BMO Financial Group

BMO Financial Group Reports Third Quarter 2018 Results

REPORT TO SHAREHOLDERS

Financial Results Highlights

Third Quarter 2018 Compared With Third Quarter 2017:

- Net income of $1,536 million, up 11%; adjusted net income[1] of $1,565 million, up 14%
- EPS[2] of $2.31, up 13%; adjusted EPS[1,2] of $2.36, up 16%
- ROE of 14.7%, up from 13.4%; adjusted ROE[1] of 15.0%, up from 13.3%
- Provision for credit losses[3] (PCL) of $186 million compared with $202 million on an adjusted basis in the prior year and $126 million on a reported basis; prior year reported provision for credit losses includes a decrease in the collective allowance of $76 million pre-tax
- Common Equity Tier 1 Ratio of 11.4%

Year-to-Date 2018 Compared With Year-to-Date 2017:

- Net income of $3,755 million, down 9%, reflecting the revaluation of our U.S. net deferred tax asset[4] and a restructuring charge in the current year[5] and a net gain[6] in the prior year; adjusted net income[1] of $4,450 million, up 6%
- EPS[2,4,5] of $5.59, down 8%; adjusted EPS[1,2] of $6.67, up 7%
- ROE of 12.3%, compared with 13.7%; adjusted ROE[1] of 14.6%, up from 13.9%
- Provision for credit losses of $487 million[3] compared with $620 million on an adjusted basis and $544 million on a reported basis

Toronto, August 28, 2018 – For the third quarter ended July 31, 2018, BMO Financial Group recorded net income of $1,536 million or $2.31 per share on a reported basis, and net income of $1,565 million or $2.36 per share on an adjusted basis.

"BMO delivered strong results and ongoing earnings momentum this quarter. Adjusted net income was up 14% and adjusted earnings per share grew 16% with a particularly good contribution from our U.S. segment and from our competitively advantaged commercial businesses on both sides of the border. Total Bank adjusted operating leverage was 2.9% and was positive in each of our operating groups," said Darryl White, Chief Executive Officer, BMO Financial Group.

"The bank is strong and growing. Our performance is a direct result of efforts to simplify how we work across our organization and with our customers and deliver the exceptional products and experiences that our customers have come to expect. Together we are making the bank more efficient and more competitive, positioning ourselves to deliver long-term growth and shareholder value," concluded Mr. White.

Return on equity (ROE) was 14.7%, up from 13.4% in the prior year and adjusted ROE was 15.0%, up from 13.3%. Return on tangible common equity (ROTCE) was 17.9% compared with 16.5% in the prior year and adjusted ROTCE was 18.0% compared with 16.0%.

(1) Results and measures in this document are presented on a GAAP basis. They are also presented on an adjusted basis that excludes the impact of certain items. Adjusted results and measures are non-GAAP and are detailed for all reported periods in the Non-GAAP Measures section, where such non-GAAP measures and their closest GAAP counterparts are disclosed.
(2) All Earnings per Share (EPS) measures in this document refer to diluted EPS, unless specified otherwise. EPS is calculated using net income after deductions for net income attributable to non-controlling interest in subsidiaries and preferred share dividends.
(3) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. Refer to the Changes in Accounting Policies section on page 27 for further details. In prior periods, changes to the collective allowance were an adjusting item. Refer to the Non-GAAP Measures section on page 5.
(4) Reported net income in the first quarter of 2018 included a $425 million (US$339 million) charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*, which had a year-to-date negative impact of approximately 10% on reported net income growth, and $0.66 to EPS. See the Critical Accounting Estimates – Income Taxes and Deferred Tax Assets section on page 114 of BMO's 2017 Annual Report. For further information see the Other Regulatory Developments section on page 28.
(5) Reported net income in the second quarter of 2018 included a $192 million restructuring charge, primarily related to severance, as a result of an ongoing bank-wide initiative to simplify how we work, drive increased efficiency, and invest in technology to move our business forward.
(6) Net income in the prior year included a net gain of $133 million, attributed to a $168 million gain on the sale of Moneris US and a $35 million loss on the sale of a portion of the U.S. indirect auto loan portfolio, and a decrease in the collective allowance of $54 million.

Note: All ratios and percentage changes in this document are based on unrounded numbers.

