2017 Financial Performance Review

This section provides a review of our enterprise financial performance for 2017 that focuses on the Consolidated Statement of Income included in our consolidated financial statements, which begin on page 139. A review of our operating groups' strategies and performance follows the enterprise review. A summary of the enterprise financial performance for 2016 appears on page 65.

Foreign Exchange

The Canadian dollar equivalents of BMO's U.S. results that are denominated in U.S. dollars were decreased relative to 2016 by the weaker U.S. dollar. The table below indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in the rates on our U.S. segment results. References in this document to the impact of the U.S. dollar do not include U.S.-dollar-denominated amounts recorded outside of BMO's U.S. segment.

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 2017, 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 our U.S. segment net income before income taxes for the year by $11 million in the absence of hedging transactions.

Economically, our U.S. dollar income stream was unhedged to changes in foreign exchange rates during the current year. A portion of BMO Capital Markets U.S. dollar net income was economically hedged in 2016 and 2015. We regularly determine whether to execute hedging transactions to mitigate the impact of foreign exchange rate movements on net income.

See the Enterprise-Wide Capital Management section on page 69 for discussion of the impact that changes in foreign exchange rates can have on our capital position.

Changes in foreign exchange rates will also affect accumulated other comprehensive income primarily from the translation of our investment in foreign operations. 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 translation of the unhedged portion of our investment in foreign operations by $156 million.

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

(Canadian $ in millions, except as noted)	**2017 vs. 2016**	2016 vs. 2015
Canadian/U.S. dollar exchange rate (average)		
2017	**1.3071**	
2016	**1.3251**	1.3251
2015		1.2550
Effects on reported results		
(Decreased) increased net interest income	**(49)**	204
(Decreased) increased non-interest revenue	**(30)**	149
(Decreased) increased revenues	**(79)**	353
Increased provision for credit losses	**(3)**	(11)
Decreased (increased) expenses	**63**	(267)
Decreased (increased) income taxes	**6**	(18)
(Decreased) increased reported net income before impact of hedges	**(13)**	57
Hedging losses in current year after tax	**–**	–
(Decreased) increased reported net income	**(13)**	57
Effects on adjusted results		
(Decreased) increased net interest income	**(49)**	204
(Decreased) increased non-interest revenue	**(30)**	149
(Decreased) increased revenues	**(79)**	353
Increased provision for credit losses	**(1)**	(12)
Decreased (increased) expenses	**59**	(257)
Decreased (increased) income taxes	**7**	(20)
(Decreased) increased adjusted net income before impact of hedges	**(14)**	64
Hedging losses in current year after tax	**–**	–
(Decreased) increased adjusted net income	**(14)**	64

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

Caution
This Foreign Exchange 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 29.

Net Income

Net income was $5,350 million in 2017, up $719 million or 16% from the previous year. Adjusted net income excludes a decrease in the collective allowance in the current year and a negative cumulative accounting adjustment in the prior year, as well as restructuring costs, the amortization of acquisition-related intangible assets and acquisition integration costs in both years. Adjusted net income was $5,508 million, up $488 million or 10%.

Reported and adjusted net income growth reflects the benefit of good performance in Canadian P&C, Wealth Management and BMO Capital Markets. Corporate Services results were also higher and results in U.S. P&C were relatively flat compared to the prior year.

The impact of the following items on net income and net income growth in 2017 largely offset each other: a net gain of $133 million, attributed to a $168 million after-tax gain on the sale of Moneris Solutions Corporation (Moneris US) and a $35 million after-tax loss on the sale of a portion of the U.S. indirect auto loan portfolio; a loss due to elevated claims of $112 million in our reinsurance business largely resulting from the impact of hurricanes Irma, Maria and Harvey; and the prior year write-down of an equity investment net of a gain on its subsequent sale.

Canadian P&C reported net income of $2,512 million increased $310 million or 14% and adjusted net income of $2,515 million, which excludes the amortization of acquisition-related intangible assets, increased $311 million or 14% from the prior year. Net income increased as a result of higher balances across most products, the $168 million after-tax gain on sale of Moneris US in the first quarter of 2017, increased non-interest revenue and lower provisions for credit losses, partially offset by higher expenses.

