Financial Condition Review

Summary Balance Sheet

(Canadian $ in millions) As at October 31	2017	2016	2015
Assets			
Cash and interest bearing deposits with banks	**39,089**	36,102	47,677
Securities	**163,198**	149,985	130,918
Securities borrowed or purchased under resale agreements	**75,047**	66,646	68,066
Net loans	**361,672**	358,730	322,717
Derivative instruments	**28,951**	39,183	38,238
Other assets	**41,623**	37,289	34,265
Total assets	**709,580**	687,935	641,881
Liabilities and Shareholders' Equity			
Deposits	**483,488**	473,372	438,169
Derivative instruments	**27,804**	38,227	42,639
Securities lent or sold under repurchase agreements	**55,119**	40,718	39,891
Other liabilities	**93,786**	88,851	76,853
Subordinated debt	**5,029**	4,439	4,416
Shareholders' equity	**44,354**	42,304	39,422
Non-controlling interest in subsidiaries	**–**	24	491
Total liabilities and shareholders' equity	**709,580**	687,935	641,881

MD&A

Overview

Total assets of $709.6 billion increased $21.6 billion from October 31, 2016. This increase includes an $11.2 billion reduction in assets, excluding derivative assets, resulting from the weaker U.S. dollar. Total liabilities of $665.2 billion increased $19.6 billion from October 31, 2016. This increase includes a $10.7 billion reduction in liabilities, excluding derivative liabilities resulting from the weaker U.S. dollar. Shareholders' equity increased $2.0 billion from October 31, 2016.

Cash and Interest Bearing Deposits with Banks

Cash and interest bearing deposits with banks increased $3.0 billion, or $4.6 billion excluding the impact of the weaker U.S. dollar, due to higher balances held with central banks.

Securities

(Canadian $ in millions) As at October 31	2017	2016	2015
Trading	**99,069**	84,458	72,460
Available-for-sale	**54,075**	55,663	48,006
Held-to-maturity	**9,094**	8,965	9,432
Other	**960**	899	1,020
Total securities	**163,198**	149,985	130,918

Securities increased $13.2 billion from October 31, 2016 due to increases in trading securities related to client activities in BMO Capital Markets and higher levels of supplemental liquidity.

Securities Borrowed or Purchased Under Resale Agreements

Securities borrowed or purchased under resale agreements increased $8.4 billion, driven by client activities in BMO Capital Markets.

Net Loans

(Canadian $ in millions) As at October 31	2017	2016	2015
Residential mortgages	**115,258**	112,277	105,918
Non-residential mortgages	**11,744**	11,376	10,981
Consumer instalment and other personal	**61,944**	64,680	65,598
Credit cards	**8,071**	8,101	7,980
Businesses and governments	**166,488**	164,221	134,095
Gross loans	**363,505**	360,655	324,572
Allowance for credit losses	**(1,833)**	(1,925)	(1,855)
Total net loans	**361,672**	358,730	322,717

Net loans increased $2.9 billion, or $8.3 billion excluding the impact of the weaker U.S. dollar, largely due to an increase in business and government loans in the Personal and Commercial Banking businesses and BMO Capital Markets, and higher residential mortgages in Canadian P&C, partially offset by the sale of US$1.9 billion of U.S. indirect auto loans, reflected in consumer instalment and other personal loans.

Table 7 on page 128 provides a comparative summary of loans by geographic location and product. Table 9 on page 129 provides a comparative summary of net loans in Canada by province and industry. Loan quality is discussed on pages 89 and 90 and further details on loans are provided in Notes 4, 6 and 25 on pages 152, 157 and 192 of the consolidated financial statements.

Derivative Financial Assets

Derivative financial assets decreased $10.2 billion primarily due to a decrease in the fair value of interest rate contracts.

Other Assets

Other assets include customers' liability under acceptances, premises and equipment, goodwill and intangible assets, current and deferred tax assets, accounts receivable and prepaid expenses. Other assets increased $4.3 billion primarily due to a $3.5 billion increase in customers' liability under acceptances.

Deposits

(Canadian $ in millions) As at October 31	**2017**	2016	2015
Banks	**31,107**	34,271	32,609
Businesses and governments	**284,070**	276,214	258,144
Individuals	**168,311**	162,887	147,416
Total deposits	**483,488**	473,372	438,169

Deposits increased $10.1 billion, or $19.1 billion excluding the impact of the weaker U.S. dollar, reflecting higher levels of customer and wholesale deposits. Deposits by businesses and governments increased $13.7 billion and deposits by individuals increased $7.6 billion, partially offset by a decrease in deposits by banks of $2.3 billion. Further details on the composition of deposits are provided in Note 13 on page 168 of the consolidated financial statements and in the Liquidity and Funding Risk section on page 99.

Derivative Financial Liabilities

Derivative liabilities decreased $10.4 billion due to the decline in the fair value of interest rate and foreign exchange contracts.

Securities Lent or Sold Under Repurchase Agreements

Securities lent or sold under repurchase agreements increased $14.4 billion, driven by client activities in BMO Capital Markets.

Other Liabilities

Other liabilities mainly include securities sold but not yet purchased, securitization and structured entities liabilities and acceptances. Other liabilities increased $4.9 billion, primarily due to a $3.5 billion increase in customers' liability under acceptances and a $1.1 billion increase in insurance related liabilities. Further details on the composition of other liabilities are provided in Note 14 on page 169 of the consolidated financial statements.