Concurrent with the release of results, BMO announced a fourth quarter 2018 dividend of $0.96 per common share, unchanged from the preceding quarter and up $0.06 per share or 7% from the prior year. The quarterly dividend of $0.96 per common share is equivalent to an annual dividend of $3.84 per common share.

Our complete Third Quarter 2018 Report to Shareholders, including our unaudited interim consolidated financial statements for the period ended July 31, 2018, is available online at www.bmo.com/investorrelations and at www.sedar.com.

Operating Segment Overview

Canadian P&C

Reported net income of $642 million increased $29 million or 5% and adjusted net income of $642 million increased $28 million or 5% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Results reflect revenue growth, partially offset by higher expenses and higher provision for credit losses.

During the quarter, we were named Best Commercial Bank – Canada by *World Finance* for the fourth consecutive year. The award recognized our personalized and partnership-based relationships with clients, as well as our continued specialized focus on three major sectors: technology, agriculture and healthcare.

U.S. P&C

Reported net income of $364 million increased $96 million or 36% and adjusted net income of $376 million increased $97 million or 34% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets.

Reported net income of US$279 million increased US$73 million or 35% and adjusted net income of US$288 million increased US$73 million or 34% from the prior year, due to good revenue growth, the tax reform benefit and lower provisions for credit losses, partially offset by higher expenses.

During the quarter, we improved our customer ranking to second among 40 of the largest U.S. banks in the 2018 Survey of Bank Reputations published by *American Banker*, which assesses perceptions of a banking institution's governance, products and services, and innovation.

BMO Wealth Management

Reported net income of $291 million increased $22 million or 8% and adjusted net income of $301 million increased $17 million or 6% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Traditional wealth reported net income of $202 million increased $10 million or 6% and adjusted net income of $212 million increased $5 million or 3% from the prior year, due to growth across our diversified businesses and improved equity markets, partially offset by a legal provision and technology investments. Insurance net income of $89 million increased $12 million or 15% due to business growth and a benefit from more favourable market movements in the current quarter.

BMO Private Bank was named Best Private Bank, Canada by *World Finance* for the eighth consecutive year, recognizing our private banking expertise and industry leading best practices.

BMO Capital Markets

Reported net income of $301 million increased $20 million or 7% and adjusted net income of $303 million increased $21 million or 7% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets and acquisition integration costs. Results reflect stronger revenues across both Trading Products and Investment and Corporate Banking.

BMO Capital Markets was recognized as a 2018 Greenwich Quality Leader in Canadian equity sales trading and execution service. We were also named as best institutional forex provider in North America and China by *Global Banking and Finance Review* for the eighth consecutive year. On August 15, 2018, BMO Capital Markets launched a pilot fixed income issuance transaction with a franchise client using blockchain technology to mirror the transaction, a first of its kind in the Canadian marketplace.

Corporate Services

Corporate Services net loss for the quarter was $62 million compared with a net loss of $44 million in the prior year. Corporate Services adjusted net loss for the quarter was $57 million compared with an adjusted net loss of $85 million in the prior year. Adjusted results exclude acquisition integration costs in both periods, as well as a decrease in the collective allowance in the prior year.

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

Capital

BMO's Common Equity Tier 1 (CET1) Ratio was 11.4% at July 31, 2018. The CET1 Ratio increased from 11.3% in the second quarter, driven by the impact of higher retained earnings, partially offset by higher risk-weighted assets (RWA) from business growth and share repurchases during the quarter.

Provision for Credit Losses

The total provision for credit losses was $186 million, an increase of $60 million from the prior year. Adjusted provision for credit losses, which excludes a $76 million pre-tax decrease in the collective allowance in the prior year, decreased $16 million. The provision for credit losses on impaired loans of $177 million decreased $25 million from $202 million in the prior year, primarily reflecting lower provisions in U.S. P&C. There was a $9 million provision for credit losses on performing loans in the quarter.

Caution

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

Regulatory Filings

Our continuous disclosure materials, including our interim filings, annual Management's Discussion and Analysis 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, on the Canadian Securities Administrators' website at www.sedar.com and on the EDGAR section of the SEC's website at www.sec.gov.

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.

