusted for expected redemptions, at market interest rates currently offered for deposits with similar terms and risks.
- For fixed rate deposits with no defined maturities, we consider fair value to equal book value, based on book value being equivalent to the amount payable on the reporting date.
- For floating rate deposits, changes in interest rates have minimal impact on fair value since deposits reprice to market frequently. On that basis, fair value is assumed to equal book value.

A portion of our structured note liabilities that have coupons or repayment terms linked to the performance of interest rates, foreign currencies, commodities or equity securities have been designated at fair value through profit or loss. The fair value of these structured notes is estimated using internally vetted valuation models and incorporates observable market prices for identical or comparable securities, and other inputs such as interest rate yield curves, option volatilities and foreign exchange rates, where appropriate. Where observable prices or inputs are not available, management judgment is required to determine the fair value by assessing other relevant sources of information such as historical data and proxy information from similar transactions.

Securities Sold But Not Yet Purchased

The fair value of these obligations is based on the fair value of the underlying securities, which can include equity or debt securities. As these obligations are fully collateralized, the method used to determine fair value would be the same as that used for the relevant underlying equity or debt securities.

Securities Borrowed or Purchased Under Resale Agreements and Securities Lent or Sold Under Repurchase Agreements

The fair value of these agreements is determined using a standard discounted cash flow model. Inputs to the model include contractual cash flows and collateral funding spreads.

Securitization Liabilities

The determination of the fair value of securitization liabilities, recorded in other liabilities, is based on quoted market prices or quoted market prices for similar financial instruments, where available. Where quoted prices are not available, fair value is determined using valuation techniques, which maximize the use of observable inputs and assumptions such as discounted cash flows.

Subordinated Debt and Capital Trust Securities

The fair value of our subordinated debt and capital trust securities is determined by referring to current market prices for similar instruments.

Set out in the following table are the amounts that would be reported if all of our financial instrument assets and liabilities were reported at their fair values. Certain assets and liabilities, including goodwill, intangible assets and total equity, are not considered financial instruments and are therefore not fair valued in the following table.

(Canadian $ in millions)			2013			2012
	Book value	**Fair value**	**Fair value over (under) book value**	Book value	Fair value	Fair value over (under) book value
Assets						
Cash and cash equivalents	**26,083**	**26,083**	**–**	19,941	19,941	–
Interest bearing deposits with banks	**6,518**	**6,518**	**–**	6,341	6,341	–
Securities	**134,981**	**135,204**	**223**	128,324	128,492	168
Securities borrowed or purchased under resale agreements	**39,799**	**39,799**	**–**	47,011	47,011	–
Loans						
Residential mortgages	**99,328**	**98,910**	**(418)**	87,870	88,417	547
Consumer instalment and other personal	**63,640**	**62,770**	**(870)**	61,436	61,014	(422)
Credit cards	**7,870**	**7,619**	**(251)**	7,814	7,573	(241)
Businesses and governments	**101,450**	**100,176**	**(1,274)**	90,402	89,076	(1,326)
	272,288	**269,475**	**(2,813)**	247,522	246,080	(1,442)
Customers' liability under acceptances	**8,472**	**8,437**	**(35)**	8,019	7,966	(53)
Allowance for credit losses (1)	**(1,665)**	**–**	**1,665**	(1,706)	–	1,706
Total loans and customers' liability under acceptances, net of allowance for credit losses	**279,095**	**277,912**	**(1,183)**	253,835	254,046	211
Derivative instruments	**30,259**	**30,259**	**–**	48,071	48,071	–
Premises and equipment	**2,191**	**2,191**	**–**	2,120	2,120	–
Goodwill	**3,893**	**3,893**	**–**	3,717	3,717	–
Intangible assets	**1,530**	**1,530**	**–**	1,552	1,552	–
Current tax assets	**1,065**	**1,065**	**–**	1,293	1,293	–
Deferred tax assets	**2,914**	**2,914**	**–**	2,906	2,906	–
Other assets	**8,971**	**8,971**	**–**	10,338	10,338	–
	537,299	**536,339**	**(960)**	525,449	525,828	379
Liabilities						
Deposits	**366,821**	**366,973**	**152**	323,702	323,949	247
Derivative instruments	**31,974**	**31,974**	**–**	48,736	48,736	–
Acceptances	**8,472**	**8,472**	**–**	8,019	8,019	–
Securities sold but not yet purchased	**22,446**	**22,446**	**–**	23,439	23,439	–
Securities lent or sold under repurchase agreements	**28,884**	**28,884**	**–**	39,737	39,737	–
Current tax liabilities	**443**	**443**	**–**	404	404	–
Deferred tax liabilities	**107**	**107**	**–**	171	171	–
Other liabilities	**42,212**	**42,490**	**278**	46,596	47,111	515
Subordinated debt	**3,996**	**4,217**	**221**	4,093	4,297	204
Capital trust securities	**463**	**616**	**153**	462	636	174
Shareholders' equity	**31,481**	**31,481**	**–**	30,090	30,090	–
	537,299	**538,103**	**804**	525,449	526,589	1,140
Total fair value adjustment			**(1,764)**			(761)

(1) The allowance for credit losses is excluded from the calculation of the fair value of loans since the fair value already includes an adjustment for expected future losses on the loans.

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

Fair Value Hierarchy

We use a fair value hierarchy to categorize the inputs we use in valuation techniques to measure fair value. The extent of our use of 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)			2013			2012
	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	**9,913**	**911**	**–**	9,675	1,232	–
Canadian provincial and municipal governments	**1,988**	**3,723**	**–**	2,615	2,827	73
U.S. federal government	**5,903**	**–**	**–**	7,052	–	–
U.S. states, municipalities and agencies	**–**	**681**	**78**	204	165	78
Other governments	**132**	**4**	**–**	521	–	–
Mortgage-backed securities and collateralized mortgage obligations	**165**	**487**	**–**	361	777	372
Corporate debt	**2,800**	**7,465**	**822**	3,871	9,117	1,331
Corporate equity	**28,073**	**12,014**	**–**	19,822	10,016	–
	48,974	**25,285**	**900**	44,121	24,134	1,854
Available-for-Sale Securities						
Issued or guaranteed by:						
Canadian federal government	**13,111**	**4**	**–**	17,277	–	–
Canadian provincial and municipal governments	**1,941**	**1,757**	**–**	2,080	600	–
U.S. federal government	**4,660**	**–**	**–**	10,099	–	–
U.S. states, municipalities and agencies	**3**	**5,388**	**1**	85	4,368	9
Other governments	**3,992**	**2,171**	**–**	5,388	1,208	–
Mortgage-backed securities and collateralized mortgage obligations	**1,901**	**6,904**	**–**	3,140	3,068	–
Corporate debt	**5,340**	**4,306**	**30**	5,214	2,619	42
Corporate equity	**460**	**149**	**949**	106	137	942
	31,408	**20,679**	**980**	43,389	12,000	993
Other Securities	**–**	**–**	**488**	128	–	526
Fair Value Liabilities						
Securities sold but not yet purchased	**20,024**	**2,422**	**–**	22,729	710	–
Structured note liabilities and other note liabilities	**–**	**6,439**	**–**	–	5,896	–
Annuity liabilities	**–**	**329**	**–**	–	317	–
	20,024	**9,190**	**–**	22,729	6,923	–
Derivative Assets						
Interest rate contracts	**7**	**22,215**	**–**	7	38,180	3
Foreign exchange contracts	**9**	**6,663**	**–**	35	8,010	–
Commodity contracts	**673**	**66**	**–**	1,132	100	–
Equity contracts	**16**	**520**	**–**	20	342	5
Credit default swaps	**–**	**62**	**28**	–	200	37
	705	**29,526**	**28**	1,194	46,832	45
Derivative Liabilities						
Interest rate contracts	**8**	**21,516**	**–**	7	37,037	20
Foreign exchange contracts	**5**	**6,443**	**–**	9	7,496	2
Commodity contracts	**695**	**138**	**–**	1,463	278	–
Equity contracts	**70**	**2,997**	**–**	78	2,146	44
Credit default swaps	**–**	**83**	**19**	–	154	2
	778	**31,177**	**19**	1,557	47,111	68

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

Valuation Techniques and Significant Inputs

We determine the fair value of publicly traded fixed maturity and equity securities using quoted market 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 yields 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 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 based on 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.