Subordinated Debt

Subordinated debt increased $590 million from the prior year. Further details on the composition of subordinated debt are provided in Note 15 on page 171 of the consolidated financial statements.

Equity

(Canadian $ in millions) As at October 31	**2017**	2016	2015
Share capital			
Preferred shares	**4,240**	3,840	3,240
Common shares	**13,032**	12,539	12,313
Contributed surplus	**307**	294	299
Retained earnings	**23,709**	21,205	18,930
Accumulated other comprehensive income	**3,066**	4,426	4,640
Total shareholders' equity	**44,354**	42,304	39,422
Non-controlling interest in subsidiaries	**–**	24	491
Total equity	**44,354**	42,328	39,913

Total equity increased $2.0 billion due to a $2.5 billion increase in retained earnings and a $0.9 billion increase in share capital, partially offset by a $1.4 billion decrease in accumulated other comprehensive income. Accumulated other comprehensive income decreased primarily due to the impact of the weaker U.S. dollar on accumulated other comprehensive income on translation of net foreign operations of $0.9 billion, net of hedging impacts.

The increase in share capital was driven by the issuance of common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan (DRIP) and Stock Option Plan, as well as the issuance of preferred shares net of maturities, partially offset by the impact of common shares repurchased for cancellation. BMO's DRIP is described in the Enterprise-Wide Capital Management section that follows. Our Consolidated Statement of Changes in Equity on page 142 provides a summary of items that increase or reduce shareholders' equity, while Note 16 on page 172 of the consolidated financial statements provides details on the components of and changes in share capital. Details on our enterprise-wide capital management practices and strategies can be found on the following page.

Enterprise-Wide Capital Management

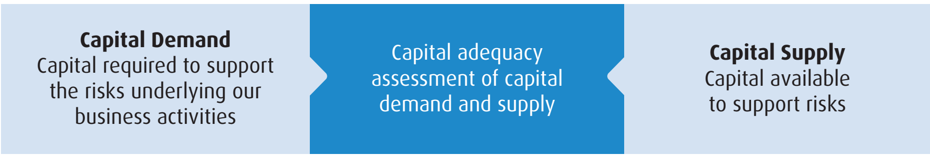
Capital Management

Objective

BMO is committed to a disciplined approach to capital management that balances the interests and requirements of shareholders, regulators, depositors, fixed income investors 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 target credit ratings;
- underpins our operating groups' business strategies; and
- supports depositor, investor and regulator confidence, while 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 uses stress testing and other tools to evaluate capital adequacy on both a regulatory and an economic capital basis. It is used in the establishment of capital targets and implementation of capital strategies that take into consideration the strategic direction and risk appetite of the enterprise. The capital plan is developed considering the results of 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. Enterprise-wide stress testing and scenario analysis are 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 in the normal course of business, as well as under stress, and it supports the determination of limits, targets and performance measures that are used to manage balance sheet positions, risk levels and capital requirements at both the consolidated entity and operating group levels. BMO evaluates assessments of actual and forecast capital adequacy against the capital plan throughout the year, making updates to reflect changes in business activities, risk profile, operating environment or regulatory expectations.

BMO uses regulatory and economic capital to evaluate business performance and considers capital implications in its strategic, tactical and transactional decision-making. By allocating our capital to operating groups, setting and monitoring capital limits and metrics and measuring the groups' performance against these limits and metrics, 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 support the strategic growth activities of our operating groups.

Refer to the Enterprise-Wide Risk Management section on page 78 for further discussion of the risks underlying our business activities.

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 and key capital management activities, and the Risk Review Committee reviews the ICAAP-determined capital adequacy assessment results. The Balance Sheet and Capital Management Committee provides senior management oversight, including the review 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 the framework related to capital and risk management and the ICAAP. The Corporate Audit Division, as the third line of defence, verifies our adherence to controls and identifies opportunities to strengthen our processes.

Regulatory Capital Requirements

Regulatory capital requirements for BMO are determined in accordance with the Capital Adequacy Requirements (CAR) Guideline of the Office of the Superintendent of Financial Institutions Canada (OSFI), which is based on the capital standards developed by the Basel Committee on Banking Supervision (BCBS). The minimum capital ratios contained in the CAR Guideline are a 4.5% Common Equity Tier 1 (CET1) Ratio, 6% Tier 1 Capital Ratio and 8% Total Capital Ratio, which are calculated using a nine-year transitional phase-out of non-qualifying capital instruments ending in 2022. Since January 31, 2016, OSFI has expected Domestic Systemically Important Banks (D-SIBs) to attain a target CET1 Ratio of at least 8% (4.5% minimum plus a 3.5% Capital Conservation Buffer, including a 1% D-SIB Common Equity Surcharge). These expectations are also referred to as the "all-in" requirements as, except for the Credit Valuation Adjustment (CVA) risk capital charge mentioned below, there is no five-year transitional phase-in of regulatory adjustments as proposed by the BCBS.

The fully implemented requirements, along with the OSFI "all-in" capital requirements, are summarized in the following table.