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) commentary is as of July 31, 2018. The material that precedes this section comprises part of this MD&A. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the period ended July 31, 2018, included in this document, as well as the audited consolidated financial statements for the year ended October 31, 2017, and the MD&A for fiscal 2017.

The 2017 Annual MD&A includes a comprehensive discussion of our businesses, strategies and objectives, and can be accessed on our website at www.bmo.com/investorrelations. Readers are also encouraged to visit the site to view other quarterly financial information.

Table of Contents

Bank of Montreal's management, under the supervision of the CEO and CFO, has evaluated the effectiveness, as of July 31, 2018, 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.

There were no changes in our internal control over financial reporting during the quarter ended July 31, 2018, which materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Because of inherent limitations, disclosure controls and procedures and internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements.

As in prior quarters, Bank of Montreal's Audit and Conduct Review Committee reviewed this document and Bank of Montreal's Board of Directors approved the document prior to its release.

Financial Highlights

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Summary Income Statement					
Net interest income	**2,607**	2,491	2,533	**7,644**	7,472
Non-interest revenue	**3,213**	3,126	2,926	**9,471**	9,133
Revenue	**5,820**	5,617	5,459	**17,115**	16,605
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**269**	332	253	**962**	965
Revenue, net of CCPB	**5,551**	5,285	5,206	**16,153**	15,640
Provision for credit losses on impaired loans (1)	**177**	172	na	**523**	na
Provision for (recovery of) credit losses on performing loans (1)	**9**	(12)	na	**(36)**	na
Total provision for credit losses (1)	**186**	160	126	**487**	544
Non-interest expense	**3,386**	3,562	3,286	**10,389**	9,955
Provision for income taxes	**443**	317	407	**1,522**	1,018
Net income	**1,536**	1,246	1,387	**3,755**	4,123
Net income attributable to bank shareholders	**1,536**	1,246	1,387	**3,755**	4,121
Adjusted net income	**1,565**	1,463	1,374	**4,450**	4,199
Common Share Data ($ except as noted)					
Earnings per share	**2.31**	1.86	2.05	**5.59**	6.11
Adjusted earnings per share	**2.36**	2.20	2.03	**6.67**	6.22
Earnings per share growth (%)	**13.0**	0.9	9.8	**(8.4)**	24.7
Adjusted earnings per share growth (%)	**16.4**	14.6	4.4	**7.2**	14.8
Dividends declared per share	**0.96**	0.93	0.90	**2.82**	2.66
Book value per share	**63.31**	61.67	59.65	**63.31**	59.65
Closing share price	**103.11**	97.51	94.56	**103.11**	94.56
Number of common shares outstanding (in millions)					
End of period	**639.9**	640.6	648.7	**639.9**	648.7
Average diluted	**642.4**	645.6	653.7	**645.9**	652.5
Total market value of common shares ($ billions)	**66.0**	62.5	61.3	**66.0**	61.3
Dividend yield (%)	**3.7**	3.8	3.8	**3.6**	3.8
Dividend payout ratio (%)	**41.4**	49.9	43.8	**50.2**	43.4
Adjusted dividend payout ratio (%)	**40.6**	42.2	44.3	**42.2**	42.6
Financial Measures and Ratios (%)					
Return on equity	**14.7**	12.6	13.4	**12.3**	13.7
Adjusted return on equity	**15.0**	14.9	13.3	**14.6**	13.9
Return on tangible common equity	**17.9**	15.6	16.5	**15.0**	16.9
Adjusted return on tangible common equity	**18.0**	18.0	16.0	**17.6**	16.8
Net income growth	**10.7**	(0.1)	11.4	**(8.9)**	25.5
Adjusted net income growth	**13.9**	13.0	6.1	**6.0**	15.8
Revenue growth	**6.6**	(2.1)	(3.1)	**3.1**	5.0
Revenue growth, net of CCPB	**6.6**	5.0	5.3	**3.3**	9.0
Non-interest expense growth	**3.0**	8.5	5.9	**4.4**	2.5
Adjusted non-interest expense growth	**3.7**	1.5	6.4	**2.6**	4.8
Efficiency ratio, net of CCPB	**61.0**	67.4	63.1	**64.3**	63.6
Adjusted efficiency ratio, net of CCPB	**60.3**	61.8	62.1	**62.1**	62.5
Operating leverage, net of CCPB	**3.6**	(3.5)	(0.6)	**(1.1)**	6.5
Adjusted operating leverage, net of CCPB	**2.9**	3.5	(1.1)	**0.7**	3.6
Net interest margin on average earning assets	**1.49**	1.52	1.55	**1.52**	1.54
Effective tax rate	**22.4**	20.3	22.7	**28.8**	19.8
Adjusted effective tax rate	**22.4**	21.2	22.5	**21.1**	19.9
Total PCL to average net loans and acceptances (annualized)	**0.19**	0.17	0.14	**0.17**	0.20
PCL on impaired loans to average net loans and acceptances (annualized)	**0.18**	0.18	0.22	**0.18**	0.22
Balance Sheet (as at $ millions, except as noted)					
Assets	**765,318**	743,569	708,617	**765,318**	708,617
Gross loans and acceptances	**395,295**	386,933	373,442	**395,295**	373,442
Net loans and acceptances	**393,635**	385,286	371,620	**393,635**	371,620
Deposits	**506,916**	491,198	469,765	**506,916**	469,765
Common shareholders' equity	**40,516**	39,506	38,694	**40,516**	38,694
Cash and securities-to-total assets ratio (%)	**28.2**	28.1	27.8	**28.2**	27.8
Capital Ratios (%)					
CET1 Ratio	**11.4**	11.3	11.2	**11.4**	11.2
Tier 1 Capital Ratio	**12.9**	12.9	12.9	**12.9**	12.9
Total Capital Ratio	**14.9**	15.0	15.2	**14.9**	15.2
Leverage Ratio	**4.2**	4.2	4.4	**4.2**	4.4
Foreign Exchange Rates					
As at Canadian/U.S. dollar	**1.2997**	1.2842	1.2453	**1.2997**	1.2453
Average Canadian/U.S. dollar	**1.3032**	1.2858	1.2974	**1.2821**	1.3223