U.S. P&C reported net income of $1,066 million decreased $19 million and adjusted net income of $1,112 million decreased $23 million from the prior year due to the weaker U.S. dollar. Adjusted net income excludes the amortization of acquisition-related intangible assets. On a U.S. dollar basis, reported net income of $817 million and adjusted net income of $853 million were both relatively flat compared to the prior year, due to higher deposit revenue and increased loan volumes, offset by loan spread compression, higher expenses, the $27 million after-tax loss on the loan sale and an increase in the provision for credit losses.

Wealth Management reported net income of $953 million increased $192 million or 25% from the prior year. Adjusted net income of $1,018 million, which excludes the amortization of acquisition-related intangible assets and acquisition integration costs, increased $156 million or 18%. Traditional wealth reported net income of $717 million increased $178 million or 33% from the prior year. Adjusted net income in traditional wealth of $782 million increased $142 million or 22%, primarily due to higher income related to an increase in assets under management from improved equity markets and the accumulation of net new client assets, growth in deposit and loan balances, up 11% and 10%, respectively, and benefits from productivity initiatives. The prior year included a write-down of an equity investment net of a gain on its subsequent sale. Adjusted net income in insurance of $236 million increased $14 million or 6%, as the benefits from favourable market movements in the current year relative to unfavourable impacts in the prior year and business growth were largely offset by elevated claims of $112 million in our reinsurance business.

BMO Capital Markets reported net income of $1,315 million increased $62 million or 5% from the prior year. Adjusted net income of $1,317 million, which excludes the amortization of acquisition-related intangible assets, increased $63 million or 5% due to increased revenue and lower loan loss provisions, partially offset by higher expenses.

Corporate Services reported net loss for the year was $496 million, compared with a reported net loss of $670 million a year ago. The adjusted net loss for the year was $454 million, compared with an adjusted net loss of $435 million a year ago. Adjusted results exclude a decrease in the collective allowance in the current year and a negative cumulative accounting adjustment in the prior year, as well as restructuring costs and acquisition integration costs in both years. Adjusted results declined due to lower credit recoveries and higher expenses, partially offset by higher revenue excluding taxable equivalent basis (teb). Reported results increased mainly due to the lower restructuring charge in the current year, a negative cumulative accounting adjustment in the prior year and the decrease in the collective allowance in the current year, partially offset by the net impact of the factors noted above.

Further discussion is provided in the 2017 Operating Groups Performance Review section on pages 45 to 62.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 29.

Revenue[(1)]

Revenue increased $1,173 million or 6% to $22,260 million in 2017. On a basis that nets insurance claims, commissions and changes in policy benefit liabilities (CCPB) against insurance revenue (net revenue), reported revenue increased $1,178 million or 6% to $20,722 million.

Adjusted revenue, net of CCPB, increased $1,094 million or 6%, driven by good performance in Canadian P&C, Wealth Management and BMO Capital Markets. The gain on the sale of Moneris US net of the loss on the loan sale, which increased revenue by $133 million, was largely offset by a loss due to elevated reinsurance claims of $112 million and the prior year write-down of an equity investment net of a gain on its subsequent sale. The impact of the weaker U.S. dollar on revenue growth was not significant. Adjusted revenue excludes a negative cumulative accounting adjustment recorded in 2016 in non-interest revenue.

BMO analyzes revenue at the consolidated level based on GAAP revenues as reported in the consolidated 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 2017 totalled $567 million, up from $510 million in 2016.

Canadian P&C revenue increased $475 million or 7% to $7,444 million from the prior year, due to higher balances across most products, the $187 million pre-tax gain on sale of Moneris US in the first quarter of 2017 and increased non-interest revenue.

U.S. P&C revenue of $4,673 million was slightly higher compared to the prior year on a Canadian dollar basis. On a U.S. dollar basis, revenue of $3,578 million increased $62 million or 2%, primarily due to higher deposit revenue and increased loan volumes, net of loan spread compression and the impact of the $41 million pre-tax loss on the loan sale.

Wealth Management revenue, net of CCPB, of $4,654 million increased $309 million or 7% from the prior year. Revenue in traditional wealth of $4,187 million increased $264 million or 7%, primarily due to higher income related to an increase in assets under management from improved equity markets and the accumulation of net new client assets, and growth in deposit and loan balances, up 11% and 10%, respectively, and benefits from productivity initiatives, partially offset by the impact of a weaker British pound and U.S. dollar, and divestitures. The prior year included a write-down of an equity investment net of a gain on its subsequent sale. Insurance revenue, net of CCPB, of $467 million increased $45 million or 11%, as the benefits from favourable market movements in the current year relative to unfavourable impacts in the prior year and business growth were largely offset by elevated claims in the reinsurance business in the current year.