Sensitivity analysis at October 31, 2013 for the most significant Level 3 instruments, that is securities which represent greater than 10% of Level 3 instruments, is provided below.

We have no mortgage-backed securities or collateralized mortgage obligations within Level 3 trading securities at October 31, 2013. The fair value of these securities is determined by using benchmarking to similar

Notes

instruments and by obtaining independent prices from third-party vendors, broker quotes and relevant market indices, as applicable. Where external price data is not available, we assess the collateral performance in assessing the fair value of the securities.

Within Level 3 trading securities is corporate debt of $800 million related to securities which are hedged with total return swaps and credit default swaps that are also considered a Level 3 instrument. The sensitivity analysis for these structured products is performed on an aggregate basis and is described in the discussion of derivatives below.

Within Level 3 available-for-sale securities is corporate equity of $557 million related to U.S. Federal Reserve Banks and U.S. Federal Home Loan Banks that we hold to meet regulatory requirements in the United States and $392 million related to private equity investments. The valuation of these investments requires management judgment due to the absence of quoted market prices, the potential lack of liquidity and the long-term nature of such assets. Each quarter, the valuation of these investments is reviewed using relevant company-specific and industry data, including historical and projected net income, credit and liquidity conditions and recent transactions, if any. Since the valuation of these investments does not involve models, a sensitivity analysis for the category is not performed.

Within derivative assets and derivative liabilities as at October 31, 2013 was $28 million and $19 million related to the mark-to-market of credit default swaps, on structured products. We have determined the valuation of these derivatives and the related securities based on external price data obtained from brokers and dealers for similar structured products. Where external price information is not available, we use market-standard models to model the specific collateral composition and cash flow structure of the deal. Key inputs to the models are market spread data for each credit rating, collateral type and other relevant contractual features. The impact of assuming a 10 basis point increase or decrease in the market spread would result in a change in fair value of $(1) million and $1 million, respectively.

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 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 years ended October 31, 2013 and 2012.

During the year ended October 31, 2013, $28 million of trading Canadian provincial and municipal securities, $29 million of available-for-sale corporate debt securities, and $4 million of available-for-sale corporate equity securities were transferred from Level 3 to Level 2 as observable inputs became available. In addition, $17 million of trading mortgage-backed securities were transferred from Level 2 to Level 3 as a result of fewer available prices for these securities during the year.

During the year ended October 31, 2013, derivative liabilities of $62 million were transferred from Level 3 to Level 2, as market information became available for certain over-the-counter equity contracts.

During the year ended October 31, 2012, $24 million of available-for-sale corporate debt securities, $12 million of trading corporate debt securities and $14 million of trading mortgage-backed securities were transferred from Level 3 to Level 2, as values for these securities are now obtained through a third-party vendor and are based on market prices. In addition, $105 million of trading mortgage-backed securities and $18 million of trading corporate debt securities were transferred from Level 2 to Level 3 as a result of fewer available prices for these securities during the year.

During the year ended October 31, 2012, derivative liabilities of $9 million were transferred from Level 3 to Level 2, as market information became available for certain over-the-counter equity contracts.

Changes in Level 3 Fair Value Measurements

The table below presents a reconciliation of all changes in Level 3 financial instruments during the year ended October 31, 2013, including realized and unrealized gains (losses) included in earnings and other comprehensive income.

For the year ended October 31, 2013 (Canadian $ in millions)	Balance, October 31, 2012	Change in fair value: Included in earnings	Change in fair value: Included in other compre-hensive income	Purchases	Sales	Maturities (1)	Transfers into Level 3	Transfers out of Level 3	Fair value as at October 31, 2013	Unrealized gains (losses) (2)
Trading Securities										
Issued or guaranteed by:										
Canadian provincial and municipal governments	73	**1**	**–**	**–**	**(46)**	**–**	**–**	**(28)**	**–**	**–**
U.S. states, municipalities and agencies	78	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**78**	**–**
Mortgage-backed securities and collateralized mortgage obligations	372	**28**	**–**	**–**	**(378)**	**(39)**	**17**	**–**	**–**	**–**
Corporate debt	1,331	**42**	**–**	**3**	**(227)**	**(327)**	**–**	**–**	**822**	**39**
Total trading securities	1,854	**71**	**–**	**3**	**(651)**	**(366)**	**17**	**(28)**	**900**	**39**
Available-for-Sale Securities										
Issued or guaranteed by:										
U.S. states, municipalities and agencies	9	**–**	**–**	**–**	**(8)**	**–**	**–**	**–**	**1**	**–**
Corporate debt	42	**–**	**2**	**27**	**(10)**	**(2)**	**–**	**(29)**	**30**	**1**
Corporate equity	942	**(19)**	**46**	**119**	**(135)**	**–**	**–**	**(4)**	**949**	**44**
Total available-for-sale securities	993	**(19)**	**48**	**146**	**(153)**	**(2)**	**–**	**(33)**	**980**	**45**
Other Securities	526	**14**	**–**	**86**	**(138)**	**–**	**–**	**–**	**488**	**9**
Derivative Assets										
Interest rate contracts	3	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**
Equity contracts	5	**–**	**–**	**–**	**(1)**	**–**	**–**	**(4)**	**–**	**–**
Credit default swaps	37	**(9)**	**–**	**–**	**–**	**–**	**–**	**–**	**28**	**(9)**
Total derivative assets	45	**(12)**	**–**	**–**	**(1)**	**–**	**–**	**(4)**	**28**	**(12)**
Derivative Liabilities										
Interest rate contracts	20	**(20)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20**
Equity contracts	44	**15**	**–**	**–**	**(3)**	**–**	**6**	**(62)**	**–**	**–**
Foreign exchange contracts	2	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**–**	**–**
Credit default swaps	2	**17**	**–**	**–**	**–**	**–**	**–**	**–**	**19**	**(17)**
Total derivative liabilities	68	**12**	**–**	**–**	**(3)**	**–**	**6**	**(64)**	**19**	**3**

(1) Includes cash settlement of derivative assets and derivative liabilities.

(2) Unrealized gains or losses on trading securities, derivative assets and derivative liabilities held on October 31, 2013 are included in earnings in the year. For available-for-sale securities, the unrealized gains or losses on securities held on October 31, 2013 are included in Accumulated Other Comprehensive Income.

The table below presents a reconciliation of all changes in Level 3 financial instruments during the year ended October 31, 2012, including realized and unrealized gains (losses) included in earnings and other comprehensive income.