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 includes both specific and collective provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.

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

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

na – not applicable

Non-GAAP Measures

Results and measures in this document are presented on a GAAP basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with International Financial Reporting Standards (IFRS). References to GAAP mean IFRS. They are also presented on an adjusted basis that excludes the impact of certain items as set out in the table below. Results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements on our U.S. segment are non-GAAP measures (please see the Foreign Exchange section for a discussion of the effects of changes in exchange rates on our results). Management assesses performance on a reported basis and on an adjusted basis and considers both to be useful in assessing underlying ongoing business performance, and providing readers with a better understanding of management's perspective on our performance. Except as otherwise noted, management's discussion of changes in reported results in this document applies equally to changes in corresponding adjusted results. 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.

Non-GAAP Measures

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Reported Results					
Revenue	**5,820**	5,617	5,459	**17,115**	16,605
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**(269)**	(332)	(253)	**(962)**	(965)
Revenue, net of CCPB	**5,551**	5,285	5,206	**16,153**	15,640
Total provision for credit losses	**(186)**	(160)	(126)	**(487)**	(544)
Non-interest expense	**(3,386)**	(3,562)	(3,286)	**(10,389)**	(9,955)
Income before income taxes	**1,979**	1,563	1,794	**5,277**	5,141
Provision for income taxes	**(443)**	(317)	(407)	**(1,522)**	(1,018)
Net Income	**1,536**	1,246	1,387	**3,755**	4,123
EPS ($)	**2.31**	1.86	2.05	**5.59**	6.11
Adjusting Items (Pre-tax) (1)					
Amortization of acquisition-related intangible assets (2)	**(28)**	(29)	(35)	**(85)**	(115)
Acquisition integration costs (3)	**(8)**	(4)	(20)	**(16)**	(63)
Restructuring costs (4)	**-**	(260)	-	**(260)**	-
Decrease in the collective allowance for credit losses (6)	**-**	-	76	**-**	76
Adjusting items included in reported pre-tax income	**(36)**	(293)	21	**(361)**	(102)
Adjusting Items (After tax) (1)					
Amortization of acquisition-related intangible assets (2)	**(22)**	(23)	(28)	**(66)**	(90)
Acquisition integration costs (3)	**(7)**	(2)	(13)	**(12)**	(40)
Restructuring costs (4)	**-**	(192)	-	**(192)**	-
U.S. net deferred tax asset revaluation (5)	**-**	-	-	**(425)**	-
Decrease in the collective allowance for credit losses (6)	**-**	-	54	**-**	54
Adjusting items included in reported net income after tax	**(29)**	(217)	13	**(695)**	(76)
Impact on EPS ($)	**(0.05)**	(0.34)	0.02	**(1.08)**	(0.11)
Adjusted Results					
Revenue	**5,820**	5,617	5,459	**17,115**	16,605
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**(269)**	(332)	(253)	**(962)**	(965)
Revenue, net of CCPB	**5,551**	5,285	5,206	**16,153**	15,640
Total provision for credit losses	**(186)**	(160)	(202)	**(487)**	(620)
Non-interest expense	**(3,350)**	(3,269)	(3,231)	**(10,028)**	(9,777)
Income before income taxes	**2,015**	1,856	1,773	**5,638**	5,243
Provision for income taxes	**(450)**	(393)	(399)	**(1,188)**	(1,044)
Net income	**1,565**	1,463	1,374	**4,450**	4,199
EPS ($)	**2.36**	2.20	2.03	**6.67**	6.22

