

## Third Quarter 2011 Report to Shareholders

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### **BMO Financial Group Reports Good Third Quarter Results, Contributing to Strong Year-to-Date Performance**

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#### **Financial Results Highlights:**

##### **Third Quarter 2011 Compared with Third Quarter 2010:**

- **Reported net income of \$793 million, up 18% or \$124 million from a year ago**
- **Adjusted net income<sup>1</sup> of \$843 million, up 24% or \$165 million from a year ago**
- **Reported EPS<sup>2</sup> of \$1.27, up 12% from a year ago**
- **Adjusted EPS<sup>1,2</sup> of \$1.36, up 19% from a year ago**
- **ROE of 14.7%, up from 13.7% a year ago**
- **Provisions for credit losses of \$174 million, down \$40 million from a year ago**
- **Common Equity Ratio remains strong, at 9.11%**

##### **Year-to-Date 2011 Compared with Year-to-Date 2010:**

- **Reported net income of \$2,369 million, up 14% or \$298 million from a year ago**
- **Adjusted net income<sup>1</sup> of \$2,431 million, up 16% or \$337 million from a year ago**

**Toronto, August 23, 2011** – For the third quarter ended July 31, 2011, BMO Financial Group reported net income of \$793 million or \$1.27 per share. On an adjusted basis, net income was \$843 million or \$1.36 per share.

"BMO continues to perform well, with adjusted earnings of \$843 million for the quarter and more than \$2.4 billion for the first nine months of the year," said Bill Downe, President and Chief Executive Officer, BMO Financial Group. "The investments we are making continue to contribute to top-line growth and this remains our priority as we steadily introduce new initiatives that further enhance the experience of our customer."

<sup>1</sup> Results and measures in the MD&A are presented on a GAAP basis. They are also presented on an adjusted basis that excludes the impact of certain items. Items excluded from third quarter 2011 results in the determination of adjusted results totalled \$50 million after tax, comprised of \$53 million (\$32 million after tax) of costs for the integration of the Marshall & Ilsley Corporation (M&I) acquisition including integration planning, a \$17 million (\$12 million after tax) charge for amortization of acquisition-related intangible assets and \$9 million (\$6 million after tax) of charges for the hedge of foreign currency risk on the purchase of M&I. Management assesses performance on both a GAAP basis and adjusted basis and considers both bases to be useful in assessing underlying, ongoing business performance. Presenting results on both bases provides readers with an enhanced understanding of how management views results and may enhance readers' analysis of performance. Adjusted results and measures are non-GAAP and are detailed in the Adjusted Net Income section, the Net Income section, and in the Non-GAAP Measures section of Management's Discussion and Analysis (MD&A) where such non-GAAP measures and their closest GAAP counterparts are disclosed.

<sup>2</sup> All Earnings per Share (EPS) measures in this document refer to diluted EPS unless specified otherwise.

During the quarter, BMO completed the acquisition of Marshall & Ilsley Corporation (M&I). Over 26 days, M&I's operations added \$117 million of revenue to BMO's third quarter results and \$32 million of adjusted net income, which excludes integration and related costs.

"This purchase is transforming our U.S. presence by adding scale and providing a strong entry into attractive new markets," said Mr. Downe. "We have more than doubled our U.S. branch count to 688 branches and are competing from a position of strength in a contiguous six-state area with a population and GDP greater than Canada's. The closing process was on time and efficient. Integration efforts are moving forward as planned as we welcome M&I shareholders as shareholders of BMO.

"In addition, the transaction almost triples the size of our U.S. wealth businesses as measured by assets under management and administration, and our U.S. private banking presence now operates from twice as many outlets.

"Banks succeed when customers succeed. We are focused on deepening customer relationships and developing new ones. We are growing commercial loan balances in Canada. In the United States, our goal is to be the leading commercial lender in the Midwest. And we're competing aggressively in every market in which we do business. We have committed to making an additional US\$5 billion available to small and medium-sized businesses over the next two years to play our part in supporting the economic recovery by spurring business investment and job creation.

"Global economic conditions have given us every reason to be cautious. We have been vigilant and continue to be vigilant by moderating the pace of investment. At the same time, we remain confident in our ability to grow and deliver an experience to customers that stands out, while maintaining our well-earned reputation for disciplined risk management," concluded Mr. Downe.

Concurrent with the release of results, BMO announced a fourth quarter dividend of \$0.70 per common share, unchanged from the preceding quarter and equivalent to an annual dividend of \$2.80 per common share.

## Operating Segment Overview

### P&C Canada

Net income was \$432 million, up \$8 million or 1.8% from a year ago. Volume growth continued across most products but growth has slowed while net interest margin has declined slightly. Revenue increased 3.6% from the second quarter while expense growth moderated to 1.1%, as we manage our expenses prudently while investing in our strategic priorities.

We continue to make improvements in enhancing the customer experience through investment in our workforce, improved processes and leveraging our performance management discipline. Customer loyalty, as measured by net promoter score, continues to improve in both our personal and commercial businesses and we have seen an increase in the average number of product categories used by both personal and commercial customers.

In personal banking, the productivity of our sales and distribution network continues to strengthen. New branch openings and renovations continue, as we opened seven new branches and redeveloped nine in the first nine months of the year. We have enhanced our online banking features that make it more convenient for customers to access their banking information and apply for products online. Early indicators demonstrate that our investments in our business are having an impact. There were more than 10 times the number of youth accounts opened in the first three months of our BMO SmartSteps for Parents campaign as were opened in the same timeframe last year. Online sales are up 14% year over year across all retail product categories and in the three months following our online bank account application upgrade, chequing and savings account sales were up almost 50%. We are confident that we are well positioned for future growth.

In commercial banking, we continue to rank second in market share for loans to small and medium-sized businesses with market share remaining stable year over year. In June, BMO was the only Canadian bank recognized in the top international information technology awards announced in International Data Group's *CIO* magazine. The award recognized BMO for its Online Banking for Business platform, a multi-channel, global commercial online banking solution that allows our customers to manage all of their global cash management, foreign exchange and card services online in a secure environment. In addition, earlier this year we launched a new mobile banking service that enables our business banking customers to make payments anytime and anywhere over mobile devices safely and securely. This is consistent with our ongoing investment in delivering a great customer experience to our business banking customers. We are committed to providing seamless, simple, and personalized access to all of their business banking services from one platform. Our goal is to become the bank of choice for businesses across Canada, by providing the knowledge, advice and guidance our customers want.

## **P&C U.S. (all amounts in US\$)**

Net income of \$95 million increased \$45 million or 94% from \$50 million a year ago, with the acquired M&I business contributing \$27 million of the increase. M&I results included in P&C U.S. reflect an \$18 million charge for expected credit losses on the M&I portfolio, determined on a basis consistent with BMO's methodologies and in the same manner as expected losses are determined for other loans in P&C U.S. Differences between expected losses and actual losses on the portfolio are charged (or credited) to Corporate Services.

Excluding the M&I business, net income increased \$18 million or 39%, primarily due to increased revenue from improved net interest margin and higher securities gains, partially offset by lower fee revenue. Revenue increased by 47% on a reported basis and by 8.1% excluding M&I. Higher provisions for credit losses under BMO's expected loss provisioning methodology were offset by lower expenses.

During the quarter, certain impaired real estate secured assets, primarily commercial real estate loans, were transferred to Corporate Services to allow our businesses to focus on ongoing customer relationships and leverage our risk management expertise in our special assets management unit. Prior period loan balances, revenues and expenses have been restated to reflect the transfer. Similar assets acquired in the M&I transaction have also been included in Corporate Services.

The M&I acquisition substantially increases our market presence in the Midwest. We have an enviable market position that will enable us to compete aggressively everywhere we do business. We plan to increase our focus on developing new customer relationships and deepening existing relationships across our businesses, and we are making an additional \$5 billion in credit available to small and medium-sized businesses in our markets over the next two years.

We continue to focus on the customer experience, as reflected in our high loyalty scores. Our personal retail net promoter score of 43 continues to improve, and with three quarters of sequential growth and an increase of one point from 42 in the prior quarter, our score remains very strong compared to the scores of our major competitors. The preceding scores do not reflect any adjustments for the M&I acquisition and M&I loyalty scores.

## **Private Client Group (PCG)**

Net income was \$120 million, up \$15 million or 14% from the same quarter a year ago. Private Client Group net income, excluding the insurance business, increased \$30 million or 43% to \$101 million as we continue to see growth across all of these businesses. Included in the current quarter is \$4 million of earnings from the wealth businesses relating to M&I. As well, the current quarter includes results of Lloyd George Management (LGM), an acquisition that was completed on April 28, 2011 and was net income neutral in the quarter. Insurance net income was \$19 million for the quarter, down \$15 million or 45% from a year ago, primarily due to the effect of unfavourable long-term interest rate movements on policyholder liabilities relative to the prior year.

Revenue was \$617 million, up \$73 million or 13% from the prior year with growth across all of our businesses as we remain focused on continuing to deliver the high level of service and advice that our clients expect. The LGM acquisition and M&I wealth businesses together added \$39 million to revenue. The productivity ratio of 74.7% increased by 30 basis points from the prior year.

Assets under management and administration improved by \$177 billion to \$429 billion as the M&I and LGM acquisitions brought \$153 billion in client assets to our business. Assets in our U.S. wealth business increased from US\$77 billion to US\$239 billion. On a basis that excludes the impact of the M&I and LGM acquisitions and the weaker U.S. dollar, assets under management and administration grew \$30 billion or 12% from a year ago.

As a result of the M&I acquisition, we have almost doubled our U.S. private banking footprint. Our Global Asset Management business is a multi-asset management firm that now manages over \$100 billion in combined assets and is one of the 100 largest investment managers worldwide as measured by assets under management. By continuing to provide an exceptional client experience, we are building a strong foundation and positioning ourselves for expansion of our business.

BMO's Exchange Traded Fund (ETF) business has grown to \$2.7 billion in assets under management. Since inception in June 2009, BMO's ETF product portfolio has grown to 40 funds that offer numerous benefits to investors including lower costs, diversification and tax efficiencies, while providing investment exposure to a broad range of asset classes, sectors and regions.

## **BMO Capital Markets**

Net income for the quarter was \$279 million, an increase of \$149 million from a year ago. Return on equity was 25.5%, compared with 11.8% a year ago. Revenue was \$837 million, up \$158 million or 23% from the prior year. Trading revenues have increased significantly, as the trading environment has improved from the challenging conditions of a year ago. Mergers and acquisitions revenues have also shown strong growth over the previous year. Results also benefited from a recovery of prior periods' income taxes. BMO Capital Markets strategy remains focused on its core clients and businesses and remains on track to successfully deliver profitable growth over time.

As a testament to its expertise in trade finance, BMO Capital Markets has, for the second year in a row, been named as the winner of the "Best Trade Bank in Canada" award for excellence by *Trade Finance* magazine.

In the third quarter of 2011, BMO Capital Markets participated in 125 new issues, including 37 corporate debt deals, 32 government debt deals, 51 common equity transactions and five issues of preferred shares, raising \$51 billion.

## Corporate Services

Corporate Services net loss in the quarter was \$130 million, including a \$38 million loss related to M&I integration planning and foreign exchange hedging costs, up from a loss of \$42 million a year ago. Revenues were \$28 million worse, primarily due to the impact of the M&I acquisition and a less favourable impact year over year from hedging activities, partly offset by a lower group tax offset (see the Revenue section for an explanation of tax). Expenses were \$51 million higher, mainly due to costs relating to the M&I integration. Provisions for credit losses were better by \$34 million, contributing \$24 million to Corporate Services net income, as a result of lower provisions charged to Corporate Services under BMO's expected loss provisioning methodology. BMO employs a methodology for segmented reporting purposes whereby expected credit losses are charged to the client operating groups, and the difference between expected losses and actual losses is charged (or credited) to Corporate Services.

## Acquisition of Marshall & Ilsley Corporation (M&I)

On July 5, 2011, BMO completed the acquisition of M&I for consideration of approximately \$4.0 billion in the form of approximately 67 million common shares issued to M&I shareholders. M&I Bank combined with Harris to form BMO Harris Bank. In addition, immediately prior to the closing of the transaction, a BMO subsidiary purchased from the U.S. Treasury all of M&I's outstanding Troubled Asset Relief Program (TARP) preferred shares and warrants for cash consideration of approximately US\$1.7 billion.

The acquisition of M&I added \$29 billion of loans, after adjustment for future expected losses, and \$34 billion of deposits. The allocation of the purchase price is subject to refinement as we complete the valuation of the assets acquired and liabilities assumed. The acquisition together with our existing U.S. operations more than doubles our U.S. branch count to 688, adds approximately two million customers and increases BMO's total assets under management and administration to over \$530 billion.

We expect that annual cost savings from the integration of M&I and BMO will exceed US\$300 million. We also expect there to be opportunities to add to revenues through expanded access to existing and new markets with increased brand awareness and a better ability to compete in the market. As previously indicated, we also anticipate that in fiscal 2011 M&I will contribute modestly positive net income to BMO's consolidated results, excluding integration and restructuring costs.

Integration and restructuring costs are included in non-interest expense in Corporate Services and are expected to approximate a total of US\$600 million over the next few years. We recorded \$53 million of such expenses in the current quarter and \$25 million in the immediately preceding quarter. These costs include amounts related to system conversions, severance and other employee-related charges as well as other integration amounts, such as consulting fees and marketing costs in connection with customer communications and rebranding activities.

M&I's activities are primarily reflected in our P&C U.S., Private Client Group and Corporate Services segments, with a small amount included in BMO Capital Markets.

Prior to the close of the transaction, approximately US\$1.0 billion of impaired real estate secured assets, comprised primarily of commercial real estate loans, were transferred from P&C U.S. to Corporate Services to allow our businesses to focus on ongoing customer relationships and leverage our risk management

expertise in our special assets management unit. Prior period loan balances, revenues and expenses have been restated to reflect the transfer. In addition, similar assets valued at approximately US\$1.5 billion that were acquired on the M&I acquisition were included in Corporate Services for the same reasons.

Also included in Corporate Services are the fair value adjustments that we have established at this time for future expected losses on the M&I loan portfolio and for the valuation of loans, deposits and debt instruments at market rates on the closing date. Corporate Services results will include in the provisions for credit losses any changes in our estimate of future expected losses and will also include the adjustments to net interest income that will occur as a result of having valued assets and liabilities at market rates on the closing date. These items were not significant to Corporate Services results in the quarter. The operating groups' results will reflect the provision for credit losses on an expected loss basis and net interest income based on the contractual rates for loans and deposits.

While the acquisition of M&I adds scale and provides a strong entry into new markets, integration risk is a key focus for the organization. It includes risk of customer and employee retention and system integration. The risks are addressed by maintaining our program management office, along with experienced BMO and M&I staff focused on ensuring these risks are well managed. Both organizations have considerable experience with integrating acquired businesses and the integration is now well underway. Our first critical milestone, closing the transaction and opening the combined bank for business on July 6, was successfully completed.

## Adjusted Net Income

Management assesses performance on both a GAAP basis and adjusted basis and considers both bases to be useful in assessing underlying, ongoing business performance. Adjusted results for the third quarter of 2011 exclude the following items:

- costs for M&I of \$53 million (\$32 million after tax) for integration costs such as professional fees for integration planning as well as costs for systems development and certain severance;
- amortization of acquisition-related intangible assets of \$17 million (\$12 million after tax); and
- a charge to revenue for the hedge of foreign currency risk on the purchase of M&I of \$9 million (\$6 million after tax).

Adjusted net income was \$843 million for the third quarter of 2011, up \$165 million or 24% from a year ago. Adjusted earnings per share were \$1.36, up 19% from \$1.14 a year ago. The adjusting items above were recorded in Corporate Services except for the amortization of acquisition-related intangibles, which is charged across the groups. Adjusted results and measures are non-GAAP. Adjusted results and items excluded in determining adjusted results are disclosed in more detail in the Non-GAAP Measures section at the end of the MD&A, together with comments on the uses and limitations of such measures.

## Caution

The foregoing sections contain forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

# Financial Highlights

(Unaudited) (Canadian \$ in millions, except as noted)

For the three months ended

For the nine months ended

	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010	Change from July 31, 2010	July 31, 2011	July 31, 2010	Change from July 31, 2010
<b>Income Statement Highlights</b>									
Total revenue	\$ 3,274	\$ 3,217	\$ 3,346	\$ 3,229	\$ 2,907	12.6 %	\$ 9,837	\$ 8,981	9.5 %
Provision for credit losses	174	145	248	253	214	(18.7)	567	796	(28.8)
Non-interest expense	2,111	2,023	2,046	2,023	1,898	11.1	6,180	5,567	11.0
Net income	793	800	776	739	669	18.5	2,369	2,071	14.4
Adjusted net income	843	804	784	748	678	24.4	2,431	2,094	16.1
<b>Net Income by Operating Segment</b>									
Personal & Commercial Banking Canada	\$ 432	\$ 402	\$ 443	\$ 418	\$ 424	1.8 %	\$ 1,277	\$ 1,222	4.5 %
Personal & Commercial Banking U.S.	92	53	54	46	52	78.6	199	168	18.6
Private Client Group	120	101	153	129	105	14.0	374	331	12.7
BMO Capital Markets	279	235	257	214	130	+100	771	602	28.2
Corporate Services (a)	(130)	9	(131)	(68)	(42)	(+100)	(252)	(252)	0.2
<b>Common Share Data (\$)</b>									
Diluted earnings per share	\$ 1.27	\$ 1.34	\$ 1.30	\$ 1.24	\$ 1.13	\$ 0.14	\$ 3.91	\$ 3.51	\$ 0.40
Diluted adjusted earnings per share (b)	1.36	1.35	1.32	1.26	1.14	0.22	4.02	3.55	0.47
Dividends declared per share	0.70	0.70	0.70	0.70	0.70	-	2.10	2.10	-
Book value per share	37.89	34.22	34.21	34.09	33.13	4.76	37.89	33.13	4.76
Closing share price	60.03	62.14	57.78	60.23	62.87	(2.84)	60.03	62.87	(2.84)
Total market value of common shares (\$ billions)	38.3	35.4	32.8	34.1	35.4	2.9	38.3	35.4	2.9

As at

	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010	Change from July 31, 2010
<b>Balance Sheet Highlights</b>						
Assets	\$ 476,557	\$ 413,228	\$ 413,244	\$ 411,640	\$ 397,386	19.9 %
Net loans and acceptances	205,441	174,696	176,914	176,643	173,555	18.4
Deposits	291,412	253,387	251,600	249,251	242,791	20.0
Common shareholders' equity	24,148	19,494	19,422	19,309	18,646	29.5

For the three months ended

For the nine months ended

	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010	July 31, 2011	July 31, 2010
<b>Financial Measures and Ratios (% except as noted) (c)</b>							
Average annual five year total shareholder return	3.9	4.4	1.7	5.9	5.6	3.9	5.6
Diluted earnings per share growth	12.4	6.3	16.1	11.7	16.5	11.4	78.2
Diluted adjusted earnings per share growth (b)	19.0	5.5	16.4	6.9	8.7	13.3	25.2
Return on equity	14.7	16.7	15.7	15.1	13.7	15.7	14.8
Adjusted return on equity (b)	15.6	16.8	15.9	15.3	13.9	16.1	14.9
Net economic profit (\$ millions) (b)	226	293	255	225	158	774	593
Net economic profit (NEP) growth (b)	43.0	11.3	48.6	40.8	+100	30.5	+100
Operating leverage	1.5	(5.0)	(0.7)	(5.7)	(3.8)	(1.5)	11.8
Adjusted operating leverage (b)	4.9	(3.3)	(0.7)	(7.4)	(4.1)	0.2	5.6
Revenue growth	12.6	5.5	10.6	8.0	(2.4)	9.5	11.2
Adjusted revenue growth (b)	12.9	5.9	10.6	6.3	(2.6)	9.7	5.1
Non-interest expense growth	11.1	10.5	11.3	13.7	1.4	11.0	(0.6)
Adjusted non-interest expense growth (b)	8.0	9.2	11.3	13.7	1.5	9.5	(0.5)
Non-interest expense-to-revenue ratio	64.5	62.9	61.2	62.6	65.3	62.8	62.0
Adjusted non-interest expense-to-revenue ratio (b)	62.2	61.6	60.9	62.3	65.0	61.5	61.7
Provision for credit losses-to-average loans and acceptances (annualized)	0.39	0.36	0.58	0.58	0.50	0.44	0.63
Effective tax rate	18.03	22.02	24.51	20.56	13.44	21.59	18.77
Gross impaired loans and acceptances-to-equity and allowance for credit losses	7.97	10.22	11.47	12.18	12.15	7.97	12.15
Cash and securities-to-total assets ratio	34.6	35.9	35.6	35.0	34.6	34.6	34.6
Common equity ratio	9.11	10.67	10.15	10.26	10.27	9.11	10.27
Tier 1 capital ratio	11.48	13.82	13.02	13.45	13.55	11.48	13.55
Total capital ratio	14.21	17.03	15.17	15.91	16.10	14.21	16.10
Credit rating (d)							
DBRS	AA	AA	AA	AA	AA	AA	AA
Fitch	AA-	AA-	AA-	AA-	AA-	AA-	AA-
Moody's	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2
Standard & Poor's	A+	A+	A+	A+	A+	A+	A+
Twelve month total shareholder return	0.0	3.2	16.6	26.4	22.4	0.0	22.4
Dividend yield	4.66	4.51	4.85	4.65	4.45	4.66	4.45
Price-to-earnings ratio (times)	11.7	12.4	11.7	12.7	13.6	11.7	13.6
Market-to-book value (times)	1.58	1.82	1.69	1.77	1.90	1.58	1.90
Return on average assets	0.71	0.80	0.74	0.72	0.67	0.75	0.70
Net interest margin on average earning assets	1.78	1.89	1.82	1.89	1.88	1.83	1.87
Non-interest revenue-to-total revenue	48.3	49.6	51.4	50.2	46.0	49.8	48.5
Equity-to-assets ratio	5.7	5.4	5.3	5.3	5.3	5.7	5.3

All ratios in this report are based on unrounded numbers.

(a) Corporate Services includes Technology and Operations.

(b) These are non-GAAP measures. Refer to the Non-GAAP Measures section at the end of Management's Discussion and Analysis for an explanation of the use and limitations of Non-GAAP measures and detail on the items that have been excluded from results in the determination of adjusted measures. NEP, a non-GAAP measure, is explained in the Other Value Measures section in Certain comparative figures have been reclassified to conform with the current period's presentation.

the MD&A. Earnings and other measures adjusted to a basis other than generally accepted accounting principles (GAAP) do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies.

(c) For the period ended, or as at, as appropriate.

(d) For a discussion of the significance of these credit ratings, see "Credit Rating" on p.15 of Management's Discussion and Analysis.

# Management's Discussion and Analysis

MD&A commentary is as of August 23, 2011. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). The MD&A should be read in conjunction with the unaudited consolidated financial statements for the period ended July 31, 2011, included in this document, and the annual MD&A for the year ended October 31, 2010, included in BMO's 2010 Annual Report. The material that precedes this section comprises part of this MD&A.

**Bank of Montreal uses a unified branding approach that links all of the organization's member companies. Bank of Montreal, together with its subsidiaries, is known as BMO Financial Group. As such, in this document, the names BMO and BMO Financial Group mean Bank of Montreal, together with its subsidiaries.**

## Summary Data

(Unaudited) (Canadian \$ in millions, except as noted)	Q3-2011	Increase (Decrease) vs. Q3-2010		Increase (Decrease) vs. Q2-2011		YTD-2011	Increase (Decrease) vs. YTD-2010	
Net interest income	<b>1,692</b>	121	8%	72	4%	<b>4,939</b>	314	7%
Non-interest revenue	<b>1,582</b>	246	18%	(15)	(1%)	<b>4,898</b>	542	12%
Revenue	<b>3,274</b>	367	13%	57	2%	<b>9,837</b>	856	10%
Specific provision for credit losses	<b>174</b>	(40)	(19%)	(13)	(7%)	<b>609</b>	(187)	(23%)
Decrease in the general allowance	-	-	-	(42)	(+100%)	<b>(42)</b>	42	nm
Total provision for credit losses	<b>174</b>	(40)	(19%)	29	20%	<b>567</b>	(229)	(29%)
Non-interest expense	<b>2,111</b>	213	11%	88	4%	<b>6,180</b>	613	11%
Provision for income taxes	<b>178</b>	71	67%	(53)	(23%)	<b>667</b>	176	36%
Non-controlling interest in subsidiaries	<b>18</b>	(1)	(2%)	-	-	<b>54</b>	(2)	(2%)
Net income	<b>793</b>	124	18%	(7)	(1%)	<b>2,369</b>	298	14%
Adjusted net income (1)	<b>843</b>	165	24%	39	5%	<b>2,431</b>	337	16%
Earnings per share – basic (\$)	<b>1.28</b>	0.15	13%	(0.07)	(5%)	<b>3.93</b>	0.40	11%
Earnings per share – diluted (\$)	<b>1.27</b>	0.14	12%	(0.07)	(5%)	<b>3.91</b>	0.40	11%
Adjusted earnings per share – diluted (\$) (1)	<b>1.36</b>	0.22	19%	0.01	1%	<b>4.02</b>	0.47	13%
Return on equity (ROE)	<b>14.7%</b>		1.0%		(2.0%)	<b>15.7%</b>		0.9%
Adjusted ROE (1)	<b>15.6%</b>		1.7%		(1.2%)	<b>16.1%</b>		1.2%
Productivity ratio	<b>64.5%</b>		(0.8%)		1.6%	<b>62.8%</b>		0.8%
Adjusted productivity ratio (1)	<b>62.2%</b>		(2.8%)		0.6%	<b>61.5%</b>		(0.2%)
Operating leverage	<b>1.5%</b>		nm		nm	<b>(1.5%)</b>		nm
Adjusted operating leverage (1)	<b>4.9%</b>		nm		nm	<b>0.2%</b>		nm
Net interest margin on earning assets	<b>1.78%</b>		(0.10%)		(0.11%)	<b>1.83%</b>		(0.04%)
Effective tax rate	<b>18.0%</b>		4.6%		(4.0%)	<b>21.6%</b>		2.8%
Capital Ratios:								
Tier 1 Capital Ratio	<b>11.48</b>		(2.07)		(2.34)	<b>11.48</b>		(2.07)
Common Equity Ratio	<b>9.11</b>		(1.16)		(1.56)	<b>9.11</b>		(1.16)
Net income:								
Personal and Commercial Banking	<b>524</b>	48	10%	69	15%	<b>1,476</b>	86	6%
P&C Canada	<b>432</b>	8	2%	30	8%	<b>1,277</b>	55	5%
P&C U.S.	<b>92</b>	40	79%	39	72%	<b>199</b>	31	19%
Private Client Group	<b>120</b>	15	14%	19	19%	<b>374</b>	43	13%
BMO Capital Markets	<b>279</b>	149	+100%	44	19%	<b>771</b>	169	28%
Corporate Services, including Technology and Operations (T&O)	<b>(130)</b>	(88)	(+100%)	(139)	(+100%)	<b>(252)</b>	-	-
BMO Financial Group Net Income	<b>793</b>	124	18%	(7)	(1%)	<b>2,369</b>	298	14%

(1) These are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section at the end of the MD&A, which outlines the use of non-GAAP measures in this document.

nm – not meaningful.