For the year ended October 31, 2012 (Canadian $ in millions)	Balance, October 31, 2011	Change in fair value: Included in earnings	Change in fair value: Included in other compre-hensive income	Purchases	Sales	Maturities (1)	Transfers into Level 3	Transfers out of Level 3	Fair value as at October 31, 2012	Unrealized gains (losses) (2)
Trading Securities										
Issued or guaranteed by:										
Canadian provincial and municipal governments	–	5	–	68	–	–	–	–	73	5
U.S. states, municipalities and agencies	–	3	–	75	–	–	–	–	78	3
Mortgage-backed securities and collateralized mortgage obligations	494	12	–	–	(167)	(58)	105	(14)	372	11
Corporate debt	1,485	35	–	20	(214)	(1)	18	(12)	1,331	38
Total trading securities	1,979	55	–	163	(381)	(59)	123	(26)	1,854	57
Available-for-Sale Securities										
Issued or guaranteed by:										
U.S. states, municipalities and agencies	25	–	(1)	–	–	(16)	1	–	9	(3)
Mortgage-backed securities and collateralized mortgage obligations	–	–	–	–	–	–	–	–	–	–
Corporate debt	62	–	5	25	(8)	(18)	–	(24)	42	6
Corporate equity	1,011	(3)	15	148	(217)	(12)	–	–	942	15
Total available-for-sale securities	1,098	(3)	19	173	(225)	(46)	1	(24)	993	18
Other Securities	493	10	–	102	(79)	–	–	–	526	10
Derivative Assets										
Interest rate contracts	167	(6)	–	–	–	(158)	–	–	3	(6)
Equity contracts	6	(1)	–	1	–	(1)	–	–	5	(1)
Credit default swaps	67	(35)	–	5	–	–	–	–	37	(35)
Total derivative assets	240	(42)	–	6	–	(159)	–	–	45	(42)
Derivative Liabilities										
Interest rate contracts	38	(23)	–	5	–	–	–	–	20	23
Equity contracts	65	27	–	1	(35)	(5)	–	(9)	44	(7)
Foreign exchange contracts	–	2	–	–	–	–	–	–	2	(2)
Credit default swaps	2	–	–	–	–	–	–	–	2	–
Total derivative liabilities	105	6	–	6	(35)	(5)	–	(9)	68	14

(1) Includes cash settlement of derivative assets and derivative liabilities.

(2) Unrealized gains or losses on trading securities, derivative assets and derivative liabilities held on October 31, 2012 are included in earnings in the year. For available-for-sale securities, the unrealized gains or losses on securities held on October 31, 2012 are included in Accumulated Other Comprehensive Income.

Notes

Note 30: 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 page 92 to 94 of our 2013 Annual Report.

(Canadian $ in millions) — 2013

	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	25,317	–	–	–	–	–	–	–	766	26,083
Interest bearing deposits with banks	4,592	1,295	471	84	76	–	–	–	–	6,518
Securities										
Trading securities	1,209	1,284	480	1,521	442	4,781	10,593	14,762	40,087	75,159
Available-for-sale securities	1,385	3,628	1,439	2,076	2,820	6,729	22,170	11,262	1,558	53,067
Held-to-maturity securities	–	–	–	–	–	562	4,864	606	–	6,032
Other securities	–	–	18	–	–	3	34	17	651	723
Total securities	2,594	4,912	1,937	3,597	3,262	12,075	37,661	26,647	42,296	134,981
Securities borrowed or purchased under resale agreements	26,421	9,627	2,949	597	205	–	–	–	–	39,799
Loans										
Residential mortgages	1,026	1,362	2,866	4,769	4,082	17,922	58,035	9,266	–	99,328
Consumer instalment and other personal	323	294	643	890	834	4,730	23,285	9,636	23,005	63,640
Credit cards	–	–	–	–	–	–	–	–	7,870	7,870
Businesses and governments	5,824	8,264	4,940	3,834	8,684	9,215	29,170	4,977	26,542	101,450
Customers' liability under acceptances	4,883	3,037	552	–	–	–	–	–	–	8,472
Allowance for credit losses	–	–	–	–	–	–	–	–	(1,665)	(1,665)
Total loans and acceptances, net of allowance	12,056	12,957	9,001	9,493	13,600	31,867	110,490	23,879	55,752	279,095
Other Assets										
Derivative instruments										
Interest rate contracts	39	98	193	319	260	2,423	8,598	10,292	–	22,222
Foreign exchange contracts	685	665	605	244	149	1,608	1,515	1,201	–	6,672
Commodity contracts	50	79	119	96	75	179	99	42	–	739
Equity contracts	100	82	50	61	69	66	106	2	–	536
Credit contracts	–	1	2	4	2	5	56	20	–	90
Total derivative assets	874	925	969	724	555	4,281	10,374	11,557	–	30,259
Premises and equipment	–	–	–	–	–	–	–	–	2,191	2,191
Goodwill	–	–	–	–	–	–	–	–	3,893	3,893
Intangible assets	–	–	–	–	–	–	–	–	1,530	1,530
Current tax assets	–	–	–	–	–	–	–	–	1,065	1,065
Deferred tax assets	–	–	–	–	–	–	–	–	2,914	2,914
Other	2,202	148	137	–	–	–	14	3,624	2,846	8,971
Total other assets	3,076	1,073	1,106	724	555	4,281	10,388	15,181	14,439	50,823
Total Assets	74,056	29,864	15,464	14,495	17,698	48,223	158,539	65,707	113,253	537,299

(Canadian $ in millions)										2013
	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	10,241	3,733	140	231	563	–	–	–	5,683	20,591
Businesses and governments	26,265	29,217	10,490	6,149	5,547	13,970	30,597	6,959	91,604	220,798
Individuals	2,253	3,761	5,203	4,618	5,513	7,228	11,450	1,526	83,880	125,432
Total deposits	38,759	36,711	15,833	10,998	11,623	21,198	42,047	8,485	181,167	366,821
Other Liabilities										
Derivative instruments										
Interest rate contracts	56	112	246	365	314	2,370	8,174	9,887	–	21,524
Foreign exchange contracts	472	931	658	251	156	1,462	1,619	899	–	6,448
Commodity contracts	56	91	98	92	93	241	124	38	–	833
Equity contracts	119	173	241	91	143	841	851	608	–	3,067
Credit contracts	–	1	1	2	5	14	60	19	–	102
Total derivative liabilities	703	1,308	1,244	801	711	4,928	10,828	11,451	–	31,974
Acceptances	4,883	3,037	552	–	–	–	–	–	–	8,472
Securities sold but not yet purchased	22,446	–	–	–	–	–	–	–	–	22,446
Securities lent or sold under repurchase agreements	24,483	2,953	1,448	–	–	–	–	–	–	28,884
Current tax liabilities	–	–	–	–	–	–	–	–	443	443
Deferred tax liabilities	–	–	–	–	–	–	–	–	107	107
Securitization and SPE liabilities	1,222	1,481	998	–	318	3,295	10,395	4,653	–	22,362
Other	7,130	140	18	6	26	427	3,205	1,946	6,952	19,850
Total other liabilities	60,867	8,919	4,260	807	1,055	8,650	24,428	18,050	7,502	134,538
Subordinated debt	–	–	–	–	–	–	100	3,896	–	3,996
Capital trust securities	–	–	–	–	–	–	–	463	–	463
Total Equity	–	–	–	–	–	–	–	–	31,481	31,481
Total Liabilities and Equity	99,626	45,630	20,093	11,805	12,678	29,848	66,575	30,894	220,150	537,299

