# 2018 Operating Groups Performance Review

## Summary

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

**BMO Financial Group**

| | | | | |
|---|---|---|---|---|
| **Operating Groups** | Personal and Commercial (P&C) Banking | | BMO Wealth Management | BMO Capital Markets |
| **Operating Segments** | Canadian P&C | U.S. P&C | | |
| **Lines of Business** | • Personal Banking<br>• Commercial Banking | • Personal Banking<br>• Commercial Banking | • BMO Nesbitt Burns<br>• BMO Private Banking<br>• BMO InvestorLine<br>• BMO Global Asset Management<br>• BMO Insurance | • Investment and Corporate Banking<br>• Trading Products |

**Corporate Services, including Technology and Operations**

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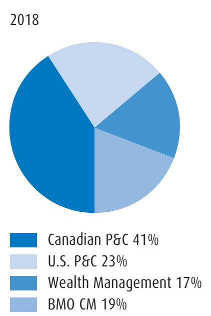
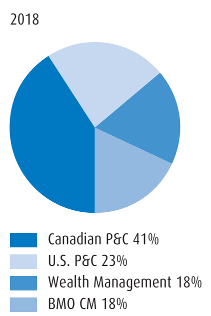
BMO's business mix is well diversified by operating segment and by geography. This robust business mix has long been a key driver of growth, comprising the key geographies and customer segments that are critical to our strategic plans for sustaining growth and delivering value to our shareholders.

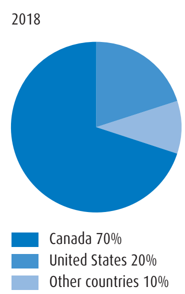
**Reported Net Income by Operating Segment***



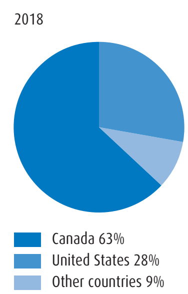

**Adjusted Net Income by Operating Segment***




**Reported Net Income by Country**




**Adjusted Net Income by Country**




*Percentages determined excluding results in Corporate Services.

## How BMO Reports Operating Group Results

Periodically, certain business lines and units within the business lines are transferred between client and corporate support groups to more closely align BMO's organizational structure with its 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 with the current period's presentation.

Effective the first quarter of 2018, the allocation of certain revenue items from Corporate Services to the operating groups was updated to better align with underlying business activity. Results for prior periods and related ratios have been reclassified to conform with the current presentation.

The following additional reclassifications were made effective the first quarter of 2018. Loan losses related to certain fraud costs have been reclassified from provision for credit losses to other non-interest expense in Canadian P&C and U.S. P&C. Certain fees have been reclassified from deposit and payment service charges to card fees within non-interest revenue in Canadian P&C. Also, cash collateral balances were reclassified from loans and deposits to other assets and other liabilities in BMO Capital Markets. Results for prior periods and related ratios have been reclassified to conform with the current period's presentation.

Restructuring costs and acquisition integration costs that impact more than one operating group are included in Corporate Services.

BMO analyzes revenue at the consolidated level based on GAAP revenue as reported in the consolidated financial statements rather than on a taxable equivalent basis (teb), which is consistent with our Canadian peer group. Like many banks, we analyze revenue on a teb basis 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 group teb adjustments is reflected in Corporate Services revenue and provision for income taxes.

Effective with the adoption of IFRS 9, we allocate the provision for credit losses on performing loans and the related allowance to the operating groups. In 2017 and prior years, the collective provision and allowance was held in Corporate Services.

# Personal and Commercial Banking

| (Canadian $ in millions, except as noted) | Canadian P&C | | | U.S. P&C | | | Total P&C | | |
|---|---|---|---|---|---|---|---|---|---|
| As at or for the year ended October 31 | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| Net interest income (teb) | **5,541** | 5,261 | 5,080 | **3,843** | 3,551 | 3,491 | **9,384** | 8,812 | 8,571 |
| Non-interest revenue | **2,171** | 2,182 | 1,909 | **1,140** | 1,066 | 1,119 | **3,311** | 3,248 | 3,028 |
| Total revenue (teb) | **7,712** | 7,443 | 6,989 | **4,983** | 4,617 | 4,610 | **12,695** | 12,060 | 11,599 |
| Provision for credit losses on impaired loans (1) | **466** | na | na | **258** | na | na | **724** | na | na |
| Provision for (recovery of) credit losses on performing loans (1) | **3** | na | na | **(38)** | na | na | **(35)** | na | na |
| Total provision for credit losses (1) | **469** | 483 | 506 | **220** | 289 | 249 | **689** | 772 | 755 |
| Non-interest expense | **3,805** | 3,622 | 3,500 | **3,012** | 2,944 | 2,914 | **6,817** | 6,566 | 6,414 |
| Income before income taxes | **3,438** | 3,338 | 2,983 | **1,751** | 1,384 | 1,447 | **5,189** | 4,722 | 4,430 |
| Provision for income taxes (teb) | **884** | 827 | 766 | **357** | 357 | 396 | **1,241** | 1,184 | 1,162 |
| Reported net income | **2,554** | 2,511 | 2,217 | **1,394** | 1,027 | 1,051 | **3,948** | 3,538 | 3,268 |
| Amortization of acquisition-related intangible assets (2) | **2** | 3 | 2 | **45** | 46 | 50 | **47** | 49 | 52 |
| Adjusted net income | **2,556** | 2,514 | 2,219 | **1,439** | 1,073 | 1,101 | **3,995** | 3,587 | 3,320 |
| **Key Performance Metrics and Drivers** | | | | | | | | | |
| Net income growth (%) | **1.7** | 13.2 | 4.8 | **35.7** | (2.2) | 28.4 | **11.6** | 8.3 | 11.4 |
| Adjusted net income growth (%) | **1.7** | 13.2 | 4.7 | **34.0** | (2.4) | 26.3 | **11.4** | 8.0 | 11.0 |
| Revenue growth (%) | **3.6** | 6.5 | 5.0 | **7.9** | 0.1 | 27.9 | **5.3** | 4.0 | 13.0 |
| Non-interest expense growth (%) | **5.0** | 3.5 | 3.1 | **2.3** | 1.0 | 21.0 | **3.8** | 2.4 | 10.5 |
| Adjusted non-interest expense growth (%) | **5.0** | 3.5 | 3.2 | **2.6** | 1.2 | 21.7 | **3.9** | 2.5 | 10.7 |
| Return on equity (%) | | | | | | | **18.6** | 16.7 | 15.8 |
| Adjusted return on equity (%) | | | | | | | **18.8** | 16.9 | 16.1 |
| Operating leverage (teb) (%) | **(1.4)** | 3.0 | 1.9 | **5.6** | (0.9) | 6.9 | **1.5** | 1.6 | 2.5 |
| Adjusted operating leverage (teb) (%) | **(1.4)** | 3.0 | 1.8 | **5.3** | (1.1) | 6.2 | **1.4** | 1.5 | 2.3 |
| Efficiency ratio (teb) (%) | **49.3** | 48.7 | 50.1 | **60.4** | 63.8 | 63.2 | **53.7** | 54.4 | 55.3 |
| Adjusted efficiency ratio (teb) (%) | **49.3** | 48.6 | 50.0 | **59.3** | 62.4 | 61.7 | **53.2** | 53.9 | 54.7 |
| Net interest margin on average earning assets (teb) (%) | **2.60** | 2.53 | 2.55 | **3.72** | 3.68 | 3.58 | **2.97** | 2.90 | 2.88 |
| Average common equity | | | | | | | **20,914** | 20,849 | 20,241 |
| Average earning assets | **212,965** | 207,815 | 199,527 | **103,394** | 96,363 | 97,651 | **316,359** | 304,178 | 297,178 |
| Average gross loans and acceptances | **223,536** | 215,848 | 205,973 | **98,001** | 90,533 | 90,959 | **321,537** | 306,381 | 296,932 |
| Average net loans and acceptances | **222,673** | 215,667 | 205,813 | **97,346** | 90,572 | 90,865 | **320,019** | 306,239 | 296,678 |
| Average deposits | **159,483** | 152,492 | 142,132 | **90,738** | 85,927 | 87,881 | **250,221** | 238,419 | 230,013 |
| Assets under administration | **28,313** | 29,267 | 25,439 | **178,600** | 148,753 | 159,448 | **206,913** | 178,020 | 184,887 |
| Full-time equivalent employees | **14,644** | 14,559 | 14,803 | **7,188** | 7,138 | 7,055 | **21,832** | 21,697 | 21,858 |

(1) Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The provision for credit losses in periods prior to 2018 is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 121 for further details.