BMO Capital Markets revenue of $4,624 million increased $286 million or 7% from the prior year, due to higher client activity in investment banking and loan growth, as well as solid performance in our Trading Products business.

Corporate Services reported revenue increased $92 million and adjusted revenue increased $8 million. Adjusted revenue excludes the impact of a negative cumulative accounting adjustment in the prior year.

Further discussion is provided in the 2017 Operating Groups Performance Review section on pages 45 to 62.

(1) Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets. The investments which support policy benefit liabilities are predominantly fixed income assets recorded at fair value with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in insurance claims, commissions and changes in policy benefit liabilities. The discussion of revenue on a net basis reduces this variability in results, which allows for a better discussion of operating results. For additional discussion of insurance claims, commissions and changes in policy benefit liabilities, see page 41.

Taxable equivalent basis (teb) Revenues of operating groups are presented in our MD&A on a taxable equivalent basis (teb). Revenue and the provision for income taxes are increased on tax-exempt securities to an equivalent before-tax basis to facilitate comparisons of income between taxable and tax-exempt sources. This adjustment is offset in Corporate Services.

Revenue and Adjusted Revenue

(Canadian $ in millions, except as noted) For the year ended October 31	2017	2016	2015	Change from 2016 (%)
Net interest income	**10,007**	9,872	8,763	**1**
Non-interest revenue	**12,253**	11,215	10,626	**9**
Total revenue	**22,260**	21,087	19,389	**6**
Total revenue, net of CCPB	**20,722**	19,544	18,135	**6**
Adjusted net interest income	**10,007**	9,872	8,764	**1**
Adjusted non-interest revenue	**12,253**	11,299	10,627	**8**
Total adjusted revenue	**22,260**	21,171	19,391	**5**
Total adjusted revenue, net of CCPB	**20,722**	19,628	18,137	**6**

Net Interest Income

Net interest income increased $135 million or 1% to $10,007 million, or 2% excluding the impact of the weaker U.S. dollar, primarily due to loan growth partially offset by lower net interest income from certain trading businesses.

Average earning assets increased $24.1 billion or 4% to $646.8 billion, or $27.3 billion or 4% excluding the impact of the weaker U.S. dollar, due to an increase in securities and loan growth.

BMO's overall net interest margin decreased by 4 basis points to 1.55%, mainly driven by lower net interest income from trading businesses. Net interest margin (excluding trading) increased 1 basis point from the prior year to 1.87%.

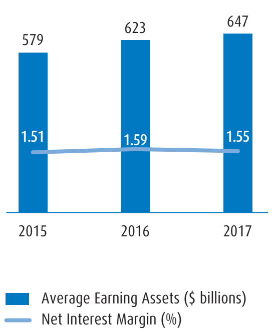
Table 3 on page 124 provides further details on net interest income and net interest margin.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 29.

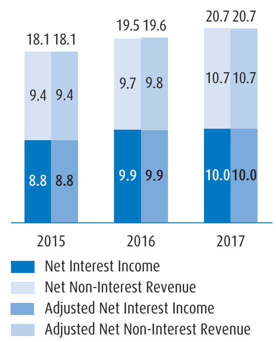
Net interest income is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

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

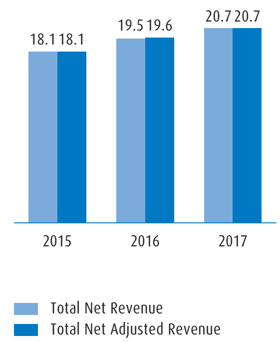


Net Interest Income and Net Non-Interest Revenue*
($ billions)



*Numbers may not add due to rounding.