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## Management's Responsibility for Financial Information

Bank of Montreal's Chief Executive Officer and Chief Financial Officer have signed certifications relating to the appropriateness of the financial disclosures in our interim MD&A and unaudited interim consolidated financial statements for the period ended July 31, 2011 and relating to the design of our disclosure controls and procedures and internal control over financial reporting. Bank of Montreal's management, under the supervision of the CEO and CFO, has evaluated the effectiveness, as at July 31, 2011, of Bank of Montreal's disclosure controls and procedures (as defined in the rules of the Securities and Exchange Commission and the Canadian Securities Administrators) and has concluded that such disclosure controls and procedures are effective. On July 5, 2011, BMO completed the acquisition of Marshall & Ilsley Corporation (M&I) which has not been included in our evaluation of the design effectiveness of the bank's disclosure controls and procedures and internal control over financial reporting as at July 31, 2011. M&I represents 8.9% of consolidated assets, 3.8% of consolidated revenue and 3.5% of consolidated net income as at and for the period ended July 31, 2011. The estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition are outlined in Note 7 of the attached unaudited interim consolidated financial statements.

Bank of Montreal's internal control over financial reporting includes policies and procedures that: pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of BMO; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with Canadian generally accepted accounting principles and the requirements of the Securities and Exchange Commission in the United States, as applicable; ensure receipts and expenditures of BMO are being made only in accordance with authorizations of management and directors of Bank of Montreal; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of BMO assets that could have a material effect on the financial statements.

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

There were no changes in our internal control over financial reporting during the quarter ended July 31, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As in prior quarters, Bank of Montreal's audit committee reviewed this document, including the unaudited interim consolidated financial statements, and Bank of Montreal's Board of Directors approved the document prior to its release.

A comprehensive discussion of our businesses, strategies and objectives can be found in Management's Discussion and Analysis in BMO's 2010 Annual Report, which can be accessed on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations). Readers are also encouraged to visit the site to view other quarterly financial information.

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## Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the safe harbour provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2011 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal or economic policy; the degree of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital and liquidity requirements and guidance; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates; operational and infrastructure risks; general political conditions; global capital markets activities; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; disruptions to public infrastructure, such as transportation, communications, power or water supply; and technological changes.

With respect to the M&I transaction, such factors include, but are not limited to: the possibility that the anticipated benefits from the transaction such as it being accretive to earnings and other impacts on earnings, expanding our North American presence and synergies are not realized in the time frame anticipated or at all as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations (including changes to capital requirements) and their enforcement, and the degree of competition in the geographic and business areas in which the combined businesses now operate; the ability to promptly and effectively integrate the businesses of M&I and BMO; reputational risks and the reaction of M&I's customers to the transaction; diversion of management time on integration and restructuring related issues; and increased exposure to exchange rate fluctuations. A significant amount of M&I's business involved making loans or otherwise committing resources to specific companies, industries or geographic areas. Unforeseen events affecting such borrowers, industries or geographic areas could have a material adverse effect on the performance of our integrated U.S. operations.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion on pages 29, 30, 61 and 62 of BMO's 2010 Annual Report, which outlines in detail certain key factors that may affect Bank of Montreal's future results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

In calculating the pro-forma impact of Basel III on our regulatory capital and regulatory capital ratios, we have assumed our interpretation of the proposed rules announced by the Basel Committee on Banking Supervision (BCBS) as of this date and our models used to assess those requirements are consistent with the final requirements that will be promulgated by BCBS and the Office of the Superintendent of Financial Institutions Canada (OSFI). We have also assumed that the proposed changes affecting capital deductions, risk-weighted assets, the regulatory capital treatment for non-common share capital instruments (i.e. grandfathered capital instruments) and the minimum regulatory capital ratios are adopted as proposed by BCBS and OSFI. We also assumed that existing capital instruments that are non-Base III compliant but are Basel II compliant can be fully included in such estimates. The full impact of the Basel III proposals has been quantified based on our financial and risk positions at July 31 or as close to July 31 as was practical. The impacts of the changes from IFRS are based on our analysis to date, as set out in Transition to International Financial Reporting Standards in the Future Changes in Accounting Policies – IFRS section in our 2010 Annual Report and later in this document. In setting out the expectation that we will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, we have assumed that factors beyond our control, including the state of the economic and capital markets environment, will not impair our ability to do so.

In determining the impact of reductions to interchange fees in the U.S. Legislative Developments section, we have assumed that business volumes remain consistent with our expectations and that certain management actions are implemented that will modestly reduce the impact of the rules on our revenues.

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

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## Regulatory Filings

Our continuous disclosure materials, including our interim filings, annual MD&A and audited consolidated financial statements, Annual Information Form and Notice of Annual Meeting of Shareholders and Proxy Circular are available on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations), on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) and on the EDGAR section of the SEC's website at [www.sec.gov](http://www.sec.gov).

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## Economic Outlook and Review

The global economic outlook has deteriorated in recent months. Stock markets worldwide have fallen sharply, undermining household wealth and confidence. The S&P downgrade of the U.S.'s triple-A credit rating to AA+ and the intense political resistance to raising the U.S. government's borrowing capacity have heightened concerns about the U.S. fiscal outlook, which risks damaging business confidence. The European debt crisis remains unresolved and there are concerns about European bank exposure to sovereign debt. While we do not anticipate another recession, we have revised down meaningfully our outlook for the Canadian and U.S. economies.

Following good growth earlier this year, Canada's economy has slowed as a result of weak U.S. demand and disruptions to automobile production following the earthquake and tsunami in Japan. Despite strong employment growth, consumer spending slowed due to elevated levels of debt and high gasoline prices, restraining personal loan growth. Home sales moderated as well, partly in response to mortgage rule changes that took effect in March. Economic activity is expected to improve moderately in the second half of the year in response to a recovery in auto production and firmer U.S. demand. Business investment is projected to remain healthy due to strong demand for resources from emerging-market economies, supporting commercial loan growth. After expanding 3.2% in 2010, the Canadian economy is expected to grow at more modest rates of 2.4% in 2011 and 2.3% in 2012, held back by the impact of a strong Canadian dollar and more restrictive fiscal policies. The Bank of Canada will likely refrain from raising interest rates until mid-2012 due to the uncertain global economic environment. The Canadian dollar should continue to trade above parity with the U.S. dollar in 2012, benefiting from firm commodity prices and Canada's relatively healthy fiscal standing among advanced economies. Home sales should remain healthy in response to low borrowing costs, supporting residential mortgage demand. After climbing sharply in the past year, existing house prices are expected to stabilize in 2012.

The U.S. economy slowed sharply in the first half of the year in response to higher gasoline prices, disruptions in auto production and reductions in government spending. Consumer spending stalled in the second quarter, though business investment and exports remained healthy. Employment growth slowed, raising the unemployment rate back above 9%. Real estate markets remained weak and prices declined further in most regions. Economic growth is projected to improve only modestly in the second half of the year as a result of an upturn in motor vehicle production, lower oil prices, a weak U.S. dollar and strong demand from emerging-market economies. Business investment should remain healthy, benefiting from tax incentives and the solid earnings growth of U.S. multinational corporations. However, restrictive fiscal policy will continue to temper the expansion. After expanding 3.0% in 2010, the U.S. economy is expected to grow 1.7% in 2011 and 2.5% in 2012. Inflation should decline due to steadier commodity prices and subdued wage growth. The Federal Reserve is projected to maintain its low-interest rate policy well into 2013 to address high unemployment. Continued low interest rates should support capital markets activity this year, but the uncertain economic outlook and volatile equity markets will temper the benefit.

In the Midwest, where the bulk of our U.S. operations are located, the economy slowed in the spring. Consumer spending and manufacturing weakened, while construction and house prices remained subdued. However, business spending was steady and credit conditions improved. In the year ahead, the Midwest economy should benefit from stronger automobile production, continued strength in exports and high agricultural prices. Growth is expected to improve modestly, consistent with the overall U.S. economy, supporting personal and business loan demand. Firmer job growth should support home sales and residential mortgage demand.

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

## Foreign Exchange

The Canadian dollar equivalents of BMO's U.S.-dollar-denominated net income, revenues, expenses, provisions for credit losses and income taxes were decreased relative to the third quarter of 2010 by the weakening of the U.S. dollar but were unchanged relative to the second quarter of 2011. The average Canadian/U.S. dollar exchange rate, expressed in terms of the Canadian dollar cost of a U.S. dollar, fell by 7.9% from a year ago and increased by 0.1% from the average of the second quarter of 2011. The following table indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in the rates.

### Effects of U.S. Dollar Exchange Rate Fluctuations on BMO's Results

(Canadian \$ in millions, except as noted)	Q3-2011		YTD-2011 vs.
	vs. Q3-2010	vs. Q2-2011	YTD-2010
Canadian/U.S. dollar exchange rate (average)			
Current period	0.9628	0.9628	0.9777
Prior period	1.0453	0.9623	1.0439
Increased (decreased) revenue	(73)	-	(161)
Decreased (increased) expense	50	-	108
Decreased (increased) provision for credit losses	7	-	20
Decreased (increased) income taxes and non-controlling interest in subsidiaries	(4)	-	1
Increased (decreased) net income	(20)	-	(32)

At the start of each quarter, BMO assesses whether to enter into hedging transactions that are expected to partially offset the pre-tax effects of exchange rate fluctuations in the quarter on our expected U.S.-dollar-denominated net income for that quarter. As such, these activities partially mitigate the impact of exchange rate fluctuations, but only within that quarter. As a result, the sum of the hedging gains/losses for the four quarters in a year is not directly comparable to the impact of year-over-year exchange rate fluctuation on earnings for the year. Over the course of the current quarter, the U.S. dollar strengthened modestly, as the exchange rate increased from Cdn\$0.9464 per U.S. dollar at April 30, 2011 to an average of Cdn\$0.9628. Hedging transactions resulted in an after-tax loss of \$1 million for the quarter and after-tax gain of \$2 million for the year to date. The gain or loss from hedging transactions in future periods will be determined by both future currency fluctuations and the amount of underlying future hedging transactions, since the transactions are entered into each quarter in relation to expected U.S.-dollar-denominated net income for the next three months.

The effect of currency fluctuations on our investments in foreign operations is discussed in the Income Taxes section.



## Other Value Measures

BMO's average annual total shareholder return for the five-year period ended July 31, 2011 was 3.9%.

Net economic profit (NEP) was \$226 million, compared with \$293 million in the second quarter and \$158 million in the third quarter of 2010. NEP is a non-GAAP measure. The decrease from the second quarter was largely due to an increased cost of capital due to the issuance of common shares in connection with the M&I acquisition in the quarter. NEP of \$226 million represents the net income that is available to common shareholders (\$754 million), plus the after-tax amortization of intangible assets (\$12 million), net of a charge for capital (\$540 million), and is considered an effective measure of added economic value. Please see the Non-GAAP Measures section at the end of the MD&A for a discussion on the use and limitations of non-GAAP measures.

## Net Income

### Q3 2011 vs Q3 2010

Net income was \$793 million for the third quarter of 2011, up \$124 million or 18% from a year ago. Earnings per share were \$1.27, up 12% from \$1.13 a year ago. BMO completed the acquisition of M&I on July 5, 2011 and issued approximately 67 million BMO common shares, as disclosed in the preceding Acquisition of Marshall & Ilsley Corporation section, and its results are included with BMO's as of that date. Results for the quarter in respect of M&I included a loss of \$10 million and adjusted net income of \$32 million.

Management assesses performance on both a GAAP basis and adjusted basis and considers both bases to be useful in assessing underlying, ongoing business performance. Adjusted results for the third quarter of 2011 exclude the following items:

- costs for M&I of \$53 million (\$32 million after tax) for integration costs such as professional fees for integration planning as well as costs for systems development and certain severance;
- amortization of acquisition-related intangible assets of \$17 million (\$12 million after tax) including \$7 million (\$4 million after tax) for M&I; and
- a charge to revenue for the hedge of foreign currency risk on the purchase of M&I of \$9 million (\$6 million after tax).

Adjusted net income was \$843 million for the third quarter of 2011, up \$165 million or 24% from a year ago. Adjusted earnings per share were \$1.36, up 19% from \$1.14 a year ago. Adjusted results and measures are non-GAAP. Adjusted results and items excluded in determining adjusted results are disclosed in more detail in the Non-GAAP Measures section at the end of the MD&A, together with comments on the uses and limitations of such measures.

There were improved results in each of the operating groups with particularly strong growth in BMO Capital Markets due in part to a more favourable environment than a year ago, resulting in good growth in trading revenue and mergers and acquisitions revenue. P&C U.S. grew strongly, benefiting from the inclusion of M&I's results. Private Client Group net income growth was also good, with growth across all businesses except insurance. There was reduced net income in Corporate Services due to lower revenues and integration costs.

Revenue increases outpaced expense increases in all of the operating groups, although operating leverage was modestly negative in both P&C Canada and Private Client Group. Provisions for credit losses in the current quarter decreased in the improved credit environment.

### Q3 2011 vs Q2 2011

Net income decreased \$7 million from the second quarter and earnings per share decreased \$0.07 or 5.2% from \$1.34. Adjusted net income increased \$39 million or 4.8% from \$804 million in the second quarter. The increase was largely attributable to the inclusion of M&I results. Adjusting items are detailed in the Non-GAAP Measures section at the end of the MD&A.

Revenue increased due to the addition of M&I. Expenses increased but, excluding the impact of M&I, were lower. Specific provisions for credit losses were modestly lower than in the second quarter but overall provisions were higher due to a reduction in the general allowance in the second quarter.

### Q3 YTD 2011 vs Q3 YTD 2010

Net income increased \$298 million or 14% to \$2,369 million. Adjusted net income increased \$337 million or 16% to \$2,431 million. A strong increase in reported revenue outpaced the increase in reported expense and there were reduced provisions for credit losses.

## Revenue

BMO analyzes consolidated revenues on a GAAP basis. However, like many banks, BMO analyzes the revenues of its operating groups and associated ratios computed using revenue on a taxable equivalent basis (teb). This basis includes an adjustment that increases GAAP revenues and the GAAP provision for income taxes by an amount that would raise revenues on certain tax-exempt items to a level equivalent to amounts that would incur tax at the statutory rate. The offset to the group teb adjustments is reflected in Corporate Services revenues and income tax provisions.

Total revenue for the third quarter of 2011 increased \$367 million or 13% from a year ago, due in part to M&I revenue of \$117 million. Adjusted revenue increased \$376 million or 13%. There was solid growth in net interest income and also in non-interest revenue, both due in part to M&I. The weaker U.S. dollar decreased revenue growth by \$73 million or 2.5 percentage points.

Revenue increased \$57 million or 1.7% from the second quarter with solid growth in net interest income. Increased revenues were in part due to M&I and the impact of three more days in the third quarter. Net interest income was higher in each of the operating groups and non-interest revenue was higher in each of the operating groups except BMO Capital Markets. Revenues were lower in Corporate Services.

Changes in net interest income and non-interest revenue are reviewed in the sections that follow.

## Net Interest Income

Net interest income increased \$121 million or 7.7% from a year ago, with solid growth in P&C Canada, P&C U.S. and Private Client Group. Higher average earning assets drove the overall increase.

BMO's overall net interest margin decreased by 10 basis points year over year to 1.78%. There were decreases in P&C Canada and BMO Capital Markets and increases in P&C U.S. and Private Client Group. The reduction in net interest margin in P&C Canada was mainly due to lower deposit spreads in a low interest environment. The reduction in net interest margin in BMO Capital Markets was primarily attributable to lower trading net interest income. Increased margin in P&C U.S. was mainly due to improved loan spreads, as a result of a favourable change in the mix of loan balances, and higher deposit balances. In Private Client Group, the increase was due to higher deposit balances in private banking and higher deposit spreads in the brokerage businesses.

Average earning assets increased \$45.3 billion or 14% relative to a year ago, and adjusted to exclude the impact of the weaker U.S. dollar, increased by \$57.1 billion. Average earning assets included approximately one month of M&I balances, which added approximately \$9.9 billion to BMO's average earning asset levels. Higher asset levels were attributable to loan growth in P&C Canada, increased trading assets in BMO Capital Markets and increases in personal loans in Private Client Group's Canadian private banking business. There were also higher cash balances, representing increased deposits with the U.S. Federal Reserve. Excluding the impact of M&I, P&C U.S. average earning assets were lower as credit and economic conditions continue to affect credit utilization. There was improved commercial loan growth in certain categories, in addition to increases from the acquisition of certain assets and liabilities of a Rockford, Illinois-based bank, but these were offset by planned run-off in the portfolio and new mortgage originations sold in the secondary market.

Relative to the second quarter, net interest income increased \$72 million or 4.4%. There was higher net interest income in each of the groups, due to asset growth.

BMO's overall net interest margin decreased 11 basis points from the second quarter to 1.78%. Reduced net interest income in Corporate Services was a significant contributor to the overall reduction in net interest margin.

Net interest margin was stable in P&C Canada with a small decrease due to lower mortgage refinancing fees. Net interest margin in P&C U.S. was unchanged including the impact of M&I but otherwise increased by 6 basis points as a result of improved loan spreads due to the continuation of a favourable change in the mix of loan balances and increased deposit balances, partially offset by reduced spreads on deposits.

Average earning assets increased \$24.4 billion or 6.9% from the second quarter due in part to the inclusion of M&I assets. There were increases across all the operating groups. There was growth in trading assets in BMO Capital Markets and growth across all lines in Private Client Group. P&C Canada average earning assets increased 5.1% year over year and 1.1% quarter over quarter.

Year to date, net interest income increased \$314 million or 6.8%, due to higher revenues in all operating groups, except BMO Capital Markets. There were increased average earning assets in all operating groups and increased margins in all groups except BMO Capital Markets.

BMO's overall net interest margin decreased by 4 basis points to 1.83% for the year to date. P&C Canada was relatively unchanged. P&C U.S. margin increased due to improved loan spreads, as discussed above, and higher deposit balances. Private Client Group margin increased primarily due to improved deposit spreads in the brokerage businesses, partially offset by growth in insurance assets, which have no net interest income impact. BMO Capital Markets experienced lower trading net interest income and held higher deposits with the U.S. Federal Reserve, resulting in lower net interest margin.

Average earning assets for the year to date increased \$30.3 billion or 9.2%, and by \$38.9 billion adjusted to exclude the impact of the weaker U.S. dollar. M&I contributed \$3.4 billion to growth as its assets were included in the average for only 26 days. On a Canadian dollar basis, there was organic growth in P&C Canada, Private Client Group and BMO Capital Markets, combined with an increase in Corporate Services. As indicated above, in P&C U.S., there was improved commercial loan growth in certain categories but the effects were offset by other factors. Private Client Group grew average earning assets across most lines of business and in BMO Capital Markets there was growth in trading assets.

## Net Interest Margin (teb)\*

(In basis points)	Q3-2011	Increase (Decrease) vs. Q3-2010	Increase (Decrease) vs. Q2-2011	YTD-2011	Increase (Decrease) vs. YTD-2010
P&C Canada	292	(4)	(1)	295	1
P&C U.S.	447	66	-	438	72
Personal and Commercial Client Group	321	11	4	319	13
Private Client Group	289	12	(21)	297	18
BMO Capital Markets	73	(22)	(3)	76	(20)
Corporate Services, including Technology and Operations (T&O)**	nm	nm	nm	nm	nm
Total BMO	178	(10)	(11)	183	(4)
Total Canadian Retail***	292	(6)	(3)	296	(1)

\* Net interest margin is disclosed and computed with reference to average earning assets, rather than total assets. This basis provides a more relevant measure of margins, and changes in margins. Operating group margins are stated on a teb basis while total BMO margin is stated on a GAAP basis.

\*\* Corporate Services net interest income is negative and lowers BMO's overall net interest margin.

\*\*\* Total Canadian retail margin represents the net interest margin of the combined Canadian business of P&C Canada and Private Client Group.  
nm - not meaningful

## Non-Interest Revenue

Non-interest revenue in the current quarter increased \$246 million or 18% from a year ago. Results included \$48 million related to M&I, consisting primarily of investment management fees in Private Client Group, deposit and payment service charges in P&C U.S., and other revenue. Overall growth in BMO's total non-interest revenue was mostly attributable to strong growth in BMO Capital Markets and a solid increase in Private Client Group. Non-interest revenue is detailed in the attached summary unaudited consolidated financial statements.

Non-interest revenue in the quarter improved from a year ago, due to strong growth in BMO Capital Markets mergers and acquisitions fees, as well as good growth in trading revenues, which were very low in the weak trading environment of a year ago. There were also healthy increases in Private Client Group mutual fund revenues and investment management and custodial fees. There was a \$1.3 billion credit card securitization late in the second quarter; as a result, credit card fees were lowered this quarter and securitization non-interest revenue was increased.

Relative to the second quarter, non-interest revenue decreased \$15 million or 1.0%. The reduction was attributable to decreases in Corporate Services and BMO Capital Markets, partially offset by improved revenues in P&C U.S. and Private Client Group. P&C U.S. non-interest revenues included increased investment securities gains and Private Client Group benefited from higher investment management fees. Private Client Group experienced declines in securities and commission fees but saw improvements in insurance revenues. The second quarter was affected by unusually high reinsurance claims from the earthquakes in Japan and New Zealand. The current quarter was affected, to a lesser extent, by increases in the adverse effects of unfavourable long-term interest rate movements on policyholder liabilities. Credit card fees decreased and securitization revenues rose, as discussed above. Corporate Services reduced non-interest revenue was due to a net reduction in a number of small items in other non-interest revenue in the third quarter and a credit card loan securitization gain in the second quarter.

Year to date, non-interest revenue increased \$542 million or 12%. Non-interest revenue growth in BMO Capital Markets was very strong due to sizable increases in underwriting and advisory fees, securities commissions and trading revenues. Private Client Group also grew strongly with good growth in securities commissions, investment management and custodial fees, and mutual fund revenues. Growth in insurance revenue was more than offset by the earthquake-related reinsurance claims and the adverse effect from unfavourable long-term interest rate movements on policyholder liabilities relative to the same period a year ago. P&C Canada non-interest revenue growth was driven by the inclusion of two more months of Diners Club North American franchise results in the current year and higher mutual fund revenues, offset in part by lower card fees.

## Non-Interest Expense

Non-interest expense for the third quarter of 2011 increased \$213 million or 11% from a year ago to \$2,111 million. Adjusted non-interest expense increased \$153 million or 8.0% from a year ago to \$2,041 million. Adjusted expense excludes \$53 million of integration costs relating to the M&I acquisition and \$17 million in respect of the amortization of acquisition-related intangible assets. M&I increased expense by \$137 million and adjusted non-interest expense by \$76 million. Non-interest expense is detailed in the attached summary unaudited consolidated financial statements.

Increased employee compensation accounted for approximately two-thirds of the increase in reported expense and one-third of that amount was attributable to M&I. The growth was due in part to higher performance-based compensation, in line with improved revenues. There were also continued investments in the business including staffing increases across groups and higher costs from our other acquisitions. Computer and equipment costs and travel expense also increased. Professional fees increased substantially due to M&I. Lower other expenses include the benefit of a sales tax recovery. The weaker U.S. dollar reduced expense growth by \$50 million or 2.6 percentage points, but the harmonized sales tax that was implemented in both Ontario and British Columbia on July 1, 2010 increased expenses year over year by approximately one-third of that amount.

Relative to the second quarter, non-interest expense increased \$88 million or 4.3%, but fell when adjusted for the \$137 million of M&I costs included in results in the quarter and the \$25 million of pre-acquisition integration planning costs in the second quarter. On a reported basis, there were increases in employee compensation, travel and business development due to continued investment, partially offset by lower other expenses including the benefit of the sales tax recovery. The nominally stronger U.S. dollar relative to the second quarter had no impact on quarter-over-quarter expense growth.

Non-interest expense for the year to date increased \$613 million or 11% to \$6,180 million. Adjusted non-interest expense increased \$525 million or 9.5%. M&I accounted for \$162 million of expense growth and \$76 million of adjusted expense growth. There was growth in employee compensation, including performance-based costs in line with improved results, increased computer and equipment costs, and higher professional fees and travel and business development expense. Expense growth was due in part to continued investment in our P&C and wealth businesses including technology development initiatives and the addition of employees, as well as the effects of our other acquisitions.

## Risk Management

The global economic recovery has slowed due to heightened uncertainty surrounding both the European and U.S. economies. In the United States, continued high unemployment levels and weak real estate markets have weakened consumer confidence and increased ongoing economic uncertainty.

Loans acquired in connection with the M&I transaction were recorded at fair value at acquisition and as a result, no allowance for credit losses has been recorded on these loans. The fair value of the purchased portfolio of \$29.2 billion included an adjustment for estimated future losses of \$3.3 billion. In addition, an adjustment to the fair value of undrawn commitments and letters of credit of \$206 million has been recorded in other liabilities. As the purchased portfolio was written down at acquisition to the amount expected to be collected, the purchased loans are not included in gross impaired loans. We expect to recover the fair value (or new carrying amount) of the purchased portfolio.

Provisions for credit losses totalled \$174 million in the third quarter of 2011. Specific provisions were \$174 million or an annualized 39 basis points of average net loans and acceptances, compared with \$187 million or 45 basis points in the second quarter and \$214 million or 50 basis points in the third quarter of 2010. The preceding ratios have been calculated excluding the impact of the purchased portfolios that were recorded at fair value at acquisition and prior quarters have been restated accordingly. There was no change in the general allowance in the current quarter or in the third quarter of 2010. There was a \$42 million reduction in the general allowance in the second quarter of 2011.

On a geographic basis, specific provisions in Canada and other countries (excluding the United States) were \$94 million in the third quarter of 2011, \$97 million in the second quarter of 2011 and \$110 million in the third quarter of 2010. Provisions in the United States for the comparable periods were \$80 million, \$90 million and \$104 million, respectively.

BMO employs a methodology for segmented reporting purposes whereby credit losses are charged to the client operating groups quarterly, based on their share of expected credit losses. The difference between quarterly charges based on expected losses and required quarterly provisions based on actual losses is charged (or credited) to Corporate Services. The following paragraphs outline credit losses by client operating group based on actual credit losses, rather than their share of expected credit losses.

Actual credit losses in the third quarter of 2011 were: \$161 million in P&C Canada; \$51 million in P&C U.S.; \$7 million in BMO Capital Markets; and a recovery of \$2 million in Private Client Group. In addition, there were \$19 million of actual credit losses in the quarter in respect of the loans transferred from P&C U.S. to Corporate Services. The P&C Canada losses of \$161 million include credit losses of \$62 million related to securitized assets, which are not included in BMO's \$174 million of specific provisions.