(1) Adjusting items are included in Corporate Services, with the exception of the amortization of acquisition-related intangible assets and certain acquisition integration costs, which are charged to the operating groups.

(2) These expenses were charged to the non-interest expense of the operating groups. Before and after-tax amounts for each operating group are provided on pages 16, 17, 19, 21 and 23.

(3) Acquisition integration costs related to the acquired BMO Transportation Finance business are charged to Corporate Services, since the acquisition impacts both Canadian and U.S. P&C businesses. KGS – Alpha acquisition integration costs are reported in BMO Capital Markets. Acquisition integration costs are recorded in non-interest expense.

(4) In Q2-18, we recorded a restructuring charge, primarily related to severance, as a result of an ongoing bank-wide initiative to simplify how we work, drive increased efficiency, and invest in technology to move our business forward. Restructuring costs are included in non-interest expense in Corporate Services.

(5) Charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cut and Jobs Act*. For more information see the Other Regulatory Developments section on page 28.

(6) In Q3-17, the adjustment to the collective allowance for credit losses was excluded from Corporate Services adjusted provision for (recovery of) credit losses.

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

Adjusted results and measures in this table are non-GAAP amounts or non-GAAP measures.

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 harbor" 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 fiscal 2018 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, U.S. and international economies. Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "goal", "target", "may" and "could".

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. 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 – many of which are beyond our control and the effects of which can be difficult to predict – 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 and tax legislation and interpretation; the level of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; 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, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks; changes to our credit ratings; political conditions, including changes relating to or affecting economic or trade matters; global capital markets activities; the possible effects on our business of war or terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; information and cyber security, including the threat of hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please see the discussion in the Risks That May Affect Future Results section on page 79 of BMO's 2017 Annual MD&A, the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social, and reputation risk, which begin on page 86 of BMO's 2017 Annual MD&A, the discussion in the Critical Accounting Estimates – Income Taxes and Deferred Tax Assets section on page 114 of BMO's 2017 Annual MD&A, and the Risk Management section in this document, all of which outline certain key factors and risks that may affect Bank of Montreal's future results. Investors and others should carefully consider these factors and risks, 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, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2017 Annual MD&A under the heading "Economic Developments and Outlook", as updated by the Economic Review and Outlook section set forth in this document. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our 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 governments, historical relationships between economic and financial variables, and the risks to the domestic and global economy. See the Economic Review and Outlook section of our Third Quarter 2018 Report to Shareholders.