(2) Total P&C before tax amounts of $61 million in 2018, $66 million in 2017 and $71 million in 2016 are included in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

na – not applicable

The Personal and Commercial Banking (P&C) operating group represents the sum of our two retail and business banking operating segments, Canadian Personal and Commercial Banking (Canadian P&C) and U.S. Personal and Commercial Banking (U.S. P&C). The combined P&C banking business net income of $3,948 million increased $410 million or 12% from the prior year. Adjusted net income, which excludes the amortization of acquisition-related intangible assets, was $3,995 million, an increase of $408 million or 11%. These operating segments are reviewed separately in the sections that follow.

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 27.

# Canadian Personal and Commercial Banking

Canadian Personal and Commercial Banking provides financial products and services to eight million customers. We're here to help our customers make the right financial decisions as they bank with us across our network of 900 branches, contact centres, digital banking platforms and over 3,300 automated teller machines. Our top-tier commercial franchise serves as an advisor and trusted partner to our clients across multiple industry sectors throughout Canada.


**Cameron Fowler**
President
North American Personal and Business Banking, BMO Financial Group

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## Lines of Business

**Personal Banking** provides customers with a wide range of products and services, including chequing and savings accounts, credit cards, mortgages and everyday financial and investment advice. Our employees are focused on providing all of our customers with an exceptional experience every time they interact with us.

**Commercial Banking** provides small business and commercial banking customers with a broad suite of commercial products and services, including business deposit accounts, commercial credit cards, business loans and commercial mortgages, cash management solutions, foreign exchange services and specialized banking programs. Our Commercial bankers partner with our customers to help them grow and manage their business.

## Strengths and Value Drivers

- Highly engaged team of dedicated employees focused on providing a personalized banking experience, anticipating customers' needs and finding new ways to help.
- Top-tier commercial banking business, as evidenced by BMO's number two ranking in Canadian market share for business loans up to $25 million.
- Strong and growing retail banking business, benefiting from nearly 50% year-over-year digital sales growth and 25% digital sales penetration.
- Largest Mastercard and AIR MILES® card issuer in Canada for retail cards and largest Mastercard card issuer for commercial cards.
- Consistently applied credit risk management practices that provide customers with reliable access to appropriate financing solutions. Our prudent underwriting standards support responsible personal lending and long-term financial sustainability.
- Proud to be working with Indigenous communities to provide improved access to employment opportunities, education and financial services for more than 25 years.
- The official bank of the Canadian defence community, serving the unique needs of members of the Canadian military and their families since 2008.

## Strategy and Key Priorities

Capture key growth and loyalty opportunities by delivering a leading digital experience and personalized advice.

| Key Priority | 2018 Achievements | 2019 Focus |
|---|---|---|
| Continue our focus on customer loyalty and growth | • Achieved strong employee engagement survey results, above leading company benchmarks, demonstrating our employees' ongoing commitment to deliver a leading customer experience<br>• Created dedicated teams focused on improving moments that matter, to help enhance the overall experience for our customers<br>• Upgraded 44 branches across Canada and opened three new Smart Branch locations in Manitoba and Alberta, providing customers with access to the best of our innovative technologies in a unique, smaller format tailored to their needs<br>• Continued enhancing our automated teller machine (ATM) network by extending the flexibility of choosing bill denominations at 75% of our ATMs across Canada | Continue to improve customer loyalty by deepening primary relationships |
| | **Personal Banking**<br>• Ran effective campaigns in support of key offerings, ranging from home financing and credit cards to Everyday Banking, which helped to increase our new-to-BMO customer base and deepen existing relationships<br>• Continued to grow our mix of advice-based roles, strengthening our ability to engage with customers on financial issues that are important to them, whenever and however they choose to interact with us | In Personal Banking, deliver a leading customer experience by leveraging new digital channels and enhancing existing networks |

| Key Priority | 2018 Achievements | 2019 Focus |
|---|---|---|
| Continue our focus on customer loyalty and growth (continued) | **Commercial Banking**<br>• Improved processes and increased platform efficiencies, allowing our sales force to spend more time engaging directly with customers<br>• Launched new suite of Small Business Banking Mastercard products that were well received by our clients, with the number of new clients acquired increasing more than 30% from the prior year<br>• Proud to be named Best Commercial Bank in Canada for the fourth consecutive year by *World Finance Magazine* at its 2018 Banking Awards in recognition of our strong regional and industry focus, as well as our commitment to building customer relationships and providing innovative solutions, notably in the area of Indigenous banking | In Commercial Banking, focus on maintaining our core strengths, while targeting opportunities for diversification across high-value sectors and businesses |
| Deliver a leading digital experience | • Recognized as a leader in mobile banking by Forrester in The Forrester Banking Sales Wave™: Canadian Mobile Sites, Q4 2018<br>• Continued to enhance and simplify the account opening process, and launched a new Business Xpress lending platform that has enabled a 95% faster approval time for Small Business loans<br>• Enhanced customer experience driven by our mobile-first approach throughout 2018, resulting in a 16% growth year-over-year in the number of active mobile users<br>• Leveraged the power of artificial intelligence in the rollout of BMO Bolt™ (chatbot for Facebook Messenger) and BMO's Virtual Assistant (chatbot for Twitter) | Continue to enhance the digital experience through sales and service transactions |

## Canadian P&C

| (Canadian $ in millions, except as noted)<br>As at or for the year ended October 31 | **2018** | 2017 | 2016 |
|---|---|---|---|
| Net interest income | **5,541** | 5,261 | 5,080 |
| Non-interest revenue | **2,171** | 2,182 | 1,909 |
| Total revenue (teb) | **7,712** | 7,443 | 6,989 |
| Provision for credit losses on impaired loans (1) | **466** | na | na |
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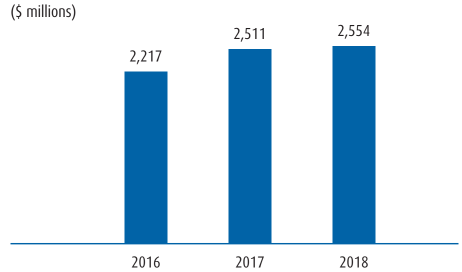
| Total provision for credit losses (1) | **469** | 483 | 506 |
| Non-interest expense | **3,805** | 3,622 | 3,500 |
| Income before income taxes | **3,438** | 3,338 | 2,983 |
| Provision for income taxes | **884** | 827 | 766 |
| Reported net income | **2,554** | 2,511 | 2,217 |
| Amortization of acquisition-related intangible assets (2) | **2** | 3 | 2 |
| Adjusted net income | **2,556** | 2,514 | 2,219 |
| **Key Performance Metrics and Drivers** | | | |
| Personal revenue | **5,013** | 4,718 | 4,568 |
| Commercial revenue | **2,699** | 2,725 | 2,421 |
| Net income growth (%) | **1.7** | 13.2 | 4.8 |
| Revenue growth (%) | **3.6** | 6.5 | 5.0 |
| Non-interest expense growth (%) | **5.0** | 3.5 | 3.1 |
| Adjusted non-interest expense growth (%) | **5.0** | 3.5 | 3.2 |
| Operating leverage (%) | **(1.4)** | 3.0 | 1.9 |
| Adjusted operating leverage (%) | **(1.4)** | 3.0 | 1.8 |
| Efficiency ratio (%) | **49.3** | 48.7 | 50.1 |
| Net interest margin on average earning assets (%) | **2.60** | 2.53 | 2.55 |
| Average earning assets | **212,965** | 207,815 | 199,527 |
| Average gross loans and acceptances | **223,536** | 215,848 | 205,973 |
| Average net loans and acceptances | **222,673** | 215,667 | 205,813 |
| Average deposits | **159,483** | 152,492 | 142,132 |
| Full-time equivalent employees | **14,644** | 14,559 | 14,803 |

(1) Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The provision for credit losses in prior periods is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 121 for further details.
(2) Before tax amounts of $2 million in 2018 and $3 million in both 2017 and 2016 are included in non-interest expense.
Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.
na – not applicable

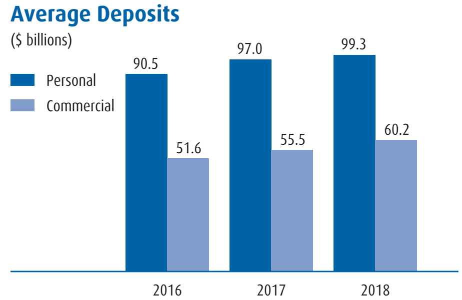
### Reported Net Income

($ millions)



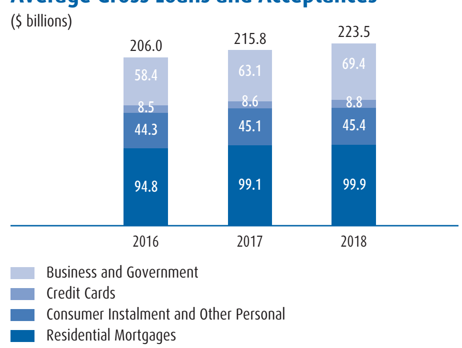

### Average Deposits

($ billions)




### Average Gross Loans and Acceptances*

($ billions)




*Numbers may not add due to rounding.