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

(Canadian $ in millions)										2013
	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 (2)	1,169	907	3,246	3,935	3,850	13,381	42,477	2,570	–	71,535
Operating leases	25	46	69	69	69	262	618	640	–	1,798
Financial guarantee contracts (2)	4,778	–	–	–	–	–	–	–	–	4,778
Purchase obligations	71	141	211	216	207	729	1,115	275	–	2,965

(2) 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)										2012
	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	19,162	–	–	–	–	–	–	–	779	19,941
Interest bearing deposits with banks	5,146	902	293	–	–	–	–	–	–	6,341
Securities										
Trading securities	1,122	2,550	1,995	837	2,138	5,103	10,647	15,879	29,838	70,109
Available-for-sale securities	1,555	2,200	2,851	5,782	1,600	12,790	19,718	8,701	1,185	56,382
Held-to-maturity securities	–	–	–	–	–	–	376	499	–	875
Other securities	–	45	–	–	–	22	56	17	818	958
Total securities	2,677	4,795	4,846	6,619	3,738	17,915	30,797	25,096	31,841	128,324
Securities borrowed or purchased under resale agreements	41,229	2,878	2,282	622	–	–	–	–	–	47,011
Loans										
Residential mortgages	843	863	1,617	2,135	2,081	15,966	56,143	8,222	–	87,870
Consumer instalment and other personal	419	160	287	464	2,079	3,377	23,936	7,775	22,939	61,436
Credit cards	–	–	–	–	–	–	–	–	7,814	7,814
Businesses and governments	4,344	5,234	3,973	2,656	10,541	8,679	21,740	4,593	28,642	90,402
Customers' liability under acceptances	5,227	2,792	–	–	–	–	–	–	–	8,019
Allowance for credit losses	–	–	–	–	–	–	–	–	(1,706)	(1,706)
Total loans and acceptances, net of allowance	10,833	9,049	5,877	5,255	14,701	28,022	101,819	20,590	57,689	253,835
Other Assets										
Derivative instruments										
Interest rate contracts	178	338	354	582	527	2,152	12,929	21,130	–	38,190
Foreign exchange contracts	1,730	912	435	305	138	635	2,417	1,473	–	8,045
Commodity contracts	469	91	91	66	187	163	135	30	–	1,232
Equity contracts	70	70	17	44	11	36	119	–	–	367
Credit contracts	1	2	3	4	4	24	157	42	–	237
Total derivative assets	2,448	1,413	900	1,001	867	3,010	15,757	22,675	–	48,071
Premises and equipment	–	–	–	–	–	–	–	–	2,120	2,120
Goodwill	–	–	–	–	–	–	–	–	3,717	3,717
Intangible assets	–	–	–	–	–	–	–	–	1,552	1,552
Current tax assets	–	–	–	–	–	–	–	–	1,293	1,293
Deferred tax assets	–	–	–	–	–	–	–	–	2,906	2,906
Other	2,045	155	34	–	–	180	58	3,191	4,675	10,338
Total other assets	4,493	1,568	934	1,001	867	3,190	15,815	25,866	16,263	69,997
Total Assets	83,540	19,192	14,232	13,497	19,306	49,127	148,431	71,552	106,572	525,449

(Canadian $ in millions)										2012
	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	10,935	1,655	62	29	14	13	14	–	5,380	18,102
Businesses and governments	21,736	24,843	9,666	5,920	9,477	5,517	23,251	3,316	82,844	186,570
Individuals	4,977	5,043	5,835	6,369	5,501	6,580	7,725	297	76,703	119,030
Total deposits	37,648	31,541	15,563	12,318	14,992	12,110	30,990	3,613	164,927	323,702
Other Liabilities										
Derivative instruments										
Interest rate contracts	38	268	441	652	530	2,418	12,861	19,856	–	37,064
Foreign exchange contracts	1,003	1,026	546	362	211	802	2,351	1,206	–	7,507
Commodity contracts	391	180	194	182	281	306	160	47	–	1,741
Equity contracts	244	256	60	72	88	98	722	728	–	2,268
Credit contracts	50	2	4	3	2	18	71	6	–	156
Total derivative liabilities	1,726	1,732	1,245	1,271	1,112	3,642	16,165	21,843	–	48,736
Acceptances	5,227	2,792	–	–	–	–	–	–	–	8,019
Securities sold but not yet purchased	23,439	–	–	–	–	–	–	–	–	23,439
Securities lent or sold under repurchase agreements	38,218	1,519	–	–	–	–	–	–	–	39,737
Current tax liabilities	–	–	–	–	–	–	–	–	404	404
Deferred tax liabilities	–	–	–	–	–	–	–	–	171	171
Securitization and SPE liabilities	1,053	1,287	11	1,712	3,424	3,925	10,042	4,028	–	25,482
Other	8,124	99	28	11	200	23	2,197	3,279	7,153	21,114
Total other liabilities	77,787	7,429	1,284	2,994	4,736	7,590	28,404	29,150	7,728	167,102
Subordinated debt	–	–	–	–	–	–	100	3,993	–	4,093
Capital trust securities	–	–	–	–	–	–	–	462	–	462
Total Equity	–	–	–	–	–	–	–	–	30,090	30,090
Total Liabilities and Equity	115,435	38,970	16,847	15,312	19,728	19,700	59,494	37,218	202,745	525,449

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

(Canadian $ in millions)										2012
	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 (2)	770	1,076	1,910	1,939	9,734	9,418	33,240	1,898	–	59,985
Operating leases	25	48	69	67	68	262	563	700	–	1,802
Financial guarantee contracts (2)	4,343	–	–	–	–	–	–	–	–	4,343
Purchase obligations	59	118	177	101	63	264	539	207	–	1,528

(2) 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.

