

## Note 26: Operating and Geographic Segmentation

### Operating Groups

We conduct our business through three operating groups, each of which has a distinct mandate. We determine our operating groups based on our management structure and therefore these groups, and the results attributed to them, may not be comparable with those of other financial services companies. We evaluate the performance of our groups using reported and adjusted measures such as net income, revenue growth, return on equity, and non-interest expense-to-revenue (productivity) ratio, as well as operating leverage.

### Personal and Commercial Banking

Personal and Commercial Banking (“P&C”) is comprised of two operating segments: Canadian Personal and Commercial Banking and U.S. Personal and Commercial Banking.

#### *Canadian Personal and Commercial Banking*

Canadian Personal and Commercial Banking (“Canadian P&C”) provides a full range of financial products and services to eight million customers. Personal Banking provides financial solutions for everyday banking, financing, investing, credit card and creditor insurance needs. Commercial Banking provides our small business and commercial banking customers with a broad suite of integrated commercial and capital markets products, as well as financial advisory services.

#### *U.S. Personal and Commercial Banking*

U.S. Personal and Commercial Banking (“U.S. P&C”) offers a broad range of products and services. Our retail and small and mid-sized business banking customers are served through our branches, contact centres, online and mobile banking platforms and automated banking machines across eight states. Our commercial banking customers are offered in-depth specific industry knowledge, as well as strategic capital markets solutions.

### Wealth Management

BMO’s group of wealth management businesses serves a full range of client segments from mainstream to ultra high net worth and institutional, with a broad offering of wealth management products and services, including insurance products. Wealth Management (“WM”) is a global business with an active presence in markets across Canada, the United States, Europe and Asia.

### BMO Capital Markets

BMO Capital Markets (“BMO CM”) is a North American-based financial services provider offering a complete range of products and services to corporate, institutional and government clients. Through our Investment and Corporate Banking and Trading Products lines of business, we operate in 30 locations around the world, including 16 offices in North America.

### Corporate Services

Corporate Services consists of Corporate Support Areas (“CSAs”), including Technology and Operations (“T&O”). CSAs provide enterprise-wide expertise and governance support in a variety of areas, including strategic planning, risk management, finance, legal and regulatory compliance, marketing, communications and human resources. T&O manages, maintains and provides governance over information technology, operations services, real estate and procurement for the bank.

The costs of these CSAs and T&O services are largely transferred to the three client operating groups (P&C, WM and BMO CM), with remaining related amounts retained in Corporate Services results. As such, Corporate Services operating results largely reflect the impact of residual treasury and asset liability management activities, the elimination of taxable equivalent adjustments, the results from certain impaired real estate secured assets, certain purchased loan accounting impacts, residual unallocated expenses, certain acquisition integration costs, restructuring costs and adjustments to the collective allowance for credit losses.

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

### Basis of Presentation

The results of these operating groups are based on our internal financial reporting systems. The accounting policies used in these segments are generally consistent with those followed in the preparation of our consolidated financial statements, as disclosed in Note 1 and throughout the consolidated financial statements. Income taxes presented below may not be reflective of taxes paid in each jurisdiction where we operate. Income taxes are generally applied to each segment based on a statutory tax rate and may be adjusted for items and activities specific to each segment. A notable accounting measurement difference is the taxable equivalent basis adjustment as described below.

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

#### Taxable Equivalent Basis

We analyze revenue on a taxable equivalent basis ("teb") at the operating group level. 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. The offset to the groups' teb adjustments is reflected in Corporate Services revenue and provision for income taxes. The teb adjustment for the year ended October 31, 2017 was \$567 million (\$510 million in 2016 and \$524 million in 2015).

#### Inter-Group Allocations

Various estimates and allocation methodologies are used in the preparation of the operating groups' financial information. We allocate expenses directly related to earning revenue to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to operating groups using allocation formulas applied on a consistent basis. Operating group net interest income reflects internal funding charges and credits on the groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in Corporate Services. These inter-group allocations are also applied to the geographical segmentation.