## Financial Review

Canadian P&C reported net income of $2,554 million increased $43 million or 2%, and adjusted net income of $2,556 million increased $42 million or 2% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Net income in the prior year included a $168 million after-tax ($187 million pre-tax) gain on the sale of Moneris US, which had a negative impact of approximately 7% on net income growth and 3% on revenue growth in the year.

Revenue increased $269 million or 4% to $7,712 million. In our personal banking business, revenue increased $295 million or 6% due to an increase in non-interest revenue, including a $39 million gain related to the restructuring of Interac Corporation, higher margins and higher balances across most products. In our commercial banking business, revenue decreased $26 million or 1% as the benefit from higher balances and higher margins was more than offset by lower non-interest revenue, due to the gain on sale of Moneris US in the prior year, which had a 7% negative impact on revenue growth in the current year.

Net interest margin increased 7 basis points to 2.60%, due to higher spreads and a favourable product mix.

The provision for credit losses decreased $14 million or 3% to $469 million. The provision for credit losses on impaired loans decreased $17 million due to lower commercial provisions, partially offset by higher consumer provisions. There was a $3 million provision for credit losses on performing loans in the current year.

Non-interest expense was $3,805 million, an increase of $183 million or 5% from a year ago, largely reflecting continued investment in the business, including increases in technology and sales force investments.

Average gross loans and acceptances increased $7.7 billion or 4% from a year ago to $223.5 billion. Total personal lending balances (excluding retail cards) increased 1% from the prior year, reflecting certain participation choices, including reduced participation in non-proprietary mortgage channels, offset by 4% growth in proprietary mortgages and amortizing home equity line of credit (HELOC) loans. Commercial loan balances (excluding corporate cards) increased 10% year-over-year, with good growth across a number of industry sectors.

Average deposits increased $7.0 billion or 5% to $159.5 billion. Personal deposit balances increased 2%, including growth in chequing account balances of 7%. Commercial deposit balance growth was broad-based, with balances growing 8% from the prior year.



## Business Environment, Outlook and Challenges

The personal and commercial banking business in Canada is highly competitive in a rapidly changing environment. Traditional competitors continue to invest in innovative technologies that allow them to serve customers in new ways and focus more effectively on the customer experience. Non-traditional competitors have continued to gain momentum and are deepening their connections with banks in order to enhance their products and build customer relationships.

Growth in the Canadian economy for 2019 is expected to be in line with 2018, with rising interest rates and modestly lower unemployment. This interest rate environment is expected to put pressure on growth in consumer loans, residential mortgages and business lending. Personal and commercial term deposits are expected to grow modestly as interest rates trend higher. Margins are expected to increase slightly as a result of rising interest rates, although any increase may be dampened by the effects of competitive pricing in the market.

We are committed to building out our commercial business by expanding our advisory sales force and targeting commercial opportunities across geographic regions, market segments and industry sectors, especially in high-value sectors and businesses.

We continue to develop our personal business by growing our sales force and deepening primary customer relationships, while leveraging digital technologies to deliver an exceptional customer experience. We are positioning ourselves to thrive in a digital future, investing in talent and enhancing our customers' experience.

Technology will continue to play a leading role in delivering exceptional experiences for all our customers, while enhancing the efficiency of our operations.

The Canadian economic environment in 2018 and the outlook for 2019 are discussed in more detail in the Economic Developments and Outlook section on page 30.

**Caution**

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

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 27.

# U.S. Personal and Commercial Banking

We help more than two million customers by providing a banking experience with a human touch – delivering a broad range of financial services. Our commercial bank provides a combination of sector expertise, local knowledge, and a breadth of products and services as a trusted partner to our clients. We serve our personal and business banking customers seamlessly across our extensive network of more than 560 branches, our dedicated contact centres, our digital banking platforms, and nationwide access to more than 43,000 automated teller machines.

**David R. Casper**
Chief Executive Officer, BMO Financial Corporation
Group Head, North American Commercial Banking

**Ernie (Erminia) Johannson**
Group Head
U.S. Personal and Business Banking

## Lines of Business

**Personal and Business Banking** offers a variety of products and services, including deposits, home lending, consumer credit, business lending, credit cards, and other banking services. Our goal in everything we do is to help our customers make sense of complexity, make better choices in saving, investing, and borrowing, and have confidence in their decisions.

**Commercial Banking** provides clients with a broad range of banking products and services, including multiple financing options and treasury solutions, as well as risk management products. We believe in partnering with our clients, anticipating their financial needs and sharing our expertise and knowledge to help them grow their businesses.

## Strengths and Value Drivers

- Rich Midwestern heritage dating back to 1847, with a long-standing commitment to the success of our customers and the communities in which our employees work and live.
- Talented and experienced team that understands our customers and knows how to compete and perform well in our markets.
- Large-scale, diversified national commercial business, centred in the U.S. Midwest and supported by in-depth industry knowledge, best-in-class customer experience, and top-tier market share in our flagship businesses.
- Increasing momentum for continued growth in personal banking, driven by a large and growing customer base, our extensive branch network, a broad suite of products and services and accelerated investment in digital capabilities.
- Comprehensive and integrated control structure that supports the active management of risk and regulatory compliance.

## Strategy and Key Priorities

We aim to grow our business and be a leader in our markets by creating a differentiated and intuitive partnership with our customers to address all of their financial needs.

| Key Priority | 2018 Achievements | 2019 Focus |
|---|---|---|
| **Deliver a great experience for our customers and employees** | • Ranked second among the 40 leading banks in the 2018 Survey of Bank Reputations by *American Banker*, which assesses financial institutions for their governance, products and services, and innovation<br>• *Community Reinvestment Act* performance that was rated Outstanding by the Office of the Comptroller of the Currency, recognizing our commitment to help support low and moderate-income communities<br>• Named to the 2017 list of America's Top Corporations for Women's Business Enterprises by the Women's Business Enterprise National Council, reflecting our commitment to creating a level playing field for women-owned businesses<br>• Maintained robust customer growth, continuing to lead in household acquisition for retail deposits and building momentum across commercial segments<br>• Further improved customer loyalty as measured by Net Promoter Score across all businesses<br>• Reinforced our second-place ranking in deposit market share in our core Chicago and Wisconsin markets and our top-five ranking across our Midwest footprint | Continue to strengthen our competitive position by investing in key capabilities, such as digital and talent, while leveraging our distinctive cross-border advantage and differentiated "One Bank" value proposition to deliver a great customer experience |

| Key Priority | 2018 Achievements | 2019 Focus |
|---|---|---|
| In Personal and Business Banking, accelerate digitization and guidance delivery, drive deposit growth, build a flagship franchise in business banking, and optimize our lending portfolio | • Enhanced our digital capabilities with new online banking features, including the ability to open accounts digitally, and enhanced branch infrastructure, including instant debit card and in-branch Wi-Fi<br>• Continued to enhance our deposit product suite with a new Platinum Money Market™ product, designed to help our customers grow their savings while also maintaining the convenience of liquidity<br>• Opened our 12th Smart Branch over the past three years, bringing together high-tech convenience and personalized services to offer customers a new and engaging environment<br>• Launched the second annual BMO Harris/1871 Innovation Program to continue to engage with and mentor early-stage fintech startups across Chicagoland and Wisconsin | Deliver leading deposit growth, build a business banking franchise, drive profitable growth in lending and accelerate digitization and guidance delivery |
| In Commercial Banking, accelerate growth in high-potential geographies, invest in specialty businesses and high-growth sectors, and deepen deposit capture and share of wallet | • Continued to grow our geographic footprint, with expansion of our coverage in Dallas, Texas and Columbus, Ohio and investment to build out our presence in the Southeast (Atlanta)<br>• Developed and launched new sales initiatives and products, including variable rate and term certificates of deposit and increased emphasis on select sectors, as part of a new deposit growth strategy<br>• Added to our offering in specialty sectors, including expansion of asset-based lending to cover more industries and geographies and the launch of unitranche financing in sponsor finance, to further reinforce our market position and value proposition<br>• Launched new digital capabilities, such as eSign, to enhance the customer experience in onboarding with our treasury and payment solutions | Invest in underpenetrated markets, expand national presence in high-potential geographies, establish new specialty businesses, increase investment in treasury and payment solutions, and enhance cross-bank collaboration |