Notes

Principal Subsidiaries

Entities in which the bank owns more than 50% of the issued and outstanding voting shares	Head or principal office	Book value of shares owned by the bank (Canadian $ in millions)
Bank of Montreal Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	–
Bank of Montreal Capital Markets (Holdings) Limited	London, England	171
BMO Capital Markets Limited	London, England	
Pyrford International Limited	London, England	
Bank of Montreal (China) Co. Ltd.	Beijing, China	272
Bank of Montreal Finance Ltd.	Toronto, Canada	30
Bank of Montreal Holding Inc.	Calgary, Canada	23,296
BMO Nesbitt Burns Holding Corporation	Toronto, Canada	
BMO Nesbitt Burns Inc.	Toronto, Canada	
BMO Finance Company II	Luxembourg, Luxembourg	
BMO Group Retirement Services Inc.	Toronto, Canada	
BMO Holding Finance, LLC	Wilmington, United States	
BMO Investments Inc. and subsidiary	Toronto, Canada	
BMO Investments Limited	Hamilton, Bermuda	
Bank of Montreal (Barbados) Limited	St. Michael, Barbados	
BMO Reinsurance Limited	St. Michael, Barbados	
BMO InvestorLine Inc.	Toronto, Canada	
BMO Service Inc.	Toronto, Canada	
Bank of Montreal Ireland plc	Dublin, Ireland	695
Bank of Montreal Mortgage Corporation	Calgary, Canada	2,371
BMO Mortgage Corp.	Vancouver, Canada	
BMRI Realty Investments	Toronto, Canada	
Bay Street Holdings, LLC	Chicago, United States	2
BMO Finance Company I	Schuttrange, Luxembourg	624
BMO Financial Corp.	Chicago, United States	14,047
BMO Asset Management Corp. and subsidiaries	Chicago, United States	
BMO Capital Markets Corp.	New York, United States	
BMO Capital Markets GKST Inc.	Chicago, United States	
BMO Delaware Trust Company	Greenville, United States	
BMO Global Capital Solutions, Inc.	Chicago, United States	
BMO Harris Bank National Association and subsidiaries	Chicago, United States	
BMO Harris Central National Association	Roselle, United States	
BMO Harris Financial Advisors, Inc.	Chicago, United States	
BMO Harris Financing, Inc. and subsidiaries	Chicago, United States	
BMO Investment Financing, Inc.	Wilmington, United States	
BMO Investment Partners Management, LLC and subsidiaries	Milwaukee, United States	
BMO Private Equity (U.S.), Inc. and subsidiaries	Chicago, United States	
Harris Life Insurance Company	Scottsdale, United States	
Harris Trade Services Limited	Hong Kong, China	
M&I Distributors, LLC	Milwaukee, United States	
psps Holdings, LLC and subsidiary	Chicago, United States	
Stoker Ostler Wealth Advisors, Inc.	Scottsdale, United States	
BMO GP Inc.	Toronto, Canada	1
BMO Ireland Finance Company	Dublin, Ireland	16
BMO Life Insurance Company	Toronto, Canada	734
BMO Life Holdings (Canada), ULC	Halifax, Canada	
BMO Life Assurance Company	Toronto, Canada	
BMO Private Equity (Canada) Inc.	Toronto, Canada	–
BMO Nesbitt Burns Employee Co-Investment Fund I Management (Canada) Inc. and subsidiaries	Toronto, Canada	
BMO Trust Company	Toronto, Canada	918
BMO (US) Lending, LLC	Chicago, United States	339
LGM (Bermuda) Limited	Hamilton, Bermuda	106
Lloyd George Investment Management (Bermuda) Limited and subsidiary	Hamilton, Bermuda	
Lloyd George Investment Management (Hong Kong) Limited	Hong Kong, China	
Lloyd George Management (Europe) Limited	London, England	
Lloyd George Management (Singapore) Pte Ltd. and subsidiary	Singapore	

The book value of the subsidiaries represents the total common and preferred equity value of our holdings or our partnership interest where appropriate.

We directly or indirectly own 100% of the outstanding voting shares of the above subsidiaries.

Glossary of Financial Terms

Adjusted Earnings and Measures present results adjusted to exclude the impact of certain items as set out in the Non-GAAP Measures section. Management considers both reported and adjusted results to be useful in assessing underlying ongoing business performance.

Allowance for Credit Losses represents an amount deemed adequate by management to absorb credit-related losses on loans and acceptances and other credit instruments. Allowances for credit losses can be specific or collective and are recorded on the balance sheet as a deduction from loans and acceptances or, as they relate to credit instruments, as other liabilities.
Pages 70, 85, 137

Assets under Administration and under Management refers to assets administered or managed by a financial institution that are beneficially owned by clients and therefore not reported on the balance sheet of the administering or managing financial institution.

Asset-Backed Commercial Paper (ABCP) is a short-term investment with a maturity that is typically less than 180 days. The commercial paper is backed by physical assets such as trade receivables, and is generally used for short-term financing needs.

Assets-to-Capital Multiple reflects total assets, including specified off-balance sheet items net of other specified deductions, divided by total capital.
Pages 63, 165

Average Earning Assets represents the daily or monthly average balance of deposits with other banks and loans and securities, over a one-year period.

Bankers' Acceptances (BAs) are bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point is one one-hundredth of a percentage point.

Business Risk arises from the specific business activities of a company and the effects these could have on its earnings.
Page 96

Collective Allowance is maintained to cover impairment in the existing credit portfolio that cannot yet be associated with specific credit assets. Our approach to establishing and maintaining the collective allowance is based on the guideline issued by our regulator, OSFI. The collective allowance is assessed on a quarterly basis and a number of factors are considered when determining its level, including the long-run expected loss amount and management's credit judgment with respect to current macroeconomic and portfolio conditions.
Pages 42, 85, 137

Common Equity Tier 1 (CET1) is comprised of common shareholders' equity less deductions for goodwill, intangible assets, pension assets, certain deferred tax assets and certain other items.

Common Equity Tier 1 Ratio reflects CET1, divided by risk-weighted assets.
Pages 62, 165

Common Shareholders' Equity is the most permanent form of capital. For regulatory capital purposes, common shareholders' equity is comprised of common shareholders' equity, net of capital deductions.

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.
Page 82

Derivatives are contracts whose value is "derived" from movements in interest or foreign exchange rates, equity or commodity prices or other indices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Dividend Payout Ratio represents common share dividends as a percentage of net income available to common shareholders. It is computed by dividing dividends per share by basic earnings per share.

Earnings Per Share (EPS) is calculated by dividing net income attributable to bank shareholders, after deduction of preferred share dividends, by the average daily number of fully paid common shares outstanding throughout the year. Diluted EPS, which is our basis for measuring performance, adjusts for possible conversions of financial instruments into common shares if those conversions would reduce EPS. Adjusted EPS is calculated in the same manner, using adjusted net income.
Pages 35, 174

Earnings Sensitivity is a measure of the impact of potential changes in interest rates on the projected 12-month after-tax net income of a portfolio of assets, liabilities and/or off-balance sheet positions in response to prescribed parallel interest rate movements.
Page 87

Economic Capital is our internal assessment of the risks underlying BMO's business activities. It represents management's estimate of the likely magnitude of economic losses that could occur if adverse situations arise, and allows returns to be measured on a basis that considers the risks taken. Economic Capital is calculated for various types of risk – credit, market (trading and non-trading), operational and business – where measures are based on a time horizon of one year. Economic Capital is a key element of our risk-based capital management and ICAAP framework.
Pages 64, 82

Economic Value Sensitivity is a measure of the impact of potential changes in interest rates on the market value of a portfolio of assets, liabilities and off-balance sheet positions in response to prescribed parallel interest rate movements.
Page 87

Efficiency Ratio (or Expense-to-Revenue Ratio) is a key measure of efficiency. It is calculated as non-interest expense divided by total revenues, expressed as a percentage. The adjusted efficiency ratio is calculated in the same manner, utilizing adjusted revenues and non-interest expense.
Page 43

Environmental and Social Risk is the risk of loss or damage to BMO's reputation resulting from environmental and social concerns related to BMO or its customers. Environmental and social risk is often associated with credit, operational and reputation risk.
Page 99

Fair Value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Forwards and Futures are contractual agreements to either buy or sell a specified amount of a currency, commodity, interest-rate-sensitive financial instrument or security at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.
Page 148

Hedging is a risk management technique used to neutralize, manage or offset interest rate, foreign currency, equity, commodity or credit exposures arising from normal banking activities.

Impaired Loans are loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Innovative Tier 1 Capital is a form of Tier 1 capital issued by special purpose entities that can be included in calculating a bank's Tier 1 Capital Ratio, Total Capital Ratio and Assets-to-Capital Multiple. Under Basel III, Innovative Tier 1 Capital is non-qualifying and is part of the grandfathered capital being phased-out between 2013 and 2022.