Net Revenue
($ billions)



MD&A

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

(Canadian $ in millions, except as noted) For the year ended October 31	Net interest income (teb) 2017	2016	Change %	Average earning assets 2017	2016	Change %	Net interest margin (in basis points) 2017	2016	Change
Canadian P&C	**5,262**	5,060	**4**	**207,815**	199,527	**4**	**253**	254	**(1)**
U.S. P&C	**3,607**	3,538	**2**	**96,244**	97,538	**(1)**	**375**	363	**12**
Personal and Commercial Banking (P&C)	**8,869**	8,598	**3**	**304,059**	297,065	**2**	**292**	289	**3**
Wealth Management	**700**	614	**14**	**28,026**	25,898	**8**	**250**	237	**13**
BMO Capital Markets	**1,288**	1,483	**(13)**	**266,928**	254,370	**5**	**48**	58	**(10)**
Corporate Services	**(850)**	(823)	**(3)**	**47,786**	45,399	**5**	**nm**	nm	**nm**
Total BMO reported	**10,007**	9,872	**1**	**646,799**	622,732	**4**	**155**	159	**(4)**
U.S. P&C (US$ in millions)	**2,761**	2,671	**3**	**73,661**	73,639	**–**	**375**	363	**12**

Certain comparative figures have been reclassified to conform with the current year's presentation.
nm – not meaningful

Non-Interest Revenue

Non-interest revenue, which comprises all revenues other than net interest income, increased $1,038 million or 9% to $12,253 million in 2017. Non-interest revenue, net of CCPB, increased $1,043 million or 11% to $10,715 million.

Adjusted non-interest revenue, net of CCPB, increased $959 million or 10% to $10,715 million, with the majority of the growth driven by strong performance in BMO Capital Markets, as well as growth in Canadian P&C and Wealth Management. Adjusted non-interest revenue excludes a negative cumulative accounting adjustment recorded in 2016.

Investments in associates and joint ventures increased $246 million primarily due to the gain on sale of Moneris US in the first quarter of 2017 and the write-down of an equity investment net of a gain on its subsequent sale in 2016.

Underwriting and advisory fees increased $216 million, primarily due to higher debt underwriting activity.

Trading revenues increased $160 million and are discussed in the Trading-Related Revenues section that follows.

Securities gains, other than trading, increased $87 million, primarily due to higher net securities gains in BMO Capital Markets and Corporate Services.

Investment management and custodial fees increased $66 million from the prior year, mainly due to business growth in Wealth Management, partially offset by the impact of the weaker U.S. dollar. Mutual fund revenue increased $47 million. Both investment management and custodial fees and mutual fund revenue were also positively impacted by the improved equity markets on average compared to the prior year, partially offset by the impact of the weaker British pound.

Lending fees increased $58 million due to increased lending activity in BMO Capital Markets and Canadian P&C.

Gross insurance revenue increased $47 million from a year ago, due to higher annuity sales and underlying business growth, offset by increases in long-term interest rates decreasing the fair value of insurance investments in the current year compared to decreases in long-term interest rates increasing the fair value of insurance investments in the prior year. Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets. The investments which support policy benefit liabilities are predominantly fixed income assets recorded at fair value with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in insurance claims, commissions and changes in policy benefit liabilities (CCPB), as discussed on page 65.

Deposit and payment service charges increased $46 million, due to growth in both Canadian and U.S. P&C.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 29.

Securities commissions and fees increased $45 million. These revenues consist largely of brokerage commissions within Wealth Management and institutional equity trading commissions within BMO Capital Markets. The increase is due to improved equity markets and growth in fee-based businesses in Wealth Management.

Other non-interest revenue increased $37 million, due to a negative cumulative accounting adjustment in the prior year, partially offset by the loss on the loan sale.

Foreign exchange, other than trading increased $29 million.

Card fees decreased $46 million, primarily due to higher reward costs, as well as lower interchange revenue in U.S. P&C.

Table 3 on page 124 provides further details on revenue and revenue growth.

Non-Interest Revenue

(Canadian $ in millions) For the year ended October 31	**2017**	2016	2015	**Change from 2016 (%)**
Securities commissions and fees	**969**	924	901	**5**
Deposit and payment service charges	**1,187**	1,141	1,077	**4**
Trading revenues	**1,352**	1,192	987	**13**
Lending fees	**917**	859	737	**7**
Card fees	**415**	461	460	**(10)**
Investment management and custodial fees	**1,622**	1,556	1,552	**4**
Mutual fund revenues	**1,411**	1,364	1,377	**3**
Underwriting and advisory fees	**1,036**	820	706	**26**
Securities gains, other than trading	**171**	84	171	**+100**
Foreign exchange, other than trading	**191**	162	172	**18**
Insurance revenue	**2,070**	2,023	1,762	**2**
Investments in associates and joint ventures	**386**	140	207	**+100**
Other	**526**	489	517	**7**
Total BMO reported	**12,253**	11,215	10,626	**9**
BMO reported, net of CCPB	**10,715**	9,672	9,372	**11**
Total BMO adjusted	**12,253**	11,299	10,627	**8**
BMO adjusted, net of CCPB	**10,715**	9,756	9,373	**10**
Insurance revenue, net of CCPB	**532**	480	508	**11**