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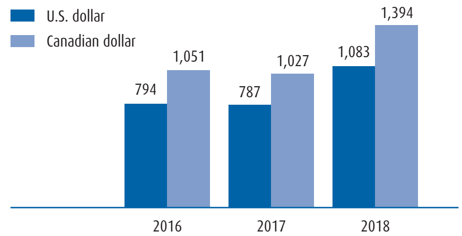
## U.S. P&C

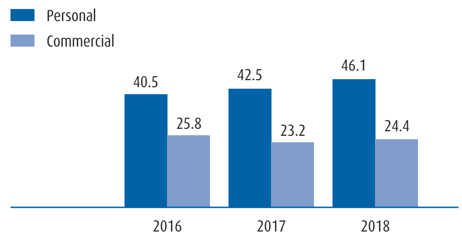
| (Canadian $ equivalent in millions, except as noted)<br>As at or for the year ended October 31 | **2018** | 2017 | 2016 |
|---|---|---|---|
| Reported net income | **1,394** | 1,027 | 1,051 |
| Adjusted net income | **1,439** | 1,073 | 1,101 |
| Net income growth (%) | **35.7** | (2.2) | 28.4 |
| Adjusted net income growth (%) | **34.0** | (2.4) | 26.3 |
| (US$ in millions, except as noted) | | | |
| Net interest income (teb) | **2,983** | 2,718 | 2,635 |
| Non-interest revenue | **886** | 817 | 845 |
| Total revenue (teb) | **3,869** | 3,535 | 3,480 |
| Provision for credit losses on impaired loans (1) | **201** | na | na |
| Provision for (recovery of) credit losses on performing loans (1) | **(31)** | na | na |
| Total provision for credit losses (1) | **170** | 221 | 188 |
| Non-interest expense | **2,338** | 2,253 | 2,199 |
| Income before income taxes | **1,361** | 1,061 | 1,093 |
| Provision for income taxes (teb) | **278** | 274 | 299 |
| Reported net income | **1,083** | 787 | 794 |
| Amortization of acquisition-related intangible assets (2) | **35** | 36 | 37 |
| Adjusted net income | **1,118** | 823 | 831 |
| **Key Performance Metrics and Drivers** (US$ basis) | | | |
| Personal revenue | **1,559** | 1,386 | 1,417 |
| Commercial revenue | **2,310** | 2,149 | 2,063 |
| Net income growth (%) | **37.5** | (0.8) | 21.8 |
| Adjusted net income growth (%) | **35.8** | (1.0) | 19.8 |
| Revenue growth (%) | **9.4** | 1.6 | 21.1 |
| Non-interest expense growth (%) | **3.8** | 2.4 | 14.6 |
| Adjusted non-interest expense growth (%) | **4.0** | 2.6 | 15.3 |
| Operating leverage (teb) (%) | **5.6** | (0.8) | 6.5 |
| Adjusted operating leverage (teb) (%) | **5.4** | (1.0) | 5.8 |
| Efficiency ratio (teb) (%) | **60.4** | 63.7 | 63.2 |
| Adjusted efficiency ratio (teb) (%) | **59.3** | 62.4 | 61.7 |
| Net interest margin on average earning assets (teb) (%) | **3.72** | 3.69 | 3.57 |
| Average earning assets | **80,255** | 73,752 | 73,724 |
| Average gross loans and acceptances | **76,067** | 69,294 | 68,670 |
| Average net loans and acceptances | **75,558** | 69,324 | 68,599 |
| Average deposits | **70,431** | 65,724 | 66,343 |
| Full-time equivalent employees | **7,188** | 7,138 | 7,055 |

(1) Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The provision for credit losses in prior periods is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 121 for further details.
(2) Before tax amounts of US$45 million in 2018, US$49 million in 2017 and US$52 million in 2016 are included in non-interest expense.
Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.
na – not applicable

### Reported Net Income
($ millions)

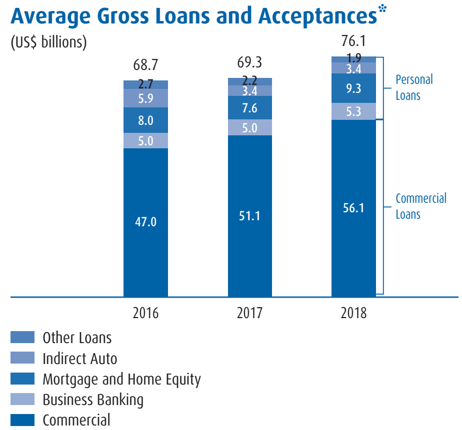



### Average Deposits*
(US$ billions)




*Numbers may not add due to rounding.

### Average Gross Loans and Acceptances*
(US$ billions)




*Numbers may not add due to rounding.

# Financial Review

U.S. P&C reported net income of $1,394 million increased $367 million or 36%, and adjusted net income of $1,439 million increased $366 million or 34% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income of $1,083 million increased $296 million or 37%, and adjusted net income of $1,118 million increased $295 million or 36%, due to higher revenue, the benefit of U.S. tax reform and lower provisions for credit losses, partially offset by higher expenses. The benefit of U.S. tax reform was $91 million in reported net income and $95 million in adjusted net income. The prior year results included a $27 million after-tax ($43 million pre-tax) loss on a loan sale, which had a favourable impact of approximately 5% on reported net income growth, and 4% on an adjusted basis.

Revenue of $3,869 million increased $334 million or 9%, mainly due to higher deposit revenue and loan volumes in the current year, and the impact of the loss on a loan sale in the prior year, net of loan spread compression.

In our commercial banking business, revenue increased $161 million or 7% to $2,310 million, mainly due to increased loan volumes and deposit revenue, net of loan spread compression.

In our personal and business banking business, revenue increased $173 million or 13% to $1,559 million, primarily due to higher deposit revenue, reflecting higher spreads, and the loss on a loan sale in the prior year.

Net interest margin increased 3 basis points to 3.72%, mainly due to higher deposit revenue driven by higher interest rates, partially offset by loan spread compression and change in business mix.

The provision for credit losses decreased $51 million or 23% to $170 million. The provision for credit losses on impaired loans decreased $20 million, due to lower consumer and commercial provisions. There was a $31 million net recovery of credit losses on performing loans in the current year.

Non-interest expense of $2,338 million and adjusted non-interest expense of $2,293 million both increased 4%, primarily due to technology and other investments in the business.

Average gross loans and acceptances increased $6.8 billion or 10% to $76.1 billion, driven by growth of 10% in both commercial and personal loan volumes. Commercial loan growth was driven by robust diversified growth from most of our segments, while personal loan growth benefited from the purchase of a mortgage portfolio in the first quarter of 2018, as well as organic growth.

Average deposits of $70.4 billion increased $4.7 billion or 7% from the prior year, driven by 8% growth in personal volumes and 5% growth in commercial volumes.

## Business Environment, Outlook and Challenges

U.S. P&C operations are primarily based in the six states of the U.S. Midwest (Illinois, Wisconsin, Indiana, Minnesota, Missouri and Kansas). In addition, our personal business serves customers in Arizona and Florida, while our commercial business provides targeted nationwide coverage for key specialty sectors.

The personal and commercial banking environment is competitive, and with the rising rate environment, there is added pressure on deposit market share and pricing. Indications of sustainable economic growth within our footprint include unemployment rates that are at historic lows, higher consumer and commercial spending amid lower income taxes, encouraging credit growth and a healthy housing market. The main risks to the U.S. economic outlook relate to trade protectionism, geopolitical tensions and the possibility of rising inflation.

Economic growth is expected to moderate, but remain solid in 2019. This growth environment offers notable opportunities for both our businesses, in particular for the expansion of our personal business and for greater national coverage in our commercial business.

In our personal banking business, the adoption of digital solutions and progressive product offerings that align our strategic initiatives with market trends and consumer needs will help drive growth.

In our flagship commercial business, our main priorities of building out a presence in new markets, maintaining good momentum in existing markets and deepening our relationships with customers, will help us to continue to achieve peer-leading growth.

The U.S. economic environment in 2018 and the outlook for 2019 are discussed in more detail in the Economic Developments and Outlook section on page 30.

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



Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 27.

# BMO Wealth Management

BMO's wealth management business serves a full range of clients, from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and services, including insurance. BMO Wealth Management is a global business with an active presence in markets across Canada, the United States, EMEA and Asia.

**Joanna Rotenberg**
Group Head
BMO Wealth Management (1)

**Gilles Ouellette**
Group Head, BMO Asset Management and
Vice-Chair, International, BMO Financial Group (1)

## Lines of Business

**BMO Nesbitt Burns**, our full-service investing business in Canada, offers a broad range of client-focused investment and wealth advisory services delivered with our comprehensive wealth planning capabilities, as well as Canada's first bank-owned digital portfolio management platform, SmartFolio.