Economic Review and Outlook

Canada's economy has slowed largely due to higher interest rates and policy measures designed to restrain the housing market and household credit growth. Real GDP is expected to grow 2.0% in 2018 and 1.8% in 2019, down from 3.0% in 2017. This moderate pace is still expected to reduce the unemployment rate to a four-decade low of 5.7% by year-end 2018. Personal consumption growth is expected to slow to 2.0% this year from 3.5% last year in response to rising interest rates and elevated household debt, resulting in industry-wide consumer credit growth easing to 4.2%. Growth in residential mortgages is anticipated to moderate to 4.4% in 2018 in response to higher borrowing costs and stricter mortgage rules. However, the housing market remains active in most regions due to the fastest population growth in a quarter century. Though supported by higher oil prices and rising capacity utilization in the industrial sector, business investment is expected to slow from its current strong pace due to higher interest rates and uncertain North American trade relations, resulting in industry business loan growth decelerating to 6.5% in 2018 from the double-digit rate prevailing in the previous three years. However, exports are expected to improve in response to a low-valued Canadian dollar and strong U.S. demand this year. After raising policy rates a cumulative 100 basis points since July 2017, the Bank of Canada is projected to increase rates an additional 25 basis points later this year. Canada's economy faces external risks related to the fate of the North American Free Trade Agreement and trade policies. While tariffs by the U.S. government on Canadian steel and aluminum and retaliatory Canadian measures on U.S. goods are expected to have limited effects on the economy, protectionist trade measures currently under consideration by the U.S. government, including on motor vehicles, could have more damaging effects.

The U.S. economy has been strong, benefiting from expansionary fiscal policies, tax reform, supportive financial conditions and robust business spending. Real GDP is expected to grow 2.8% in 2018 and 2.5% in 2019, up from 2.2% in 2017. Robust employment growth should reduce the jobless rate to 3.7% by early next year, the lowest level since 1969. Consumer spending is anticipated to increase 2.5% in 2018 amid lower personal taxes, encouraging industry-wide consumer credit growth of 4.0%. Interest-sensitive housing market activity appears to be peaking, suggesting that residential mortgage growth will downshift slightly to 4.1% this year. Business spending is expected to remain strong, supported by lower corporate taxes and incentives to repatriate foreign earnings, raising business credit demand 6.6% in 2018. Interest rates are projected to continue to increase, with the Federal Reserve likely to raise policy rates a further 50 basis points in the second half of 2018. The main risks to the U.S. economic outlook relate to trade protectionism, geopolitical tensions and the possibility of higher inflation. The imposed tariffs to-date are expected to slow the economy only modestly, but additional protectionist measures could lead to rising joblessness. The 40% increase in oil prices in the past year will exert some upward pressure on inflation and also have a dampening effect on the economy.

Economic growth in the U.S. Midwest region, which includes the six contiguous states within the BMO footprint, is expected to improve to 1.9% in 2018 and 1.7% in 2019 from 1.4% in 2017 in response to lower federal taxes and increased manufacturing production. However, growth is projected to be below the national rate due to slower population growth and budgetary constraints in Illinois.

This Economic Review and 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. results that are denominated in U.S. dollars were increased relative to the second quarter of 2018 and the third quarter of 2017 by the stronger U.S. dollar. The year-to-date results were decreased relative to the prior year by the weaker U.S. dollar. The table below indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in the rates on our U.S. segment results. References in this document to the impact of the U.S. dollar do not include U.S.-dollar-denominated amounts recorded outside of BMO's U.S. segment.

Economically, our U.S. dollar income stream was unhedged to changes in foreign exchange rates during the current and prior year. We regularly determine whether to execute hedging transactions to mitigate the impact of foreign exchange rate movements on net income.

See the Capital Management section of the 2017 Annual MD&A for discussion on the impact that changes in foreign exchange rates can have on our capital position. Changes in foreign exchange rates will also affect accumulated other comprehensive income primarily from the translation of our investments in foreign operations.

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

Effects of Changes in Exchange Rates on BMO's U.S. Segment Reported and Adjusted Results

	Q3-2018		YTD-2018
(Canadian $ in millions, except as noted)	vs Q3-2017	vs Q2-2018	vs YTD-2017
Canadian/U.S. dollar exchange rate (average)			
Current period	1.3032	1.3032	1.2821
Prior period	1.2974	1.2858	1.3223
Effects on U.S. segment reported results			
Increased (Decreased) net interest income	4	13	(91)
Increased (Decreased) non-interest revenue	4	11	(73)
Increased (Decreased) revenues	8	24	(164)
Decreased (Increased) provision for credit losses	-	(1)	6
Decreased (Increased) expenses	(6)	(18)	119
Decreased (Increased) income taxes	(1)	-	24
Increased (Decreased) reported net income	1	5	(15)
Impact on earnings per share ($)	-	0.01	(0.02)
Effects on U.S. segment adjusted results			
Increased (Decreased) net interest income	4	13	(91)
Increased (Decreased) non-interest revenue	4	11	(73)
Increased (Decreased) revenues	8	24	(164)
Decreased (Increased) provision for credit losses	-	(1)	6
Decreased (Increased) expenses	(6)	(16)	116
Decreased (Increased) income taxes	-	(1)	9
Increased (Decreased) adjusted net income	2	6	(33)
Impact on adjusted earnings per share ($)	-	0.01	(0.05)