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

(Canadian \$ in millions)	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
<b>2017</b>						
Net interest income (2)	5,262	3,607	700	1,288	(850)	10,007
Non-interest revenue	2,182	1,066	5,492	3,336	177	12,253
Total Revenue	7,444	4,673	6,192	4,624	(673)	22,260
Provision for credit losses	505	295	8	44	(78)	774
Insurance claims, commissions and changes in policy benefit liabilities	-	-	1,538	-	-	1,538
Amortization	308	434	241	120	-	1,103
Non-interest expense	3,292	2,508	3,106	2,658	635	12,199
Income before taxes and non-controlling interest in subsidiaries	3,339	1,436	1,299	1,802	(1,230)	6,646
Provision for income taxes	827	370	346	487	(734)	1,296
Reported net income (loss)	2,512	1,066	953	1,315	(496)	5,350
Non-controlling interest in subsidiaries	-	-	2	-	-	2
Net Income (loss) attributable to bank shareholders	2,512	1,066	951	1,315	(496)	5,348
Average Assets	217,685	104,090	32,562	306,319	61,970	722,626
(Canadian \$ in millions)	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
<b>2016</b>						
Net interest income (2)	5,060	3,538	614	1,483	(823)	9,872
Non-interest revenue	1,909	1,119	5,274	2,855	58	11,215
Total Revenue	6,969	4,657	5,888	4,338	(765)	21,087
Provision for credit losses	542	257	9	81	(74)	815
Insurance claims, commissions and changes in policy benefit liabilities	-	-	1,543	-	-	1,543
Amortization	276	433	233	105	-	1,047
Non-interest expense	3,188	2,473	3,104	2,469	716	11,950
Income before taxes and non-controlling interest in subsidiaries	2,963	1,494	999	1,683	(1,407)	5,732
Provision for income taxes	761	409	238	430	(737)	1,101
Reported net income (loss)	2,202	1,085	761	1,253	(670)	4,631
Non-controlling interest in subsidiaries	-	-	2	-	7	9
Net Income (loss) attributable to bank shareholders	2,202	1,085	759	1,253	(677)	4,622
Average Assets	208,018	105,998	30,642	304,031	58,433	707,122
(Canadian \$ in millions)	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
<b>2015</b>						
Net interest income (2)	4,806	2,845	565	1,307	(760)	8,763
Non-interest revenue	1,833	787	5,198	2,528	280	10,626
Total Revenue	6,639	3,632	5,763	3,835	(480)	19,389
Provision for credit losses	496	119	7	26	(36)	612
Insurance claims, commissions and changes in policy benefit liabilities	-	-	1,254	-	-	1,254
Amortization	236	223	231	98	-	788
Non-interest expense	3,106	2,169	3,127	2,382	610	11,394
Income before taxes and non-controlling interest in subsidiaries	2,801	1,121	1,144	1,329	(1,054)	5,341
Provision for income taxes	698	284	295	320	(661)	936
Reported net income (loss)	2,103	837	849	1,009	(393)	4,405
Non-controlling interest in subsidiaries	-	-	5	-	30	35
Net Income (loss) attributable to bank shareholders	2,103	837	844	1,009	(423)	4,370
Average Assets	197,209	88,954	29,147	290,672	58,409	664,391

(1) Corporate Services includes Technology and Operations.

(2) Operating groups report on a taxable equivalent basis - see Basis of Presentation section.

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

*Geographic Information*

We operate primarily in Canada and the United States, but we also have operations in the United Kingdom, Europe, the Caribbean and Asia, which are grouped in other countries. We allocate our results by geographic region based on the location of the unit responsible for managing the related assets, liabilities, revenues and expenses.

Our results and average assets, grouped by geographic region, are as follows:

(Canadian \$ in millions)	Canada	United States	Other countries	Total
<b>2017</b>				
Total Revenue	<b>13,420</b>	<b>7,134</b>	<b>1,706</b>	<b>22,260</b>
Income before taxes and non-controlling interest in subsidiaries	<b>4,548</b>	<b>1,649</b>	<b>449</b>	<b>6,646</b>
Reported net income	<b>3,782</b>	<b>1,255</b>	<b>313</b>	<b>5,350</b>
Average Assets	<b>430,570</b>	<b>264,473</b>	<b>27,583</b>	<b>722,626</b>
(Canadian \$ in millions)	Canada	United States	Other countries	Total
2016				
Total Revenue	12,826	6,847	1,414	21,087
Income before taxes and non-controlling interest in subsidiaries	3,860	1,550	322	5,732
Reported net income	3,257	1,141	233	4,631
Average Assets	420,155	260,018	26,949	707,122
(Canadian \$ in millions)	Canada	United States	Other countries	Total
2015				
Total Revenue	11,764	5,902	1,723	19,389
Income before taxes and non-controlling interest in subsidiaries	3,851	1,190	300	5,341
Reported net income	3,200	950	255	4,405
Average Assets	402,199	234,475	27,717	664,391

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