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 its net positions. On a limited basis, BMO also earns revenue from principal trading positions.

Interest and non-interest trading-related revenues decreased $72 million or 6%. Excluding the impact of the weaker U.S. dollar, trading-related revenues decreased $69 million or 5%. The following amounts exclude the impact of the weaker U.S. dollar and the teb offset. Interest rate trading-related revenues decreased $181 million or 27%, primarily due to decreased client activity across most businesses. Foreign exchange trading-related revenues were up $21 million or 6%, driven by increased client activity. Equities trading-related revenues increased $50 million or 27%, reflecting higher activity with corporate and investor clients. Commodities trading-related revenues increased $18 million or 28% due to increased client hedging activity in energy products.

The Market Risk section on page 94 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.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 29.

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

(Canadian $ in millions) (taxable equivalent basis) For the year ended October 31	2017	2016	2015	Change from 2016 (%)
Interest rates	**480**	663	422	**(28)**
Foreign exchange	**369**	349	364	**6**
Equities	**727**	629	638	**16**
Commodities	**84**	66	56	**28**
Other (2)	**47**	25	6	**88**
Total (teb)	**1,707**	1,732	1,486	**(1)**
Teb offset	**488**	441	467	**11**
Reported total	**1,219**	1,291	1,019	**(6)**
Reported as:				
Net interest income	**355**	540	499	**(34)**
Non-interest revenue – trading revenues	**1,352**	1,192	987	**13**
Total (teb)	**1,707**	1,732	1,486	**(1)**
Teb offset	**488**	441	467	**11**
Reported total, net of teb offset	**1,219**	1,291	1,019	**(6)**
Adjusted net interest income, net of teb offset	**(133)**	99	32	**(+100)**
Adjusted non-interest revenue – trading revenues	**1,352**	1,192	987	**13**
Adjusted total, net of teb offset	**1,219**	1,291	1,019	**(6)**

(1) Trading-related revenues are presented on a taxable equivalent basis.
(2) Includes nominal revenues from run-off structured credit activities and hedging exposures in BMO's structural balance sheet.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 29.

Insurance Claims, Commissions and Changes in Policy Benefit Liabilities

Insurance claims, commissions and changes in policy benefit liabilities (CCPB) were $1,538 million in 2017, down $5 million from $1,543 million in 2016, as increases in long-term interest rates decreasing the fair value of policy benefit liabilities in the current year compared to decreases in long-term interest rates increasing the fair value of policy benefit liabilities in the prior year were offset by the impact of higher annuity sales, elevated reinsurance claims and growth in the underlying business. The decrease related to the fair value of policy benefit liabilities and the increase related to annuity sales were largely offset in revenue, as discussed on page 38.

Provision for Credit Losses

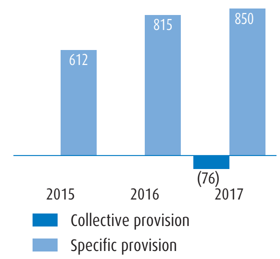
The total provision for credit losses (PCL) was $774 million in the current year, down from $815 million in 2016. There was a $76 million pre-tax decrease in the collective allowance in the year, largely as a result of positive portfolio migration, which decreased the total provision for credit losses. Specific PCL of $850 million increased $35 million due to lower recoveries in Corporate Services and higher provisions in U.S. P&C, partially offset by lower provisions in BMO Capital Markets and Canadian P&C.

Total PCL as a percentage of average net loans and acceptances was 0.21% in 2017, down slightly from 0.23% in the prior year. Specific PCL as a percentage of average net loans and acceptances was 0.23%, consistent with the prior year.