**BMO InvestorLine** is an online investing service that offers clients two ways to invest: our top-ranked self-directed service, which provides tools to help investors make independent investment decisions; and adviceDirect™, which provides investors with continuous portfolio monitoring and industry-leading analysis.

**BMO's Private Banking** businesses in Canada, Hong Kong and Singapore offer a comprehensive range of financial services and solutions to high net worth and ultra-high net worth clients.

**BMO's U.S. Wealth Management** businesses offer financial solutions to high net worth and ultra-high net worth families and businesses, and under BMO Harris Financial Advisors, to clients in the mass affluent segment.

**BMO Global Asset Management (GAM)** is a globally significant asset manager offering a comprehensive range of investment products and solutions to institutional, retail and high net worth investors around the world.

**BMO Insurance** provides life insurance and wealth solutions. We manufacture life insurance, accident and sickness insurance, annuity products and segregated funds that are marketed through advisors to individuals and group pension customers. We also offer group creditor and travel insurance to bank customers and reinsurance solutions to international reinsurers.

## Strengths and Value Drivers

- Planning and advice-based approach for individuals, families and businesses that integrates investment, insurance, specialized wealth management and core banking solutions, offered by a team of highly skilled wealth professionals committed to making a meaningful difference in the lives of our clients.
- Diversified portfolio of solutions, ranging from self-directed online investment to professional money management and integrated trust/banking services, for both retail and institutional clients.
- Well-established presence in North American wealth management, as well as private banking capabilities in Asia.
- Globally significant asset manager with broad distribution capabilities in North America, as well as Europe, the Middle East and Africa (EMEA) and Asia.
- Prestigious brand that is widely recognized and trusted, with access to BMO's broad client base and distribution networks, and a culture of innovation that anticipates clients' needs.
- Robust risk management framework supporting alignment with heightened regulatory expectations.

## Strategy and Key Priorities

Deliver on our clients' current and evolving personal wealth, insurance and institutional asset management needs through an exceptional client experience, a focus on innovation and productivity, and strong collaboration across BMO, while maintaining a robust risk management framework.

| Key Priority | 2018 Achievements | 2019 Focus |
| --- | --- | --- |
| Deliver on our clients' current and evolving personal wealth management and insurance needs, with an exceptional client experience | • Continued to drive stronger client loyalty scores across all our businesses with our focus on delivering holistic wealth planning and great client experiences<br>• Continued to invest in digital technology solutions to improve processes, drive productivity and provide greater mobility for our client-facing professionals, enabling them to serve clients in the manner most convenient for them<br>• Launched new digital capabilities to enhance self-serve options for our clients<br>• Transformed the digital journey for our SmartFolio clients from onboarding through account funding, and continued to improve their mobile experience | Provide outstanding support and innovative wealth and insurance offerings that anticipate clients' evolving needs and exceed their expectations |

(1) Gilles Ouellette, Group Head, BMO Asset Management and Vice-Chair, International, BMO Financial Group, plans to retire in 2019. Joanna Rotenberg, Group Head, BMO Wealth Management, will then assume an expanded mandate, leading BMO Global Asset Management in addition to her current responsibilities.

| Key Priority | 2018 Achievements | 2019 Focus |
|---|---|---|
| **Deliver on our clients' current and evolving personal wealth management and insurance needs, with an exceptional client experience (continued)** | • Strengthened our cross-border banking capabilities, providing Wealth Management clients with more ways to access and transfer funds, complemented by new outreach and education initiatives<br>• Added to BMO's financial planning team, which has doubled in size since 2013, to provide clients and wealth professionals with regional technical expertise in areas such as estate and cross-border planning<br>• Launched a Cross-Pacific Referral Program with BMO Private Banking Canada and BMO Private Banking Asia to help meet our clients' global needs<br>• Continued to address the unique needs of women business owners and clients with our industry-leading BMO for Women program<br>• Ongoing positive response to the simplicity and flexibility of our Whole Life insurance offering, with sales doubling year-over-year<br>• Maintained and reinforced our leading position in pension de-risking, supported by a prudent approach to underwriting | Make a meaningful difference in the lives of our clients, enabled by a distinctive talent approach, strong technology and operations, world-class marketing and analytics and client-focused risk and regulatory compliance |
| **Build on our leadership position in key asset management markets through enhanced investment and distribution capabilities** | • Leveraged global investment capabilities to enable delivery of solutions to new markets<br>• Focused distribution on targeted channels, geographic markets and client segments to differentiate and capture share, for example, in the fiduciary market in EMEA<br>• Achieved strong investment performance, with 83% of assets under management meeting or surpassing the relevant benchmark over a five-year period<br>• Ranked #2 in Canadian ETF market share, while leading the market in net sales for the past five years<br>• BMO Global Asset Management was named the *Best Environmental Social and Governance (ESG) Research Team* in the Investment Week Sustainable & ESG Investment Awards 2018. This award recognizes our long-standing commitment and leadership in responsible investing, and our belief that prudent management of ESG issues can have an important impact on the creation of long-term investor value | Continue to build scale at BMO Global Asset Management by extending award-winning global investment capabilities for clients around the world, supported by our global operating platform |
| **Bring the best of BMO to our clients through effective collaboration** | • Advanced collaboration among BMO Private Banking Canada, BMO Nesbitt Burns and Business Banking, as well as between U.S. Wealth Management and Commercial partners, to offer banking, investment and holistic wealth planning services to business and commercial clients in Canada and the United States<br>• Continued to make co-location arrangements for our banking, planning, estate and trust, and investment teams, making it easier for clients to access the best of BMO<br>• Made further improvements to our engagement model and delivered innovative BMO Global Asset Management offerings to Personal and Commercial Banking clients | Continue to strengthen one team across Wealth Management, across the enterprise and across borders to bring the best of BMO to all clients |

MD&A

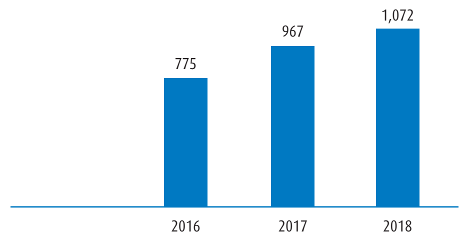
## BMO Wealth Management

| (Canadian $ in millions, except as noted)<br>As at or for the year ended October 31 | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net interest income | **826** | 722 | 635 |
| Non-interest revenue | **5,468** | 5,492 | 5,274 |
| Total revenue | **6,294** | 6,214 | 5,909 |
| Insurance claims, commissions and changes in policy benefit liabilities (CCPB) | **1,352** | 1,538 | 1,543 |
| Revenue, net of CCPB | **4,942** | 4,676 | 4,366 |
| Provision for credit losses on impaired loans (1) | **6** | na | na |
| Provision for credit losses on performing loans (1) | **–** | na | na |
| Total provision for credit losses (1) | **6** | 8 | 9 |
| Non-interest expense | **3,509** | 3,351 | 3,337 |
| Income before income taxes | **1,427** | 1,317 | 1,020 |
| Provision for income taxes | **355** | 350 | 245 |
| Reported net income | **1,072** | 967 | 775 |
| Acquisition integration costs (2) | **–** | – | 30 |
| Amortization of acquisition-related intangible assets (3) | **41** | 65 | 71 |
| Adjusted net income | **1,113** | 1,032 | 876 |
| **Key Performance Metrics and Drivers** | | | |
| Traditional wealth businesses net income | **805** | 729 | 552 |
| Traditional wealth businesses adjusted net income | **846** | 794 | 653 |
| Insurance net income | **267** | 238 | 223 |
| Net income growth (%) | **11.0** | 24.5 | (10.0) |
| Adjusted net income growth (%) | **8.0** | 17.6 | (9.4) |
| Revenue growth (%) | **1.3** | 5.2 | 2.2 |
| Revenue growth, net of CCPB (%) | **5.7** | 7.1 | (3.6) |
| Non-interest expense growth (%) | **4.7** | 0.4 | (0.6) |
| Adjusted non-interest expense growth (%) | **5.7** | 1.9 | (0.4) |
| Return on equity (%) | **17.8** | 15.9 | 12.7 |
| Adjusted return on equity (%) | **18.5** | 17.0 | 14.3 |
| Operating leverage, net of CCPB (%) | **1.0** | 6.7 | (3.0) |
| Adjusted operating leverage, net of CCPB (%) | **–** | 5.2 | (3.2) |
| Efficiency ratio, net of CCPB (%) | **71.0** | 71.7 | 76.4 |
| Adjusted efficiency ratio (%) | **54.9** | 52.6 | 54.3 |
| Adjusted efficiency ratio, net of CCPB (%) | **70.0** | 70.0 | 73.5 |
| Net interest margin on average earning assets (%) | **2.65** | 2.57 | 2.45 |
| Average common equity | **5,989** | 6,040 | 6,078 |
| Average earning assets | **31,167** | 28,026 | 25,898 |
| Average gross loans and acceptances | **20,290** | 18,068 | 16,464 |
| Average net loans and acceptances | **20,260** | 18,063 | 16,458 |
| Average deposits | **34,251** | 33,289 | 29,931 |
| Assets under administration (4) | **382,839** | 359,773 | 469,694 |
| Assets under management | **438,274** | 429,448 | 405,695 |
| Full-time equivalent employees | **6,407** | 6,304 | 6,282 |
| **U.S. Business Select Financial Data** (US$ in millions) | | | |
| Total revenue | **600** | 650 | 629 |
| Non-interest expense | **532** | 546 | 575 |
| Reported net income | **50** | 76 | 39 |
| Adjusted net income | **60** | 88 | 54 |
| Average earning assets | **3,709** | 3,348 | 3,446 |
| Average net loans and acceptances | **3,619** | 3,300 | 3,200 |
| Average deposits | **5,748** | 5,783 | 5,602 |