Actual credit losses in the second quarter of 2011 were: \$151 million in P&C Canada; \$79 million in P&C U.S.; \$5 million in Private Client Group; and \$nil in BMO Capital Markets. The P&C Canada losses of \$151 million include credit losses of \$48 million

related to securitized assets, which are not included in BMO's \$187 million of specific provisions.

Actual credit losses in the third quarter of 2010 were: \$171 million in P&C Canada; \$103 million in P&C U.S.; \$nil in Private Client Group; and a recovery of \$10 million in BMO Capital Markets. The P&C Canada losses of \$171 million include credit losses of \$50 million related to securitized assets, which are not included in BMO's \$214 million of specific provisions.

Impaired loan formations totalled \$252 million in the current quarter, up from \$147 million in the second quarter of 2011 and \$242 million a year ago. Consistent with recent quarters, U.S.-related formations represented over half of BMO's total formations in the quarter.

Total gross impaired loans were \$2,290 million at the end of the current quarter, down from \$2,465 million in the second quarter and from \$2,801 million a year ago. Effective the third quarter of 2011, gross impaired loans exclude the purchased portfolios and prior quarters have been restated accordingly.

The acquisition of M&I has increased BMO's exposure to U.S. real estate related loans and to potential deterioration in U.S. real estate markets. However, we are satisfied that estimated future credit losses were appropriately considered in determining the fair value of the purchased portfolio at acquisition and we continue to proactively manage these exposures.

BMO's liquidity and funding, market and insurance risk management practices and key measures are outlined on pages 82 to 88 of BMO's 2010 Annual Report.

There were no significant changes to our level of liquidity and funding risk over the quarter. We remain satisfied that our liquidity and funding management framework provides us with a strong liquidity position. During the quarter, our core deposits increased to \$172 billion from \$136 billion primarily due to the addition of M&I's core deposit base.

Trading and Underwriting Market Value Exposure (MVE) rose quarter over quarter due to increased activity in our fixed income businesses. Exposure in the bank's available-for-sale (AFS) portfolios was virtually unchanged over the quarter and continues to be concentrated in portfolios holding significant levels of high quality, hedged bonds.

There were no significant changes in our structural market risk management practices during the quarter. Structural MVE is driven by rising interest rates and primarily reflects a lower market value for fixed-rate loans. Structural Earnings Volatility (EV) is driven by falling interest rates and primarily reflects the risk of prime-based loans repricing lower. MVE and EV increased modestly from the prior quarter primarily due to the acquisition of M&I assets and liabilities.

There were no significant changes in the risk management practices or risk levels of our insurance business during the quarter.

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

## Provisions for Credit Losses

(Canadian \$ in millions, except as noted)

	Q3-2011	Q2-2011	Q3-2010	YTD-2011	YTD-2010
New specific provisions	273	258	316	861	1,076
Reversals of previously established allowances	(38)	(21)	(57)	(83)	(149)
Recoveries of loans previously written off	(61)	(50)	(45)	(169)	(131)
Specific provision for credit losses	174	187	214	609	796
Decrease in the general allowance	-	(42)	-	(42)	-
Provision for credit losses (PCL)	174	145	214	567	796
Specific PCL as a % of average net loans and acceptances (annualized) (1)	0.39%	0.45%	0.50%	0.47%	0.63%
PCL as a % of average net loans and acceptances (annualized) (1)	0.39%	0.36%	0.50%	0.44%	0.63%

(1) Effective Q3 2011, the calculation excludes purchased portfolios. Prior periods were restated to reflect this change.

## Changes in Gross Impaired Loans and Acceptances (GIL)<sup>(1)</sup>

(Canadian \$ in millions, except as noted)

GIL, Beginning of Period	2,465	2,739	2,968	2,894	3,297
Additions to impaired loans & acceptances	252	147	242	682	1,064
Reductions in impaired loans & acceptances (2)	(140)	(139)	(129)	(428)	(636)
Write-offs	(287)	(282)	(280)	(858)	(924)
GIL, End of Period	2,290	2,465	2,801	2,290	2,801
GIL as a % of gross loans & acceptances (4)	1.29%	1.40%	1.61%	1.29%	1.61%
GIL as a % of equity and allowances for credit losses (3)(4)	7.97%	10.22%	12.15%	7.97%	12.15%

(1) Restated to exclude the U.S. portfolio acquired in Q2 2010, since the portfolio was fair valued at the acquisition date.

(2) Includes impaired amounts returned to performing status, loan sales, repayments, the impact of foreign exchange fluctuations and offsets for consumer write-offs which have not been recognized as formations (\$164 million in Q3 2011; \$156 million in Q2 2011; and \$187 million in Q3 2010).

(3) Effective Q4 2010, the calculation excludes non-controlling interest in subsidiaries. Prior periods were restated to reflect this change.

(4) Effective Q3 2011, the calculation excludes purchased portfolios. Prior periods were restated to reflect this change.

## Total Trading and Underwriting Market Value Exposure (MVE) Summary (\$ millions)\*

(Pre-tax Canadian equivalent)	For the quarter ended July 31, 2011				As at April 30, 2011		As at October 31, 2010	
	Quarter-end	Average	High	Low	Quarter-end	Quarter-end	Quarter-end	
Commodity VaR	(0.6)	(0.3)	(0.6)	(0.1)	(0.1)	(0.1)	(0.1)	
Equity VaR	(3.9)	(4.2)	(6.6)	(3.4)	(4.0)	(7.5)	(7.5)	
Foreign Exchange VaR	(0.6)	(2.0)	(4.3)	(0.1)	(1.8)	(0.6)	(0.6)	
Interest Rate VaR (Mark-to-Market)	(10.7)	(11.3)	(16.0)	(8.3)	(10.9)	(7.5)	(7.5)	
Diversification	4.1	5.5	nm	nm	5.8	4.8	4.8	
Trading Market VaR	(11.7)	(12.3)	(17.1)	(9.2)	(11.0)	(10.9)	(10.9)	
Trading & Underwriting Issuer Risk	(5.0)	(5.1)	(8.8)	(4.4)	(4.1)	(2.7)	(2.7)	
Total Trading & Underwriting MVE	(16.7)	(17.4)	(22.6)	(13.8)	(15.1)	(13.6)	(13.6)	
Interest Rate VaR (AFS)	(12.1)	(12.7)	(13.6)	(12.1)	(13.1)	(7.4)	(7.4)	

\* One-day measure using a 99% confidence interval. Losses are in brackets and benefits are presented as positive numbers.  
nm - not meaningful

## Structural Balance Sheet Market Value Exposure and Earnings Volatility (\$ millions)\*

(Canadian equivalent)	July 31 2011	April 30 2011	Oct. 31 2010
Market value exposure (MVE) (pre-tax)	(637.8)	(612.9)	(564.1)
12-month earnings volatility (EV) (after-tax)	(87.9)	(78.8)	(63.8)

\* Losses are in brackets. Measured at a 99% confidence interval.

## Structural Balance Sheet Earnings and Value Sensitivity to Changes in Interest Rates (\$ millions)\* \*\*

(Canadian equivalent)	Economic value sensitivity (Pre-tax)			Earnings sensitivity over the next 12 months (After-tax)		
	July 31 2011	Apr. 30 2011	Oct. 31 2010	July 31 2011	Apr. 30 2011	Oct. 31 2010
100 basis point increase	(514.0)	(430.9)	(380.5)	9.8	12.0	20.9
100 basis point decrease	364.9	356.1	322.3	(86.8)	(74.8)	(70.3)
200 basis point increase	(1,082.4)	(887.6)	(815.1)	38.5	12.4	33.4
200 basis point decrease	850.0	745.1	738.2	(21.7)	5.9	(12.8)

\* Losses are in brackets and benefits are presented as positive numbers.

\*\* For BMO's Insurance businesses, a 100 basis point increase in interest rates at July 31, 2011 results in an increase in earnings after tax of \$97 million and an increase in before tax economic value of \$302 million (\$81 million and \$237 million, respectively, at April 30, 2011 and \$77 million and \$295 million, respectively, at October 31, 2010). A 100 basis point decrease in interest rates at July 31, 2011 results in a decrease in earnings after tax of \$90 million and a decrease in before tax economic value of \$315 million (\$76 million and \$245 million, respectively, at April 30, 2011 and \$71 million and \$304 million, respectively, at October 31, 2010). These impacts are not reflected in the table above.

## Income Taxes

As explained in the Revenue section, management assesses BMO's consolidated results and associated provisions for income taxes on a GAAP basis. We assess the performance of the operating groups and associated income taxes on a taxable equivalent basis and report accordingly.

The provision for income taxes of \$178 million increased \$71 million from the third quarter of 2010 and decreased \$53 million from the second quarter of 2011. The effective tax rate for the quarter was 18.0%, compared with 13.4% in the third quarter of 2010 and 22.0% in the second quarter of 2011. The higher effective tax rate in the current quarter, as compared to the third quarter of 2010, was primarily due to lower tax-exempt income, partially offset by a reduction in the statutory Canadian income tax rate in 2011. The lower effective tax rate in the current quarter, as compared to the second quarter of 2011, was primarily due to a higher proportion of income from lower tax-rate jurisdictions and higher recoveries of prior periods' income taxes.

As explained at the end of the Q3 2011 Regulatory Capital Review section, to manage the impact of foreign exchange rate changes on BMO's investments in foreign operations and their effect on the bank's capital ratios to acceptable levels, BMO may partially or fully hedge foreign exchange risk by partially or fully funding its foreign investment in U.S. dollars. Under this program, the gain or loss from hedging and the unrealized gain or loss from translation of the investments in U.S. operations are charged or credited to shareholders' equity. For income tax purposes, the gain or loss on the hedging activities results in an income tax charge or credit in the current period in shareholders' equity, while the associated unrealized gain or loss on the investments in U.S. operations does not incur income taxes until the investments are liquidated. The income tax charge or benefit arising from a hedging gain or loss is a function of the fluctuation in the Canadian/U.S. exchange rate from period to period. Hedging of the investments in U.S. operations has given rise to an income tax recovery in shareholders' equity of \$10 million for the quarter and an income tax charge of \$170 million for the year to date. Refer to the Consolidated Statement of Changes in Shareholders' Equity included in the interim unaudited consolidated financial statements for further details.

## Balance Sheet

Total assets were \$476.6 billion at July 31, 2011. BMO completed the acquisition of M&I on July 5, 2011, acquiring \$45.6 billion of assets. The M&I assets were comprised of loans totalling \$29.2 billion, securities of \$6.0 billion, cash of \$2.8 billion and other items totalling \$7.6 billion, including goodwill of \$1.8 billion. The allocation of the purchase price for M&I is subject to refinement as we complete the valuation of the assets acquired and liabilities assumed.

Including the addition of the M&I assets, total assets increased \$64.9 billion from October 31, 2010. The weaker U.S. dollar decreased the translated value of U.S.-dollar-denominated assets by \$7.3 billion. There were increases in net loans and acceptances of \$28.8 billion, cash and cash equivalents and interest bearing deposits with banks of \$17.5 billion, securities borrowed or purchased under resale agreements of \$10.2 billion, other assets of \$4.9 billion and securities of \$3.5 billion.

The \$28.8 billion increase in net loans and acceptances was due to an increase in loans to businesses and governments of \$17.0 billion, which included \$19.5 billion from M&I, net of a reduction of \$1.8 billion in other BMO loans due mainly to economic conditions. Spending remains weak and borrowers have reduced utilization of loan facilities. Given the low interest rate environment, more borrowers have accessed the capital markets at attractive rates and used the proceeds to pay down bank debt. There was an increase in consumer instalment and other personal loans of \$6.9 billion including \$4.4 billion from M&I, and a \$2.8 billion increase in auto loans and home equity loans. There was a \$5.8 billion increase in residential mortgages, including \$3.9 billion from M&I. P&C Canada's commercial loan balances also increased. The above increases were partially offset by lower credit card loans due mainly to higher levels of securitization activity in April of this year.

The \$17.5 billion increase in cash and cash equivalents and interest bearing deposits with banks was largely due to increased balances held at the Federal Reserve.

The \$10.2 billion increase in securities borrowed or purchased under resale agreements was mainly due to increased client activities.

The \$4.9 billion increase in other assets was all due to M&I, and included \$1.8 billion of goodwill and \$2.4 billion of deferred income taxes. Excluding the impact of M&I, BMO's other assets decreased due largely to lower carrying values for derivative instruments.

The \$3.5 billion increase in securities resulted from an increase from M&I, partially offset by decreases in BMO's portfolios.

Liabilities and shareholders' equity totalled \$476.6 billion at July 31, 2011. BMO's acquisition of M&I added \$41.6 billion of liabilities including \$33.9 billion of deposits on July 5, 2011. The weaker U.S. dollar decreased liabilities and shareholders' equity by \$7.3 billion at July 31, 2011.

Including M&I, total liabilities and shareholders' equity increased \$64.9 billion from October 31, 2010. The \$64.9 billion increase primarily reflects growth in deposits of \$42.2 billion, securities sold but not yet purchased of \$9.0 billion, securities lent or sold under repurchase agreements of \$6.8 billion, shareholders' equity of \$5.1 billion, subordinated debt of \$1.5 billion and other amounts totalling \$4.8 billion. These factors were partially offset by a decrease in derivative financial liabilities of \$4.1 billion and capital trust securities of \$0.4 billion.

The \$42.2 billion increase in deposits included a \$17.4 billion increase in deposits from businesses and governments (which account for \$148.2 billion or 51% of total deposits). Of the \$17.4 billion increase, \$12.4 billion was attributable to M&I. Deposits by individuals (which account for \$120.2 billion or 41% of total deposits) increased \$21.2 billion with virtually all of the increase attributable to M&I. Deposits by banks (which account for the remaining \$23.0 billion or 8% of total deposits) increased \$3.5 billion primarily due to higher wholesale deposits.

The \$9.0 billion increase in securities sold but not yet purchased was mainly due to increased hedging requirements resulting from an increase in client activities.

The \$6.8 billion increase in securities lent or sold under repurchase agreements was mainly due to increased client investments, mainly in Canada.

The \$5.1 billion increase in shareholders' equity largely reflects the issuance of approximately 67 million common shares on the M&I acquisition at a value of \$4.0 billion, a \$0.3 billion issuance of preferred shares in the second quarter and an increase in retained earnings, partially offset by a decrease in accumulated other comprehensive loss due mainly to a net loss on translation of our net investment in foreign operations.

The \$4.8 billion increase in other amounts included \$3.2 billion from M&I.

The \$1.5 billion increase in subordinated debt was due to an issuance during the second quarter.

## Capital Management

### Q3 2011 Regulatory Capital Review

BMO remains well capitalized at July 31, 2011, with a Basel II Tier 1 Capital Ratio of 11.48% and a Basel II Common Equity Ratio of 9.11%. Tier 1 capital was \$24.3 billion, risk-weighted assets (RWA) were \$212.0 billion, and regulatory common equity was \$19.3 billion. At October 31, 2010, the Tier 1 Ratio was 13.45% and the Common Equity Ratio was 10.26%. The acquisition of M&I on July 5, 2011 caused reductions in the Tier 1 Ratio and Common Equity Ratio of 190 basis points and 130 basis points, respectively, while the ratios were also impacted by other items that affected both RWA and capital, as outlined below.

In the first quarter of 2011, the Office of the Superintendent of Financial Institutions (Canada) approved BMO's application to use the Advanced Internal Ratings Based (AIRB) Approach to determine credit risk RWA for Harris Bancorp, Inc. The change affected capital and RWA as noted in prior quarters.

Tier 1 capital increased \$2.7 billion from October 31, 2010. The increase was due to the issuance of common shares to M&I shareholders as consideration for the acquisition, internally generated capital and the issuance of \$290 million of 3.90% Preferred Shares Series 25 on March 11, 2011. These factors were partially offset by the redemption of \$400 million of BMO BOaTS-Series B in the first quarter, higher Basel II capital deductions primarily related to the M&I acquisition and the adoption of the AIRB Approach for Harris Bancorp Inc., as noted above.

RWA increased \$50.8 billion from October 31, 2010 primarily due to the impact of the M&I acquisition, which added approximately \$45 billion of RWA, and the adoption of the AIRB approach for Harris Bancorp Inc. as outlined above. Corporate and commercial RWA and securitization RWA also increased in the third quarter. The effect of a strengthening Canadian dollar on U.S. dollar-denominated RWA partially offset the total increase in RWA.

BMO's Basel II Total Capital Ratio was 14.21% at July 31, 2011. The ratio decreased 170 basis points from 15.91% at the end of 2010. Total capital increased \$4.5 billion to \$30.1 billion as at July 31, 2011, primarily due to the impact of \$1.5 billion of 3.979% Series G Medium Term Notes First Tranche subordinated indebtedness issued on March 2, 2011 and growth in Tier 1 capital as noted above.

BMO's investments in U.S. operations are primarily denominated in U.S. dollars. Foreign exchange gains or losses on the translation of the investments in foreign operations to Canadian dollars are reported in shareholders' equity, which, when coupled with the foreign exchange impact of U.S. dollar-denominated RWA on Canadian dollar-equivalent RWA, can create volatility in the bank's capital ratios. To manage the impact of foreign exchange rate changes on the bank's capital ratios to acceptable levels, BMO may partially or fully hedge this foreign exchange risk by partially or fully funding its foreign investment in U.S. dollars.

### Potential Impacts of Proposed Regulatory Capital Changes and Conversion to IFRS

The rules on Basel III capital requirements have now been largely outlined and BMO's Basel III Capital Ratios are strong.

We consider the Common Equity Ratio and the Tier 1 Capital Ratio to be the primary capital ratios under Basel III. Based on our analysis and assumptions and including the estimated impact for the adoption of IFRS, BMO's pro-forma July 31, 2011 Common Equity Ratio and Tier 1 Capital Ratio would be 6.6% and 8.8%,

## Qualifying Regulatory Capital

### Basel II Regulatory Capital and Risk-Weighted Assets

(Canadian \$ in millions)	Q3-2011	Q4-2010
Gross regulatory common shareholders' equity	23,580	18,753
Non-cumulative preferred shares	2,861	2,571
Innovative Tier 1 Capital Instruments	2,126	2,542
Non-controlling interest in subsidiaries	33	23
Goodwill and excess intangible assets	(3,374)	(1,619)
Net Tier 1 Capital	25,226	22,270
Securitization-related deductions	(167)	(165)
Expected loss in excess of allowance – AIRB approach	(270)	-
Substantial investments/Investments in insurance subsidiaries	(445)	(427)
Adjusted Tier 1 Capital (Tier 1 Capital)	24,344	21,678
Subordinated debt	5,858	3,776
Trust subordinated notes	800	800
Accumulated net after-tax unrealized gains on available-for-sale equity securities	12	10
Eligible general allowance for credit losses	292	292
Total Tier 2 Capital	6,962	4,878
Securitization-related deductions	(29)	(29)
Expected loss in excess of allowance – AIRB approach	(270)	-
Substantial Investments/Investment in insurance subsidiaries	(875)	(890)
Adjusted Tier 2 Capital	5,788	3,959
Total Capital	30,132	25,637

### Risk-Weighted Assets

(Canadian \$ in millions)	Q3-2011	Q4-2010
Credit risk	181,683	136,290
Market risk	5,715	5,217
Operational risk	24,588	19,658
Total risk-weighted assets	211,986	161,165

## Outstanding Shares and Securities Convertible into Common Shares

As at August 17, 2011	Number of shares or dollar amount
Common shares	637,372,000
Class B Preferred Shares	
Series 5	\$ 200,000,000
Series 13	\$ 350,000,000
Series 14	\$ 250,000,000
Series 15	\$ 250,000,000
Series 16	\$ 300,000,000
Series 18	\$ 150,000,000
Series 21	\$ 275,000,000
Series 23	\$ 400,000,000
Series 25	\$ 290,000,000
Convertible into common shares:	
Class B Preferred Shares (1)	
Series 10	US\$ 300,000,000
Stock options (2)	
– vested	10,192,000
– non-vested	7,702,000

- (1) Convertible preferred shares may be exchanged for common shares on specific dates on a pro-rata basis based on 95% of the average trading price of common shares for the 20 days ending four days prior to the exchange date.
- (2) Stock options include options to acquire M&I common stock that were converted upon closing of the M&I acquisition into options to acquire Bank of Montreal common shares.

Details on share capital are outlined in the 2010 Annual Report in Note 20 to the audited financial statements on pages 145 to 146.

respectively. The ratios decreased from 8.6% and 11.5%, respectively, in the second quarter primarily due to the impact of the M&I acquisition, higher RWA as noted above, and refined estimates for certain Basel III impacts.

The pro-forma calculations and statements in this section assume full implementation of announced Basel III regulatory capital requirements and include the potential impact of certain key changes associated with the adoption of IFRS. BMO's pro-forma capital ratios are strong and the bank is well positioned to meet Basel III capital requirements in the near term.



Under Basel III, the bank's regulatory common equity (defined as common equity net of applicable regulatory capital adjustments) would decrease by approximately \$4.4 billion from \$19.3 billion to \$14.9 billion as at July 31, 2011, and its Tier 1 capital would decrease by approximately \$4.4 billion from \$24.3 billion to \$19.9 billion. The decrease is primarily a result of the impact of the adoption of International Financial Reporting Standards (IFRS) on retained earnings, as well as new Basel III capital deductions. These factors are partially offset by the removal of certain existing Basel II deductions from capital and their conversion to higher levels of RWA.

Our RWA as at July 31, 2011 would increase by approximately \$14.7 billion from \$212.0 billion to \$226.7 billion, primarily due to higher counterparty credit risk RWA (\$10.6 billion) and, to a lesser extent, higher market risk RWA, as well as the conversion of certain existing Basel II capital deductions to RWA (\$4.2 billion), as noted above.

BMO's pro-forma Total Capital Ratio and Leverage Ratio exceed Basel III minimum requirements.

The impacts of the changes from IFRS are based on our analysis to date, as set out in Transition to International Financial Reporting Standards in the Future Changes in Accounting Policies -IFRS section in both our 2010 Annual Report and starting on the following page of this document. In calculating the Basel III Tier 1 Capital Ratio and commenting on the bank's Basel III Total Capital Ratio and Leverage Ratio, we also assumed existing non-common share Tier 1 and Tier 2 capital instruments are fully included in regulatory capital. These instruments do not meet Basel III capital requirements and will be subject to the grandfathering provisions outlined in our 2010 Annual Report. We expect to be able to refinance non-common share capital instruments as and when necessary to meet applicable non-common share capital requirements.

The Basel III pro-forma ratios do not reflect future management actions that may be taken to mitigate the impact of the changes, the benefit of retained earnings growth over time that could be available to meet these requirements, or factors beyond the control of management.

#### **Other Capital Developments**

During the quarter, there were 1,137,000 shares issued through the Shareholder Dividend Reinvestment and Share Purchase Plan and the exercise of stock options, and approximately 67 million common shares issued to M&I shareholders in consideration for the M&I acquisition. We did not repurchase any Bank of Montreal common shares under our common share repurchase program during the quarter.

On August 23, 2011, BMO announced that the Board of Directors declared a quarterly dividend payable to common shareholders of \$0.70 per share, unchanged from a year ago and from the preceding quarter. The dividend is payable November 28, 2011, to shareholders of record on November 1, 2011. Common shareholders may elect to have their cash dividends reinvested in common shares of the bank in accordance with the bank's Shareholder Dividend Reinvestment and Share Purchase Plan ("Plan"). Under the Plan, the Board of Directors determines whether the common shares will be purchased in the secondary market or issued by the bank from treasury. At this time, the common shares purchased under the Plan will be issued from treasury without discount from the average market price of the common shares (as defined in the Plan).

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

#### **Eligible Dividends Designation**

For the purposes of the *Income Tax Act* (Canada) and any similar provincial and territorial legislation, BMO designates all dividends paid or deemed to be paid on both its common and preferred shares as "eligible dividends", unless indicated otherwise.

#### **Credit Rating**

The credit ratings assigned to BMO's senior debt securities by external rating agencies are important in the raising of both capital and funding to support our business operations. Maintaining strong credit ratings allows us to access the capital markets at competitive pricing levels. Should our credit ratings materially decrease, our cost of funds would likely increase significantly and our access to funding and capital through capital markets could be reduced. A material downgrade of our rating could have additional consequences, including those set out in Note 10 to the audited consolidated financial statements on page 130 of the 2010 Annual Report.

BMO's senior debt credit ratings were unchanged in the quarter. All four ratings are indicative of high-grade, high-quality issues. The ratings are as follows: DBRS (AA); Fitch Ratings (AA-); Moody's Investors Service (Aa2); and Standard & Poor's Ratings Services (A+). These credit ratings are also disclosed in the Financial Highlights section located near the beginning of this document.

During the quarter, Moody's affirmed its long-term ratings of Bank of Montreal (Aa2) and returned BMO's rating outlook to stable after placing its rating under review for downgrade following the announcement of our intention to acquire M&I. The other three ratings agencies continue to maintain their ratings with a stable outlook.

#### **Transactions with Related Parties**

In the ordinary course of business, we provide banking services to our directors and executives and their affiliated entities, joint ventures and equity-accounted investees on the same terms that we offer to our customers for those services. A select suite of customer loan and mortgage products is offered to our employees at rates normally made available to our preferred customers. We also offer employees a fee-based subsidy on annual credit card fees.

Stock options and deferred share units granted to directors and preferred rate loan agreements for executives, relating to transfers we initiate, are both discussed in Note 27 to the audited consolidated financial statements on page 159 of the 2010 Annual Report.

#### **Off-Balance-Sheet Arrangements**

BMO enters into a number of off-balance-sheet arrangements in the normal course of operations. The most significant of these are Credit Instruments, Variable Interest Entities and Guarantees, which are described on pages 64 to 66 and 68 to 70 of the 2010 Annual Report as well as in Notes 4 and 6 to the attached unaudited interim consolidated financial statements. See the Select Financial Instruments section for comments on any significant changes to our off-balance-sheet arrangements during the quarter ended July 31, 2011.

## Accounting Policies and Critical Accounting Estimates

The notes to BMO's October 31, 2010 audited consolidated financial statements outline our significant accounting policies.

Pages 68 to 70 of the 2010 Annual Report contain a discussion of certain accounting estimates that are considered particularly important as they require management to make significant judgments, some of which relate to matters that are inherently uncertain. Readers are encouraged to review that discussion.

### Select Financial Instruments

Pages 63 to 67 of BMO's 2010 Annual Report provide enhanced disclosure relating to select financial instruments that, commencing in 2008, markets had come to regard as carrying higher risk. Readers are encouraged to review that disclosure to assist in understanding the nature and extent of BMO's exposures. We follow a practice of reporting on significant changes, if any, in our interim MD&A. The acquisition of M&I has increased overall levels of certain of the asset categories discussed in the Select Financial Instruments section of BMO's 2010 Annual Report.