Insurance Risk is the risk of loss due to actual experience being different from that assumed when an insurance product was designed and priced. It generally entails inherent unpredictability that can arise from assuming long-term policy liabilities or from the uncertainty of future events. Insurance risk exists in all our insurance businesses, including annuities and life, accident and sickness, and creditor insurance, as well as our reinsurance business.
Page 95

Legal and Regulatory Risk is the risk of not complying with laws, contractual agreements or other legal requirements, as well as regulatory requirements and regulators' expectations. Failure to properly manage legal and regulatory risk may result in litigation claims, financial losses, regulatory sanctions, an inability to execute our business strategies and potential harm to our reputation.
Page 96

Leverage Ratio is defined as Tier 1 capital divided by the sum of on-balance sheet items and specified off-balance sheet items net of specified deductions.
Page 63

Liquidity and Funding Risk is the potential for loss if BMO is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, investment and pledging commitments.
Pages 92, 144

Mark-to-Market represents the valuation of financial instruments at market rates as of the balance sheet date, where required by accounting rules.

Market Risk is the potential for adverse changes in the value of BMO's 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, as well as the risk of credit migration and default.
Pages 87, 143

Model Risk is the potential for loss due to the risk of a model not performing or capturing risk as designed. It also arises from the possibility of the use of an inappropriate model or the inappropriate use of a model.
Page 96

Net Economic Profit (NEP) represents net income available to common shareholders, before deduction for the after-tax impact of the amortization of acquisition-related intangible assets, less a charge for capital. Adjusted NEP is computed using adjusted net income. NEP is considered a reasonable measure of added economic value. NEP and adjusted NEP are non-GAAP measures.
Page 36

Net Interest Income is comprised of earnings on assets, such as loans and securities, including interest and dividend income and BMO's share of income from investments accounted for using the equity method of accounting, less interest expense paid on liabilities, such as deposits.
Page 39

Net Interest Margin is the ratio of net interest income to average earning assets, expressed as a percentage or in basis points. Net interest margin is sometimes computed using total assets.
Page 39

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts. The principal amount does not change hands under the terms of a derivative contract, except in the case of cross-currency swaps.

Off-Balance Sheet Financial Instruments include a variety of financial arrangements offered to clients, which include credit derivatives, written put options, backstop liquidity facilities, standby letters of credit, performance guarantees, credit enhancements, commitments to extend credit, securities lending, documentary and commercial letters of credit, and other indemnifications.

Office of the Superintendent of Financial Institutions Canada (OSFI) is the government agency responsible for regulating banks, insurance companies, trust companies, loan companies and pension plans in Canada.

Operating Leverage is the difference between revenue and expense growth rates. Adjusted operating leverage is the difference between adjusted revenue and adjusted expense growth rates.
Page 27

Operational Risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk.
Page 94

Options are contractual agreements that convey to the buyer the right but not the obligation to either buy or sell a specified amount of a currency, commodity, interest-rate-sensitive financial instrument or security at a fixed future date or at any time within a fixed future period.
Page 148

Provision for Credit Losses is a charge to income that represents an amount deemed adequate by management to fully provide for impairment in a portfolio of loans and acceptances and other credit instruments, given the composition of the portfolio, the probability of default, the economic environment and the allowance for credit losses already established.
Pages 42, 84, 137

Reputation Risk is the risk of a negative impact on BMO that results from the deterioration of BMO's reputation. Potential negative impacts include revenue loss, decline in client loyalty, litigation, regulatory sanction or additional oversight or declines in BMO's share price.
Page 98

Return on Equity or Return on Common Shareholders' Equity (ROE) is calculated as net income, less non-controlling interest in subsidiaries and preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings. Adjusted ROE is calculated using adjusted net income.
Page 36

Risk-Weighted Assets (RWA) are defined as on- and off-balance sheet exposures, which are risk-weighted based on counterparty, collateral, guarantee arrangements and possibly product and term for capital management and regulatory reporting purposes.
Page 61

Securities Borrowed or Purchased under Resale Agreements are low-cost, low-risk instruments, often supported by the pledge of cash collateral, which arise from transactions that involve the borrowing or purchasing of securities.

Securities Lent or Sold under Repurchase Agreements are low-cost, low-risk liabilities, often supported by cash collateral, which arise from transactions that involve the lending or selling of securities.

Securitization is the practice of selling pools of contractual debts, such as residential mortgages, commercial mortgages, auto loans and credit card debt obligations, to third parties.
Page 145

Special Purpose Entities (SPEs) include entities created to accomplish a narrow and well-defined objective. We are required to consolidate an SPE if we control the SPE by having the power to govern the financial and operating policies of the SPE so as to obtain benefits from the SPE's activities.
Pages 70, 71, 145

Specific Allowances reduce the carrying value of specific credit assets to the amount we expect to recover if there is evidence of deterioration in credit quality.
Pages 42, 85, 137

Strategic Risk is the potential for loss due to fluctuations in the external business environment and/or failure to properly respond to these fluctuations due to inaction, ineffective strategies or poor implementation of strategies.
Page 98

Stressed Value at Risk (SVaR) is measured for specific classes of risk in BMO's trading and underwriting activities: interest rate, foreign exchange rate, credit spreads, equity and commodity prices and their implied volatilities, where model inputs are calibrated to historical data from a period of significant financial stress. This measure calculates the maximum loss likely to be experienced in the portfolios, measured at a 99% confidence level over a specified holding period.
Page 87

Swaps are contractual agreements between two parties to exchange a series of cash flows. The various swap agreements that we enter into are as follows:

- *Commodity swaps* – counterparties generally exchange fixed-rate and floating-rate payments based on a notional value of a single commodity.
- *Credit default swaps* – one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or failure to pay.
- *Cross-currency interest rate swaps* – fixed-rate and floating-rate interest payments and principal amounts are exchanged in different currencies.
- *Cross-currency swaps* – fixed-rate interest payments and principal amounts are exchanged in different currencies.
- *Equity swaps* – counterparties exchange the return on an equity security or a group of equity securities for the return based on a fixed or floating interest rate or the return on another equity security or group of equity securities.
- *Interest rate swaps* – counterparties generally exchange fixed-rate and floating-rate interest payments based on a notional value in a single currency.
  Page 147

Taxable Equivalent Basis (teb): Revenues of operating groups reflected in our MD&A are presented on a taxable equivalent basis (teb). To facilitate comparisons, the teb adjustment increases reported revenues and the provision for income taxes by an amount that would increase revenues on certain tax-exempt securities to a level that would incur tax at the statutory rate.
Page 175

Tier 1 Capital is primarily comprised of CET1, preferred shares and other qualifying or grandfathered non-common equity capital, net of certain deductions.

Tier 1 Capital Ratio reflects Tier 1 capital divided by risk-weighted assets.
Pages 62, 165

Total Capital includes Tier 1 and Tier 2 capital. Tier 2 capital is primarily comprised of subordinated debentures and a portion of the collective allowance for credit losses, net of certain deductions.