Canadian P&C provisions decreased $37 million to $505 million, reflecting lower consumer and commercial provisions. U.S. P&C provisions of $295 million increased $38 million from 2016, reflecting higher commercial provisions, partially offset by lower consumer provisions and the impact of the weaker U.S. dollar. BMO Capital Markets provisions of $44 million decreased $37 million from the prior year, largely due to lower new provisions, primarily in the oil and gas sector. Corporate Services total credit recoveries of $78 million increased $4 million, with the recovery in the current year mostly due to the $76 million collective allowance reduction, while the prior year recovery was largely due to purchased credit impaired loan recoveries.

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 $524 million, compared to $547 million in 2016. Specific PCL in the United States was $326 million, up from $268 million in 2016. Note 4 on page 152 of the consolidated financial statements provides PCL information on a geographic basis. Table 15 on page 134 provides further PCL segmentation information.

Provision for Credit Losses ($ millions)



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Provision for Credit Losses

(Canadian $ in millions, except as noted) For the year ended October 31	**2017**	2016	2015
New specific provisions	**1,356**	1,386	1,278
Reversals of previously established allowances	**(241)**	(228)	(210)
Recoveries of loans previously written off	**(265)**	(343)	(456)
Specific provision for credit losses	**850**	815	612
Decrease in the collective allowance for credit losses	**(76)**	–	–
Provision for credit losses	**774**	815	612
PCL-to-average net loans and acceptances (annualized) (%)	**0.21**	0.23	0.19
Specific PCL-to-average net loans and acceptances (annualized) (%)	**0.23**	0.23	0.19

Provision for Credit Losses by Operating Group

(Canadian $ in millions) For the year ended October 31	**2017**	2016	2015
Canadian P&C	**505**	542	496
U.S. P&C (1)	**295**	257	119
Personal and Commercial Banking	**800**	799	615
Wealth Management	**8**	9	7
BMO Capital Markets	**44**	81	26
Corporate Services, including T&O (1)			
Impaired real estate loans	**2**	(16)	28
Interest on impaired loans	**–**	–	17
Purchased credit impaired loans	**(4)**	(58)	(86)
Purchased performing loans (1)	**–**	–	5
Specific provision for credit losses	**850**	815	612
Decrease in the collective allowance for credit losses	**(76)**	–	–
Provision for credit losses	**774**	815	612

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

Non-Interest Expense

Non-interest expense increased $305 million or 2% to $13,302 million in 2017.

Adjusted non-interest expense excludes restructuring costs, the amortization of acquisition-related intangible assets and acquisition integration costs in both years. Restructuring costs were $59 million and $188 million in 2017 and 2016, respectively. The amortization of acquisition-related intangible assets was $149 million and $160 million in 2017 and 2016, respectively. Acquisition integration costs were $87 million and $104 million in 2017 and 2016, respectively.

Adjusted non-interest expense increased $463 million or 4% to $13,007 million. Reported and adjusted expenses increased primarily due to higher employee-related expenses and increased technology investments, partially offset by our focus on disciplined expense management. The impact of the weaker U.S. dollar on non-interest expense growth was not significant.

The dollar and percentage changes in expense by category are outlined in the Non-Interest Expense and Adjusted Non-Interest Expense tables. Table 4 on page 125 provides more detail on expenses and expense growth.

Performance-based compensation on a reported basis increased $108 million or 5% and on an adjusted basis increased $133 million or 6%, due to improved performance across most operating groups. Other employee compensation, which includes salaries, benefits and severance, on a reported basis decreased $23 million and on an adjusted basis increased $113 million or 2%.

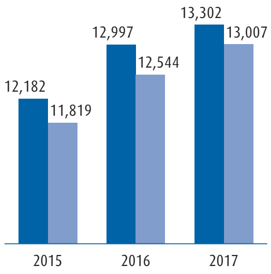
Premises and equipment costs on a reported basis increased $98 million or 4% and on an adjusted basis increased $73 million or 3%, due to increased technology investments net of lower real estate-related costs. Other reported expenses increased $81 million or 3% and other adjusted expenses increased $92 million or 3%.

BMO's reported efficiency ratio improved 180 basis points to 59.8% and the adjusted efficiency ratio improved 80 basis points to 58.4% in 2017. On a net revenue basis[1], the reported efficiency ratio improved 230 basis points to 64.2% and the adjusted efficiency ratio improved 110 basis points to 62.8% in 2017.