(1) Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The provision for credit losses in prior periods is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 121 for further details.
(2) F&C acquisition integration costs before tax amounts of $nil in both 2018 and 2017 and $38 million in 2016 are included in non-interest expense.
(3) Before tax amounts of $52 million in 2018, $80 million in 2017 and $88 million in 2016 are included in non-interest expense.
(4) Certain assets under management that are also administered by us are included in assets under administration.
Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.
na – not applicable

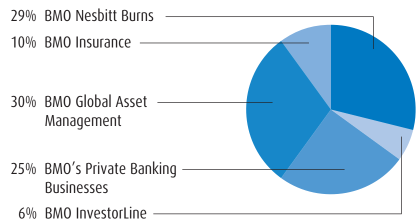
### Reported Net Income

($ millions)




### 2018 Net Revenue by Line of Business

(%)



## Financial Review

Wealth Management reported net income of $1,072 million increased $105 million or 11% from the prior year. Adjusted net income of $1,113 million, which excludes the amortization of acquisition-related intangible assets, increased $81 million or 8%.

Traditional wealth reported net income of $805 million increased $76 million or 11% from the prior year. Adjusted net income in traditional wealth of $846 million increased $52 million or 7%, primarily due to growth from our diversified businesses and higher equity markets on average, partially offset by higher expenses and a legal provision. Net income in insurance of $267 million increased $29 million or 12%, primarily due to less elevated reinsurance claims in the current year and business growth, partially offset by unfavourable market movements in the current year relative to favourable market movements in the prior year.

Revenue of $6,294 million increased $80 million or 1% from the prior year. Revenue, net of CCPB, of $4,942 million increased $266 million or 6%. Revenue in traditional wealth of $4,463 million increased $257 million or 6%, due to growth in client assets, including a benefit from higher equity markets on average, and higher deposit and loan revenue, partially offset by the impact of the divestiture of a non-core business in the prior year. Insurance revenue, net of CCPB, of $479 million increased $9 million or 2%, due to the drivers noted above.

The provision for credit losses was $6 million, compared with $8 million in the prior year. The provision for credit losses on impaired loans decreased $2 million, due to lower consumer provisions. There was no provision for credit losses on performing loans in the current year.

Non-interest expense was $3,509 million, an increase of $158 million or 5%. Adjusted non-interest expense was $3,457 million, an increase of $186 million or 6% from the prior year, reflecting higher revenue-based costs, technology investments and strategic growth in the sales force, partially offset by the impact of the divestiture.

Assets under management increased $8.8 billion or 2% from the prior year to $438.3 billion, primarily driven by growth in client assets. Assets under administration increased $23.1 billion or 6% from the prior year to $382.8 billion, also primarily driven by growth in client assets.



## Business Environment, Outlook and Challenges

Wealth Management is a global financial services provider. The operating environment within the wealth management industry, which includes major banks, insurance companies, brokers, and independent mutual fund and asset management companies, is highly competitive. Faced with changing client needs and regulatory demands, the industry continues to evolve. Wealth Management is considered to be an engine of growth for BMO's operating performance, with many peer group competitors also actively pursuing accelerated growth strategies.

Growth in the Canadian economy is expected to remain steady but subdued in 2019 while the U.S. economy is expected to moderate somewhat compared with 2018. We anticipate good growth in net new assets, and market appreciation is expected to be moderate. Long-term interest rates in Canada and the United States are expected to rise moderately. We anticipate that rising short-term interest rates will have a positive impact on our brokerage businesses. Ongoing changes in the regulatory and competitive environment and client preferences could result in downward pressure on fees for products and services. We expect to maintain our disciplined expense management approach by gaining efficiencies through digitization and by simplifying the way we work and service our clients. Resources conserved through these ongoing initiatives will contribute to fund strategic business investments.

The Canadian and U.S. economic environment in 2018 and the outlook for 2019 are discussed in more detail in the Economic Developments and Outlook section on page 30.

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

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 27.

# BMO Capital Markets

BMO Capital Markets is a North American-based financial services provider offering a complete range of products and services to corporate, institutional and government clients. BMO Capital Markets has approximately 2,700 professionals in 33 locations around the world, including 19 offices in North America.

**Daniel Barclay**
Group Head
BMO Capital Markets (1)

**Patrick Cronin**
Chief Risk Officer
BMO Financial Group (1)



## Lines of Business

**Investment and Corporate Banking** offers debt and equity capital-raising services to clients, as well as loan origination and syndication, balance sheet management solutions and treasury management services. We provide strategic advice on mergers and acquisitions (M&A), restructurings and recapitalizations, as well as valuation and fairness opinions. We also offer trade finance and risk mitigation services to support the international business activities of our clients, and we provide a wide range of banking and other operating services tailored to North American and international financial institutions.

**Trading Products** offers research and access to global markets for institutional, corporate and retail clients through an integrated suite of sales and trading solutions that include debt, foreign exchange, interest rate, credit, equity, securitization and commodities. We also offer new product development and origination services, as well as risk management (derivatives) advice and services to hedge against fluctuations in a variety of key inputs, including interest rates and commodities prices. In addition, we provide funding and liquidity management to our clients.

## Strengths and Value Drivers

- Unified coverage and integrated distribution across our North American platform and complementary global footprint, delivering a seamless and exceptional client experience.
- Innovative ideas and tailored solutions delivered through a comprehensive coverage team, dedicated to anticipating, understanding and meeting our clients' needs.
- Top-ranked Canadian equity and fixed income research with sales and trading capabilities and deep expertise in core sectors.
- Well-diversified platform and business mix – by sector, geography, product and currency, including a strong, scalable and relevant U.S. business – positioning BMO well in several key markets and over the long term.
- Strong first-line-of-defence risk management and regulatory and compliance capabilities, enabling effective decision-making in support of our strategic priorities.

## Strategy and Key Priorities

BMO Capital Markets' vision is to be a top 10 North American investment bank, enabling clients to achieve their goals. We offer an integrated platform, differentiated by innovative ideas and unified coverage.

| Key Priority | 2018 Achievements | 2019 Focus |
|---|---|---|
| Maintain our leadership position in Canada through our top-tier coverage team | • Continued to win key mandates in core Canadian industries, including: acting as exclusive financial advisor to Pure Industrial Real Estate Trust on its $3.8 billion sale, the largest industrial real estate transaction in Canadian history; advising METRO on its acquisition of Jean Coutu Group, which created a $16 billion retail leader; and advising steelmaker Stelco as a joint bookrunner on its IPO and two follow-on offerings, which raised $645 million<br>• Ranked #1 in equity research and trading in Canada in the 2018 Brendan Wood International survey<br>• Recognized as a 2018 Greenwich Quality Leader in Canadian Equity Sales Trading and Execution Service<br>• Announced a strategic technology partnership with Clearpool Group to provide a suite of fully customizable algorithms to institutional clients trading Canadian and U.S. equities<br>• Launched a pilot fixed income issuance transaction using blockchain technology to mirror the transaction, a first of its kind in the Canadian marketplace<br>• Received the top two Canadian awards for Structured Products from StructuredRetailProducts.com at the 2018 Americas Structured Products and Derivatives Conference, and was also named Best House, Canada (sixth nomination for this award in seven years) and Best Distributor, Canada<br>• Named Best Bank for the Canadian Dollar by *FX Week* magazine for the eighth consecutive year | Continue to earn leading market share in Canada by strengthening our client relationships and driving incremental market share growth |