The amount drawn on the liquidity facilities BMO provides to the Structured Investment Vehicles (SIVs) was lowered to US\$2.8 billion and €277 million at the end of the quarter, down from US\$3.2 billion and €313 million at the end of the second quarter and US\$4.3 billion and €478 million at the end of fiscal 2010. The decreases were attributable to asset sales and asset maturities. The book values of the subordinated capital notes at quarter end were US\$475 million and €107 million for Links and Parkland, respectively, compared with US\$689 million and €141 million at the end of fiscal 2010.

### Select Geographic Exposures

In the euro zone, BMO's direct credit exposures in Greece, Ireland, Italy, Spain and Portugal are primarily to banks for trade finance, lending and trading products. Exposures remain modest at \$131 million at quarter end. In addition, our Irish subsidiary is required to maintain reserves with the Irish central bank. These reserves totalled approximately \$164 million at quarter end.

Given the level of European sovereign debt held by European banks, we continue to proactively monitor BMO's direct exposure to these counterparties, giving appropriate consideration to the potential for indirect exposure to European sovereign debt.

The BMO-managed SIVs had exposure with a par value of approximately \$34 million to counterparties in Ireland, with no exposure in Greece, Italy, Spain or Portugal. This exposure was comprised solely of government guaranteed Irish bank senior debt. We are closely monitoring our exposure to banks in other European countries.

### Future Changes in Accounting Policies

#### Transition to International Financial Reporting Standards

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011. Effective November 1, 2011, we will adopt IFRS as the basis for preparing our consolidated financial statements. We will report our financial results for the quarter ended January 31, 2012 prepared on an IFRS basis. We will also provide comparative data on an IFRS basis, including an opening balance sheet as at November 1, 2010 (transition date).

Our enterprise-wide project to transition to IFRS remains on track. We have completed our diagnostic review and assessment

phase. Our implementation and education phase is substantially completed, and we have entered the third and final phase of our transition. This final phase includes the development of controls and procedures necessary to restate our 2011 opening balance sheet and financial results on an IFRS basis in preparation for our transition to IFRS in 2012, and finalizing our choices on the policy decisions available under IFRS.

Based on our analysis to date, the main accounting changes that will result from the adoption of IFRS are expected to be in the areas of pension and other employee future benefits, asset securitization, consolidation and accumulated other comprehensive loss on translation of foreign operations. The differences between the bank's accounting policies and IFRS requirements associated with these areas, combined with our decisions on the optional exemptions from retroactive application of IFRS, will result in measurement and recognition differences when we transition to IFRS. The net impact of these differences will be recorded in opening retained earnings, affecting shareholders' equity. These impacts will also extend to our capital ratios, with the exception of the change related to accumulated other comprehensive loss on translation of foreign operations, which will have no impact on our capital ratios.

The main accounting changes listed should not be considered a comprehensive list of the impacts of adopting IFRS, but rather the most significant of certain key changes based on our analysis to date. Precisely quantifying all of the impacts that will result from adopting IFRS will be dependent on the completion of all our project workstreams, finalization of all decisions where choices of accounting policies are available, including optional exemptions from retroactive restatement available under IFRS, and the prevailing market conditions and economic circumstances at the time of transition. Other significant differences may be identified prior to our transition to IFRS.

#### Pension and Other Employee Future Benefits

On transition to IFRS, we can choose to recalculate pension and other future employee benefits expense back to inception of the plans as though we had always applied the IFRS employee benefits requirements, or to record market-related amounts that exist on November 1, 2010 directly in retained earnings (the fresh start method). Market-related amounts include unrealized market-related gains or losses on pension fund assets and the impact of changes in discount rates on pension obligations. We have decided to elect the fresh start method as permitted under IFRS.

#### Asset Securitization

In 2010, we substantially completed our assessment of the accounting treatment under IFRS of loans and mortgages sold to the bank's securitization vehicles and to the Canada Mortgage Bond program. Our preliminary conclusion is that the loans and mortgages sold by the bank to these securitization programs will remain on our balance sheet. Under Canadian GAAP, the mortgages and loans sold through these programs are removed from our balance sheet.

In the current quarter, we substantially completed our assessment of the accounting treatment under IFRS of the bank's Canadian mortgage loans sold to the National Housing Act Mortgage-Backed Securities program (NHA MBS). We assessed whether the mortgages qualify for off-balance sheet treatment based on the transfer of the risk and rewards, as determined under the derecognition criteria contained in the IFRS financial

instruments standard (IAS 39). Based on the analysis completed to date, our preliminary conclusion is that the mortgages sold through the NHA MBS program will remain on our balance sheet. Under Canadian GAAP, the mortgages sold through this program are removed from our balance sheet. If the securitized assets sold to the NHA MBS program were to be recognized on the bank's balance sheet, assets and liabilities would increase by approximately \$4 billion on November 1, 2010, the beginning of our comparative year. We do not expect that this would result in any significant adjustment to opening retained earnings on November 1, 2010.

Additional information on our asset securitizations is included in Note 8 on page 126 of the consolidated financial statements in our 2010 Annual Report.

#### Consolidation

In 2010, we substantially completed our assessment of whether we are required to consolidate our credit protection vehicle Apex Trust ("Apex") and our structured investment vehicles ("SIVs") when we transition to IFRS. Our preliminary conclusion is that the bank would be required to consolidate Apex and the SIVs. Under Canadian GAAP, we are not required to consolidate Apex and the SIVs.

In the second quarter, we substantially completed our assessment of whether we are required to consolidate our U.S. customer securitization vehicle. We assessed the consolidation requirement based on whether the bank would, in substance, control the vehicle as determined under the criteria contained in the IFRS consolidated and separate financial statements standard (IAS 27) and, where appropriate, SIC-12 (an interpretation of IAS 27). Our preliminary conclusion is that the bank would be required to consolidate the vehicle. Under Canadian GAAP, we are not required to consolidate our U.S. customer securitization vehicle. Consolidation of the vehicle would impact the bank's balance sheet, increasing assets and liabilities by approximately \$3 billion on November 1, 2010, the beginning of our comparative year. We do not expect that this would result in any significant adjustment to opening retained earnings on November 1, 2010 or the calculation of our Tier 1 Capital Ratio.

In the current quarter, we substantially completed our assessment of whether we are required to consolidate our Canadian customer securitization vehicles. We assessed the consolidation requirement based on whether the bank would, in substance, control the vehicle as determined under the criteria contained in the IFRS consolidated and separate financial statements standard (IAS 27) and, where appropriate, SIC-12 (an interpretation of IAS 27). Our analysis considered whether the activities of the vehicle are conducted on behalf of the bank, the bank's exposure to the risks and benefits of the vehicle, its decision-making power over the vehicle, and whether these considerations demonstrate that the bank, in substance, controls the vehicle and therefore must consolidate it. We determined that for five of our eight Canadian customer securitization vehicles, the requirements to consolidate were not met under IFRS, a result that is consistent with how the vehicles are accounted for under Canadian GAAP. As a result, when we transition to IFRS there will be no change in the accounting treatment of our Canadian customer securitization vehicles.

We expect to complete our assessment of other less significant VIE's in the fourth quarter of 2011.

Information on all our VIEs, including total assets, our exposure to loss and our assessment of the consolidation requirement

under Canadian GAAP, is included in Note 9 on page 128 of the consolidated financial statements in our 2010 Annual Report.

#### Accumulated other Comprehensive Loss on Translation of Foreign Operations

On transition to IFRS, we can either recalculate translation differences on an IFRS basis as through we had always applied the IFRS requirements or reset the accumulated other comprehensive loss on translation of net foreign operations to zero. We expect to elect to reset our accumulated other comprehensive loss on translation of net foreign operations to zero.

#### Acquisition of Marshall & Ilsley Corporation (M&I)

Under Canadian GAAP, the M&I purchase price is based on an average of the market price of the shares over a reasonable period before and after the date the terms of the acquisition are agreed to and announced. Under IFRS, the purchase price will be based on the market price of the shares at the closing date of the transaction. Additionally acquisition costs are capitalized under Canadian GAAP and classified as goodwill. IFRS requires acquisition costs to be expensed. When we transition to IFRS in fiscal 2012, we will restate the acquisition of M&I and reflect these differences in our comparative year. We do not expect these differences will have a significant impact on our comparative year financial results.

#### Quantification of the impact of certain key differences

Pages 71 through 73 of our 2010 Annual Report contain discussions on the key elements of our transition plan, approximate impacts to our 2011 opening balance sheet and capital ratios of certain key differences, and our assessment of the optional exemptions from retroactive application of IFRS. Readers are encouraged to review these discussions for more details.

This Transition to International Financial Reporting Standards section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

#### **U.S. Legislative Developments**

On July 21, 2010, President Obama signed into law the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act is broad in scope and we continue to assess the impact of the legislation on our operations. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate at this time the overall financial impact on our operations or the financial industry more generally. The change to overdraft fees as a result of Regulation E came into effect in the summer of 2010, and is now included in our results. The reductions to interchange fees under Dodd-Frank will be effective on October 1, 2011. The reductions are expected to lower P&C U.S. pre-tax income on an annual basis by approximately US\$40 million, after mitigating management actions. We also anticipate an increase in regulatory costs, and will be focused on managing the complexity and breadth of the regulatory changes.

The Financial Crisis Responsibility Fee that the Obama Administration has proposed levying on U.S. financial institutions that have assets exceeding a certain threshold was re-proposed in the Administration's 2012 budget. Although the details of the proposed fee have not been fully released, the proposed fee, if implemented, could apply to some or all of our U.S. operations. The proposed fee will not become law unless approved by the President and the United States Congress.

## Summary Quarterly Results Trends

(Canadian \$ in millions, except as noted)

	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010	Q4-2009
Total revenue	<b>3,274</b>	3,217	3,346	3,229	2,907	3,049	3,025	2,989
Provision for credit losses – specific	<b>174</b>	187	248	253	214	249	333	386
Provision for (recovery of) credit losses – general	-	(42)	-	-	-	-	-	-
Non-interest expense	<b>2,111</b>	2,023	2,046	2,023	1,898	1,830	1,839	1,779
Net income	<b>793</b>	800	776	739	669	745	657	647
Adjusted net income	<b>843</b>	804	784	748	678	752	664	690
Basic earnings per share (\$)	<b>1.28</b>	1.35	1.31	1.25	1.13	1.27	1.12	1.12
Diluted earnings per share (\$)	<b>1.27</b>	1.34	1.30	1.24	1.13	1.26	1.12	1.11
Adjusted diluted earnings per share (\$)	<b>1.36</b>	1.35	1.32	1.26	1.14	1.28	1.13	1.18
Net interest margin on earning assets (%)	<b>1.78</b>	1.89	1.82	1.89	1.88	1.88	1.85	1.73
Effective income tax rate (%)	<b>18.0</b>	22.0	24.5	20.6	13.4	21.4	20.8	19.2
Canadian/U.S. dollar exchange rate (average)	<b>0.96</b>	0.96	1.01	1.04	1.05	1.03	1.06	1.08
Net income:								
P&C Canada	<b>432</b>	402	443	418	424	395	403	402
P&C U.S.	<b>92</b>	53	54	46	52	55	61	59
Personal and Commercial Banking	<b>524</b>	455	497	464	476	450	464	461
Private Client Group	<b>120</b>	101	153	129	105	115	111	106
BMO Capital Markets	<b>279</b>	235	257	214	130	260	212	259
Corporate Services, including T&O	<b>(130)</b>	9	(131)	(68)	(42)	(80)	(130)	(179)
BMO Financial Group	<b>793</b>	800	776	739	669	745	657	647

Prior periods have been restated to give effect to the current periods' organizational structure; see Review of Operating Groups' Performance.

BMO's quarterly earning trends were reviewed in detail on pages 94 and 95 of the 2010 Annual Report. Readers are encouraged to refer to that review for a more complete discussion of trends and factors affecting past quarterly results including the modest impact of seasonal variations in results. The above table outlines summary results for the fourth quarter of fiscal 2009 through the third quarter of fiscal 2011.

Results in the past year have been strengthening, generally, reflecting a trend toward stronger revenues, reduced provisions for credit losses and increased net income. Adjusted earnings growth has been stronger and more sustained. Expenses have been growing, reflecting acquisitions, initiative spending and business growth. Current quarter results include the impact of the acquisition of M&I, which reduced net income by \$10 million, and increased revenue by \$117 million and expenses by \$137 million, including \$53 million of integration costs. The acquisition improved results in P&C U.S. substantially and Private Client Group modestly.

P&C Canada benefited from strong volume growth in 2010 with favourable movements in market share in a number of key businesses. P&C Canada has performed well with generally increasing revenues and profitability, and good revenue increases in both personal and commercial businesses, driven by volume growth across most products and improved net interest margin. Current period net income has increased but revenue and expense growth are moderating. Results include the impact of the Diners Club North American franchise effective in the first quarter of 2010.

P&C U.S. has operated in a difficult economic environment since 2007. Results in 2010 were also affected by acquisition integration costs and the economic environment that year led to a drop in loan utilization, which affected revenue growth and net income. Commencing in the second quarter of 2010, P&C U.S. results reflect the acquisition of certain assets and liabilities of a Rockford, Illinois-based bank. Good results in the current quarter were augmented by the addition of M&I, which increased net income in P&C U.S. by US\$27 million. As explained in the

introduction to the Review of Operating Groups' Performance section, during the quarter certain impaired real estate secured assets were transferred to Corporate Services. Prior period loan balances, revenues and expenses have been restated to reflect the transfer.

Private Client Group results in recent quarters reflected growth in most businesses. Included in the current quarter is one month of earnings from the wealth businesses relating to the M&I acquisition, as well as a full quarter of earnings from the LGM acquisition. Results in the insurance business in the prior quarter were impacted by unusually high reinsurance claims of \$47 million after tax related to the earthquakes in Japan and New Zealand.

BMO Capital Markets results in 2010 varied by quarter, with strong results in the second quarter and particularly weak net income in the third quarter. First quarter 2011 results were particularly strong, while second quarter results returned to more normal levels and third quarter results benefited from tax recoveries related to prior periods.

Corporate Services results showed continued improvement throughout 2010 due to decreased provisions for credit losses and better revenues. Results in the second quarter of 2011 benefited from reduced provisions for credit losses, including a \$42 million reduction in the general allowance, and higher revenues. Results in the current quarter reflect lower interest on the settlement of certain income tax matters, lower revenues primarily due to the impact of the M&I acquisition and lower securitization-related revenues largely related to a credit card securitization in the second quarter. Results also reflect \$53 million of integration costs in respect of M&I.

The effective income tax rate can vary as it depends on the timing of resolution of certain tax matters, recoveries of prior periods' income taxes and the relative proportion of earnings attributable to the different jurisdictions in which we operate.

The U.S. dollar has generally weakened over the past two years. A weaker U.S. dollar lowers the translated values of BMO's U.S.-dollar-denominated revenues and expenses.

## Review of Operating Groups' Performance

### Operating Groups' Summary Income Statements and Statistics for Q3-2011

(Canadian \$ in millions, except as noted)	Q3-2011					YTD-2011				
	P&C	PCG	BMO CM	Corporate including T&O	Total BMO	P&C	PCG	BMO CM	Corporate including T&O	Total BMO
Net interest income (teb) (1)	1,500	111	318	(237)	<b>1,692</b>	4,244	322	951	(578)	<b>4,939</b>
Non-interest revenue	517	506	519	40	<b>1,582</b>	1,486	1,538	1,685	189	<b>4,898</b>
Total revenue (teb) (1)	2,017	617	837	(197)	<b>3,274</b>	5,730	1,860	2,636	(389)	<b>9,837</b>
Provision for credit losses	189	2	30	(47)	<b>174</b>	533	6	90	(62)	<b>567</b>
Non-interest expense	1,086	461	458	106	<b>2,111</b>	3,110	1,357	1,419	294	<b>6,180</b>
Income before income taxes and non-controlling interest in subsidiaries	742	154	349	(256)	<b>989</b>	2,087	497	1,127	(621)	<b>3,090</b>
Income taxes (recovery) (teb) (1)	218	34	70	(144)	<b>178</b>	611	123	356	(423)	<b>667</b>
Non-controlling interest in subsidiaries	-	-	-	18	<b>18</b>	-	-	-	54	<b>54</b>
Net income Q3-2011	524	120	279	(130)	<b>793</b>	1,476	374	771	(252)	<b>2,369</b>
Net income Q2-2011	455	101	235	9	<b>800</b>					
Net income Q3-2010	476	105	130	(42)	<b>669</b>	1,390	331	602	(252)	<b>2,071</b>
<b>Other statistics</b>										
Net economic profit	288	81	157	(300)	<b>226</b>	838	270	398	(732)	<b>774</b>
Return on equity	23.5%	32.0%	25.5%	nm	<b>14.7%</b>	24.8%	37.3%	22.9%	nm	<b>15.7%</b>
Operating leverage	2.2%	(0.5%)	14.6%	nm	<b>1.5%</b>	(0.4%)	0.3%	3.7%	nm	<b>(1.5%)</b>
Productivity ratio (teb)	53.8%	74.7%	54.7%	nm	<b>64.5%</b>	54.3%	73.0%	53.8%	nm	<b>62.8%</b>
Net interest margin on earning assets (teb)	3.21%	2.89%	0.73%	nm	<b>1.78%</b>	3.19%	2.97%	0.76%	nm	<b>1.83%</b>
Average common equity	8,486	1,462	4,138	6,304	<b>20,390</b>	7,640	1,320	4,278	6,076	<b>19,314</b>
Average earning assets (\$ billions)	185.3	15.2	172.3	3.4	<b>376.1</b>	177.9	14.5	166.4	1.9	<b>360.7</b>
Full-time equivalent employees	25,010	6,539	2,188	13,878	<b>47,615</b>					

nm – not meaningful

(1) Operating group revenues, income taxes and net interest margin are stated on a taxable equivalent basis (teb). The group teb adjustments are offset in Corporate, and Total BMO revenue, income taxes and net interest margin are stated on a GAAP basis.

The following sections review the financial results of each of our operating segments and operating groups for the third quarter of 2011.

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

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

As explained in the Acquisition of Marshall & Ilsley Corporation section, during the quarter we acquired M&I. M&I's activities are

primarily reflected in our P&C U.S., PCG and Corporate Services segments, with a small amount included in BMO Capital Markets.

Loans acquired in connection with the M&I acquisition were recorded at fair value at the date of acquisition and as a result no allowance for credit losses has been recorded on these loans. The fair value of the purchased portfolio of \$29.2 billion included a write-down for estimated future losses of \$3.3 billion (excluding a write-down for commitments and letters of credit). As the purchased portfolio was written down at acquisition to the amount expected to be collected, the purchased loans are not included in gross impaired loans. We expect to recover the fair value (or new carrying amount) of the purchased portfolio.

Corporate Services is generally charged (or credited) with differences between the periodic provisions for credit losses charged to the client groups under our expected loss provisioning methodology and the periodic provisions required under GAAP. We have included expected losses in P&C US for the M&I loan portfolio on the same basis as expected losses are determined for other loans in P&C U.S.

## Personal and Commercial Banking (P&C)

(Canadian \$ in millions, except as noted)	Q3-2011	Increase (Decrease) vs. Q3-2010		Increase (Decrease) vs. Q2-2011		YTD-2011	Increase (Decrease) vs. YTD-2010	
Net interest income (teb)	<b>1,500</b>	158	12%	157	12%	<b>4,244</b>	362	9%
Non-interest revenue	<b>517</b>	6	1%	38	8%	<b>1,486</b>	4	-
Total revenue (teb)	<b>2,017</b>	164	9%	195	11%	<b>5,730</b>	366	7%
Provision for credit losses	<b>189</b>	29	18%	18	10%	<b>533</b>	70	15%
Non-interest expense	<b>1,086</b>	69	7%	79	8%	<b>3,110</b>	208	7%
Income before income taxes	<b>742</b>	66	10%	98	16%	<b>2,087</b>	88	4%
Income taxes (teb)	<b>218</b>	18	9%	29	16%	<b>611</b>	2	-
Net income	<b>524</b>	48	10%	69	15%	<b>1,476</b>	86	6%
Return on equity	<b>23.5%</b>		(5.5%)		(1.6%)	<b>24.8%</b>		(3.4%)
Operating leverage	<b>2.2%</b>		nm		nm	<b>(0.4%)</b>		nm
Productivity ratio (teb)	<b>53.8%</b>		(1.1%)		(1.5%)	<b>54.3%</b>		0.2%
Net interest margin on earning assets (teb)	<b>3.21%</b>		0.11%		0.04%	<b>3.19%</b>		0.13%
Average earning assets (\$ billions)	<b>185.3</b>	13.5	8%	11.4	7%	<b>177.9</b>	8.6	5%

nm - not meaningful

Personal and Commercial Banking (P&C) represents the sum of our two retail and business banking operating segments, Personal and Commercial Banking Canada (P&C Canada) and Personal and Commercial Banking U.S. (P&C U.S.). These operating segments are reviewed separately in the sections that follow.

## Personal and Commercial Banking Canada (P&C Canada)

(Canadian \$ in millions, except as noted)	Q3-2011	Increase (Decrease) vs. Q3-2010		Increase (Decrease) vs. Q2-2011		YTD-2011	Increase (Decrease) vs. YTD-2010	
Net interest income (teb)	<b>1,103</b>	39	4%	45	4%	<b>3,270</b>	197	6%
Non-interest revenue	<b>424</b>	(1)	-	8	2%	<b>1,260</b>	23	2%
Total revenue (teb)	<b>1,527</b>	38	3%	53	4%	<b>4,530</b>	220	5%
Provision for credit losses	<b>137</b>	8	6%	1	-	<b>409</b>	39	11%
Non-interest expense	<b>788</b>	23	3%	10	1%	<b>2,340</b>	143	7%
Income before income taxes	<b>602</b>	7	1%	42	8%	<b>1,781</b>	38	2%
Income taxes (teb)	<b>170</b>	(1)	(1%)	12	8%	<b>504</b>	(17)	(3%)
Net income	<b>432</b>	8	2%	30	8%	<b>1,277</b>	55	5%
Personal revenue	<b>951</b>	23	3%	31	3%	<b>2,827</b>	124	5%
Commercial revenue	<b>576</b>	15	3%	22	4%	<b>1,703</b>	96	6%
Operating leverage	<b>(0.5%)</b>		nm		nm	<b>(1.4%)</b>		nm
Productivity ratio (teb)	<b>51.6%</b>		0.3%		(1.2%)	<b>51.7%</b>		0.7%
Net interest margin on earning assets (teb)	<b>2.92%</b>		(0.04%)		(0.01%)	<b>2.95%</b>		0.01%
Average earning assets (\$ billions)	<b>149.7</b>	7.0	5%	1.5	1%	<b>148.1</b>	8.3	6%

nm - not meaningful

### Q3 2011 vs Q3 2010

P&C Canada net income was \$432 million, up \$8 million or 1.8% from a year ago. Reported results reflect provisions for credit losses in BMO's operating groups on an expected loss basis. Net income increased \$19 million or 4.9% on a basis that adjusts reported results to reflect provisions on an actual loss basis.

Revenue increased \$38 million or 2.5%, with volume growth across most products partially offset by a lower net interest margin. Net interest margin decreased 4 basis points, driven by lower deposit spreads in a low interest environment.

In the personal banking segment, revenue increased \$23 million or 2.5%. Volume growth in both loans and deposits was partially offset by lower deposits spread in the low rate environment. Total personal lending balances (including mortgages, Homeowner Readiline and other consumer lending products) increased 5.7% year over year. Total personal lending market share was unchanged year over year. Our goal is to grow market share and we continue to focus on improving the total personal lending business through investment in the sales force and achieving productivity gains while remaining attentive to the credit quality of the portfolio.

Personal cards loan balances increased 0.9% while market share decreased year over year.

Personal deposit balances increased 0.5% year over year with an increase in retail operating deposits and a reduction in term deposits. Market share for both retail operating deposits and term deposits decreased year over year in the highly competitive environment.

In the commercial banking segment, revenue increased \$15 million or 2.5% year over year. The effects of volume growth, favourable product mix and higher activity fees were partially offset by lower spread in commercial deposits and lower cards revenue.

Commercial loan balances grew 4.5% and our market share remained stable year over year. We continue to rank second in Canadian business banking market share of small and mid-sized business loans.

Commercial cards balances decreased 3.6%, primarily due to attrition in Diners Club North American franchise balances, as expected.

Commercial deposit balances grew 10.2%. We continue to invest in the size and capabilities of our commercial workforce to deepen our relationships and provide better advice to our customers.

Provisions for credit losses on an expected loss basis increased \$8 million or 6.1% due to growth in the portfolio.

Non-interest expense increased \$23 million or 3.0% due to increased initiative spending and growth in the sales force, partially offset by the benefit of a sales tax recovery. The group's operating leverage was negative 0.5%, as we continue to invest strategically to improve our competitive position while managing expenses prudently.

Average current loans and acceptances, including securitized loans, increased \$7.3 billion or 5.1% from a year ago and personal and commercial deposits grew \$3.7 billion or 3.7%.

### Q3 2011 vs Q2 2011

Net income increased \$30 million or 7.9% as revenue growth outpaced expense growth.

Revenue increased \$53 million or 3.6%, driven by volume growth across most products and the impact of more days in the current quarter. Net interest margin decreased 1 basis point due to lower mortgage refinancing fees.

Non-interest expense increased \$10 million or 1.1%, primarily due to higher employee costs and the impact of more days in the quarter, partially offset by the benefit of the sales tax recovery.

Average current loans and acceptances, including securitized loans, increased \$1.7 billion or 1.1% from the preceding quarter, while personal and commercial deposits increased \$2.0 billion or 2.0%.

### Q3 YTD 2011 vs Q3 YTD 2010

Net income increased \$55 million or 4.5% to \$1,277 million.

Revenue increased \$220 million or 5.1%, driven by volume growth, higher mutual funds revenue and the inclusion of two more months of results of the Diners Club business in the current year. Net interest margin improved by 1 basis point primarily due to favourable spread in lending products, partially offset by lower spread in deposits.

Non-interest expense increased \$143 million or 6.5%, primarily due to increases in initiative spending, growth in the sales force and the inclusion of two more months of results of the Diners Club North American franchise business in the current year.

Average current loans and acceptances, including securitized loans, increased \$8.7 billion or 6.2%, while personal and commercial deposits increased \$3.2 billion or 3.3%.