(% of risk-weighted assets)	Common Equity Tier 1 Ratio (1)	Tier 1 Capital Ratio	Total Capital Ratio	Leverage Ratio
Minimum capital requirements	4.5	6.0	8.0	3.0
Plus: Capital Conservation Buffer, including the D-SIB Common Equity Surcharge (1)	3.5	3.5	3.5	na
OSFI requirements (2)	**8.0**	**9.5**	**11.5**	**3.0**

(1) The minimum 4.5% CET1 Ratio requirement is augmented by the 3.5% Capital Conservation Buffer, which can absorb losses during periods of stress. The Capital Conservation Buffer for BMO includes the addition of the 1% Common Equity Surcharge for D-SIBs. If a bank's capital ratios fall within the range of this combined buffer, restrictions on discretionary distributions of earnings (such as dividends, share 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) OSFI's requirements are the published capital requirements D-SIBs must meet in 2017 to avoid being subject to restrictions on discretionary distributions of earnings.
na – not applicable

Regulatory Capital Ratios

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

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

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

The **Leverage Ratio** reflects Tier 1 capital divided by the sum of on-balance sheet items and specified off-balance sheet items, net of specified adjustments.

Regulatory Capital Elements

BMO maintains a capital structure that is diversified across instruments and tiers to ensure an appropriate mix of loss absorbency. The major components of our regulatory capital are summarized as follows:

CET1 Capital

- Common Shareholders' Equity
- Less regulatory deductions for items such as:
  - Goodwill
  - Intangible assets
  - Defined benefit pension assets
  - Certain deferred tax assets
  - Certain other items

Additional Tier 1 Capital

- Preferred Shares
- Innovative Hybrid Instruments
- Less certain regulatory deductions

Tier 1 Capital

Tier 2 Capital

- Subordinated Debentures
- May include a portion of the collective and individual allowances for credit losses
- Less certain regulatory deductions

Total Capital

OSFI's CAR Guideline also requires the implementation of BCBS guidance on non-viability contingent capital (NVCC). NVCC provisions require the conversion of certain capital instruments into a variable number of common shares in the event that OSFI announces that a bank is or is about to become non-viable, or if a federal or provincial government in Canada publicly announces that the bank has accepted or agreed to accept a capital injection, or equivalent support, to avoid non-viability.

Under OSFI's CAR Guideline, non-common share capital instruments that do not meet Basel III requirements, including NVCC requirements, are grandfathered and phased out over a nine-year period that began on January 1, 2013.

Risk-Weighted Assets

Risk-Weighted Assets (RWA) measure a bank's exposures, weighted for their relative risk and calculated in accordance with OSFI's regulatory capital rules. RWA are calculated for credit, market (trading) and operational risks based on OSFI's prescribed rules.

BMO primarily uses the Advanced Internal Ratings Based (AIRB) Approach to determine credit RWA in our portfolio. The AIRB Approach utilizes sophisticated techniques to measure RWA at the exposure level based on sound risk management principles, including estimates of the probability of default, the downturn loss given default and exposure at default risk parameters, term to maturity and asset class type prescribed by the OSFI rules. 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 to quantify and differentiate risks appropriately so they reflect changes in economic and credit conditions. Credit RWA arising from certain Canadian and U.S. portfolios are determined using the Standardized Approach.

BMO's market risk RWA are primarily determined using the more advanced Internal Models Approach, but the Standardized Approach is used for some exposures.

BMO uses the Advanced Measurement Approach (AMA), a risk-sensitive capital model, along with the Standardized Approach in certain areas under OSFI rules, to determine capital requirements for operational risk.

For institutions using advanced approaches for credit risk or operational risk, there is a capital floor as prescribed in OSFI's CAR Guideline. In calculating regulatory capital ratios, there is a requirement to increase RWA when an amount calculated under the Basel I rules (covering RWA, capital deductions and allowances) is higher than a similar calculation under the risk-sensitive Basel III rules. The capital floor was operative for the bank in 2016 and 2017 and is reflected in our total RWA.

In accordance with guidance from OSFI, the CVA risk capital charge for Canadian banks has been phasing in since the first quarter of 2014. In 2016 and 2017, the CVA risk capital charge applicable to CET1 was 64% and 72% of the fully implemented charge, respectively, and it is expected to increase to 80% in 2018.

Capital Regulatory Developments

A number of regulatory capital changes, some finalized and some under development, will put upward pressure on the amount of capital BMO is required to hold over time. The nature of these changes is outlined below.

OSFI implemented the countercyclical capital buffer in the first quarter of fiscal 2017. It is calculated as the weighted average of buffers in effect in jurisdictions where the bank has private sector credit exposures. The impact of the countercyclical capital buffer has been immaterial.

In March 2017, the BCBS issued a Pillar 3 standard that aims to improve comparability and consistency of financial regulatory disclosures through more standardized formats. The standard includes new disclosure requirements in respect of the Total Loss-Absorbing Capacity (TLAC) regime.

In June 2017, OSFI released a draft guideline on TLAC for comment. OSFI's draft guideline will apply to Canada's D-SIBs as part of the federal government's bail-in regime. The draft TLAC guideline is consistent with international standards developed by the Financial Stability Board (FSB), but is tailored to the Canadian context. Public disclosure of D-SIBs' TLAC ratios is anticipated to begin in the first quarter of fiscal 2019, and D-SIBs are, based on current guidance, expected to fully meet the TLAC requirements by November 2021. OSFI is expected to release the final TLAC guideline later in 2017 or in early 2018.