(1) Prior to November 1, 2018, Daniel Barclay was Co-Head, Global Investment and Corporate Banking, and Patrick Cronin was Group Head, BMO Capital Markets.

| Key Priority | 2018 Achievements | 2019 Focus |
|---|---|---|
| Drive performance in our U.S. platform with a focused strategy and selectively expand our U.S. corporate bank where we are competitively advantaged | • Acquired KGS-Alpha Capital Markets (KGS-Alpha), a New York-based fixed income broker-dealer specializing in U.S. mortgage-backed and asset-backed securities in the institutional investor market<br>• Collaborated with our U.S. P&C business to deliver as "One Bank" in key middle-market M&A transactions, including our exclusive financial advisory role with Lifetouch in its US$825 million sale to Shutterfly<br>• Acted as lead-left bookrunner on 134 U.S. equity and debt capital raising transactions, up more than 38% from last year<br>• Closed 38 U.S. and seven cross-border M&A transactions with a total deal volume of US$23.8 billion<br>• Ranked #1 in the Institutional Investor 2018 All-America Fixed Income Research Team Survey for U.S. Rates Strategy and Technical Analysis<br>• Expanded our presence with the acquisition of US$3 billion in energy loan commitments from a global financial institution | Continue to leverage our key strategic investment to accelerate growth from our U.S. platform, and selectively expand our U.S. corporate bank where we are competitively advantaged |
| Leverage our strong North American capabilities and presence in select international markets | • Named World's Best Metals & Mining Investment Bank for the ninth consecutive year by *Global Finance* and hosted one of the industry's most important events, the 27th Annual Global Metals & Mining Conference, which brought together 550 investors and 800 corporate attendees, including 140 presenting companies<br>• Named Best Institutional Forex Provider in North America/China for the eighth consecutive year by *Global Banking and Finance Review*<br>• Executed live pilot transactions on Batavia, a blockchain-based global trade finance platform jointly developed by a consortium that includes BMO<br>• Maintained our leadership position in the Supranational Sub-Sovereign & Agency (SSA) sector as joint lead manager on two World Bank Sustainable Development Bonds – one in support of the empowerment of women and girls and the other in support of the health and nutrition of women, adolescents and children – with each offering raising $1 billion<br>• Underwrote our first social bond issued by a supranational borrower, the Inter-American Development Bank, to help fund childhood education in developing Latin American countries<br>• Hosted inaugural U.S. Rates Seminar in Seoul, South Korea, with more than 70 participants, demonstrating the growing extent of our reach into Asian market segments | Continue to leverage our strong North American and global capabilities to expand our footprint and establish strategic relationships in select international markets |

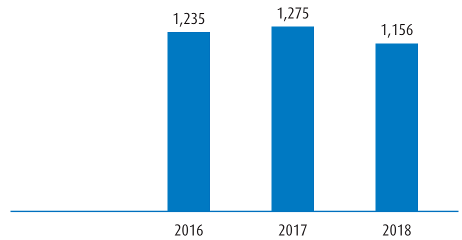
## BMO Capital Markets

| (Canadian $ in millions, except as noted)<br>As at or for the year ended October 31 | **2018** | 2017 | 2016 |
|---|---|---|---|
| Net interest income (teb) | **659** | 1,233 | 1,459 |
| Non-interest revenue | **3,696** | 3,336 | 2,855 |
| Total revenue (teb) | **4,355** | 4,569 | 4,314 |
| Provision for credit losses on impaired loans (1) | **(17)** | na | na |
| Provision for credit losses on performing loans (1) | **(1)** | na | na |
| Total provision for credit losses (1) | **(18)** | 44 | 81 |
| Non-interest expense | **2,851** | 2,778 | 2,574 |
| Income before income taxes | **1,522** | 1,747 | 1,659 |
| Provision for income taxes (teb) | **366** | 472 | 424 |
| Reported net income | **1,156** | 1,275 | 1,235 |
| Acquisition integration costs (2) | **11** | – | – |
| Amortization of acquisition-related intangible assets (3) | **2** | 2 | 1 |
| Adjusted net income | **1,169** | 1,277 | 1,236 |
| **Key Performance Metrics and Drivers** | | | |
| Trading Products revenue | **2,539** | 2,694 | 2,653 |
| Investment and Corporate Banking revenue | **1,816** | 1,875 | 1,661 |
| Net income growth (%) | **(9.4)** | 3.2 | 23.1 |
| Adjusted net income growth (%) | **(8.5)** | 3.3 | 23.0 |
| Revenue growth (%) | **(4.7)** | 5.9 | 12.7 |
| Non-interest expense growth (%) | **2.6** | 7.9 | 3.8 |
| Adjusted non-interest expense growth (%) | **2.1** | 7.9 | 3.8 |
| Return on equity (%) | **12.8** | 15.3 | 15.8 |
| Adjusted return on equity (%) | **13.0** | 15.4 | 15.8 |
| Operating leverage (teb) (%) | **(7.3)** | (2.0) | 8.9 |
| Adjusted operating leverage (teb) (%) | **(6.8)** | (2.0) | 8.9 |
| Efficiency ratio (teb) (%) | **65.5** | 60.8 | 59.7 |
| Adjusted efficiency ratio (teb) (%) | **65.1** | 60.8 | 59.6 |
| Net interest margin on average earning assets (teb) (%) | **0.24** | 0.47 | 0.58 |
| Average common equity | **8,464** | 7,900 | 7,387 |
| Average earning assets | **271,839** | 263,128 | 251,962 |
| Average assets | **307,087** | 302,518 | 301,623 |
| Average gross loans and acceptances | **46,724** | 48,217 | 44,866 |
| Average net loans and acceptances | **46,658** | 48,191 | 44,817 |
| Average deposits | **138,440** | 144,357 | 146,888 |
| Full-time equivalent employees | **2,700** | 2,502 | 2,353 |
| **U.S. Business Select Financial Data** (US$ in millions) | | | |
| Total revenue (teb) | **1,249** | 1,318 | 1,132 |
| Non-interest expense | **985** | 927 | 860 |
| Reported net income | **196** | 267 | 175 |
| Adjusted net income | **205** | 268 | 176 |
| Average earning assets | **92,235** | 88,044 | 78,619 |
| Average assets | **98,265** | 93,253 | 86,137 |
| Average net loans and acceptances | **15,249** | 15,359 | 14,932 |
| Average deposits | **53,008** | 52,471 | 52,459 |

(1) Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The provision for credit losses in prior periods is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 121 for further details.
(2) KGS-Alpha acquisition integration costs before tax amount of $14 million in 2018 is included in non-interest expense.
(3) Before tax amounts of $3 million in 2018, $3 million in 2017 and $1 million in 2016 are included in non-interest expense.
Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.
na – not applicable

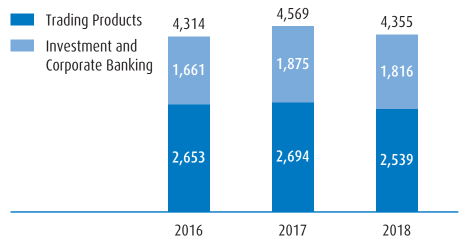
### Reported Net Income

($ millions)



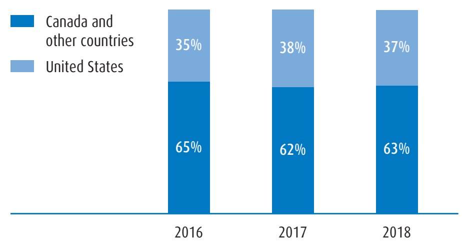

### Revenue by Line of Business

($ millions)




### Revenue by Geography

(%)



# Financial Review

BMO Capital Markets reported net income of $1,156 million decreased $119 million or 9% from the prior year. Adjusted net income of $1,169 million, which excludes the amortization of acquisition-related intangible assets and acquisition integration costs, decreased $108 million or 8%, primarily due to lower revenue.

Revenue of $4,355 million decreased $214 million or 5% from the prior year. Excluding the impact of the weaker U.S. dollar, revenue decreased $189 million or 4%, driven by lower revenue in the Trading Products and Investment and Corporate Banking businesses. Trading Products revenue decreased $155 million or 6% from the prior year, due to lower interest rate trading revenues, lower equity-related activity with corporate clients, and lower net securities gains, partially offset by the impact of the KGS-Alpha acquisition. Investment and Corporate Banking revenue decreased $59 million or 3% from the prior year, primarily due to lower underwriting and advisory revenue, partially offset by higher corporate banking-related revenue.

Total net recovery of credit losses was $18 million, compared with net provisions of $44 million in the prior year. The net recovery of credit losses on impaired loans was $17 million, and there was a $1 million net recovery of credit losses on performing loans in the current year.