## Personal and Commercial Banking U.S. (P&C U.S.)

(Canadian \$ in millions, except as noted)	Q3-2011	Increase (Decrease) vs. Q3-2010		Increase (Decrease) vs. Q2-2011		YTD-2011	Increase (Decrease) vs. YTD-2010	
Net interest income (teb)	397	119	43%	112	40%	974	165	20%
Non-interest revenue	93	7	9%	30	47%	226	(19)	(8%)
Total revenue (teb)	490	126	35%	142	41%	1,200	146	14%
Provision for credit losses	52	21	71%	17	50%	124	31	34%
Non-interest expense	298	46	18%	69	30%	770	65	9%
Income before income taxes	140	59	75%	56	66%	306	50	20%
Income taxes (teb)	48	19	69%	17	57%	107	19	22%
Net income	92	40	79%	39	72%	199	31	19%
Operating leverage	17.0%		nm		nm	4.7%		nm
Productivity ratio (teb)	60.8%		(8.7%)		(5.0%)	64.1%		(2.8%)
Net interest margin on earning assets (teb)	4.47%		0.66%		-	4.38%		0.72%
Average earning assets (\$ billions)	35.6	6.5	22%	9.8	38%	29.7	0.2	1%

### U.S. Select Financial Data (US\$ in millions, except as noted)

Net interest income (teb)	413	148	56%	117	40%	999	225	29%
Non-interest revenue	96	15	18%	31	47%	231	(3)	(1%)
Total revenue (teb)	509	163	47%	148	41%	1,230	222	22%
Non-interest expense	310	69	29%	72	30%	789	114	17%
Net Income	95	45	94%	40	72%	204	43	27%
Average earning assets (US\$ billions)	37.1	9.2	33%	10.3	38%	30.5	2.2	8%

nm - not meaningful

### Q3 2011 vs Q3 2010

Net income of Cdn\$92 million increased Cdn\$40 million or 79%. Amounts in the rest of this section are in U.S. dollars. Net income of \$95 million increased \$45 million from \$50 million a year ago, with the M&I business contributing \$27 million of the increase. The inclusion of the acquired M&I business increased revenue by \$135 million, the provision for credit losses by \$18 million, reflecting expected loss provisions based on BMO's expected loss methodologies, and expense by \$75 million.

As explained more fully in the preceding introduction to the Review of Operating Groups' Performance section, during the quarter certain impaired real estate secured assets were transferred to Corporate Services. Prior period loan balances, revenues and expenses have been restated to reflect the transfer.

Excluding the M&I business, net income increased \$18 million or 39%, primarily due to increased revenues driven in part by higher net interest margins and increased securities gains. Higher provisions for credit losses under BMO's expected loss provisioning methodology were offset by lower expenses.

Revenue of \$509 million increased \$163 million or 47%. Adjusting for the impact of the M&I business, revenue increased by \$28 million or 8.1%, primarily due to increased loan spreads as a result of a favourable change in mix of loan balances, and higher deposit balances and securities gains, partially offset by lower fee revenue.

Excluding M&I, net interest margin of 4.53% increased 72 basis points, primarily due to improved loan spreads as a result of the favourable change in mix of loan balances and higher deposit balances.

Non-interest expense of \$310 million was \$69 million or 29% higher primarily due to the addition of M&I. Excluding M&I, expenses were down \$6 million or 2.5% from a year ago, primarily due to a valuation adjustment on our serviced mortgage portfolio recognized in the prior year.

Average current loans and acceptances of \$33.7 billion increased \$9.1 billion or 37% year over year. Average deposits of \$37.9 billion increased \$12.0 billion or 46% year over year. For both loans and deposits, the M&I balances are included in the average balances for one third of the quarter, due to the timing of the closing of the acquisition.

### Q3 2011 vs Q2 2011

Net income increased Cdn\$39 million or 72% from the prior quarter. Amounts in the rest of this section are stated in U.S. dollars. Net income increased \$40 million or 72% from the prior quarter as results reflected the \$27 million impact of M&I and higher revenue.

Revenue increased \$148 million or 41%, primarily due to the addition of M&I and higher securities gains.

Excluding M&I, net interest margin increased 6 basis points as a result of improved loan spreads due to a continuation of the favourable change in the mix of loan balances and increased deposit balances, partially offset by reduced spreads on deposits.

Non-interest expense increased \$72 million or 30%, primarily due to the M&I acquisition. Excluding M&I, expenses decreased \$3 million or 1.1%.

Average current loans and acceptances increased \$10.0 billion from the preceding quarter, while average deposits increased \$10.9 billion. For both loans and deposits, the increases relate primarily to the inclusion of M&I balances for approximately one month.



### Q3 YTD 2011 vs Q3 YTD 2010

Net income increased Cdn\$31 million or 19% from the prior year to Cdn\$199 million. Amounts in the rest of this section are stated in U.S. dollars. Net income was \$204 million, up \$43 million or 27% from the prior year.

The M&I business increased revenue, expense and net income as outlined above. In addition, the acquired assets and liabilities on the April 2010 Rockford transaction increased revenue by \$28 million and expense by \$27 million relative to the comparable period in 2010.

Revenue of \$1,230 million was \$222 million or 22% higher. Adjusting for the impact of M&I and the Rockford transaction, revenue increased \$59 million or 6.4%, primarily driven by loan spread improvement as a result of the favourable change in the mix of loan balances and higher deposit balances and securities gains, partially offset by lower fee revenue.

Excluding M&I, net interest margin of 4.39% increased 73 basis points primarily due to improved loan spreads, as discussed above, and higher deposit balances.

Provisions for credit losses, on an expected loss basis, increased \$38 million or 43%, primarily due to higher expected losses on commercial loans and M&I.

Non-interest expense of \$789 million increased \$114 million or 17%. Adjusting for the impact of M&I and the Rockford transaction, expenses increased \$12 million or 1.8%. The increase was primarily due to higher incentives related to the improved financial results and increases in advertising costs and deposit insurance premiums.

Average current loans and acceptances of \$27.3 billion increased \$2.5 billion or 10% year over year, primarily due to M&I. Average deposits of \$30.8 billion increased \$6.2 billion or 25% year over year, with \$3.2 billion due to M&I, \$1.2 billion due to the Rockford acquisition and \$1.8 billion due to organic growth.

### Private Client Group (PCG)

(Canadian \$ in millions, except as noted)	Q3-2011	Increase (Decrease) vs. Q3-2010		Increase (Decrease) vs. Q2-2011		YTD-2011	Increase (Decrease) vs. YTD-2010	
Net interest income (teb)	111	19	20%	3	3%	322	56	21%
Non-interest revenue	506	54	12%	32	7%	1,538	152	11%
Total revenue (teb)	617	73	13%	35	6%	1,860	208	13%
Provision for credit losses	2	1	35%	-	-	6	1	16%
Non-interest expense	461	57	14%	24	6%	1,357	149	12%
Income before income taxes	154	15	12%	11	7%	497	58	13%
Income taxes (teb)	34	-	-	(8)	(22%)	123	15	16%
Net income	120	15	14%	19	19%	374	43	13%
Return on equity	32.0%		(2.1%)		(0.5%)	37.3%		2.2%
Operating leverage	(0.5%)		nm		nm	0.3%		nm
Productivity ratio (teb)	74.7%		0.3%		(0.3%)	73.0%		(0.2%)
Net interest margin on earning assets (teb)	2.89%		0.12%		(0.21%)	2.97%		0.18%
Average earning assets	15,216	1,942	15%	916	6%	14,489	1,730	14%

### U.S. Select Financial Data (US\$ in millions, except as noted)

Total revenue (teb)	102	42	70%	35	51%	233	52	29%
Non-interest expense	79	28	55%	23	41%	193	34	21%
Net income	13	9	+100%	7	+100%	23	11	91%
Average earning assets	2,219	166	8%	312	16%	2,019	(81)	(4%)

nm - not meaningful

### Q3 2011 vs Q3 2010

Net income was \$120 million, up \$15 million or 14% from the same quarter a year ago. Private Client Group net income, excluding the insurance business, increased \$30 million or 43% to \$101 million as we continue to see growth across all these businesses. Included in the current quarter is one month of earnings from the wealth businesses relating to the M&I acquisition that added US\$4 million of net income, US\$31 million of revenue and US\$25 million of expense. As well, the current quarter includes earnings from the Lloyd George Management (LGM) acquisition that was completed on April 28, 2011, adding \$9 million to both revenue and expense while having minimal effect on our net income. Insurance net income was \$19 million for the quarter, down \$15 million or 45% from a year ago, primarily due to the adverse effect of unfavourable long-term interest rate movements on policyholder liabilities relative to the prior year.

Revenue was \$617 million, up \$73 million or 13% from the prior year. PCG revenue, excluding insurance, grew 20% or 12% adjusting for the impact of the M&I and LGM businesses as we continue to see improvement in client assets under management and administration. Revenue from the insurance business was down primarily due to the adverse effect of unfavourable long-term interest rate movements. Net interest income grew from the prior year primarily due to higher deposit spreads in our brokerage businesses, higher loan and deposit balances in private banking, and the M&I acquisition. The weaker U.S. dollar lowered revenue by \$10 million or 1.8%.

Non-interest expense increased \$57 million or 14%, primarily due to higher revenue-based costs associated with the revenue growth in PCG excluding insurance and expenses from the acquisitions. After adjusting for the impact of the M&I and LGM businesses, non-interest expense growth was \$24 million or 5.7%. The weaker U.S. dollar reduced expenses by \$7 million or 1.8%.

Assets under management and administration improved by \$177 billion to \$429 billion as the M&I and LGM acquisitions brought \$153 billion in client assets to our business. Assets in our U.S. wealth business increased from US\$77 billion to US\$239 billion. On a basis that excludes the impact of the M&I and LGM acquisitions and the weaker U.S. dollar, assets under management and administration grew \$30 billion or 12% from a year ago as a result of attracting new client assets and improved equity market conditions.

#### **Q3 2011 vs Q2 2011**

Net income improved \$19 million or 19% from the second quarter. PCG net income, excluding the insurance business, was up \$1 million or 1.0% as the benefit from the M&I acquisition was mostly offset by lower brokerage revenue. Insurance net income was up \$18 million, as the prior quarter included unusually high reinsurance claims from the earthquakes in Japan and New Zealand that reduced net income by \$47 million. This impact was partly offset by the adverse effect of unfavourable long-term interest rate movements on policyholder liabilities relative to the prior quarter.

Revenue increased \$35 million or 5.9%. PCG revenue excluding insurance increased 5% but decreased 2.1% adjusting for the impact of the M&I and LGM businesses, primarily due to lower revenue in brokerage businesses due to lower trading volumes, partially offset by higher mutual fund and private banking revenue. Insurance revenue improved, as the prior quarter included earthquake-related reinsurance claims that lowered revenue by \$50 million, partly offset by the adverse effect of unfavourable long-term interest rate movements on policyholder liabilities relative to the second quarter. Net interest income increased relative to the prior quarter primarily due to the M&I acquisition.

Non-interest expense increased \$24 million or 5.5% primarily due to the impact of the acquisitions. After adjusting for the impact of the M&I and LGM businesses, non-interest expenses were lower by \$9 million or 2% primarily due to lower revenue in the brokerage businesses, in line with lower trading volumes.

Assets under management and administration increased by \$145 billion, but declined by \$4 billion if adjusted to exclude the impacts of the LGM and M&I acquisitions and the weaker U.S. dollar.

#### **Q3 YTD 2011 vs Q3 YTD 2010**

Net income increased \$43 million or 13% from the prior year. PCG net income, excluding the insurance business, was up \$73 million or 35% with growth in all of our underlying businesses. The M&I acquisition also contributed to growth. Insurance net income was down \$30 million or 25% as growth in net premium revenue was more than offset by the earthquake-related reinsurance claims and the adverse effect of unfavourable long-term interest rate movements on policyholder liabilities relative to the same period a year ago.

Revenue increased \$208 million or 13%. Revenue in PCG, excluding insurance, increased 17%, or 14% adjusting for the impact of the M&I and LGM acquisitions, with growth in all of our businesses, particularly in brokerage and private banking. Insurance revenue declined as growth in net premium revenues was more than offset by the earthquake-related reinsurance claims and the adverse effect of unfavourable long-term interest rate movements relative to the same period a year ago. Net interest income grew, largely due to higher deposit spreads in the brokerage businesses and higher loan and deposit balances in private banking. The weaker U.S. dollar lowered revenue by \$18 million or 1.1%.

Non-interest expense increased \$149 million or 12%, primarily due to higher revenue-based costs associated with the revenue growth in PCG excluding insurance, and selective investments to benefit future revenue growth. After adjusting for the impact of the LGM and M&I businesses, non-interest expense growth would be \$116 million or 10%. The weaker U.S. dollar reduced expenses by \$14 million or 1.1%.

## BMO Capital Markets (BMO CM)

(Canadian \$ in millions, except as noted)	Q3-2011	Increase (Decrease) vs. Q3-2010		Increase (Decrease) vs. Q2-2011		YTD-2011	Increase (Decrease) vs. YTD-2010	
Net interest income (teb)	318	(35)	(10%)	21	7%	951	(143)	(13%)
Non-interest revenue	519	193	59%	(20)	(4%)	1,685	337	25%
Total revenue (teb)	837	158	23%	1	-	2,636	194	8%
Provision for credit losses	30	(36)	(55%)	-	-	90	(108)	(55%)
Non-interest expense	458	36	8%	(10)	(2%)	1,419	57	4%
Income before income taxes	349	158	82%	11	3%	1,127	245	28%
Income taxes (teb)	70	9	14%	(33)	(31%)	356	76	27%
Net income	279	149	+100%	44	19%	771	169	28%
Trading Products revenue	508	112	28%	22	5%	1,589	49	3%
Investment and Corporate Banking revenue	329	46	16%	(21)	(6%)	1,047	145	16%
Return on equity	25.5%		13.7%		4.1%	22.9%		4.6%
Operating leverage	14.6%		nm		nm	3.7%		nm
Productivity ratio (teb)	54.7%		(7.3%)		(1.3%)	53.8%		(1.9%)
Net interest margin on earning assets (teb)	0.73%		(0.22%)		(0.03%)	0.76%		(0.20%)
Average earning assets (\$ billions)	172.3	24.0	16%	11.2	7%	166.4	14.4	9%
<b>U.S. Select Financial Data</b> (US\$ in millions, except as noted)								
Total revenue (teb)	260	30	13%	9	4%	782	39	5%
Non-interest expense	196	25	15%	1	1%	586	67	13%
Net Income	33	23	+100%	8	30%	39	(25)	(39%)
Average earning assets (US\$ billions)	64.4	15.5	32%	9.7	18%	58.3	11.2	24%

nm – not meaningful

### Q3 2011 vs Q3 2010

Net income was \$279 million, up \$149 million from the previous year. Revenue increased and there was a reduction in the provision for credit losses. Provisions for credit losses are charged to the groups on an expected loss basis.

Revenue increased \$158 million or 23% to \$837 million. The most significant increase was in trading revenues, which were higher largely due to the more favourable trading environment than in the prior year. Mergers and acquisitions fees were significantly higher than in the previous year. Securities commissions and equity underwriting fees also increased considerably over the prior year. The weaker U.S. dollar decreased revenue by \$26 million relative to a year ago. Our strategy of building out our distribution platform and continuing to diversify our business is on track and contributing to our business performance.

Non-interest expense increased \$36 million or 8.4% primarily due to higher variable compensation costs, in line with revenue performance, and our initiative to invest in strategic hiring across certain lines of business. The weaker U.S. dollar decreased expenses by \$13 million relative to a year ago.

Results for the current period benefited from a higher recovery of prior periods' income taxes.

### Q3 2011 vs Q2 2011

Net income increased \$44 million or 19% from the second quarter. Revenue was relatively unchanged. There were increased mergers and acquisitions fees along with increased revenue from our interest-rate-sensitive businesses. There were reductions in net securities gains and debt underwriting fees.

Non-interest expense decreased by \$10 million, primarily due to lower employee costs, offset in part by higher support costs.

Results for the current period benefited from a recovery of prior periods' income taxes.

### Q3 YTD 2011 vs Q3 YTD 2010

Net income increased \$169 million or 28% to \$771 million. Revenue increased \$194 million or 8% due to increases in investment banking fees, securities commissions and revenues from our interest-rate-sensitive businesses. Although overall revenues improved from the prior year, trading revenue decreased primarily due to the very strong results in the first half of the prior year. Provisions for credit losses were lower than in the prior year.

Non-interest expense was \$57 million or 4.2% higher than in the prior year mainly due to higher employee costs, as we continue to invest in strategic hiring across certain lines of business, and increased support costs.

Results for the current period included a provision for prior periods' income taxes in the U.S. segment in the first quarter of the year as well as a recovery of prior periods' income taxes in the third quarter.

## Corporate Services, Including Technology and Operations

(Canadian \$ in millions, except as noted)	Q3-2011	Increase (Decrease) vs. Q3-2010		Increase (Decrease) vs. Q2-2011		YTD-2011	Increase (Decrease) vs. YTD-2010	
Net interest income before teb offset	(182)	(87)	(89%)	(107)	(+100%)	(409)	(83)	(25%)
Group teb offset	(55)	66	55%	(2)	(4%)	(169)	122	42%
Net interest income (teb)	(237)	(21)	(9%)	(109)	(87%)	(578)	39	6%
Non-interest revenue	40	(7)	(16%)	(65)	(62%)	189	49	34%
Total revenue (teb)	(197)	(28)	(17%)	(174)	(+100%)	(389)	88	18%
Provision for credit losses	(47)	(34)	(+100%)	11	18%	(62)	(192)	(+100%)
Non-interest expense	106	51	93%	(5)	(4%)	294	199	+100%
Loss before income taxes and non-controlling interest in subsidiaries	256	45	22%	180	+100%	621	(81)	(12%)
Income taxes recovery (teb)	144	(44)	(23%)	41	40%	423	(83)	(16%)
Non-controlling interest in subsidiaries	18	(1)	(2%)	-	-	54	(2)	(2%)
Net loss	130	88	+100%	139	+100%	252	-	-
Adjusted net loss	92	50	+100%	97	+100%	219	(33)	(13%)
<b>U.S. Select Financial Data</b> (US\$ in millions, except as noted)								
Total revenue (teb)	(141)	(78)	(+100%)	(106)	(+100%)	(248)	(126)	(+100%)
Provision for credit losses	6	(12)	(60%)	(15)	(65%)	100	(60)	(37%)
Non-interest expense	51	49	+100%	8	14%	95	104	+100%
Income tax recovery (teb)	88	52	+100%	25	34%	234	125	+100%
Net loss	115	63	+100%	75	+100%	223	45	25%

### Corporate Services

Corporate Services consists of the corporate units that provide enterprise-wide expertise and governance support in a variety of areas, including strategic planning, risk management, finance, legal and compliance, communications and human resources. Operating results reflect the impact of certain securitization and asset-liability management activities, the elimination of teb adjustments, the impact of our expected loss provisioning methodology, the results from certain impaired loan portfolios, and the impact of certain fair value adjustments and integration costs relating to the acquisition of M&I.

BMO's practice is to charge loss provisions to the client operating groups each year, using an expected loss provisioning methodology based on each group's share of expected credit losses. Corporate Services is generally charged (or credited) with differences between the periodic provisions for credit losses charged to the client operating groups under our expected loss provisioning methodology and provisions required under GAAP. See the Review of Operating Groups' Performance section for more details.

### Technology and Operations

Technology and Operations (T&O) manages, maintains and provides governance over information technology, operations services, real estate and sourcing for BMO Financial Group. T&O focuses on enterprise-wide priorities that improve service quality and efficiency to deliver an excellent customer experience.

## Financial Performance Review

Technology and Operations operating results are included with Corporate Services for reporting purposes. However, the costs of T&O services are transferred to the three operating groups (P&C, PCG and BMO Capital Markets) and only minor amounts are retained in T&O results. As such, results in this section largely reflect the corporate activities outlined in the preceding description of the Corporate Services unit.

Corporate Services reported a net loss in the quarter of \$130 million and an adjusted net loss of \$92 million. The net loss includes a loss of \$39 million in respect of M&I, essentially matching the \$38 million after-tax costs of integration and hedging foreign currency risk on the purchase. Excluding those items, M&I's results were virtually break-even.

The discussion that follows excludes the impact of M&I. On that basis, Corporate Services net loss in the current quarter was \$91 million, an increase of \$49 million from the prior year. Revenues were \$15 million better, primarily due to a lower group net offset, partially offset by a less favourable impact year over year from hedging activities. Expenses were \$12 million worse, mainly due to higher employee costs and technology investment spending. Provisions for credit losses were \$16 million lower as a result of lower provisions charged to Corporate Services under BMO's expected loss provisioning methodology, and income taxes were \$69 million higher primarily due to a lower group net offset.

As explained more fully in the preceding introduction to the Review of Operating Groups' Performance section, during the quarter certain impaired real estate secured assets were transferred to Corporate Services from P&C U.S. As well, certain real estate secured assets acquired on the M&I transaction are included in Corporate Services.

Corporate Services net loss in the current quarter increased \$139 million from the second quarter. As explained above, results for the current quarter include a loss of \$39 million in respect of M&I and a loss of \$1 million in respect of M&I after adjusting for the after-tax costs of integration and hedging foreign currency risk. M&I related results in the second quarter included a loss of \$25 million which was comprised entirely of the after-tax costs of integration and hedging foreign currency risk that quarter. Excluding those items, there was no loss in respect of M&I related results in the second quarter, compared with a \$1 million loss on that basis in the third quarter.

The discussion that follows excludes the impact of M&I. On that basis, Corporate Services net loss in the third quarter increased \$125 million from the second quarter. Revenues were \$142 million lower, largely due to lower interest on the settlement of certain income tax matters and lower securitization-related revenues largely related to a credit card securitization in the second quarter. Expenses were \$19 million lower, primarily due to reduced technology investment spending, and provisions for credit losses were higher, largely due to a \$42 million reduction in the general allowance in the second quarter.

The net loss for the year to date of \$252 million was unchanged from the prior year. The rest of the discussion that follows excludes the impact of M&I. The net loss for the year to date was \$188 million, a decrease of \$64 million from the prior year. Revenues were \$142 million higher, primarily driven by a lower group net offset and higher interest on the settlement of certain income tax matters. Expenses were \$135 million higher, largely due to an increase in employee costs, technology investment spending and costs related to the impaired loan portfolio. The provision for credit losses decreased by \$174 million.

## GAAP and Related Non-GAAP Results and Measures used in the MD&A

(Canadian \$ in millions, except as noted)

	Q3-2011	Q2-2011	Q3-2010	YTD-2011	YTD-2010
<b>Reported Results</b>					
Revenue	3,274	3,217	2,907	9,837	8,981
Non-interest expense	(2,111)	(2,023)	(1,898)	(6,180)	(5,567)
Pre-provision, pre-tax earnings	1,163	1,194	1,009	3,657	3,414
Provision for credit losses	(174)	(145)	(214)	(567)	(796)
Provision for income taxes	(178)	(231)	(107)	(667)	(491)
Non-controlling interest in subsidiaries	(18)	(18)	(19)	(54)	(56)
Net Income	793	800	669	2,369	2,071
<b>Reported Measures</b>					
EPS (\$)	1.27	1.34	1.13	3.91	3.51
Net income growth (%)	18.5	7.5	20.1	14.4	81.7
EPS growth (%)	13.2	6.3	16.3	11.5	76.6
Revenue growth (%)	12.6	5.5	(2.4)	9.5	11.2
Non-interest expense growth (%)	11.1	10.5	1.4	11.0	(0.6)
Productivity ratio (%)	64.5	62.9	65.3	62.8	62.0
Operating leverage (%)	1.5	(5.0)	(3.8)	(1.5)	11.8
Return on equity (%)	14.7	16.7	13.7	15.7	14.8
<b>Adjusting Items</b>					
Charges to net interest income					
Acquisition-related items – hedge of foreign currency risk on the purchase of M&I	(9)	(11)	-	(20)	-
Charges to non-interest expense					
Acquisition-related items – costs of M&I integration and integration planning	(53)	(25)	-	(78)	-
Amortization of acquisition-related intangible assets	(17)	(10)	(10)	(36)	(26)
Decrease in the general allowance for credit losses	-	42	-	42	-
Income tax benefit (charge) related to the above	29	-	1	30	3
<b>After-tax impact of Adjusting Items</b>					
Acquisition-related items – hedge of foreign currency risk on the purchase of M&I	(6)	(8)	-	(14)	-
Acquisition-related items – costs of M&I integration and integration planning	(32)	(17)	-	(49)	-
Amortization of acquisition-related intangible assets	(12)	(9)	(9)	(29)	(23)
Decrease in the general allowance for credit losses	-	30	-	30	-
Net Income	(50)	(4)	(9)	(62)	(23)
EPS (\$)	(0.09)	(0.01)	(0.01)	(0.11)	(0.04)
<b>Adjusted Results (Note 1)</b>					
Revenue	3,283	3,228	2,907	9,857	8,981
Non-interest expense	(2,041)	(1,988)	(1,888)	(6,066)	(5,541)
Pre-provision, pre-tax earnings	1,242	1,240	1,019	3,791	3,440
Provision for credit losses	(174)	(187)	(214)	(609)	(796)
Provision for income taxes	(207)	(231)	(108)	(697)	(494)
Non-controlling interest in subsidiaries	(18)	(18)	(19)	(54)	(56)
Net Income	843	804	678	2,431	2,094
<b>Adjusted Measures (Note 1)</b>					
EPS (\$)	1.36	1.35	1.14	4.02	3.55
Net income growth (%)	24.4	6.9	11.1	16.1	30.2
EPS growth (%)	19.0	5.5	8.7	13.3	25.2
Revenue growth (%)	12.9	5.9	(2.6)	9.7	5.1
Non-interest expense growth (%)	8.0	9.2	1.5	9.5	(0.5)
Productivity ratio (%)	62.2	61.6	65.0	61.5	61.7
Operating leverage (%)	4.9	(3.3)	(4.1)	0.2	5.6
Return on equity (%)	15.6	16.8	13.9	16.1	14.9

Note 1: Adjusted results and measures are non-GAAP. All of the above adjusting items are charged to Corporate Services, except the amortization of acquisition-related intangible assets which applies to all groups.

### Non-GAAP Measures

Results and measures in the MD&A are presented on a GAAP basis. They are also presented on an adjusted basis that excludes the impact of certain items as set out above. Management assesses performance on both a reported and adjusted basis and considers both bases to be useful in assessing underlying, ongoing business performance. Presenting results on both bases provides readers with an enhanced understanding of how management views results. It also permits readers to assess the impact of the

specified items on results for the periods presented and to better assess results excluding those items if they consider the items to not be reflective of ongoing results. As such, the presentation may facilitate readers' analysis of trends as well as comparisons with our competitors. Adjusted results and measures are non-GAAP and as such do not have standardized meaning under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from or as a substitute for GAAP results.