In conjunction with OSFI's release of the draft guideline on TLAC, the Department of Finance Canada introduced draft regulations setting out the details of the bail-in framework for Canada's six D-SIBs. The bail-in regulations are expected to come into force 180 days after the regulations are finalized. Under the new regulations, upon a determination by OSFI that the bank has ceased, or is about to cease, to be viable, the Governor in Council may, upon a recommendation of the Minister of Finance, make an order directing the Canada Deposit Insurance Corporation to convert all or a portion of certain shares and liabilities (i.e. with an original term to maturity greater than 400 days) of the bank into common shares of the bank. The bail-in regulations and TLAC guideline are not expected to have a material impact on BMO's funding strategy.

In July 2017, OSFI extended the Canadian implementation of the Minimum Capital Requirements for Market Risk (Fundamental Review of the Trading Book, or FRTB) rules by at least one year, with the first regulatory reporting under the FRTB rules to commence no earlier than the first quarter of fiscal 2021.

In October 2017, the BCBS signalled that it was close to finalizing the Basel III reforms, including an output floor, AIRB input restrictions, a new standardized credit risk weighting approach and a new operational risk weighting approach that replaces the AMA. Earlier in the year, OSFI stated that it is prepared to move forward ahead of the BCBS on related aspects of capital reform.

In October 2017, the BCBS issued final guidelines on step-in risk aiming to mitigate the risk of stress in shadow banking entities spilling over to banks. The guidelines entail no additional Pillar 1 capital or liquidity charge but focus on identifying entities that may have step-in risks. The BCBS expects the guidelines to apply no later than 2020.

In November 2017, OSFI released the final version of the CAR Guideline for implementation in the first quarter of fiscal 2018. Revisions mainly relate to the capital treatment of allowances as a result of the adoption of IFRS 9 *Financial Instruments*. OSFI also reiterated its intention to implement in the first quarter of fiscal 2019 the Standardized Approach to Counterparty Credit Risk, the revisions to the capital requirements for bank exposures to central counterparties and the revised securitization framework that was released by the BCBS in July 2016.

IFRS 9 will impact our reported capital as a result of the adjustment recorded in retained earnings on adoption of the standard; however, this impact is not expected to be significant. Refer to the Adoption of IFRS 9 *Financial Instruments* section on page 116 for further discussion.

We are also monitoring potential regulatory capital developments that may replace AMA with a new Standardized Measurement Approach for operational risk.

Capital ratios are impacted by deferred tax assets. Given our net U.S. deferred tax asset, under the proposals contained in the *Tax Cuts and Jobs Act*, a reduction in the U.S. federal tax rate from 35% to 20% would result in a net decrease of approximately 15 basis points in the CET1 Ratio. This one-time impact is expected to be offset over time by higher net income resulting from the reduction in the U.S. federal tax rate. The ultimate impact will depend on final tax changes and the effective date of the lower tax rate. Refer to the Critical Accounting Estimates – Income Taxes and Deferred Tax Assets section on page 114 for further discussion on the expected impact of the proposals.

2017 Regulatory Capital Review

BMO is well capitalized, with capital ratios that exceed OSFI's published requirements for large Canadian banks, including the 1% D-SIB Common Equity Surcharge implemented in 2016. Our CET1 Ratio was 11.4% at October 31, 2017, compared to 10.1% at October 31, 2016. The CET1 Ratio increased from the end of fiscal 2016 due to higher capital, largely from retained earnings growth and common shares issued through the Shareholder Dividend Reinvestment and Share Purchase Plan (DRIP) and the exercise of stock options, partially offset by share repurchases, with other items having largely offsetting impacts. The net impact of source currency RWA changes was relatively small, largely due to higher RWA from business growth being more than offset by the benefits of risk mitigation and capital management actions and methodology changes. The impact of foreign exchange movements was meaningful to RWA and CET1 capital, compared to October 31, 2016, but are managed by the enterprise such that the impacts largely offset. BMO's investments in foreign operations are primarily denominated in U.S. dollars. The foreign exchange impact of U.S. dollar-denominated RWA and U.S. dollar-denominated capital deductions may result in variability in the bank's capital ratios. BMO may offset the impact of foreign exchange movements on its capital ratios, and did so during 2017. Any such activities could also impact our book value and return on equity.

Our Tier 1 Capital and Total Capital Ratios were 13.0% and 15.1%, respectively, at October 31, 2017, compared to 11.6% and 13.6%, respectively, at October 31, 2016. The increase in the Tier 1 Capital Ratio was mainly due to the factors impacting the CET1 Ratio discussed above and issuances of preferred shares, partially offset by the redemptions of non-NVCC preferred shares. The increase in the Total Capital Ratio was mainly due to the factors impacting the Tier 1 Ratio.

BMO's Leverage Ratio was 4.4% at October 31, 2017, up from 4.2% at October 31, 2016 and in excess of the 3% minimum requirement established by OSFI.

While the ratios above reflect the bank's consolidated capital base, BMO conducts business through a variety of corporate structures, including subsidiaries and joint ventures. A framework is in place such that subsidiaries also manage their funding and capital appropriately.