Total Capital Ratio reflects total capital divided by risk-weighted assets.
Pages 62, 165

Total Shareholder Return: The three-year and five-year average annual total shareholder return (TSR) represents the average annual total return earned on an investment in BMO common shares made at the beginning of a three-year and five-year period, respectively. The return includes the change in share price and assumes that dividends received were reinvested in additional common shares. The one-year TSR also assumes that dividends were reinvested in shares.
Page 33

Trading-Related Revenues include net interest income and non-interest revenue earned from on- and off-balance sheet positions undertaken for trading purposes. The management of these positions typically includes marking them to market on a daily basis. Trading-related revenues include income (expense) and gains (losses) from both on-balance sheet instruments and interest rate, foreign exchange (including spot positions), equity, commodity and credit contracts.
Page 41

Value at Risk (VaR) is measured for specific classes of risk in BMO's trading and underwriting activities: interest rate, foreign exchange rate, credit spreads, equity and commodity prices and their implied volatilities. This measure calculates the maximum loss likely to be experienced in the portfolios, measured at a 99% confidence level over a specified holding period.
Page 87

Where to Find More Information

Corporate Governance
Our website provides information on our corporate governance practices, including our code of conduct, *FirstPrinciples*, our Director Independence Standards and our board mandate and committee charters.

www.bmo.com/corporategovernance

Management Proxy Circular
Our management proxy circular contains information on our directors, board committee reports and a detailed discussion of our corporate governance practices. It will be published in March 2014 and will be available on our website.

www.bmo.com/corporategovernance

New York Stock Exchange Governance Requirements
A summary of the significant ways in which our corporate governance practices differ from the corporate governance practices required to be followed by U.S. domestic companies under New York Stock Exchange Listing Standards is posted on our website.

www.bmo.com/corporategovernance

Sustainability Performance
BMO's *Environmental, Social and Governance Report and Public Accountability Statement* (ESG Report/PAS) outlines how we manage the environmental, social and governance impacts of our business while creating value for our many stakeholders. We use the Global Reporting Initiative (GRI) as a framework for reporting on our sustainability performance. This report is available on our website.

www.bmo.com/esg-pas-report

Corporate Responsibility
BMO's *Corporate Responsibility Report*, a companion piece to the ESG Report/PAS, illustrates the way we conduct our business, what we stand for and the commitments we've made to our customers and the communities where we operate. This report and additional information are available on our website.

www.bmo.com/corporateresponsibility

Have Your Say
If you have a question you would like to ask at our annual meeting of shareholders, you can submit your question in person or during the webcast. You can also submit a question to the board by writing to the Corporate Secretary at Corporate Secretary's Office, 21st Floor, 1 First Canadian Place, Toronto, ON M5X 1A1, or emailing corp.secretary@bmo.com.

Shareholders
Contact our Transfer Agent and Registrar for:
- Dividend information
- Change in share registration or address
- Lost certificates
- Estate transfers
- Duplicate mailings
- Direct registration

Computershare Trust Company of Canada
100 University Avenue, 9th Floor, Toronto, ON M5J 2Y1
Email: **service@computershare.com**

www.computershare.com/investor

Canada and the United States
Call: **1-800-340-5021** Fax: **1-888-453-0330**

International
Call: **514-982-7800** Fax: **416-263-9394**

Computershare Trust Company, N.A.
Co-Transfer Agent (U.S.)

Online filing information:

BMO filings in Canada
Canadian Securities Administrators

www.sedar.com

BMO filings in the United States
Securities and Exchange Commission

www.sec.gov/edgar.shtml

For all other shareholder inquiries:

Shareholder Services
BMO Financial Group
Corporate Secretary's Office
21st Floor, 1 First Canadian Place
Toronto, ON M5X 1A1
Email: **corp.secretary@bmo.com**
Call: **416-867-6785** Fax: **416-867-6793**

Institutional Investors and Research Analysts
To obtain additional financial information:

Head, Investor Relations
BMO Financial Group
18th Floor, 1 First Canadian Place
Toronto, ON M5X 1A1
Email: **investor.relations@bmo.com**
Call: **416-867-6656** Fax: **416-867-3367**

Employees
For information on BMO's Employee Share Ownership Plan:

Call: **1-877-266-6789**

General
To obtain printed copies of the annual report or make inquiries about company news and initiatives:

Corporate Communications Department
BMO Financial Group
28th Floor, 1 First Canadian Place
Toronto, ON M5X 1A1

On peut obtenir sur demande un exemplaire en français.

www.bmo.com

Customers
For assistance with your investment portfolio or other financial needs:

BMO Bank of Montreal
English and French: **1-877-225-5266**
Cantonese and Mandarin: **1-800-665-8800**
Outside Canada and the continental United States: **416-286-9992**
TTY service for hearing impaired customers: **1-866-889-0889**

www.bmo.com

BMO InvestorLine: 1-888-776-6886

www.bmoinvestorline.com

BMO Harris Bank
United States: **1-888-340-2265**
Outside the United States: **1-847-238-2265**

www.harrisbank.com

BMO Nesbitt Burns: 416-359-4000

www.bmonesbittburns.com

Shareholder Information

Market for Shares of Bank of Montreal

The common shares of Bank of Montreal are listed on the Toronto Stock Exchange (TSX) and New York Stock Exchange (NYSE). The preferred shares of Bank of Montreal are listed on the TSX.

Common Share Trading in Fiscal 2013

Primary stock exchanges	Ticker	Closing price October 31, 2013	High	Low	Total volume of shares traded
TSX	BMO	**$72.62**	$73.90	$56.74	348.2 million
NYSE	BMO	**US$69.70**	US$70.91	US$55.61	111.4 million

Common Share History

Date	Action	Common share effect
March 14, 2001	100% stock dividend	Equivalent to a 2-for-1 stock split
March 20, 1993	100% stock dividend	Equivalent to a 2-for-1 stock split
June 23, 1967	Stock split	5-for-1 stock split

Dividends Paid per Share in 2013 and Prior Years

Bank of Montreal has paid dividends for 185 years – the longest-running dividend payout record of any company in Canada.

Issue/Class	Ticker	Shares outstanding at October 31, 2013	2013	2012	2011	2010	2009
Common	BMO	644,129,945	**$ 2.92** (a)	$ 2.80	$ 2.80	$ 2.80	$ 2.80
Preferred Class B							
Series 5 (b)	BMO.PR.H	–	**$ 0.66**	$ 1.33	$ 1.33	$ 1.33	$ 1.33
Series 10 (c)	BMO.PR.V	–	–	US$ 0.37	US$ 1.49	US$ 1.49	US$ 1.49
Series 13 (d)	BMO.PR.J	14,000,000	**$ 1.13**	$ 1.13	$ 1.13	$ 1.13	$ 1.13
Series 14 (e)	BMO.PR.K	10,000,000	**$ 1.31**	$ 1.31	$ 1.31	$ 1.31	$ 1.31
Series 15 (f)	BMO.PR.L	10,000,000	**$ 1.45**	$ 1.45	$ 1.45	$ 1.45	$ 1.45
Series 16 (g)	BMO.PR.M	6,267,391	**$ 1.30**	$ 1.30	$ 1.30	$ 1.30	$ 1.30
Series 17 (h)	BMO.PR.R	5,732,609	–	–	–	–	–
Series 18 (i)	BMO.PR.N	6,000,000	**$ 1.63**	$ 1.63	$ 1.63	$ 1.63	$ 1.55
Series 21 (j)	BMO.PR.O	11,000,000	**$ 1.63**	$ 1.63	$ 1.63	$ 1.63	$ 1.11
Series 23 (k)	BMO.PR.P	16,000,000	**$ 1.35**	$ 1.35	$ 1.35	$ 1.35	$ 0.59
Series 25 (l)	BMO.PR.Q	11,600,000	**$ 0.98**	$ 0.98	$ 0.69	–	–

(a) Dividend amount paid in 2013 was $2.92. Dividend amount declared in 2013 was $2.94.
(b) The Class B Preferred Shares Series 5 were issued in February 1998 and were redeemed in February 2013. Dividend amount declared in 2013 of $0.33 was included in the redemption price.
(c) The Class B Preferred Shares Series 10 were issued in December 2001 and were redeemed in February 2012.
(d) The Class B Preferred Shares Series 13 were issued in January 2007.
(e) The Class B Preferred Shares Series 14 were issued in September 2007.
(f) The Class B Preferred Shares Series 15 were issued in March 2008.
(g) The Class B Preferred Shares Series 16 were issued in June 2008.
(h) The Class B Preferred Shares Series 17 were issued in August 2013.
(i) The Class B Preferred Shares Series 18 were issued in December 2008.
(j) The Class B Preferred Shares Series 21 were issued in March 2009.
(k) The Class B Preferred Shares Series 23 were issued in June 2009.
(l) The Class B Preferred Shares Series 25 were issued in March 2011.