# Consolidated Statement of Income

(Unaudited) (Canadian \$ in millions, except as noted)

	For the three months ended				For the nine months ended		
	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010	July 31, 2011	July 31, 2010
<b>Interest, Dividend and Fee Income</b>							
Loans	\$ 1,990	\$ 1,907	\$ 1,932	\$ 1,925	\$ 1,845	\$ 5,829	\$ 5,345
Securities	633	597	634	563	543	1,864	1,571
Deposits with banks	35	34	21	23	18	90	51
	<b>2,658</b>	<b>2,538</b>	<b>2,587</b>	<b>2,511</b>	<b>2,406</b>	<b>7,783</b>	<b>6,967</b>
<b>Interest Expense</b>							
Deposits	660	639	679	666	610	1,978	1,696
Subordinated debt	44	38	33	32	30	115	87
Capital trust securities	7	6	12	14	18	25	57
Other liabilities	255	235	236	189	177	726	502
	<b>966</b>	<b>918</b>	<b>960</b>	<b>901</b>	<b>835</b>	<b>2,844</b>	<b>2,342</b>
<b>Net Interest Income</b>	<b>1,692</b>	<b>1,620</b>	<b>1,627</b>	<b>1,610</b>	<b>1,571</b>	<b>4,939</b>	<b>4,625</b>
Provision for credit losses (Note 2)	174	145	248	253	214	567	796
Net Interest Income After Provision for Credit Losses	<b>1,518</b>	<b>1,475</b>	<b>1,379</b>	<b>1,357</b>	<b>1,357</b>	<b>4,372</b>	<b>3,829</b>
<b>Non-Interest Revenue</b>							
Securities commissions and fees	290	309	302	266	258	901	782
Deposit and payment service charges	205	188	195	199	206	588	603
Trading revenues (losses)	141	137	208	166	(1)	486	338
Lending fees	141	138	149	144	148	428	428
Card fees	20	50	45	65	67	115	168
Investment management and custodial fees	128	95	92	91	90	315	264
Mutual fund revenues	164	158	154	144	139	476	406
Securitization revenues	211	179	167	188	167	557	490
Underwriting and advisory fees	141	143	152	135	91	436	310
Securities gains, other than trading	32	48	32	40	9	112	110
Foreign exchange, other than trading	22	33	23	22	22	78	71
Insurance income	47	40	122	83	70	209	238
Other	40	79	78	76	70	197	148
	<b>1,582</b>	<b>1,597</b>	<b>1,719</b>	<b>1,619</b>	<b>1,336</b>	<b>4,898</b>	<b>4,356</b>
Net Interest Income and Non-Interest Revenue	<b>3,100</b>	<b>3,072</b>	<b>3,098</b>	<b>2,976</b>	<b>2,693</b>	<b>9,270</b>	<b>8,185</b>
<b>Non-Interest Expense</b>							
Employee compensation (Note 8)	1,207	1,131	1,210	1,120	1,062	3,548	3,244
Premises and equipment	386	376	343	379	337	1,105	964
Amortization of intangible assets	58	42	50	46	52	150	157
Travel and business development	100	90	86	109	85	276	234
Communications	63	61	60	60	61	184	169
Business and capital taxes	12	14	11	10	19	37	42
Professional fees	132	130	99	118	98	361	254
Other	153	179	187	181	184	519	503
	<b>2,111</b>	<b>2,023</b>	<b>2,046</b>	<b>2,023</b>	<b>1,898</b>	<b>6,180</b>	<b>5,567</b>
<b>Income Before Provision for Income Taxes and Non-Controlling Interest in Subsidiaries</b>	<b>989</b>	<b>1,049</b>	<b>1,052</b>	<b>953</b>	<b>795</b>	<b>3,090</b>	<b>2,618</b>
Provision for income taxes	178	231	258	196	107	667	491
	<b>811</b>	<b>818</b>	<b>794</b>	<b>757</b>	<b>688</b>	<b>2,423</b>	<b>2,127</b>
Non-controlling interest in subsidiaries	18	18	18	18	19	54	56
<b>Net Income</b>	<b>\$ 793</b>	<b>\$ 800</b>	<b>\$ 776</b>	<b>\$ 739</b>	<b>\$ 669</b>	<b>\$ 2,369</b>	<b>\$ 2,071</b>
Preferred share dividends	\$ 39	\$ 34	\$ 34	\$ 34	\$ 33	\$ 107	\$ 102
Net income available to common shareholders	\$ 754	\$ 766	\$ 742	\$ 705	\$ 636	\$ 2,262	\$ 1,969
Average common shares (in thousands)	589,849	568,829	567,301	565,088	561,839	575,398	558,047
Average diluted common shares (in thousands)	592,146	571,407	569,938	568,083	565,196	577,901	561,454
<b>Earnings Per Share</b> (Canadian \$) (Note 12)							
Basic	\$ 1.28	\$ 1.35	\$ 1.31	\$ 1.25	\$ 1.13	\$ 3.93	\$ 3.53
Diluted	1.27	1.34	1.30	1.24	1.13	3.91	3.51
<b>Dividends Declared Per Common Share</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>2.10</b>	<b>2.10</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

# Consolidated Balance Sheet

(Unaudited) (Canadian \$ in millions)

As at

	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010
<b>Assets</b>					
<b>Cash and Cash Equivalents</b>	\$ 33,026	\$ 24,415	\$ 20,717	\$ 17,368	\$ 15,083
<b>Interest Bearing Deposits with Banks</b>	5,035	3,336	3,522	3,186	3,121
<b>Securities</b>					
Trading	73,882	73,215	74,377	71,710	66,300
Available-for-sale	51,954	46,276	47,367	50,543	51,899
Other	1,079	1,093	1,137	1,146	1,151
	126,915	120,584	122,881	123,399	119,350
<b>Securities Borrowed or Purchased Under Resale Agreements</b>	38,301	33,040	35,887	28,102	24,317
<b>Loans</b>					
Residential mortgages	54,493	49,560	50,294	48,715	47,097
Consumer instalment and other personal	58,035	52,189	51,751	51,159	49,741
Credit cards	2,239	1,936	3,221	3,308	3,304
Businesses and governments	85,363	66,127	66,334	68,338	68,407
	200,130	169,812	171,600	171,520	168,549
Customers' liability under acceptances	7,000	6,620	7,194	7,001	6,885
Allowance for credit losses (Note 2)	(1,689)	(1,736)	(1,880)	(1,878)	(1,879)
	205,441	174,696	176,914	176,643	173,555
<b>Other Assets</b>					
Derivative instruments	47,767	44,268	39,354	49,759	47,947
Premises and equipment	1,977	1,519	1,537	1,560	1,565
Goodwill	3,374	1,584	1,598	1,619	1,627
Intangible assets	1,511	848	822	812	748
Other	13,210	8,938	10,012	9,192	10,073
	67,839	57,157	53,323	62,942	61,960
<b>Total Assets</b>	\$ 476,557	\$ 413,228	\$ 413,244	\$ 411,640	\$ 397,386
<b>Liabilities and Shareholders' Equity</b>					
<b>Deposits</b> (Note 10)					
Banks	\$ 22,983	\$ 18,957	\$ 19,882	\$ 19,435	\$ 19,262
Businesses and governments	148,180	135,233	133,084	130,773	123,882
Individuals	120,249	99,197	98,634	99,043	99,647
	291,412	253,387	251,600	249,251	242,791
<b>Other Liabilities</b>					
Derivative instruments	43,890	41,145	37,393	47,970	45,110
Acceptances	7,000	6,620	7,194	7,001	6,885
Securities sold but not yet purchased	25,412	23,631	22,152	16,438	18,424
Securities lent or sold under repurchase agreements	53,893	43,912	52,143	47,110	42,237
Other	22,257	16,570	16,656	17,414	16,175
	152,452	131,878	135,538	135,933	128,831
<b>Subordinated Debt</b> (Note 9)	5,284	5,208	3,713	3,776	3,747
<b>Capital Trust Securities</b> (Note 10)	400	400	400	800	800
<b>Shareholders' Equity</b>					
Share capital (Note 11)	13,972	9,951	9,572	9,498	9,311
Contributed surplus	112	102	102	92	90
Retained earnings	13,863	13,556	13,192	12,848	12,539
Accumulated other comprehensive loss	(938)	(1,254)	(873)	(558)	(723)
	27,009	22,355	21,993	21,880	21,217
<b>Total Liabilities and Shareholders' Equity</b>	\$ 476,557	\$ 413,228	\$ 413,244	\$ 411,640	\$ 397,386

The accompanying notes are an integral part of these interim consolidated financial statements.



# Consolidated Statement of Comprehensive Income

(Unaudited) (Canadian \$ in millions)	For the three months ended		For the nine months ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net income	\$ 793	\$ 669	\$ 2,369	\$ 2,071
Other Comprehensive Income				
Net change in unrealized gains (losses) on available-for-sale securities	49	39	(66)	(64)
Net change in unrealized gains (losses) on cash flow hedges	228	217	78	(54)
Net gain (loss) on translation of net foreign operations	39	54	(392)	(206)
<b>Total Comprehensive Income</b>	<b>\$ 1,109</b>	<b>\$ 979</b>	<b>\$ 1,989</b>	<b>\$ 1,747</b>

# Consolidated Statement of Changes in Shareholders' Equity

(Unaudited) (Canadian \$ in millions)	For the three months ended		For the nine months ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
<b>Preferred Shares</b>				
Balance at beginning of period	\$ 2,861	\$ 2,571	\$ 2,571	\$ 2,571
Issued during the period (Note 11)	-	-	290	-
Balance at End of Period	2,861	2,571	2,861	2,571
<b>Common Shares</b>				
Balance at beginning of period	7,090	6,590	6,927	6,198
Issued during the period (Notes 7 and 11)	3,961	-	3,961	-
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	43	124	135	381
Issued under the Stock Option Plan	17	26	88	161
Balance at End of Period	11,111	6,740	11,111	6,740
<b>Contributed Surplus</b>				
Balance at beginning of period	102	88	92	79
Stock option expense/exercised	10	2	20	11
Balance at End of Period	112	90	112	90
<b>Retained Earnings</b>				
Balance at beginning of period	13,556	12,299	12,848	11,748
Net income	793	669	2,369	2,071
Dividends – Preferred shares	(39)	(33)	(107)	(102)
– Common shares	(446)	(393)	(1,242)	(1,175)
Share issue expense	(1)	(3)	(5)	(3)
Balance at End of Period	13,863	12,539	13,863	12,539
<b>Accumulated Other Comprehensive Income on Available-for-Sale Securities</b>				
Balance at beginning of period	400	377	515	480
Unrealized gains (losses) on available-for-sale securities arising during the period (net of income tax (provision) recovery of \$(33), \$(19), \$17 and \$7)	54	36	(44)	(12)
Reclassification to earnings of (gains) losses in the period (net of income tax (provision) recovery of \$nil, \$(1), \$9 and \$23)	(5)	3	(22)	(52)
Balance at End of Period	449	416	449	416
<b>Accumulated Other Comprehensive Income (Loss) on Cash Flow Hedges</b>				
Balance at beginning of period	(88)	(257)	62	14
Gains on cash flow hedges arising during the period (net of income tax provision of \$(92), \$(124), \$(39) and \$(15))	228	261	75	29
Reclassification to earnings of (gains) losses on cash flow hedges (net of income tax recovery of \$nil, \$20, less than \$1 and \$38)	-	(44)	3	(83)
Balance at End of Period	140	(40)	140	(40)
<b>Accumulated Other Comprehensive Loss on Translation of Net Foreign Operations</b>				
Balance at beginning of period	(1,566)	(1,153)	(1,135)	(893)
Unrealized gain (loss) on translation of net foreign operations	62	157	(832)	(628)
Impact of hedging unrealized gain (loss) on translation of net foreign operations (net of income tax (provision) recovery of \$10, \$45, \$(170) and \$(175))	(23)	(103)	440	422
Balance at End of Period	(1,527)	(1,099)	(1,527)	(1,099)
Total Accumulated Other Comprehensive Loss	(938)	(723)	(938)	(723)
<b>Total Shareholders' Equity</b>	<b>\$ 27,009</b>	<b>\$ 21,217</b>	<b>\$ 27,009</b>	<b>\$ 21,217</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

# Consolidated Statement of Cash Flows

(Unaudited) (Canadian \$ in millions)	For the three months ended		For the nine months ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 793	\$ 669	\$ 2,369	\$ 2,071
Adjustments to determine net cash flows provided by (used in) operating activities				
Impairment write-down of securities, other than trading	1	8	2	36
Net (gain) on securities, other than trading	(33)	(17)	(114)	(146)
Net (increase) decrease in trading securities	(356)	4,926	(3,525)	(8,140)
Provision for credit losses	174	214	567	796
(Gain) on sale of securitized loans (Note 3)	(158)	(127)	(424)	(374)
Change in derivative instruments – (increase) decrease in derivative asset	(3,571)	(6,738)	1,710	(1,266)
– Increase (decrease) in derivative liability	2,672	5,509	(3,107)	1,976
Amortization of premises and equipment	73	66	216	195
Amortization of intangible assets	58	52	150	157
Net (increase) decrease in future income taxes	48	(93)	(56)	1
Net (increase) decrease in current income taxes	(107)	225	(6)	(838)
Change in accrued interest – decrease in interest receivable	167	124	159	73
– increase (decrease) in interest payable	-	33	(48)	(176)
Changes in other items and accruals, net	2,964	1,259	998	167
(Gain) on sale of land and buildings	-	-	(1)	(4)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>2,725</b>	<b>6,110</b>	<b>(1,110)</b>	<b>(5,472)</b>
<b>Cash Flows from Financing Activities</b>				
Net increase in deposits	3,404	2,644	13,218	9,957
Net increase in securities sold but not yet purchased	1,764	1,877	9,373	6,608
Net increase (decrease) in securities lent or sold under repurchase agreements	9,812	(4,226)	8,293	(2,895)
Net increase (decrease) in liabilities of subsidiaries	(2,201)	25	(2,201)	25
Proceeds from issuance of Covered Bonds (Note 10)	-	-	1,500	-
Proceeds from issuance of subordinated debt (Note 9)	-	-	1,500	-
Repayment of subordinated debt	-	-	-	(500)
Proceeds from issuance of preferred shares (Note 11)	-	-	290	-
Redemption of Capital Trust Securities (Note 10)	-	(350)	(400)	(350)
Share issue expense	(1)	(3)	(5)	(3)
Proceeds from issuance of common shares	19	27	93	165
Cash dividends paid	(444)	(303)	(1,219)	(900)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>12,353</b>	<b>(309)</b>	<b>30,442</b>	<b>12,107</b>
<b>Cash Flows from Investing Activities</b>				
Net (increase) decrease in interest bearing deposits with banks	348	(206)	(190)	477
Purchases of securities, other than trading	(4,589)	(6,308)	(13,733)	(21,716)
Maturities of securities, other than trading	2,659	1,698	11,391	6,300
Proceeds from sales of securities, other than trading	3,154	4,421	8,114	14,554
Net (increase) in loans	(3,076)	(6,303)	(9,746)	(13,387)
Proceeds from securitization of loans (Note 3)	995	1,691	4,331	3,534
Net (increase) decrease in securities borrowed or purchased under resale agreements	(5,106)	805	(11,413)	10,549
Proceeds from sales of land and buildings	-	-	1	5
Premises and equipment – net purchases	(137)	(70)	(247)	(140)
Purchased and developed software – net purchases	(69)	(42)	(187)	(162)
Purchase of Troubled Asset Relief Program preferred shares and warrants	(1,642)	-	(1,642)	-
Acquisitions (Note 7)	789	(107)	683	(1,029)
<b>Net Cash (Used in) Investing Activities</b>	<b>(6,674)</b>	<b>(4,421)</b>	<b>(12,638)</b>	<b>(1,015)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	207	80	(1,036)	(492)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>8,611</b>	<b>1,460</b>	<b>15,658</b>	<b>5,128</b>
Cash and Cash Equivalents at Beginning of Period	24,415	13,623	17,368	9,955
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 33,026</b>	<b>\$ 15,083</b>	<b>\$ 33,026</b>	<b>\$ 15,083</b>
<b>Represented by:</b>				
Cash and non-interest bearing deposits with Bank of Canada and other banks	\$ 31,584	\$ 14,102	\$ 31,584	\$ 14,102
Cheques and other items in transit, net	1,442	981	1,442	981
	<b>\$ 33,026</b>	<b>\$ 15,083</b>	<b>\$ 33,026</b>	<b>\$ 15,083</b>
<b>Supplemental Disclosure of Cash Flow Information</b>				
Amount of interest paid in the period	\$ 966	\$ 803	\$ 2,899	\$ 2,529
Amount of income taxes paid in the period	\$ 283	\$ 85	\$ 558	\$ 1,153

The accompanying notes are an integral part of these interim consolidated financial statements.

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

# Notes to Consolidated Financial Statements

July 31, 2011 (Unaudited)

## Note 1: Basis of Presentation

These interim consolidated financial statements should be read in conjunction with the notes to our annual consolidated financial statements for the year ended October 31, 2010 as set out on pages 114 to 168 of our 2010 Annual Report. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting

principles ("GAAP") using the same accounting policies and methods of computation as were used for our annual consolidated financial statements for the year ended October 31, 2010 and include all normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented.

## Note 2: Loans and Allowance for Credit Losses

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level that we consider adequate to absorb credit-related losses on our loans, customers' liability under acceptances and other credit instruments. The portion related to other credit instruments is

recorded in other liabilities in our Consolidated Balance Sheet. As at July 31, 2011, there was a \$42 million (\$nil as at July 31, 2010) allowance for credit losses related to other credit instruments included in other liabilities.

A continuity of our allowance for credit losses is as follows:

(Canadian \$ in millions)

	Residential mortgages		Credit card, consumer instalment and other personal loans		Business and government loans		Customers' liability under acceptances		Total	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
For the three months ended										
Specific Allowance at beginning of period	68	39	59	54	427	491	-	10	554	594
Provision for credit losses	15	19	107	127	52	68	-	-	174	214
Recoveries	1	2	34	31	26	12	-	-	61	45
Write-offs	(22)	(22)	(142)	(165)	(123)	(93)	-	-	(287)	(280)
Foreign exchange and other	5	-	7	-	6	4	-	-	18	4
Specific Allowance at end of period	67	38	65	47	388	482	-	10	520	577
General Allowance at beginning of period	30	20	354	314	783	912	38	45	1,205	1,291
Provision for credit losses	(1)	2	17	24	(14)	(21)	(2)	(5)	-	-
Foreign exchange and other	-	-	-	-	6	11	-	-	6	11
General Allowance at end of period	29	22	371	338	775	902	36	40	1,211	1,302
Total Allowance	96	60	436	385	1,163	1,384	36	50	1,731	1,879
Comprised of: Loans	96	60	436	385	1,121	1,384	36	50	1,689	1,879
Other credit instruments	-	-	-	-	42	-	-	-	42	-

	Residential mortgages		Credit card, consumer instalment and other personal loans		Business and government loans		Customers' liability under acceptances		Total	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
For the nine months ended										
Specific Allowance at beginning of period	52	33	47	51	481	507	10	5	590	596
Provision for credit losses	66	69	341	416	212	306	(10)	5	609	796
Recoveries	4	7	93	89	72	35	-	-	169	131
Write-offs	(64)	(71)	(426)	(509)	(368)	(344)	-	-	(858)	(924)
Foreign exchange and other	9	-	10	-	(9)	(22)	-	-	10	(22)
Specific Allowance at end of period	67	38	65	47	388	482	-	10	520	577
General Allowance at beginning of period	22	18	340	266	891	968	44	54	1,297	1,306
Provision for credit losses	7	4	31	48	(72)	(38)	(8)	(14)	(42)	-
Foreign exchange and other	-	-	-	24	(44)	(28)	-	-	(44)	(4)
General Allowance at end of period	29	22	371	338	775	902	36	40	1,211	1,302
Total Allowance	96	60	436	385	1,163	1,384	36	50	1,731	1,879
Comprised of: Loans	96	60	436	385	1,121	1,384	36	50	1,689	1,879
Other credit instruments	-	-	-	-	42	-	-	-	42	-

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

### Purchased Loans

We record loans that we purchase at fair value on the day that we acquire the loans, which includes an estimate of expected future credit losses on the acquisition date. As a result, no allowance for credit losses is recorded in our Consolidated Balance Sheet on the day we acquire the loans. Fair value is determined by estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. We estimate cash flows expected to be collected based on specific loan reviews for commercial loans. For retail loans, we use models that incorporate management's best estimate of current key assumptions such as default rates, loss severity, timing of prepayments and collateral. Subsequent to the acquisition date, we will periodically re-evaluate what we expect to collect on the purchased loans. Decreases in expected cash flows will result in a charge to the provision for credit losses and an increase to the allowance for credit losses. Increases in expected cash flows will result in a recovery in the provision for credit losses and either a reduction in any previously recorded allowance for credit losses or if no allowance exists, an increase in the current carrying value of the purchased loans. Because purchased loans are recorded at fair value at acquisition based on the amount

expected to be collectible, none of the purchased loans are considered to be impaired as long as expected cash flows continue to equal or exceed the amounts expected at acquisition. Loans purchased as part of our acquisition of Marshall & Ilsley Corporation ("M&I"), had a fair value of \$29,240 million as at July 5, 2011. Included in the fair value of these loans is a write-down for estimated future losses of \$3,306 million.

### FDIC Covered Loans

Loans acquired as part of our acquisition of AMCORE Bank are subject to a loss share agreement with the Federal Deposit Insurance Corporation ("FDIC"). Under this agreement, the FDIC reimburses us for 80% of the net losses we incur on these loans.

We recorded new provisions for (recoveries of) credit losses of \$5 million and \$(10) million, respectively, for the three and nine months ended July 31, 2011 (\$nil and \$nil million, respectively, for the three and nine months ended July 31, 2010) related to loans covered by the FDIC loss share agreement. These amounts are net of the amounts expected to be reimbursed by the FDIC.

### Note 3: Securitization

The following tables summarize our securitization activity related to our assets and its impact on our Consolidated Statement of Income for the three and nine months ended July 31, 2011 and 2010:

(Canadian \$ in millions)

	Residential mortgages		Credit card loans		Total	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
For the three months ended						
Net cash proceeds (1)	992	1,677	-	-	992	1,677
Investment in securitization vehicle (2)	-	-	34	-	34	-
Deferred purchase price	35	51	1	-	36	51
Servicing liability	(6)	(11)	-	-	(6)	(11)
	1,021	1,717	35	-	1,056	1,717
Loans sold	1,003	1,697	35	-	1,038	1,697
Gain on sale of loans from new securitizations	18	20	-	-	18	20
Gain on sale of loans sold to revolving securitization vehicles	14	14	126	93	140	107

	Residential mortgages		Credit card loans		Total	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
For the nine months ended						
Net cash proceeds (1)	3,114	3,500	1,200	-	4,314	3,500
Investment in securitization vehicle (2)	-	-	115	-	115	-
Deferred purchase price	103	135	37	-	140	135
Servicing liability	(18)	(25)	(5)	-	(23)	(25)
	3,199	3,610	1,347	-	4,546	3,610
Loans sold	3,156	3,554	1,319	-	4,475	3,554
Gain on sale of loans from new securitizations	43	56	28	-	71	56
Gain on sale of loans sold to revolving securitization vehicles	36	44	317	274	353	318

(1) Net cash proceeds represent cash proceeds less issuance costs.

(2) Includes credit card securities retained on-balance sheet by the bank.

The key weighted-average assumptions used to value the deferred purchase price for securitizations were as follows:

	Residential mortgages		Credit card loans	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
For the three months ended				
Weighted-average life (years)	4.19	4.16	0.87	1.00
Prepayment rate (%)	18.37	18.70	37.64	35.58
Interest rate (%)	3.82	3.85	21.73	21.39
Expected credit losses (%) (1)	-	-	5.52	4.40
Discount rate (%)	2.43	2.42	9.45	9.49
For the nine months ended				
Weighted-average life (years)	3.99	4.47	0.91	1.00
Prepayment rate (%)	21.09	17.21	36.98	35.42
Interest rate (%)	3.81	4.01	21.65	21.35
Expected credit losses (%) (1)	-	-	5.52	4.40
Discount rate (%)	2.30	2.61	9.36	9.27

(1) As the residential mortgages are fully insured, there are no expected credit losses.

#### Note 4: Variable Interest Entities

Total assets in our Variable Interest Entities (“VIEs”) and our maximum exposure to losses are summarized in the following

table. For additional information on our VIEs, refer to Note 9 on pages 128 to 130 of our 2010 Annual Report.

	July 31, 2011						October 31, 2010					
	Exposure to loss					Total assets	Exposure to loss					Total assets
	Undrawn facilities (1)	Drawn facilities and loans provided (2)	Securities held	Derivative assets	Total		Undrawn facilities (1)	Drawn facilities and loans provided (2)	Securities held	Derivative assets	Total	
<b>Unconsolidated VIEs in which we have a significant variable interest</b>												
Canadian customer securitization vehicles (3)	2,283	-	132	4	2,419	1,991	2,958	-	113	14	3,085	2,976
U.S. customer securitization vehicle	3,766	123	-	4	3,893	3,352	3,905	251	-	2	4,158	4,074
Bank securitization vehicles (3)	5,100	-	720	69	5,889	10,787	5,100	-	637	100	5,837	9,469
Credit protection vehicle – Apex (4)(5)	1,030	-	1,270	400	2,700	2,213	1,030	-	1,128	669	2,827	2,208
Structured investment vehicles (6)	89	3,090	-	23	3,202	3,255	171	5,097	-	30	5,298	5,225
Structured finance vehicles	na	na	7,918	-	7,918	11,756	na	na	4,745	-	4,745	5,330
Capital and funding trusts	43	12	2	-	57	1,280	43	12	2	-	57	1,277
<b>Total</b>	<b>12,311</b>	<b>3,225</b>	<b>10,042</b>	<b>500</b>	<b>26,078</b>	<b>34,634</b>	<b>13,207</b>	<b>5,360</b>	<b>6,625</b>	<b>815</b>	<b>26,007</b>	<b>30,559</b>
<b>Consolidated VIEs</b>												
Canadian customer securitization vehicles (3)(7)	25	-	25	-	50	25	200	-	196	-	396	196
Capital and funding trusts	3,513	7,487	1,160	85	12,245	9,940	4,081	6,919	740	76	11,816	9,673
Structured finance vehicles	-	-	26	-	26	26	-	-	27	-	27	27
<b>Total</b>	<b>3,538</b>	<b>7,487</b>	<b>1,211</b>	<b>85</b>	<b>12,321</b>	<b>9,991</b>	<b>4,281</b>	<b>6,919</b>	<b>963</b>	<b>76</b>	<b>12,239</b>	<b>9,896</b>

(1) These facilities include senior funding facilities provided to our credit protection vehicle and structured investment vehicles as well as backstop liquidity facilities provided to our bank securitization vehicles, our Canadian customer securitization vehicles and our U.S. customer securitization vehicle. None of the backstop liquidity facilities provided to our Canadian customer securitization vehicles related to credit support as at July 31, 2011 and October 31, 2010. Backstop liquidity facilities provided to our U.S. customer securitization vehicle include credit support and are discussed in Note 6.

(2) Amounts outstanding from backstop liquidity facilities and senior funding facilities are classified as Loans - Businesses and governments.