As a bank holding company with total consolidated assets of US$50 billion or more, our subsidiary BMO Financial Corp. (BFC) is subject to the Federal Reserve Board's (FRB) Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test (DFAST) requirements. CCAR is an annual exercise conducted by the FRB to assess whether the largest bank holding companies operating in the United States have sufficient capital to continue operations throughout times of economic and financial stress and have robust, forward-looking capital-planning processes that account for their unique risks. DFAST (a complementary exercise to CCAR) is a forward-looking exercise conducted by the FRB to assess whether the financial companies that they supervise have sufficient capital to absorb losses and support operations during adverse economic conditions. In June 2017, the FRB announced its decision not to object to BFC's capital plan as evaluated under the 2017 CCAR assessment. Also in June 2017, BFC and its bank subsidiary BMO Harris Bank N.A. (BHB) disclosed their results under the DFAST supervisory severely adverse scenario, indicating that BFC's and BHB's capital ratios are above well-capitalized levels. Under DFAST, BFC also conducts mid-cycle company run stress tests and disclosed its results in October 2017, indicating BFC's capital ratios continue to remain above well-capitalized levels.

Regulatory Capital (All-in basis (1))

(Canadian $ in millions) As at October 31	**2017**	2016
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	**13,339**	12,833
Retained earnings	**23,709**	21,205
Accumulated other comprehensive income (and other reserves)	**3,066**	4,426
Goodwill and other intangibles (net of related tax liability)	**(7,885)**	(8,040)
Other common equity Tier 1 capital deductions	**(1,596)**	(2,265)
Common Equity Tier 1 capital (CET1)	**30,633**	28,159
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**3,650**	2,750
Directly issued capital instruments subject to phase-out from Additional Tier 1	**1,040**	1,540
Additional Tier 1 instruments (and CET1 instruments not otherwise included) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**–**	–
of which: instruments issued by subsidiaries subject to phase-out	**–**	–
Total regulatory adjustments applied to Additional Tier 1 capital	**(215)**	(213)
Additional Tier 1 capital (AT1)	**4,475**	4,077
Tier 1 capital (T1 = CET1 + AT1)	**35,108**	32,236
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	**3,976**	3,266
Directly issued capital instruments subject to phase-out from Tier 2	**1,053**	1,873
Tier 2 instruments (and CET1 and AT1 instruments not included) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	**–**	–
of which: instruments issued by subsidiaries subject to phase-out	**–**	–
Collective allowance	**509**	538
Total regulatory adjustments to Tier 2 capital	**(50)**	(51)
Tier 2 capital (T2)	**5,488**	5,626
Total capital (TC = T1 + T2)	**40,596**	37,862

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

Our CET1 capital and Tier 1 capital levels were $30.6 billion and $35.1 billion, respectively, at October 31, 2017, up from $28.2 billion and $32.2 billion, respectively, at October 31, 2016. CET1 capital increased mainly due to retained earnings growth, common shares issued through the DRIP and the exercise of stock options and a decrease in capital deductions, partially offset by the impact of foreign exchange movements on accumulated other comprehensive income and share repurchases. The increase in Tier 1 capital since October 31, 2016 was attributable to the growth in CET1 capital and the issuances of preferred shares, partially offset by the redemptions of non-NVCC preferred shares, as outlined in the Capital Management Activities section.

Total capital was $40.6 billion at October 31, 2017, up from $37.9 billion at October 31, 2016, attributable to the growth in Tier 1 capital mentioned above.

Changes in Risk-Weighted Assets

Total RWA were $269.5 billion at October 31, 2017, down from $277.6 billion at October 31, 2016. Credit Risk RWA (CET1 basis) were $219.8 billion at October 31, 2017, down from $222.5 billion at October 31, 2016. The decrease was largely due to foreign exchange impact of approximately $5 billion, as well as changes in book quality and models, partially offset by business growth and changes in methodology. As noted above, impacts from foreign exchange movements are largely offset in the CET1 Ratio. Market Risk RWA were $8.4 billion at October 31, 2017, down from $9.0 billion at October 31, 2016, with the benefit largely attributable to enhancements in risk measurement methods. Operational Risk RWA were $32.8 billion at October 31, 2017, up from $30.5 billion at October 31, 2016, largely due to growth in the bank's average gross income. Basel I capital floor RWA were $8.4 billion at October 31, 2017, down from $15.6 billion at October 31, 2016, primarily due to the benefits of risk mitigation and capital management actions and changes in methodology, partially offset by business growth and changes in book quality and models.