Credit Ratings

Credit rating information appears on pages 25 and 94 of this annual report and on our website.

www.bmo.com/creditratings

Managing Your Shares

Our Transfer Agent and Registrar

Computershare Trust Company of Canada serves as Transfer Agent and Registrar for common and preferred shares, with transfer facilities in Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver. Computershare Investor Services PLC and Computershare Trust Company, N.A. serve as Transfer Agents and Registrars for common shares in London, England and Golden, Colorado, respectively. See previous page for contact information.

Reinvesting Your Dividends and Purchasing Additional Common Shares

Through the Shareholder Dividend Reinvestment and Share Purchase Plan, you can reinvest cash dividends from your BMO common shares to purchase additional BMO common shares without paying a commission or service charge. You can also purchase additional common shares in amounts up to $40,000 per fiscal year. Contact Computershare Trust Company of Canada or Shareholder Services for details.

Your vote matters.

Look out for your proxy circular in March and remember to vote.

Important Dates

Fiscal Year End **October 31**
Annual Meeting **April 1, 2014, 9:30 a.m. (local time)**

The annual meeting of shareholders will be held in Toronto, Ontario, at the BMO Institute for Learning, 3550 Pharmacy Avenue. The meeting will be webcast. Details are available on our website.

www.bmo.com/investorrelations

2014 Dividend Payment Dates*

Common and preferred shares record dates

February 3	May 1
August 1	November 3

Common shares payment dates

February 26	May 27
August 26	November 26

Preferred shares payment dates

February 25	May 26
August 25	November 25

*Subject to approval by the Board of Directors.

The *Bank Act* prohibits a bank from declaring or paying a dividend if it is or would thereby be in contravention of regulations or an order from the Superintendent of Financial Institutions Canada dealing with adequacy of capital or liquidity. Currently, this limitation does not restrict the payment of dividends on Bank of Montreal's common or preferred shares.

Employee Ownership*

83.5% of Canadian employees participate in the BMO Employee Share Ownership Plan – a clear indication of their commitment to the company.

*As of October 31, 2013.

Auditors KPMG LLP

Direct Deposit

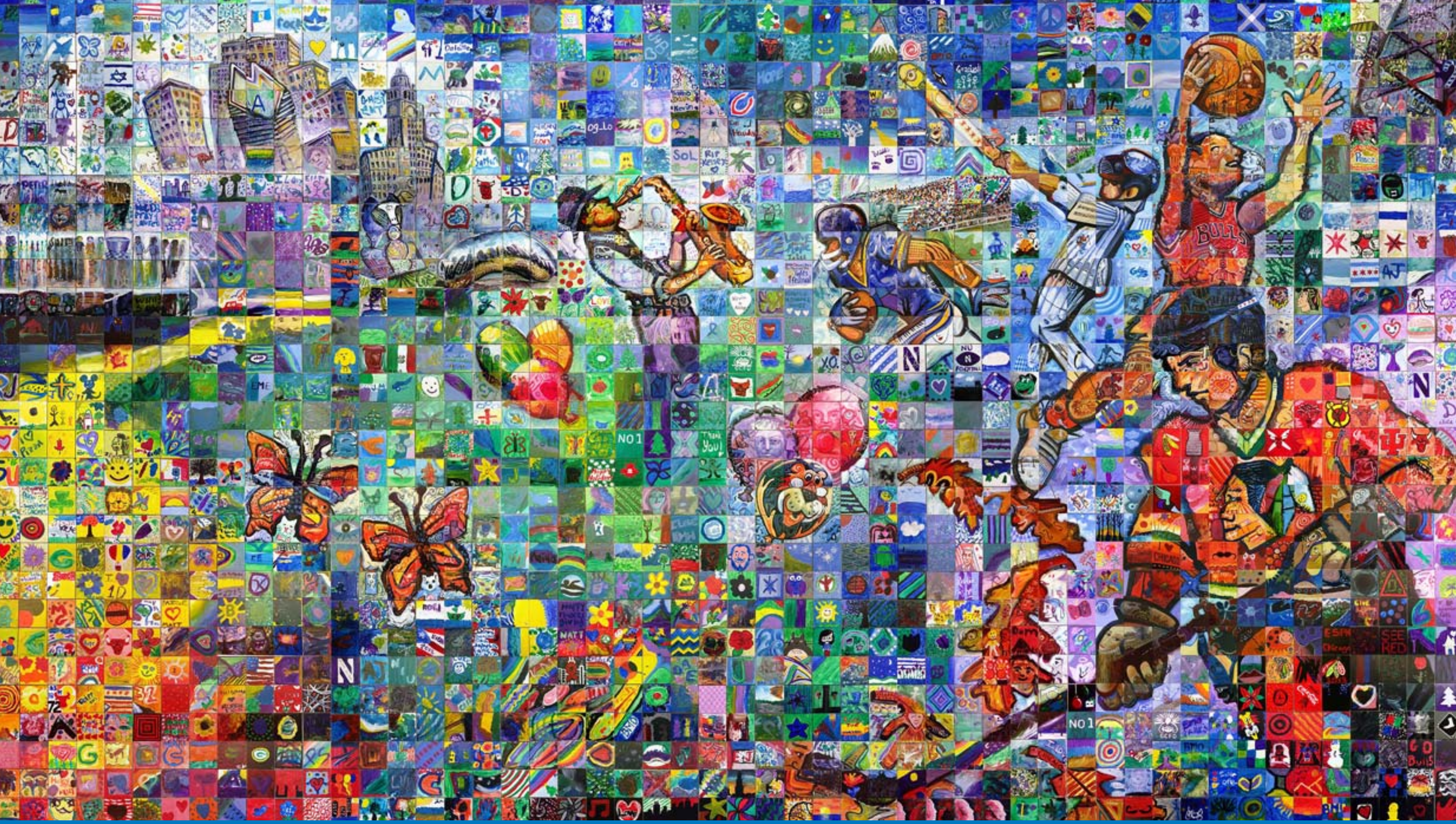
You can choose to have your dividends deposited directly to an account in any financial institution in Canada or the United States that provides electronic funds transfer.

Personal Information Security

We advise our shareholders to be diligent in protecting their personal information. Details are available on our website.

www.bmo.com/security

Strategic design: Ove Brand|Design www.ovedesign.com



The BMO Harris Bank Community Art Project was commissioned for this year's BMO Harris Bank Magnificent Mile Lights Festival as a way to celebrate the Chicago community. Focused on youth and families, the colourful mosaic mural was a city-wide, collaborative effort from more than 25 organizations and 400 BMO Harris employees. Local sports teams, festival attendees and Chicago's police and fire departments pulled out their paintbrushes to complete the mural, which showcases the people and places that make the city great.

Part of defining great customer experience is making a positive impact on our communities every day, everywhere we do business. For more information visit bmoharris.com/chicagomural

This annual report is carbon neutral.

Carbon offsets provided by: GREENING CANADA FUND

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BMO