(3) Securities held in our bank securitization vehicles are comprised of \$61 million of asset-backed commercial paper classified as trading securities (\$105 million in 2010), \$268 million of deferred purchase price (\$261 million in 2010) and \$391 million of asset-backed securities (\$271 million in 2010) classified as available-for-sale securities. Securities held in our Canadian customer securitization vehicles are comprised of asset-backed commercial paper and are classified as trading securities. Assets held by all these vehicles relate to assets in Canada.

(4) Derivatives held with this vehicle are classified as trading instruments. Changes in the fair value of these derivatives are offset by derivatives held with third-party counterparties that are also classified as trading instruments.

(5) Securities held are classified as trading securities and have a face value of \$1,415 million. Our exposure to these securities has been hedged through derivatives.

(6) Securities held are comprised of capital notes, classified as available-for-sale securities. We have written these notes down to \$nil as at July 31, 2011 and October 31, 2010.

(7) Total assets held as at July 31, 2011 are comprised of a loan of \$nil million (\$135 million as at October 31, 2010) and \$25 million of other assets (\$61 million as at October 31, 2010).

na - not applicable

## Note 5: Financial Instruments

### Change in Accounting Policy

On August 1, 2008, we elected to transfer from trading to available-for-sale those securities for which we had a change in

intent to hold the securities for the foreseeable future rather than to exit or trade them in the short term due to market circumstances at that time.

A continuity of the transferred securities is as follows:

(Canadian \$ in millions)

For the three months ended	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010
Fair value of securities at beginning of period	307	387	435	606	791
Net sales/maturities	(48)	(82)	(41)	(175)	(183)
Fair value change recorded in other comprehensive income	9	3	(3)	(2)	(5)
Other than temporary impairment recorded in income	-	-	-	-	-
Impact of foreign exchange	(1)	(1)	(4)	6	3
Fair value of securities at end of period	267	307	387	435	606

For the nine months ended	July 31, 2011	July 31, 2010
Fair value of securities at beginning of period	435	1,378
Net sales/maturities	(171)	(753)
Fair value change recorded in Other Comprehensive Income	9	57
Other than temporary impairment recorded in income	-	(17)
Impact of foreign exchange	(6)	(59)
Fair value of securities at end of period	267	606

### Book Value and Fair Value of Financial Instruments

Set out in the following table are the amounts that would be reported if all of our financial instrument assets and liabilities were reported at their fair values. Refer to the notes to our annual consolidated financial statements on pages 117, 132 and 160 to 161 in our 2010 Annual Report for further discussion on the determination of fair value.

(Canadian \$ in millions)

	July 31, 2011			October 31, 2010		
	Book value	Fair value	Fair value over (under) book value	Book value	Fair value	Fair value over (under) book value
<b>Assets</b>						
Cash and cash equivalents	33,026	33,026	-	17,368	17,368	-
Interest bearing deposits with banks	5,035	5,035	-	3,186	3,186	-
Securities	126,915	127,028	113	123,399	123,433	34
Securities borrowed or purchased under resale agreements	38,301	38,301	-	28,102	28,102	-
Loans						
Residential mortgages	54,493	55,123	630	48,715	49,531	816
Consumer instalment and other personal	58,035	58,144	109	51,159	51,223	64
Credit cards	2,239	2,239	-	3,308	3,308	-
Businesses and governments	85,363	85,089	(274)	68,338	68,084	(254)
	200,130	200,595	465	171,520	172,146	626
Customers' liability under acceptances	7,000	7,000	-	7,001	6,998	(3)
Allowance for credit losses	(1,689)	(1,689)	-	(1,878)	(1,878)	-
Total loans and customers' liability under acceptances, net of allowance for credit losses	205,441	205,906	465	176,643	177,266	623
Derivative instruments	47,767	47,767	-	49,759	49,759	-
Premises and equipment	1,977	1,977	-	1,560	1,560	-
Goodwill	3,374	3,374	-	1,619	1,619	-
Intangible assets	1,511	1,511	-	812	812	-
Other assets	13,210	13,210	-	9,192	9,192	-
	476,557	477,135	578	411,640	412,297	657
<b>Liabilities</b>						
Deposits	291,412	291,568	156	249,251	249,544	293
Derivative instruments	43,890	43,890	-	47,970	47,970	-
Acceptances	7,000	7,000	-	7,001	7,001	-
Securities sold but not yet purchased	25,412	25,412	-	16,438	16,438	-
Securities lent or sold under repurchase agreements	53,893	53,893	-	47,110	47,110	-
Other liabilities	22,257	22,345	88	17,414	17,504	90
Subordinated debt	5,284	5,505	221	3,776	3,947	171
Capital trust securities	400	407	7	800	823	23
Shareholders' equity	27,009	27,009	-	21,880	21,880	-
	476,557	477,029	472	411,640	412,217	577
Total fair value adjustment			106			80

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

### **Financial Instruments Designated as Held for Trading**

A portion of our structured note liabilities has been designated as trading under the fair value option and are accounted for at fair value, which better aligns the accounting result with the way the portfolio is managed. The change in fair value of these structured notes was a decrease of \$76 million and \$30 million in non-interest revenue, trading revenues, respectively, for the three and nine months ended July 31, 2011 (decrease of \$74 million and \$70 million, respectively, for the three and nine months ended July 31, 2010). This includes an increase of \$6 million and a decrease of \$1 million, respectively, for the three and nine months ended July 31, 2011 attributable to changes in our credit spread (increase of \$4 million and \$15 million, respectively, for the three and nine months ended July 31, 2010). We recognized offsetting amounts on derivatives and other financial instrument contracts that are held to hedge changes in the fair value of these structured notes.

The change in fair value related to changes in our credit spread that has been recognized since they were designated as held for trading to July 31, 2011 was an unrealized loss of \$30 million. Starting in 2009, we hedged the exposure to changes in our credit spreads.

The fair value and amount due at contractual maturity of these structured notes accounted for as held for trading as at July 31, 2011 were \$4,355 million and \$4,462 million, respectively (\$3,976 million and \$4,084 million, respectively, as at October 31, 2010).

We designate certain insurance investments as trading under the fair value option since the actuarial calculation of insurance liabilities is based on the fair value of the investments supporting them. Electing the fair value option for these investments better aligns the accounting result with the way the portfolio is managed. The fair value of these securities as at July 31, 2011 was \$4,676 million (\$4,153 million as at October 31, 2010). The impact of recording these as trading securities was an increase of \$107 million and \$82 million in non-interest revenue, insurance income, respectively, for the three and nine months ended July 31, 2011 (increase of \$46 million and \$174 million, respectively, for the three and nine months ended July 31, 2010). Changes in the insurance liability balances are also recorded in non-interest revenue, insurance income.

## Fair Value Measurement

We use a fair value hierarchy to categorize the inputs we use in valuation techniques to measure fair value. The extent of our use of quoted market prices (Level 1), internal models using

observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities, fair value liabilities, derivative assets and derivative liabilities was as follows:

(Canadian \$ in millions)

July 31, 2011

October 31, 2010

	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)
<b>Trading Securities</b>						
Issued or guaranteed by:						
Canadian federal government	17,942	-	-	15,932	72	-
Canadian provincial and municipal governments	5,556	108	-	3,910	5	-
U.S. federal government	5,296	-	-	8,060	-	-
U.S. states, municipalities and agencies	315	128	-	849	205	-
Other governments	1,783	-	-	1,365	-	-
Mortgage-backed securities and collateralized mortgage obligations	717	199	-	859	-	211
Corporate debt	8,237	3,484	1,232	7,419	3,595	1,358
Corporate equity	26,232	2,653	-	27,267	603	-
	66,078	6,572	1,232	65,661	4,480	1,569
<b>Available-for-Sale Securities</b>						
Issued or guaranteed by:						
Canadian federal government	14,275	-	-	14,701	-	-
Canadian provincial and municipal governments	1,318	268	-	1,442	253	-
U.S. federal government	4,778	-	-	5,658	-	-
U.S. states, municipalities and agencies	555	2,736	35	-	4,237	20
Other governments	8,251	748	-	9,455	587	-
Mortgage-backed securities and collateralized mortgage obligations	4,826	8,178	-	688	8,204	20
Corporate debt	3,450	223	1,411	2,959	133	1,500
Corporate equity	190	183	529	139	178	369
	37,643	12,336	1,975	35,042	13,592	1,909
<b>Fair Value Liabilities</b>						
Securities sold but not yet purchased	25,412	-	-	16,438	-	-
Structured note liabilities	-	4,355	-	-	3,976	-
	25,412	4,355	-	16,438	3,976	-
<b>Derivative Assets</b>						
Interest rate contracts	17	29,798	125	24	33,862	217
Foreign exchange contracts	23	11,441	-	45	10,089	-
Commodity contracts	1,492	235	-	2,207	382	-
Equity contracts	2,732	1,047	4	1,028	617	8
Credit default swaps	-	710	143	-	1,120	160
	4,264	43,231	272	3,304	46,070	385
<b>Derivative Liabilities</b>						
Interest rate contracts	27	28,459	41	38	32,593	48
Foreign exchange contracts	16	10,566	-	20	9,517	-
Commodity contracts	1,325	253	-	2,087	501	-
Equity contracts	113	2,428	66	53	2,109	71
Credit default swaps	-	594	2	-	930	3
	1,481	42,300	109	2,198	45,650	122



### Valuation Techniques and Significant Inputs

We determine the fair value of publicly traded fixed maturity and equity securities using quoted market prices in active markets (Level 1) when these are available. When quoted prices in active markets are not available, we determine the fair value of financial instruments using models such as discounted cash flows with observable market data for inputs such as yield and prepayment rates or broker quotes and other third-party vendor quotes (Level 2). Fair value may also be determined using models where the significant market inputs are unobservable due to inactive or minimal market activity (Level 3). We maximize the use of market inputs to the extent possible.

Our Level 2 trading securities are primarily valued using discounted cash flow models with observable spreads or based on broker quotes. The fair value of Level 2 available-for-sale securities is determined using discounted cash flow models with observable spreads or third-party vendor quotes. Level 2 structured note liabilities are valued using models with observable market information. Level 2 derivative assets and liabilities are valued using industry standard models and observable market information.

Sensitivity analysis at July 31, 2011 for the most significant Level 3 instruments is provided below.

Within Level 3 trading securities is corporate debt of \$1,208 million that relates to securities that are hedged with total return swaps and credit default swaps that are also considered a Level 3 instrument. The sensitivity analysis for the structured product is performed on an aggregate basis and is described as part of the discussion on derivatives below.

Within Level 3 available-for-sale corporate debt securities is the deferred purchase price of \$599 million related to our off-balance sheet securitization activities. We have determined the valuation of the deferred purchase price (excess spread) based on expected future cash flows. The significant inputs for the valuation model include interest rate, weighted-average prepayment rate, weighted-average maturity, expected credit losses and weighted-average discount rate. The determination of interest rates has the most significant impact on the valuation of the deferred purchase price. The impact of assuming a 10 percent increase or decrease in the interest rate would result in a change in fair value of \$83 million and \$(83) million, respectively.

Within derivative assets and derivative liabilities as at July 31, 2011 was \$267 million and \$43 million, respectively, related to the mark-to-market of credit default swaps and total return swaps on structured products. We have determined the valuation of these derivatives and the related securities based on estimates of current market spreads for similar structured products. The impact of assuming a 10 basis point increase or decrease in that spread would result in a change in fair value of \$(3) million and \$3 million, respectively.

### Significant Transfers

Transfers are made between the various fair value hierarchy levels due to changes in the availability of quoted market prices or observable market inputs due to changing market conditions. The following is a discussion of the significant transfers between Level 1, Level 2 and Level 3 balances for the three and nine months ended July 31, 2011.

During the quarter ended July 31, 2011, no significant transfers were made into or out of Level 3. Securities purchased as part of the M&I acquisition that are classified as Level 3 totalled \$326 million, of which \$124 million were sold in the quarter. These securities held as at July 31, 2011 are primarily private equity investments for which fair values are determined based on the net assets of the entities.

During the nine months ended July 31, 2011, \$139 million of corporate debt securities within trading securities were transferred from Level 3 to Level 2 as values for these securities are now obtained through a third-party vendor and are based on market prices.

During the nine months ended July 31, 2011, \$207 million and \$20 million of mortgage-backed securities and collateralized mortgage obligations were transferred from Level 3 to Level 2 within trading securities and available-for-sale securities, respectively, as values for these securities are now obtained through a third-party vendor and are based on a larger volume of market prices.

During the nine months ended July 31, 2011, derivative assets of \$6 million and derivative liabilities of \$9 million were transferred from Level 3 to Level 2 as market information became available for certain over-the-counter equity contracts.

During the year ended October 31, 2010, a portion of the asset-backed commercial paper issued by the conduits known as the Montreal Accord were transferred from Level 3 to Level 2 within corporate debt trading securities because we are now valuing the notes based on broker quotes rather than internal models due to increased broker/dealer trading of these securities, resulting in improved liquidity. In addition, certain available-for-sale corporate debt securities that were previously valued using observable market information were transferred from Level 2 to Level 1 as values for these securities became available in active markets.

### Changes in Level 3 Fair Value Measurements

The tables on the following page present a reconciliation of all changes in Level 3 financial instruments during the three and nine months ended July 31, 2011, including realized and unrealized gains (losses) included in earnings and other comprehensive income.

(Canadian \$ in millions)

For the three months ended July 31, 2011	Change in Fair Value						Transfers out of Level 3	Fair Value as at July 31, 2011	Unrealized Gains (losses) (2)
	Balance, April 30, 2011	Included in earnings	Included in other comprehensive income	Purchases	Sales	Maturities (1)			
<b>Trading Securities</b>									
Corporate debt	1,199	35	-	-	-	(2)	-	1,232	35
Total trading securities	1,199	35	-	-	-	(2)	-	1,232	35
<b>Available-for-Sale Securities</b>									
Issued or guaranteed by:									
U.S. states, municipalities and agencies									
	12	-	-	23	-	-	-	35	-
Corporate debt	1,547	(26)	(1)	45	(124)	(30)	-	1,411	2
Corporate equity	342	(2)	6	312	(129)	-	-	529	6
Total available-for-sale securities	1,901	(28)	5	380	(253)	(30)	-	1,975	8
<b>Derivative Assets</b>									
Interest rate contracts	136	(19)	-	8	-	-	-	125	(18)
Equity contracts	3	4	-	-	-	(3)	-	4	4
Credit default swaps	147	(4)	-	-	-	-	-	143	(4)
Total derivative assets	286	(19)	-	8	-	(3)	-	272	(18)
<b>Derivative Liabilities</b>									
Interest rate contracts	42	-	-	-	-	(1)	-	41	-
Equity contracts	74	(8)	-	3	-	(3)	-	66	7
Credit default swaps	2	-	-	-	-	-	-	2	-
Total derivative liabilities	118	(8)	-	3	-	(4)	-	109	7

(1) Includes cash settlement of derivative assets and derivative liabilities.

(2) Unrealized gains or losses on trading securities, derivative assets and derivative liabilities still held on July 31, 2011 are included in earnings in the period. For available-for-sale securities, the unrealized gains or losses on securities still held on July 31, 2011 are included in Accumulated Other Comprehensive Income.

(Canadian \$ in millions)

For the nine months ended July 31, 2011	Change in Fair Value						Transfers out of Level 3	Fair Value as at July 31, 2011	Unrealized Gains (losses) (2)
	Balance, October 31, 2010	Included in earnings	Included in other comprehensive income	Purchases	Sales	Maturities (1)			
<b>Trading Securities</b>									
Mortgage-backed securities and collateralized mortgage obligations	211	(4)	-	-	-	-	(207)	-	-
Corporate debt	1,358	(24)	-	42	(1)	(4)	(139)	1,232	(30)
Total trading securities	1,569	(28)	-	42	(1)	(4)	(346)	1,232	(30)
<b>Available-for-Sale Securities</b>									
Issued or guaranteed by:									
U.S. states, municipalities and agencies									
	20	1	(1)	23	(8)	-	-	35	(1)
Mortgage-backed securities and collateralized mortgage obligations	20	-	-	-	-	-	(20)	-	-
Corporate debt	1,500	(31)	19	169	(151)	(95)	-	1,411	22
Corporate equity	369	(8)	(19)	320	(133)	-	-	529	(19)
Total available-for-sale securities	1,909	(38)	(1)	512	(292)	(95)	(20)	1,975	2
<b>Derivative Assets</b>									
Interest rate contracts	217	(32)	-	8	-	(68)	-	125	118
Equity contracts	8	5	-	-	-	(3)	(6)	4	7
Credit default swaps	160	(11)	-	3	-	(9)	-	143	143
Total derivative assets	385	(38)	-	11	-	(80)	(6)	272	268
<b>Derivative Liabilities</b>									
Interest rate contracts	48	-	-	3	-	(10)	-	41	(42)
Equity contracts	71	6	-	3	-	(5)	(9)	66	(67)
Credit default swaps	3	-	-	-	-	(1)	-	2	(2)
Total derivative liabilities	122	6	-	6	-	(16)	(9)	109	(111)

(1) Includes cash settlement of derivative assets and derivative liabilities.

(2) Unrealized gains or losses on trading securities, derivative assets and derivative liabilities still held on July 31, 2011 are included in earnings in the period. For available-for-sale securities, the unrealized gains or losses on securities still held on July 31, 2011 are included in Accumulated Other Comprehensive Income.

### Other Items Measured at Fair Value

Certain assets such as foreclosed assets are measured at fair value at initial recognition but are not required to be measured at fair value on an ongoing basis.

### Note 6: Guarantees

In the normal course of business we enter into a variety of guarantees. The most significant guarantees are as follows:

#### Standby Letters of Credit and Guarantees

Standby letters of credit and guarantees represent our obligation to make payments to third parties on behalf of another party if that party is unable to make the required payments or meet other contractual requirements. The maximum amount payable under standby letters of credit and guarantees totalled \$12,117 million as at July 31, 2011 (\$10,163 million as at October 31, 2010). None of the standby letters of credit or guarantees had an investment rating as at July 31, 2011 or October 31, 2010. The majority have a term of one year or less. Collateral requirements for standby letters of credit and guarantees are consistent with our collateral requirements for loans. A large majority of these commitments expire without being drawn upon. As a result, the total contractual amounts may not be representative of the funding likely to be required for these commitments.

As at July 31, 2011, \$42 million (\$9 million as at October 31, 2010) was included in other liabilities related to guaranteed parties that were unable to meet their obligation to third parties (See Note 2). No other amount was included in our Consolidated Balance Sheet as at July 31, 2011 and October 31, 2010 related to those standby letters of credit and guarantees.

#### Backstop and Other Liquidity Facilities

Backstop liquidity facilities are provided to asset-backed commercial paper ("ABCP") programs administered by either us or third parties as an alternative source of financing in the event that such programs are unable to access ABCP markets or when predetermined performance measures of the financial assets owned by these programs are not met. The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy of the borrower. The facilities' terms are generally no longer than one year, but can be several years.

The maximum amount payable under these backstop and other liquidity facilities totalled \$13,065 million as at July 31, 2011 (\$14,009 million as at October 31, 2010), of which \$11,403 million relates to facilities that are investment grade, \$622 million that are non-investment grade and \$1,040 million that are not rated (\$11,036 million, \$625 million and \$2,348 million, respectively, as at October 31, 2010). As at July 31, 2011, \$172 million was outstanding from facilities drawn in accordance with the terms of the backstop liquidity facilities (\$292 million as at October 31, 2010), of which \$123 million (US\$129 million) (\$251 million or US\$246 million as at October 31, 2010) related to the U.S. customer securitization vehicle discussed in Note 4.

#### Credit Enhancement Facilities

Where warranted, we provide partial credit enhancement facilities to transactions within ABCP programs administered by either us or third parties. Credit enhancement facilities are included in backstop liquidity facilities. These facilities include

As at July 31, 2011, the bank held \$182 million of foreclosed assets measured at fair value at inception, all of which were classified as Level 2. For the nine months ended July 31, 2011, we recorded write-downs of \$36 million on these assets.

amounts that relate to our U.S. customer securitization vehicle discussed in Note 4.

#### Senior Funding Facilities

We also provide senior funding support to our structured investment vehicles ("SIVs") and our credit protection vehicle. As at July 31, 2011, \$3,090 million had been drawn (\$5,097 million as at October 31, 2010) in accordance with the terms of the funding facilities related to the SIVs. As at July 31, 2011 and October 31, 2010, no amounts had been drawn down in accordance with the terms of the funding facility provided to our credit protection vehicle (See Note 4).

In addition to our investment in the notes subject to the Montreal Accord, we have provided a senior loan facility of \$300 million. No amounts were drawn as at July 31, 2011 or October 31, 2010.

#### Derivatives

Certain of our derivative instruments meet the accounting definition of a guarantee when we believe they are related to an asset, liability or equity security held by the guaranteed party at the inception of a contract. In order to reduce our exposure to these derivatives, we enter into contracts that hedge the related risks.

Written credit default swaps require us to compensate a counterparty following the occurrence of a credit event in relation to a specified reference obligation, such as a bond or a loan. The maximum amount payable under credit default swaps is equal to their notional amount of \$36,288 million as at July 31, 2011 (\$40,650 million as at October 31, 2010), of which \$34,261 million relates to swaps that are investment grade, \$1,824 million are non-investment grade swaps and \$203 million are not rated (\$37,764 million, \$2,622 million and \$264 million, respectively, as at October 31, 2010). The terms of these contracts range from less than one month to seven years. The fair value of the related derivative liabilities included in derivative instruments in our Consolidated Balance Sheet was \$596 million as at July 31, 2011 (\$933 million as at October 31, 2010).

Written options include contractual agreements that convey to the purchaser the right, but not the obligation, to require us to buy a specific amount of a currency, commodity, debt or equity instrument at a fixed price, either at a fixed future date or at any time within a fixed future period. The maximum amount payable under these written options cannot be reasonably estimated due to the nature of these contracts. The terms of these contracts range from one day to eight years. The fair value of the related derivative liabilities included in derivative instruments in our Consolidated Balance Sheet was \$415 million as at July 31, 2011 (\$599 million as at October 31, 2010), none of which had an investment rating (none of which had an investment rating as at October 31, 2010).

Written options also include contractual agreements where we agree to pay the purchaser, based on a specified notional amount, the difference between a market price or rate and the

strike price or rate of the underlying instrument. The maximum amount payable under these contracts is not determinable due to their nature. The terms of these contracts range from two months to 25 years. The fair value of the related derivative liabilities included in derivative instruments in our Consolidated Balance Sheet was \$85 million as at July 31, 2011 (\$87 million as at October 31, 2010), none of which had an investment rating (none of which had an investment rating as at October 31, 2010).

#### **Indemnification Agreements**

In the normal course of operations, we enter into various agreements that provide general indemnifications. These indemnifications typically occur in connection with sales of assets, securities offerings, service contracts, membership agreements, clearing arrangements, derivatives contracts and

#### **Note 7: Acquisitions**

We account for acquisitions of businesses using the purchase method. This involves allocating the purchase price paid for a business to the assets acquired, including identifiable intangible assets and the liabilities assumed based on their fair values at the date of acquisition. Any excess is then recorded as goodwill. The results of operations of acquired businesses are included in our consolidated financial statements beginning on the date of acquisition.

##### **Marshall & Ilsley Corporation (“M&I”)**

On July 5, 2011, we completed the acquisition of Milwaukee-based Marshall & Ilsley Corporation for consideration of approximately \$4.0 billion (US\$4.2 billion) paid in common shares, with fractional entitlements to our common shares paid in cash. Each common share of M&I was exchanged for 0.1257 of a common share, resulting in the issuance of approximately 67 million common shares. The value of our common shares was arrived at using the average of our common share price prevailing during the five day period before and after December 17, 2010, the day the terms of the business combination were agreed to and announced. In addition, immediately prior to the completion of the transaction, we purchased M&I's Troubled Asset Relief Program preferred shares and warrants from the U.S. Treasury for \$1.6 billion (US\$1.7 billion). The acquisition of M&I allows us to strengthen our competitive position in the U.S. Midwest markets. As part of this acquisition, we acquired a core deposit intangible asset that is being amortized on an accelerated basis over a period of 10 years, a customer relationship intangible asset which is being amortized on an accelerated basis over a period of 15 years, a credit card portfolio intangible asset which is being amortized on an accelerated basis over a period of 15 years, and a trade name intangible asset which is being amortized on an accelerated basis over a period of five years. Goodwill related to this acquisition is not deductible for tax purposes. M&I is part of our Personal and Commercial Banking U.S., Private Client Group, BMO Capital Markets and Corporate reporting segments. Goodwill was allocated to these segments except for Corporate.

leasing transactions. As part of the acquisition of M&I, we acquired a securities lending business that lends securities owned by clients to borrowers who have been evaluated for credit risk using the same credit risk process that is applied to loans and other credit assets. In connection with these activities, we provide an indemnification to lenders against losses resulting from the failure of the borrower to return loaned securities when due. All borrowings are fully collateralized with cash or marketable securities. As securities are loaned, collateral is maintained at a minimum of 100% of the fair value of the securities and the collateral is revalued on a daily basis. The amount of securities loaned subject to indemnification was \$4,778 million as at July 31, 2011. No amount was included in our consolidated balance sheet as at July 31, 2011 related to these indemnifications.

##### **Lloyd George Management (“LGM”)**

On April 28, 2011, we completed the acquisition of all outstanding voting shares of Hong Kong-based Lloyd George Management, for cash consideration of \$89 million subject to a post-closing adjustment based on working capital, plus contingent consideration based on meeting certain revenue thresholds over three years. Contingent consideration of approximately \$13 million is expected to be paid in future years related to this acquisition. During the quarter ended July 31, 2011, we increased the purchased price by \$2 million to \$89 million based on a revaluation of net assets acquired. The acquisition of LGM allows us to expand our investment management capabilities in Asia and emerging markets to meet clients' growing demand for global investment strategies. As part of this acquisition, we acquired a customer relationship intangible asset which is being amortized on a straight-line basis over a period of 15 years. Goodwill related to this acquisition is not deductible for tax purposes. LGM is part of our Private Client Group reporting segment.

##### **AMCORE Bank, N.A. (“AMCORE”)**

On April 23, 2010, we completed the acquisition of certain assets and liabilities of AMCORE from the FDIC for total consideration of \$253 million, subject to a post-closing adjustment based on net assets. During the year ended October 31, 2010, we reduced the purchase price by \$28 million based on a revaluation of the net assets acquired. As part of the acquisition, we had the option to purchase certain AMCORE branches after the close of the transaction. During the quarter ended January 31, 2011, we increased the purchase price by \$20 million to \$245 million as a result of the purchase of certain of these branches. The acquired assets and liabilities are included in our Personal and Commercial Banking U.S. reporting segment.

The estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition are as follows:

(Canadian \$ in millions)

	M&I	LGM	AMCORE
Cash resources (1)	2,838	3	420
Securities	5,975	3	10
Loans	29,240	-	1,551
Premises and equipment	390	-	20
Goodwill	1,770	59	86
Intangible assets	649	31	24
Deferred tax asset	2,421	-	-
Other assets	2,292	-	494
<b>Total assets</b>	<b>45,575</b>	<b>96</b>	<b>2,605</b>
Deposits	33,860	-	2,207
Other liabilities	7,726	7	153
<b>Total liabilities</b>	<b>41,586</b>	<b>7</b>	<b>2,360</b>
<b>Purchase price</b>	<b>3,989</b>	<b>89</b>	<b>245</b>

The allocation of the purchase price for M&I and LGM is subject to refinement as we complete the valuation of the assets acquired and liabilities assumed.

(1) Cash resources, acquired through the M&I and AMCORE acquisitions include cash and cash equivalents and interest bearing deposits.

## Note 8: Employee Compensation

### Stock Options

During the three months ended July 31, 2011, we granted a total of 3,676,632 stock options (nil during the three months ended July 31, 2010). All grants relate to the stock options granted as part of the M&I acquisition. The weighted-average fair value of options granted during the three months ended July 31, 2011 was

\$2.22 per option (\$nil per option for the three months ended July 31, 2010). The following weighted-average assumptions were used to determine the fair value of options on the date of grant for the three months ended July 31, 2011:

For stock options granted during the three months ended	July 31, 2011	July 31, 2010
Expected dividend yield	5.5%	na
Expected share price volatility	18.7%	na
Risk-free rate of return	1.8%	na
Expected period until exercise (in years)	4.6	na

Changes to the input assumptions can result in different fair value estimates.

na - not applicable

### Pension and Other Employee Future Benefit Expenses

Pension and other employee future benefit expenses are determined as follows:

(Canadian \$ in millions)

	Pension benefit plans		Other employee future benefit plans	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
For the three months ended				
Benefits earned by employees	41	32	5	5
Interest cost on accrued benefit liability	63	63	14	15
Actuarial loss recognized in expense	23	18	1	-
Amortization of plan amendment costs	5	4	(1)	(2)
Expected return on plan assets	(81)	(73)	(1)	(2)
Benefits expense	51	44	18	16
Canada and Quebec pension plan expense	15	17	-	-
Defined contribution expense	2	2	-	-
<b>Total pension and other employee future benefit expenses</b>	<b>68</b>	<b>63</b>	<b>18</b>	<b>16</b>

	Pension benefit plans		Other employee future benefit plans	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
For the nine months ended				
Benefits earned by employees	118	96	16	15
Interest cost on accrued benefit liability	189	191	40	43
Actuarial loss recognized in expense	67	55	4	2
Amortization of plan amendment costs	12	12	(5)	(5)
Expected return on plan assets	(243)	(218)	(3)	(4)
Benefits expense	143	136	52	51
Canada and Quebec pension plan expense	53	49	-	-
Defined contribution expense	7	7	-	-
<b>Total pension and other employee future benefit expenses</b>	<b>203</b>	<b>192</b>	<b>52</b>	<b>51</b>

## Note 9: Subordinated Debt

During the quarter ended April 30, 2011, we issued \$1.5 billion of subordinated debt under our Canadian Medium-Term Note Program. The issue, Series G Medium-Term Notes, First Tranche, is due July 8, 2021. Interest on this issue is payable semi-annually at a fixed rate of 3.979% until July 8, 2016, and at a floating rate equal to the rate on three month Bankers' Acceptances plus 1.09%, paid quarterly, thereafter to maturity. This issue is redeemable at our option with the prior approval of the Office of Superintendent of Financial Institutions of Canada ("OSFI") at par commencing July 8, 2016.

## Note 10: Deposits and Capital Trust Securities

### Deposits

During the quarter ended January 31, 2011, we issued US\$1.5 billion Covered Bonds – Series 3. This deposit pays interest of 2.625% and matures on January 25, 2016.

## Note 11: Share Capital

During the quarter ended July 31, 2011 and 2010, we did not issue or redeem any preferred shares.

During the quarter ended July 31, 2011, we issued 66,519,673 common shares to M&I shareholders as consideration for the acquisition of M&I.

During the quarter ended April 30, 2011, we issued 11,600,000 3.9% Non-Cumulative 5-year Rate Reset Class B Preferred Shares, Series 25, at a price of \$25.00 per share, representing an aggregate issue price of \$290 million.

### Share Capital Outstanding <sup>(1)</sup>

(Canadian \$ in millions, except as noted)

	July 31, 2011		October 31, 2010		Convertible into...
	Number of shares	Amount	Number of shares	Amount	
Preferred Shares – Classified as Equity					
Class B – Series 5	8,000,000	200	8,000,000	200	-
Class B – Series 10 <sup>(2)</sup>	12,000,000	396	12,000,000	396	common shares <sup>(3)</sup>
Class B – Series 13	14,000,000	350	14,000,000	350	-
Class B – Series 14	10,000,000	250	10,000,000	250	-
Class B – Series 15	10,000,000	250	10,000,000	250	-
Class B – Series 16	12,000,000	300	12,000,000	300	preferred shares – class B-series 17 <sup>(4)</sup>
Class B – Series 18	6,000,000	150	6,000,000	150	preferred shares – class B-series 19 <sup>(4)</sup>
Class B – Series 21	11,000,000	275	11,000,000	275	preferred shares – class B-series 22 <sup>(4)</sup>
Class B – Series 23	16,000,000	400	16,000,000	400	preferred shares – class B-series 24 <sup>(4)</sup>
Class B – Series 25	11,600,000	290	-	-	preferred shares – class B-series 26 <sup>(4)</sup>
		2,861		2,571	
Common Shares	637,353,972	11,111	566,468,440	6,927	
Share Capital		13,972		9,498	

(1) For additional information refer to Notes 20 and 22 to our consolidated financial statements for the year ended October 31, 2010 on pages 145 to 149 of our 2010 Annual Report.

(2) Face value is US\$300 million.

(3) The number of shares issuable on conversion is not determinable until the date of conversion.

During the quarter ended January 31, 2010, we redeemed all of our 4.00% Series C Medium-Term Notes, First Tranche, due 2015, totalling \$500 million. The notes were redeemed at a redemption price of 100 percent of the principal amount plus unpaid accrued interest to the redemption date.

### Capital Trust Securities

During the quarter ended January 31, 2011, we redeemed all of our BMO Capital Trust Securities – Series B ("BMO BOaTs – Series B") at a redemption amount equal to \$1,000, for an aggregate redemption of \$400 million, plus unpaid distributions.

During the quarter ended July 31, 2010, we redeemed all of our Capital Trust Securities – Series A ("BMO BOaTs") at a redemption amount equal to \$1,000 plus unpaid indicated distributions, representing an aggregate redemption of \$350 million.

On December 13, 2010, we announced the renewal of our normal course issuer bid, which allows us to repurchase for cancellation up to 15,000,000 of our common shares during the period from December 16, 2010 to December 15, 2011.

We did not repurchase any common shares under the existing normal course issuer bid. We did not repurchase any common shares under our previous normal course issuer bid, which expired on December 1, 2010.

(4) If converted, the holders have the option to convert back to the original preferred shares on subsequent redemption dates.

(5) The stock options issued under stock option plan are convertible into 17,969,488 common shares as at July 31, 2011 (15,232,139 common shares as at October 31, 2010).

## Note 12: Earnings Per Share

The following tables present the bank's basic and diluted earnings per share:

### Basic earnings per share

(Canadian \$ in millions, except as noted)

	For the three months ended		For the nine months ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net income	793	669	2,369	2,071
Dividends on preferred shares	(39)	(33)	(107)	(102)
Net income available to common shareholders	754	636	2,262	1,969
Average number of common shares outstanding (in thousands)	589,849	561,839	575,398	558,047
Basic earnings per share (Canadian \$)	1.28	1.13	3.93	3.53

### Diluted earnings per share

(Canadian \$ in millions, except as noted)

	For the three months ended		For the nine months ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net income available to common shareholders adjusted for dilution effect	754	636	2,262	1,970
Average number of common shares outstanding (in thousands)	589,849	561,839	575,398	558,047
Convertible shares	248	252	248	252
Stock options potentially exercisable (1)	9,970	11,073	10,266	11,060
Common shares potentially repurchased	(7,921)	(7,968)	(8,011)	(7,905)
Average diluted number of common shares outstanding (in thousands)	592,146	565,196	577,901	561,454
Diluted earnings per share (Canadian \$)	1.27	1.13	3.91	3.51

(1) In computing diluted earnings per share we excluded average stock options outstanding of 2,291,209 and 1,774,297, with a weighted-average exercise price of \$139.93 and \$97.41, respectively, for the three months and nine months ended July 31, 2011 (1,207,385 and 2,484,804 with a weighted-average exercise price of \$65.80 and \$60.93, respectively, for the three months and nine months ended July 31, 2010) as the average share price for the period did not exceed the exercise price.

## Note 13: Capital Management

Our objective is to maintain a strong capital position in a cost-effective structure that: meets our target regulatory capital ratios and internal assessment of risk-based capital; is consistent with our targeted credit ratings; underpins our operating groups' business strategies; and builds depositor confidence and long-term shareholder value.

We have met OSFI's stated minimum capital ratios requirement as at July 31, 2011. Our capital position as at July 31, 2011 is detailed in the Capital Management section on page 14 of Management's Discussion and Analysis of the Third Quarter Report to Shareholders.

## Note 14: Risk Management

We have an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. The key financial instrument risks are classified as credit and counterparty, market, liquidity and funding risk.

### Credit and Counterparty Risk

We are exposed to credit risk from the possibility that counterparties may default on their financial obligations to us. Credit risk arises predominantly with respect to loans, over-the-counter derivatives and other credit instruments. This is the most significant measurable risk that we face.

### Market Risk

Market risk is the potential for a negative impact on the balance sheet and/or statement of income resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables. These variables include interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, as well as credit spreads,

credit migration and default. We incur market risk in our trading and underwriting activities and structural banking activities.

### Liquidity and Funding Risk

Liquidity and funding risk is the potential for loss if we are unable to meet financial commitments in a timely manner at reasonable prices as they fall due. It is our policy to ensure that sufficient liquid assets and funding capacity are available to meet financial commitments, including liabilities to depositors and suppliers, and lending, investment and pledging commitments, even in times of stress. Managing liquidity and funding risk is essential to maintaining both depositor confidence and stability in earnings.

Key measures as at July 31, 2011 are outlined in the Risk Management section on page 10 of Management's Discussion and Analysis of the Third Quarter Report to Shareholders.

## **Note 15: Contingent Liabilities**

BMO Capital Markets Corp. (previously Harris Nesbitt Corp.) and Bank of Montreal were named defendants in an action brought by investors in securities of Adelphia Communications

Corporation (“Adelphia”). During the quarter ended July 31, 2011, we settled this action, which resolves all outstanding litigation related to Adelphia.

## **Note 16: Operating and Geographic Segmentation**

### **Operating Groups**

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

### **Personal and Commercial Banking**

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

#### **Personal and Commercial Banking Canada**

Personal and Commercial Banking Canada (“P&C Canada”) offers a full range of consumer and business products and services, including everyday banking, financing, investing and credit cards, as well as a full suite of commercial and capital market products and financial advisory services, through a network of branches, telephone banking, online banking, mortgage specialists and automated banking machines.

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

Personal and Commercial Banking U.S. (“P&C U.S.”) offers a full range of products and services to personal and business clients in select U.S. Midwest markets through branches and direct banking channels such as telephone banking, online banking and a network of automated banking machines.

#### **Private Client Group**

Private Client Group (“PCG”), our group of wealth management businesses, serves a full range of client segments, from mainstream to ultra-high net worth, as well as select institutional markets, with a broad offering of wealth management products and solutions. PCG operates in both Canada and the United States, as well as in China and the United Kingdom.

#### **BMO Capital Markets**

BMO Capital Markets (“BMO CM”) combines all of our businesses serving corporate, institutional and government clients. In Canada and the United States, these clients span a broad range of industry sectors. BMO CM also serves clients in the United Kingdom, Europe, Asia and Australia. It offers clients complete financial solutions, including equity and debt underwriting, corporate lending and project financing, mergers and acquisitions, advisory services, merchant banking, securitization, treasury and market risk management, debt and equity research and institutional sales and trading.

### **Corporate Services**

Corporate Services includes the corporate units that provide expertise and governance support in areas such as Technology and Operations (“T&O”), strategic planning, law, finance, internal audit, risk management, corporate communications, economics, corporate marketing, human resources and learning. Operating results include revenues and expenses associated with certain securitization activities, the hedging of foreign-source earnings, and activities related to the management of certain balance sheet positions and our overall asset liability structure.

T&O manages, maintains and provides governance over our information technology, operations services, real estate and sourcing. T&O focuses on enterprise-wide priorities that improve quality and efficiency to deliver an excellent customer experience.

Operating results for T&O are included with Corporate Services for reporting purposes. However, costs of T&O services are transferred to the three operating groups. As such, results for Corporate Services largely reflect the activities outlined above.

Corporate Services also includes residual revenues and expenses representing the differences between actual amounts earned or incurred and the amounts allocated to operating groups.

### **Basis of Presentation**

The results of these operating segments 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. Notable accounting measurement differences are the taxable equivalent basis adjustment and the provisions for credit losses, as described below.

#### *Taxable Equivalent Basis*

We analyze net interest income on a taxable equivalent basis (“teb”) at the operating group level. This basis includes an adjustment which increases GAAP revenues and the GAAP provision for income taxes by an amount that would raise revenues on certain tax-exempt securities to a level that incurs tax at the statutory rate. The operating groups’ teb adjustments are eliminated in Corporate Services.



During the year ended October 31, 2010, we changed the accounting for certain BMO CM transactions on a basis that reflects their tax. We believe these adjustments are useful and reflect how BMO CM manages its business, since it enhances the comparability of taxable revenues and tax-advantaged revenues. The change results in increases in net interest income and income taxes in BMO CM with offsetting amounts reflected in Corporate Services. There was no overall net income change in either of the two groups. Prior periods have been restated to reflect this reclassification.

#### *Provisions for Credit Losses*

Provisions for credit losses are generally allocated to each group based on expected losses for that group. Differences between expected loss provisions and provisions required under GAAP are included in Corporate Services.

#### **Acquisition of Marshall & Ilsley Corporation**

Commencing on July 5, 2011, our P&C U.S., PCG, BMO CM and Corporate Services segments include a portion of M&I's acquired business. Within Corporate Services we have included the fair value adjustments for future expected losses on the M&I loan portfolio and the valuation of loans and deposits at current market rates. Corporate Services results will include any changes in our estimate of future expected losses as well as adjustments to net interest income to reflect current market rates. The operating groups' results will reflect the provision for credit losses on an expected loss basis and net interest income based on the contractual rates for loans and deposits.

#### **Securitization Accounting**

During the year ended October 31, 2010, we changed the manner in which we report securitized assets in our segmented disclosure. Previously, certain securitized mortgage assets were not reported in P&C Canada's balance sheet. We now report all securitized mortgage assets in P&C Canada, with offsetting amounts in Corporate Services, and net interest income earned on all securitized mortgage assets is included in P&C Canada net interest income. Previously, net interest income earned on certain securitized mortgage assets was included in P&C Canada non-interest revenue. Prior periods have been restated to conform to this new presentation.

#### **U.S. Mid-Market Client Accounts**

Effective in the year ended October 31, 2010, we identified U.S. mid-market client accounts that would be better served by a commercial banking model and transferred their balances to P&C U.S. from BMO CM. Prior periods have been restated to reflect this reclassification.

#### **Impaired Real Estate Secured Loans**

During the quarter ended July 31, 2011, approximately \$0.9 billion of impaired real estate secured loans comprised primarily of commercial real estate loans were transferred to Corporate Services from P&C U.S. to allow our businesses to focus on ongoing customer relationships and leverage our risk management expertise in our special assets management unit. Prior periods have been restated to reflect this transfer.

#### **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.

#### **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 allocated our results by geographic region based on the location of the unit responsible for managing the related assets, liabilities, revenues and expenses, except for the consolidated provision for credit losses, which is allocated based upon the country of ultimate risk.

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

(Canadian \$ in millions)

	P&C Canada	P&C U.S.	PCG	BMO CM	Corporate Services (1)	Total (GAAP basis)
For the three months ended <b>July 31, 2011</b> (2)						
Net interest income	1,103	397	111	318	(237)	1,692
Non-interest revenue	424	93	506	519	40	1,582
<b>Total Revenue</b>	<b>1,527</b>	<b>490</b>	<b>617</b>	<b>837</b>	<b>(197)</b>	<b>3,274</b>
Provision for credit losses	137	52	2	30	(47)	174
Amortization	35	28	10	7	51	131
Non-interest expense	753	270	451	451	55	1,980
Income before taxes and non-controlling interest in subsidiaries	602	140	154	349	(256)	989
Income taxes	170	48	34	70	(144)	178
Non-controlling interest in subsidiaries	-	-	-	-	18	18
<b>Net Income</b>	<b>432</b>	<b>92</b>	<b>120</b>	<b>279</b>	<b>(130)</b>	<b>793</b>
<b>Average Assets</b>	<b>154,539</b>	<b>39,175</b>	<b>16,671</b>	<b>217,208</b>	<b>13,656</b>	<b>441,249</b>
<b>Goodwill (As At)</b>	<b>120</b>	<b>2,336</b>	<b>736</b>	<b>180</b>	<b>2</b>	<b>3,374</b>

	P&C Canada	P&C U.S.	PCG	BMO CM	Corporate Services (1)	Total (GAAP basis)
For the three months ended July 31, 2010 (2)						
Net interest income	1,064	278	92	353	(216)	1,571
Non-interest revenue	425	86	452	326	47	1,336
<b>Total Revenue</b>	<b>1,489</b>	<b>364</b>	<b>544</b>	<b>679</b>	<b>(169)</b>	<b>2,907</b>
Provision for credit losses	129	31	1	66	(13)	214
Amortization	34	17	9	9	49	118
Non-interest expense	731	235	395	413	6	1,780
Income before taxes and non-controlling interest in subsidiaries	595	81	139	191	(211)	795
Income taxes	171	29	34	61	(188)	107
Non-controlling interest in subsidiaries	-	-	-	-	19	19
<b>Net Income</b>	<b>424</b>	<b>52</b>	<b>105</b>	<b>130</b>	<b>(42)</b>	<b>669</b>
<b>Average Assets</b>	<b>147,194</b>	<b>31,759</b>	<b>14,424</b>	<b>197,636</b>	<b>6,604</b>	<b>397,617</b>
<b>Goodwill (As At)</b>	<b>121</b>	<b>1,026</b>	<b>364</b>	<b>114</b>	<b>2</b>	<b>1,627</b>

	P&C Canada	P&C U.S.	PCG	BMO CM	Corporate Services (1)	Total (GAAP basis)
For the nine months ended <b>July 31, 2011</b> (2)						
Net interest income	3,270	974	322	951	(578)	4,939
Non-interest revenue	1,260	226	1,538	1,685	189	4,898
<b>Total Revenue</b>	<b>4,530</b>	<b>1,200</b>	<b>1,860</b>	<b>2,636</b>	<b>(389)</b>	<b>9,837</b>
Provision for credit losses	409	124	6	90	(62)	567
Amortization	105	64	27	21	149	366
Non-interest expense	2,235	706	1,330	1,398	145	5,814
Income before taxes and non-controlling interest in subsidiaries	1,781	306	497	1,127	(621)	3,090
Income taxes	504	107	123	356	(423)	667
Non-controlling interest in subsidiaries	-	-	-	-	54	54
<b>Net Income</b>	<b>1,277</b>	<b>199</b>	<b>374</b>	<b>771</b>	<b>(252)</b>	<b>2,369</b>
<b>Average Assets</b>	<b>152,841</b>	<b>32,752</b>	<b>15,723</b>	<b>210,569</b>	<b>11,852</b>	<b>423,737</b>
<b>Goodwill (As At)</b>	<b>120</b>	<b>2,336</b>	<b>736</b>	<b>180</b>	<b>2</b>	<b>3,374</b>

	P&C Canada	P&C U.S.	PCG	BMO CM	Corporate Services (1)	Total (GAAP basis)
For the nine months ended July 31, 2010 (2)						
Net interest income	3,073	809	266	1,094	(617)	4,625
Non-interest revenue	1,237	245	1,386	1,348	140	4,356
<b>Total Revenue</b>	<b>4,310</b>	<b>1,054</b>	<b>1,652</b>	<b>2,442</b>	<b>(477)</b>	<b>8,981</b>
Provision for credit losses	370	93	5	198	130	796
Amortization	101	48	28	26	149	352
Non-interest expense	2,096	657	1,180	1,336	(54)	5,215
Income before taxes and non-controlling interest in subsidiaries	1,743	256	439	882	(702)	2,618
Income taxes	521	88	108	280	(506)	491
Non-controlling interest in subsidiaries	-	-	-	-	56	56
<b>Net Income</b>	<b>1,222</b>	<b>168</b>	<b>331</b>	<b>602</b>	<b>(252)</b>	<b>2,071</b>
<b>Average Assets</b>	<b>144,068</b>	<b>31,703</b>	<b>14,037</b>	<b>199,414</b>	<b>5,651</b>	<b>394,873</b>
<b>Goodwill (As At)</b>	<b>121</b>	<b>1,026</b>	<b>364</b>	<b>114</b>	<b>2</b>	<b>1,627</b>

(1) Corporate Services includes Technology and Operations.

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

Prior periods have been restated to give effect to the current period's organizational structure and presentation changes.

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

(Canadian \$ in millions)

For the three months ended <b>July 31, 2011</b>	Canada	United States	Other countries	Total (GAAP basis)
Net interest income	1,263	404	25	1,692
Non-interest revenue	1,185	322	75	1,582
<b>Total Revenue</b>	<b>2,448</b>	<b>726</b>	<b>100</b>	<b>3,274</b>
Provision for credit losses	94	80	-	174
Amortization	90	40	1	131
Non-interest expense	1,353	583	44	1,980
Income before taxes and non-controlling interest in subsidiaries	911	23	55	989
Income taxes	185	(11)	4	178
Non-controlling interest in subsidiaries	13	5	-	18
<b>Net Income</b>	<b>713</b>	<b>29</b>	<b>51</b>	<b>793</b>
Average Assets	279,657	140,807	20,785	441,249
Goodwill (As At)	452	2,901	21	3,374

For the three months ended July 31, 2010	Canada	United States	Other countries	Total (GAAP basis)
Net interest income	1,198	346	27	1,571
Non-interest revenue	1,004	281	51	1,336
<b>Total Revenue</b>	<b>2,202</b>	<b>627</b>	<b>78</b>	<b>2,907</b>
Provision for credit losses	110	104	-	214
Amortization	88	29	1	118
Non-interest expense	1,270	467	43	1,780
Income before taxes and non-controlling interest in subsidiaries	734	27	34	795
Income taxes	102	8	(3)	107
Non-controlling interest in subsidiaries	15	4	-	19
<b>Net Income</b>	<b>617</b>	<b>15</b>	<b>37</b>	<b>669</b>
Average Assets	252,642	116,854	28,121	397,617
Goodwill (As At)	448	1,158	21	1,627

For the nine months ended <b>July 31, 2011</b>	Canada	United States	Other countries	Total (GAAP basis)
Net interest income	3,770	1,092	77	4,939
Non-interest revenue	3,772	926	200	4,898
<b>Total Revenue</b>	<b>7,542</b>	<b>2,018</b>	<b>277</b>	<b>9,837</b>
Provision for credit losses	279	289	(1)	567
Amortization	266	97	3	366
Non-interest expense	4,109	1,559	146	5,814
Income before taxes and non-controlling interest in subsidiaries	2,888	73	129	3,090
Income taxes	650	5	12	667
Non-controlling interest in subsidiaries	40	14	-	54
<b>Net Income</b>	<b>2,198</b>	<b>54</b>	<b>117</b>	<b>2,369</b>
Average Assets	275,764	126,691	21,282	423,737
Goodwill (As At)	452	2,901	21	3,374

For the nine months ended July 31, 2010	Canada	United States	Other countries	Total (GAAP basis)
Net interest income	3,521	1,012	92	4,625
Non-interest revenue	3,238	944	174	4,356
<b>Total Revenue</b>	<b>6,759</b>	<b>1,956</b>	<b>266</b>	<b>8,981</b>
Provision for credit losses	387	417	(8)	796
Amortization	264	85	3	352
Non-interest expense	3,747	1,341	127	5,215
Income before taxes and non-controlling interest in subsidiaries	2,361	113	144	2,618
Income taxes	462	26	3	491
Non-controlling interest in subsidiaries	42	14	-	56
<b>Net Income</b>	<b>1,857</b>	<b>73</b>	<b>141</b>	<b>2,071</b>
Average Assets	256,020	111,248	27,605	394,873
Goodwill (As At)	448	1,158	21	1,627

Prior periods have been restated to give effect to the current period's organizational structure and presentation changes.

## INVESTOR AND MEDIA PRESENTATION

### Investor Presentation Materials

Interested parties are invited to visit our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations) to review our 2010 annual report, this quarterly news release, presentation materials and a supplementary financial information package online.

### Quarterly Conference Call and Webcast Presentations

Interested parties are also invited to listen to our quarterly conference call on Tuesday, August 23, 2011, at 2:00 p.m. (EDT). At that time, senior BMO executives will comment on results for the quarter and respond to questions from the investor community. The call may be accessed by telephone at 416-695-9753 (from within Toronto) or 1-888-789-0089 (toll-free outside Toronto). A replay of the conference call can be accessed until Monday, December 5, 2011, by calling 905-694-9451 (from within Toronto) or 1-800-408-3053 (toll-free outside Toronto) and entering passcode 6850310.

A live webcast of the call can be accessed on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations). A replay can be accessed on the site until Monday, December 5, 2011.

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### Corporate Secretary

Blair Morrison, Senior Vice-President, Deputy General Counsel,

Corporate Affairs and Corporate Secretary

[corp.secretary@bmo.com](mailto:corp.secretary@bmo.com), 416-867-6785

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### Shareholder Dividend Reinvestment and Share Purchase Plan

Average market price

May 2011 \$61.79

June 2011 \$60.09

July 2011 \$61.50

### For dividend information, change in shareholder address or to advise of duplicate mailings, please contact

Computershare Trust Company of Canada

100 University Avenue, 9th Floor

Toronto, Ontario M5J 2Y1

Telephone: 1-800-340-5021 (Canada and the United States)

Telephone: (514) 982-7800 (international)

Fax: 1-888-453-0330 (Canada and the United States)

Fax: (416) 263-9394 (international)

E-mail: [service@computershare.com](mailto:service@computershare.com)

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Shareholder Services

Corporate Secretary's Department

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To review financial results online, please visit our website at [www.bmo.com](http://www.bmo.com)

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#### Annual Meeting 2012

The next Annual Meeting of Shareholders will be held on Tuesday, March 20, 2012, in Halifax, Nova Scotia.