(Canadian $ in millions) As at October 31	**2017**	2016
Credit Risk		
Wholesale		
Corporate, including specialized lending	**100,421**	104,488
Corporate small and medium-sized enterprises	**35,246**	33,755
Sovereign	**1,627**	1,976
Bank	**5,892**	4,486
Retail		
Residential mortgages, excluding home equity line of credit	**7,984**	8,115
Home equity line of credit	**5,426**	6,135
Qualifying revolving retail	**5,465**	5,110
Other retail, excluding small and medium-sized enterprises	**11,258**	11,934
Retail small and medium-sized enterprises	**7,582**	7,696
Equity	**1,626**	1,403
Trading book	**9,542**	9,675
Securitization	**2,476**	1,878
Other credit risk assets – non-counterparty managed assets	**15,631**	16,197
Scaling factor for credit risk assets under AIRB Approach (1)	**9,648**	9,651
Total Credit Risk	**219,824**	222,499
Market Risk	**8,448**	8,962
Operational Risk	**32,773**	30,502
CET1 Capital Risk-Weighted Assets before Capital floor	**261,045**	261,963
Basel I Capital Floor (2)	**8,421**	15,599
CET1 Capital Risk-Weighted Assets	**269,466**	277,562
Tier 1 Capital Risk-Weighted Assets before CVA and Capital floor	**261,045**	261,963
Additional CVA adjustment, prescribed by OSFI, for Tier 1 Capital	**290**	380
Basel I Capital Floor (2)	**8,131**	15,219
Tier 1 Capital Risk-Weighted Assets	**269,466**	277,562
Total Capital Risk-Weighted Assets before CVA and Capital floor	**261,045**	261,963
Additional CVA adjustment, prescribed by OSFI, for Total Capital	**522**	705
Basel I Capital Floor (2)	**7,899**	14,894
Total Capital Risk-Weighted Assets	**269,466**	277,562

(1) The scaling factor is applied to the RWA amounts for credit risk under the AIRB Approach.

(2) For institutions using advanced approaches for credit risk or operational risk, there is a capital floor as prescribed in OSFI's CAR Guideline. In calculating regulatory capital ratios, there is a requirement to increase RWA when an amount calculated under the Basel I rules (covering both RWA and capital deductions) is higher than a similar calculation under the risk-sensitive Basel III rules.

Economic Capital

Economic capital is an expression of the enterprise's capital demand requirement relative to the bank's view of the economic risks in its underlying business activities. It represents management's estimation of the likely magnitude of economic losses that could occur should severely adverse situations arise, and allows returns to be measured on a consistent basis across such risks. Economic loss is the loss in economic or market value incurred over a specified time horizon at a defined confidence level, relative to the expected loss over the same time horizon. Economic capital is calculated for various types of risk, including credit, market (trading and non-trading), operational and business, based on a one-year time horizon using a defined confidence level.

Economic Capital and RWA by Operating Group and Risk Type

(As at October 31, 2017)

BMO Financial Group

Operating Groups	**Personal and Commercial Banking**	**Wealth Management**	**BMO Capital Markets**	**Corporate Services**
Economic Capital by Risk Type (%)				
Credit	77%	27%	67%	52%
Market	4%	25%	12%	25%
Operational/Other	19%	48%	21%	23%
RWA by Risk Type* (Canadian $ in millions)				
Credit	146,875	10,504	50,812	20,054
Market	–	36	8,412	–
Operational	18,130	5,736	8,907	–

*Basel I capital floor RWA are included in Corporate Services.

Capital Management Activities

We renewed our normal course issuer bid (NCIB) for one year effective May 1, 2017. Under the NCIB, we may repurchase up to 15 million of our common shares for cancellation. In June 2017, the Toronto Stock Exchange (TSX) approved amendments to the NCIB to allow us to repurchase common shares under the NCIB by way of private agreement or under a specific share repurchase program. The timing and amount of purchases under the NCIB are subject to management discretion based on factors such as market conditions and capital levels. The bank will consult with OSFI before making purchases under the NCIB. During 2017, we repurchased and cancelled 5 million common shares as part of the NCIB at an average cost of $87.88 per share, totalling $440 million. Of these common shares, 1 million were purchased on the TSX and 4 million were purchased pursuant to a specific share repurchase program. Specific share repurchases were made from an arm's-length third-party seller and at a discount to the prevailing market price of our common shares on the TSX at the time of purchases.

During 2017, BMO issued approximately 7 million common shares through the DRIP and the exercise of stock options.

During 2017, BMO completed the following Tier 1 and Tier 2 capital instrument issuances, redemptions and conversions.

Share Issuances, Redemptions and Conversions

(in millions) As at October 31, 2017	Issuance or redemption date	Number of shares	Amount
Common shares issued			
Stock options exercised		2.2	$ 146
DRIP issuance		4.8	$ 448
Tier 1 Capital (1)			
Issuance of Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 40	March 9, 2017	20	$ 500
Issuance of Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 42	June 29, 2017	16	$ 400
Redemption of Non-Cumulative Perpetual Class B Preferred Shares, Series 14	May 25, 2017	(10)	$(250)
Redemption of Non-Cumulative Perpetual Class B Preferred Shares, Series 15	May 25, 2017	(10)	$(250)
Tier 2 Capital (1)			
Maturity of Fixed Rate Series 16 Debentures	February 20, 2017		$(100)
Issuance of Series I Medium-Term Notes, Second Tranche	May 31, 2017		$ 850
Redemption of Trust Subordinated Notes – Series A	September 26, 2017		$(800)

(1) For further details on subordinated debt and share capital, see Notes 15 and 16 on pages 171 and 172, respectively, of the consolidated financial statements.

If an NVCC trigger event were to occur, our NVCC capital instruments, Non-Cumulative 5-Year Rate Reset Class B Preferred Shares Series 27, Series 29, Series 31, Series 33, Series 36, Series 38, Series 40 and Series 42, Non-Cumulative Perpetual Class B Preferred Shares Series 35, and Medium-Term Notes Series H First Tranche and Second Tranche, and Series I First Tranche and Second Tranche would be converted into BMO common shares pursuant to automatic conversion formulas with a conversion price based on the greater of: (i) a floor price of $5.00, and (ii) the current market price of our common shares at the time of the trigger event (calculated using a 10-day weighted average). Based on a floor price of $5.00, these NVCC capital instruments would be converted into approximately 1.96 billion BMO common shares, assuming no accrued interest and no declared and unpaid dividends.