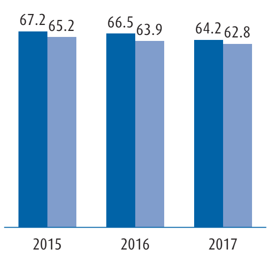
On a net revenue basis[1], reported operating leverage was 3.7% and adjusted operating leverage was 1.9%, reflecting our ongoing focus on improving efficiency by driving revenue growth and maintaining disciplined cost management.

(1) This ratio is calculated excluding insurance claims, commissions and changes in policy benefit liabilities (CCPB).

Non-Interest Expense
($ millions)



Net Efficiency Ratio (%)



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

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.

Non-Interest Expense

(Canadian $ in millions) For the year ended October 31	**2017**	2016	2015	**Change from 2016 (%)**
Performance-based compensation	**2,386**	2,278	2,102	**5**
Other employee compensation	**5,081**	5,104	4,979	**–**
Total employee compensation	**7,467**	7,382	7,081	**1**
Premises and equipment	**2,491**	2,393	2,137	**4**
Other	**2,859**	2,778	2,553	**3**
Amortization of intangible assets	**485**	444	411	**9**
Total non-interest expense	**13,302**	12,997	12,182	**2**

Adjusted Non-Interest Expense (1)

(Canadian $ in millions) For the year ended October 31	**2017**	2016	2015	**Change from 2016 (%)**
Performance-based compensation	**2,381**	2,248	2,087	**6**
Other employee compensation	**5,007**	4,894	4,835	**2**
Total employee compensation	**7,388**	7,142	6,922	**3**
Premises and equipment	**2,430**	2,357	2,130	**3**
Other	**2,853**	2,761	2,519	**3**
Amortization of intangible assets	**336**	284	248	**18**
Total adjusted non-interest expense	**13,007**	12,544	11,819	**4**

(1) Adjusted non-interest expense excludes restructuring costs, the amortization of acquisition-related intangible assets and acquisition integration costs.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 29.

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 taxing authorities, with the exception of the repatriation of retained earnings from subsidiaries, as outlined in Note 23 on page 189 of the consolidated financial statements.

Management assesses BMO's consolidated results and associated provision 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 $1,296 million in 2017, compared with $1,101 million in 2016. The reported effective tax rate in 2017 was 19.5%, compared with 19.2% in 2016. The adjusted provision for income taxes[1] was $1,357 million in 2017, compared with $1,249 million in 2016. The adjusted effective tax rate in 2017 was 19.8%, compared with 19.9% in 2016. The effective tax rate differs from the statutory rate predominantly because of tax-exempt income from securities. On a teb basis, the reported effective tax rate in 2017 was 25.8% and the adjusted effective tax rate in 2017 was 25.9%, both unchanged from the prior year.

BMO partially hedges, for accounting purposes, the foreign exchange risk arising from its foreign operations by funding the investments in the corresponding foreign currency. A gain or loss on hedging and an unrealized gain or loss on translation of foreign operations is charged or credited to shareholders' equity. For income tax purposes, a gain or loss on the hedging activities results in an income tax charge or credit in the current period that is charged or credited to shareholders' equity, while the associated unrealized gain or loss on the foreign 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 foreign operations has given rise to an income tax expense in shareholders' equity of $8 million for the year, compared with an income tax expense of $10 million in 2016. Refer to the Consolidated Statement of Changes in Equity on page 142 of the consolidated financial statements for further details.

Changes in tax rates, tax law and policy, and its interpretation by taxing authorities can impact our earnings. See the discussion in the Critical Accounting Estimates section on page 113 for additional related details. In June 2016, the synthetic equity arrangement rules (SEA Rules) were passed into law in Canada. The SEA Rules impact the tax deductibility of Canadian dividends in certain circumstances and were effective as of May 1, 2017. The impact of the SEA Rules is to increase our effective tax rate.

Table 4 on page 125 details the $1,988 million of total government levies and taxes incurred by BMO in 2017. $1,363 million of this amount is incurred in Canada, with $867 million included in our provision for income taxes and the remaining $496 million included in total government levies other than income taxes. The increase from $1,827 million in 2016 was primarily due to a higher provision for income taxes.

(1) The adjusted rate is computed using adjusted net income rather than reported 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 29.