Non-interest expense of $2,851 million increased $73 million or 3%, and adjusted non-interest expense of $2,834 million increased $59 million or 2%, or 3% excluding the impact of the weaker U.S. dollar, mainly driven by continued investment in the business, including the acquisition and growth initiatives.

Average assets of $307.1 billion increased $4.6 billion from the prior year. Excluding the impact of the weaker U.S. dollar, average assets increased $6.3 billion. Higher levels of cash and cash equivalents, securities and reverse repos were partially offset by lower derivative financial asset balances.



# Business Environment, Outlook and Challenges

In 2018, the operating environment in Canada and the United States remained highly competitive for capital markets businesses. Traditional banks focused on revenue growth opportunities, ongoing cost reduction efforts and technology advancements to improve efficiency, while non-bank competitors continued to seek opportunities to disrupt the business activities of traditional banks in certain trading and investment banking products.

Looking ahead to fiscal 2019, we are focused on executing our consistent strategy of expanding a highly integrated, client-focused North American capital markets business. We continue to project that our U.S. business will be a significant driver of growth, and we expect to further leverage our established U.S. capabilities, as well as our overall franchise and capital position, to differentiate ourselves in the marketplace and selectively grow our loan book. In Canada, we have leading market share positions across all products and sectors in which we operate, and we expect this business to perform well going forward. We are selectively expanding our capabilities to better serve North American-based clients that have a global presence. Our disciplined and integrated approach to risk management, along with our investments in regulatory technology infrastructure, will continue to enable us to meet risk management requirements in the coming years. Stability in the markets could be challenged by macroeconomic concerns and the heightened risk of protracted trade tensions. Assuming markets are constructive, we are confident that we will be able to maintain our strong position and achieve our strategic objectives.

The Canadian and U.S. economic environment in 2018 and the outlook for 2019 are discussed in more detail in the Economic Developments and Outlook section on page 30.

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

Adjusted results in this section are non-GAAP and are discussed in the Non-GAAP Measures section on page 27.

# Corporate Services, including Technology and Operations



Corporate Services consists of Corporate Units and Technology and Operations (T&O). Corporate Units provide enterprise-wide expertise, governance and support in a variety of areas, including strategic planning, risk management, finance, legal and regulatory compliance, human resources, communications, marketing, real estate, procurement, data and analytics, and innovation. T&O manages, maintains and provides governance of information technology, cyber security and operations services.

The costs of these Corporate Units and T&O services are largely transferred to the three operating groups (Personal and Commercial Banking, Wealth Management and BMO Capital Markets), with any remaining amounts retained in Corporate Services results. As such, Corporate Services results largely reflect the impact of residual treasury-related activities, the elimination of taxable equivalent adjustments, residual unallocated expenses, certain acquisition integration costs and restructuring costs, as well as the one-time non-cash charge due to the revaluation of our U.S. net deferred tax asset due to U.S. tax reform and the benefit resulting from a remeasurement of an employee benefit liability.

Corporate Services focuses on enterprise-wide priorities related to maintaining a sound risk and control environment and efficiency while supporting our businesses in meeting their customer experience objectives. Notable achievements during the year included:

- Established the Enterprise Initiatives, Infrastructure and Innovation (EI3) Group to drive enterprise-wide, sustainable productivity improvements and create capacity for investment in revenue growth, in partnership with the three operating groups
- Accelerated the deployment of digital technology to transform our business, including the successful implementation of our U.S. digital platform, which is now expediting digital developments across personal and commercial segments
- Invested in information technology initiatives to meet regulatory requirements, while also deploying new capabilities that will reduce time to market and strengthen our technology foundation
- Enhanced our data and analytics platform to add new governance, analytics and robotics capabilities in support of business initiatives. Additionally, we advanced cloud-based efficiencies and established partnerships to drive innovation
- Continued to pursue operational efficiencies through the monetization of our technology architecture and data investment, focusing more new spend on transformation and protection
- Launched a new cross-functional team focused on enhancing our employees' technology and workplace experience

## Financial Review

Corporate Services reported net loss for the year was $726 million, compared with a reported net loss of $430 million a year ago. The adjusted net loss for the year was $298 million, compared with an adjusted net loss of $388 million a year ago. The adjusted net loss excludes a one-time non-cash charge of $425 million related to the revaluation of our U.S. net deferred tax asset due to U.S. tax reform and a $203 million benefit as a result of a remeasurement of an employee benefit liability in the current year, restructuring costs and acquisition integration costs in both years with higher costs incurred in 2018, and a $54 million decrease in the collective allowance for credit losses in the prior year. The adjusted net loss improved primarily due to lower expenses and higher revenue, excluding the taxable equivalent basis (teb) adjustment. The reported net loss increased $296 million from the prior year due to the impact of the adjusting items and other drivers noted above.

## Corporate Services, including Technology and Operations

| (Canadian $ in millions, except as noted)<br>As at or for the year ended October 31 | **2018** | 2017 | 2016 |
|---|---|---|---|
| Net interest income before group teb offset | **(243)** | (193) | (283) |
| Group teb offset | **(313)** | (567) | (510) |
| Net interest income (teb) | **(556)** | (760) | (793) |
| Non-interest revenue | **249** | 177 | 58 |
| Total revenue (teb) | **(307)** | (583) | (735) |
| Provision for credit losses on impaired loans (1) | **(13)** | na | na |
| Provision for (recovery of) credit losses on performing loans (1) | **(2)** | na | na |
| Total provision for (recovery of) credit losses (1) | **(15)** | (78) | (74) |
| Non-interest expense | **436** | 635 | 716 |
| Loss before income taxes | **(728)** | (1,140) | (1,377) |
| Recovery of income taxes (teb) | **(2)** | (710) | (730) |
| Reported net loss | **(726)** | (430) | (647) |
| Acquisition integration costs (2) | **14** | 55 | 41 |
| Cumulative accounting adjustment (3) | **–** | – | 62 |
| Restructuring costs (4) | **192** | 41 | 132 |
| Decrease in the collective allowance for credit losses (5) | **–** | (54) | – |
| U.S. net deferred tax asset revaluation (6) | **425** | – | – |
| Benefit from the remeasurement of an employee benefit liability (7) | **(203)** | – | – |
| Adjusted net loss | **(298)** | (388) | (412) |
| Adjusted total revenue (teb) | **(307)** | (583) | (651) |
| Adjusted provision for credit losses on impaired loans (1) | **(13)** | na | na |
| Adjusted provision for (recovery of) credit losses on performing loans (1) | **(2)** | na | na |
| Total adjusted provision for (recovery of) credit losses (1) | **(15)** | (2) | (74) |
| Adjusted non-interest expense | **433** | 489 | 461 |
| Adjusted net loss | **(298)** | (388) | (412) |
| Full-time equivalent employees | **14,515** | 14,697 | 14,741 |
| **U.S. Business Select Financial Data** (US$ in millions) | | | |
| Total revenue (teb) | **(39)** | (90) | (114) |
| Recovery of credit losses (1) | **(12)** | (23) | (81) |
| Non-interest expense | **194** | 245 | 218 |
| Recovery of income taxes (teb) | **265** | (109) | (71) |
| Reported net loss | **(486)** | (203) | (180) |
| Adjusted total revenue (teb) | **(39)** | (90) | (114) |
| Adjusted recovery of credit losses (1) | **(12)** | (2) | (56) |
| Adjusted non-interest expense | **139** | 171 | 119 |
| Adjusted net loss | **(106)** | (170) | (134) |

(1) Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. Changes in the provision for credit losses on performing loans under this methodology will not be considered an adjusting item. The provision for credit losses in periods prior to 2018 is comprised of both specific and collective provisions. Refer to the Changes in Accounting Policies section on page 121 for further details.

(2) Acquisition integration costs related to the acquired BMO Transportation Finance business are included in non-interest expense.

(3) Cumulative accounting adjustment recognized in other non-interest revenue related to foreign currency translation.

(4) Restructuring charges before tax amounts of $260 million in 2018, $59 million in 2017 and $188 million in 2016. Restructuring costs are included in non-interest expense.

(5) Decrease in the collective allowance for credit losses before tax amount of $76 million in 2017.

(6) Reported net income in the first quarter of 2018 included a $425 million (US$339 million) charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*. For more information on the impact of the U.S. *Tax Cuts and Jobs Act*, see Provision for Income Taxes section on page 42.

(7) The current year included a benefit of $277 million pre-tax from the remeasurement of an employee benefit liability as a result of an amendment to our other employee future benefits plan for certain employees that was announced in the fourth quarter of 2018. This amount was included in Corporate Services in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

na – not applicable.