Further details are provided in Notes 15 and 16 on pages 171 and 172, respectively, of the consolidated financial statements.

Outstanding Shares and Securities Convertible into Common Shares

As at October 31, 2017	Number of shares or dollar amount (in millions)	Dividends declared per share		
		2017	2016	2015
Common shares	648	**$ 3.56**	$ 3.40	$3.24
Class B Preferred shares				
Series 13 (1)	–	**–**	–	$0.56
Series 14 (2)	–	**$ 0.66**	$ 1.31	$1.31
Series 15 (2)	–	**$ 0.73**	$ 1.45	$1.45
Series 16 (3)	$ 157	**$ 0.85**	$ 0.85	$0.85
Series 17 (3)	$ 143	**$ 0.55**	$ 0.53	$0.60
Series 23 (4)	–	**–**	–	$0.34
Series 25 (5)	$ 236	**$ 0.45**	$ 0.84	$0.98
Series 26 (5)	$ 54	**$ 0.43**	$ 0.10	–
Series 27	$ 500	**$ 1.00**	$ 1.00	$1.00
Series 29	$ 400	**$ 0.98**	$ 0.98	$0.98
Series 31	$ 300	**$ 0.95**	$ 0.95	$0.95
Series 33	$ 200	**$ 0.95**	$ 0.95	$0.45
Series 35	$ 150	**$ 1.25**	$ 1.25	$0.41
Series 36	$ 600	**$58.50**	$65.03	–
Series 38	$ 600	**$ 1.33**	–	–
Series 40	$ 500	**$ 0.80**	–	–
Series 42	$ 400	**$ 0.45**	–	–
Medium-Term Notes				
Series H – First Tranche (6)	$1,000	**na**	na	na
Series H – Second Tranche (6)	$1,000	**na**	na	na
Series I – First Tranche (6)	$1,250	**na**	na	na
Series I – Second Tranche (6)	$ 850	**na**	na	na
Stock options				
Vested	4.6			
Non-vested	2.9			

(1) Redeemed in May 2015.
(2) Redeemed in May 2017.
(3) In August 2013, approximately 5.7 million Series 16 Preferred Shares were converted into Series 17 Preferred Shares on a one-for-one basis.
(4) Redeemed in February 2015.
(5) In August 2016, approximately 2.2 million Series 25 Preferred Shares were converted into Series 26 Preferred Shares on a one-for-one basis.
(6) Note 15 on page 171 of the consolidated financial statements includes details on the Series H Medium-Term Notes, First Tranche and Second Tranche and Series I Medium-Term Notes, First Tranche and Second Tranche.

na – not applicable

Note 16 on page 172 of the consolidated financial statements includes details on share capital.

Dividends

Dividends declared per common share in fiscal 2017 totalled $3.56. Annual dividends declared represented 43.6% of reported net income and 42.6% of adjusted net income available to common shareholders on a last twelve months basis.

Our target dividend payout range (common share dividends as a percentage of net income available to shareholders, less preferred share dividends, based on earnings over the last twelve months) is 40% to 50%, providing shareholders with a competitive dividend yield. 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 support capital adequacy.

At year end, BMO's common shares provided a 3.6% annual dividend yield based on the year-end closing share price and dividends declared in the last four quarters. On December 5, 2017, BMO announced the Board of Directors had declared a quarterly dividend on common shares of $0.93 per share, up $0.03 per share or 3% from the prior quarter and up $0.05 per share or 6% from a year ago. The dividend is payable on February 27, 2018 to shareholders of record on February 1, 2018.

Common shareholders may elect to have their cash dividends reinvested in common shares of BMO in accordance with the DRIP. In the first and second quarters of 2017, common shares to supply the DRIP were issued from treasury at a 2% discount from their then-current market price. In the third quarter of 2017, common shares were issued from treasury without a discount. In the fourth quarter of 2017 and the first quarter of 2018, common shares to supply the DRIP were purchased on the open market.

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 in 2012 encouraging enhanced disclosure related to financial instruments that market participants had come to regard as carrying higher risk. An index of the disclosures recommended by the Enhanced Disclosure Task Force of the FSB and where these disclosures appear in our Annual Report or Supplementary Financial Information is provided on page 120.

Consumer Loans

In Canada, our Consumer Lending portfolio is comprised of three main asset classes: real estate secured lending (including residential mortgages and home equity products), instalment and other personal loans (including indirect automobile loans) and credit card loans. We do not have any subprime or Alt-A mortgage or home equity loan programs, nor do we purchase subprime or Alt-A loans from third-party lenders.

In the United States, our Consumer Lending portfolio is primarily comprised of three asset classes: residential first mortgages, home equity products and indirect automobile loans. The impact of aggressive market lending practices (e.g., high loan-to-value ratios and limited documentation), which were prevalent leading up to the global recession and drove high losses, continues to moderate. These lending practices were discontinued early into the recession and the existing portfolio has performed exceptionally well.

In both Canada and the United States, consumer lending products are underwritten to prudent standards relative to credit scores, loan-to-value ratios and capacity assessment. Our lending practices consider the ability of our borrowers to repay and the underlying collateral value.

Further discussion on the Consumer Lending portfolio related to the Canadian housing market is provided in the Top and Emerging Risks That May Affect Future Results section on page 79.

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 represented 1.8% of our total assets, with $12.7 billion outstanding at October 31, 2017 (1.8% and $12.5 billion, respectively, in 2016). Of this amount, $197 million or 1.6% of leveraged finance loans were classified as impaired ($387 million or 3.1% in 2016).

BMO-Sponsored Securitization Vehicles

BMO sponsors various vehicles that fund assets originated by either BMO (which are then securitized through a bank securitization vehicle) or its customers (which are then securitized through several Canadian customer securitization vehicles and one U.S. customer securitization vehicle). We earn fees for providing services related to the customer securitization vehicles, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicles. These fees totalled approximately $44 million in 2017 and $92 million in 2016.

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 either sell their assets directly into these vehicles, or indirectly by selling an interest in the securitized assets into these vehicles, which then issue ABCP to either investors or BMO in order to fund the purchases. In all cases, the sellers remain responsible for servicing the transferred assets and are first to absorb any losses realized on the assets.

Our exposure to potential losses relates to our investments 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 arrangements, 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 does not control these entities and therefore they are not consolidated. Further information on the consolidation of customer securitization vehicles is provided in Note 7 on page 157 of the consolidated financial statements. No losses were recorded on any of BMO's exposures to these vehicles in 2017 and 2016.

The market-funded vehicles had a total of $3.8 billion of the ABCP outstanding at October 31, 2017 ($4.4 billion in 2016). The ABCP of the market-funded vehicles is rated R-1(high) by DBRS and P1 by Moody's. BMO's investment in ABCP of the market-funded vehicles totalled $6 million at October 31, 2017 ($14 million in 2016).

BMO provided liquidity support facilities for the market-funded vehicles totalling $5.0 billion at October 31, 2017 ($5.8 billion in 2016). This amount comprised part of our commitments outlined in Note 25 on page 192 of the consolidated financial statements. All of these facilities remain undrawn. The assets of each of these market-funded customer securitization vehicles consist primarily of exposure to diversified pools of Canadian automobile-related receivables and Canadian insured and conventional residential mortgages. These two asset classes represent 90% (87% in 2016) of the aggregate assets of these vehicles.

U.S. Customer Securitization Vehicle

We sponsor a customer securitization vehicle in the United States that we consolidate under IFRS. Further information on consolidation of customer securitization vehicles is provided in Note 7 on page 157 of the consolidated financial statements. This customer securitization vehicle provides our customers with access to financing in the U.S. ABCP markets. Our customers remain responsible for servicing the assets involved in the related financing and are first to absorb any losses realized on those assets.

Our exposure to potential losses relates to our investment in ABCP issued by the vehicle, any related derivative contracts we have entered into with the vehicle and the liquidity support we provide to the vehicle. We use our credit adjudication process in deciding whether to enter into these arrangements, as we do when extending credit in the form of a loan. No losses were recorded on any of BMO's exposures to the vehicle in 2017 and 2016.

The vehicle had US$3.1 billion of ABCP outstanding at October 31, 2017 (US$2.9 billion in 2016). The ABCP of the vehicle is rated A1 by S&P and P1 by Moody's. In order to comply with U.S. risk retention rules that came into effect during the year, BMO held US$185 million of the vehicle's ABCP at October 31, 2017 (US$nil in 2016).

BMO provides committed liquidity support facilities to the vehicle, with the undrawn amount totalling US$5.2 billion at October 31, 2017 (US$4.7 billion in 2016). This amount comprised part of our commitments outlined in Note 25 on page 192 of the consolidated financial statements. The assets of this customer securitization vehicle consist primarily of exposures to diversified pools of U.S. automobile-related receivables and U.S. government-guaranteed Federal Family Education Loan Program loans. These two asset classes represent 78% (72% in 2016) of the aggregate assets of the vehicle.

Caution

This Select Financial Instruments 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 their contracts with us. 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 in order to avoid undue concentrations in any geographic region or industry.

The maximum amount payable by BMO in relation to these credit instruments was approximately $147 billion at October 31, 2017 ($146 billion in 2016). 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 of our customers will utilize the facilities related to these instruments, nor does it take into account any amounts that could be recovered under recourse and collateral provisions. Further information on these instruments can be found in Note 25 on page 192 of the consolidated 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.

Structured Entities (SEs)

Our interests in SEs are discussed in detail on page 76 in the BMO-Sponsored Securitization Vehicles section and in Note 7 on page 157 of the consolidated financial statements. Under IFRS, we consolidate our bank securitization vehicles, U.S. customer securitization vehicle, and certain capital and funding vehicles. We do not consolidate our Canadian customer securitization vehicles, structured finance vehicles, certain capital and funding vehicles, and various BMO managed and non-BMO managed investment funds.

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 $24 billion at October 31, 2017 ($24 billion in 2016). 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 us to make any payments, nor does it take into account any amounts that could be recovered under recourse and collateral provisions.

For a more detailed discussion of these arrangements, please see Note 25 on page 192 of the consolidated financial statements.

Caution

This Off-Balance Sheet Arrangements section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.