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

Net Income

Q3 2018 vs Q3 2017

Net income was $1,536 million, up $149 million or 11% from the prior year. Adjusted net income was $1,565 million, up $191 million or 14% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets and acquisition integration costs in both periods, as well as a $54 million after-tax decrease in the collective allowance in the prior year. EPS of $2.31 was up $0.26 or 13% from the prior year. Adjusted EPS of $2.36 was up $0.33 or 16%.

Results reflect strong growth in U.S. P&C and good performance in Canadian P&C, BMO Capital Markets and Wealth Management, primarily due to higher revenue, and a lower Corporate Services loss.

Q3 2018 vs Q2 2018

Net income increased $290 million or 23% and adjusted net income increased $102 million or 7% from the prior quarter. Adjusted net income excludes the prior quarter restructuring charge of $192 million after-tax, and the amortization of acquisition-related intangible assets and acquisition integration costs in both periods. EPS increased $0.45 or 24% and adjusted EPS increased $0.16 or 7%.

Results reflect higher net income in Canadian P&C, BMO Capital Markets and U.S. P&C, primarily driven by higher revenue, including the impact of three more days in the current quarter, while Wealth Management was relatively unchanged and Corporate Services had a lower loss.

Q3 YTD 2018 vs Q3 YTD 2017

Net income for the year-to-date was $3,755 million, down $368 million or 9% from the prior year. Adjusted net income was $4,450 million, up $251 million or 6%, or 7% excluding the impact of the weaker U.S. dollar. EPS was $5.59, down $0.52 or 8%, and adjusted EPS was $6.67, up $0.45 or 7%, or 8% excluding the impact of the weaker U.S. dollar. Adjusted net income excludes the one-time non-cash charge related to a U.S. net deferred tax asset revaluation in the first quarter and the restructuring charge in the second quarter of the current year, the decrease in the collective allowance in the third quarter of the prior year, all of which were recorded in Corporate Services, as well as the amortization of acquisition-related intangible assets and acquisition integration costs in both periods. The prior year results included a net gain of $133 million attributable to a gain on the sale of Moneris US and a loss on the sale of a portion of the U.S. indirect auto loan portfolio.

Net income increased in U.S. P&C and Wealth Management, while BMO Capital Markets results decreased compared with strong performance in the prior year and net income in Canadian P&C was marginally down.

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

Revenue

Q3 2018 vs Q3 2017

Revenue of $5,820 million increased $361 million or 7% from the prior year, or 6% excluding the impact of the stronger U.S. dollar. On a basis that nets insurance claims, commissions and changes in policy benefit liabilities (CCPB) against insurance revenue (net revenue), revenue of $5,551 million increased $345 million or 7%, or 6% excluding the impact of the stronger U.S. dollar. Revenue increased across all operating businesses compared with the prior year.

Net interest income of $2,607 million increased $74 million or 3% due to increased loan volumes and higher deposit margins and volumes in the P&C businesses, partially offset by lower net interest income from certain trading businesses. Average earning assets of $692.1 billion increased $45.5 billion or 7% due to loan growth, higher securities borrowed or purchased under resale agreements, higher securities and increased cash resources. BMO's overall net interest margin decreased 6 basis points, or 4 basis points on an excluding trading basis to 1.86%, primarily driven by lower spreads in BMO Capital Markets mainly due to higher volumes of lower spread assets, partially offset by higher spreads in Canadian P&C.

Net non-interest revenue of $2,944 million increased $271 million or 10%, with increases in most non-interest revenue categories, particularly trading revenue.

Gross insurance revenue increased $26 million from the prior year, due to relatively unchanged long-term interest rates in the current quarter compared with increases in long-term interest rates decreasing the fair value of investments in the prior year, stronger equity markets in the current year and underlying business growth, largely offset by lower annuity sales. Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets. The investments which support policy benefit liabilities comprise predominantly fixed income investments and some equities. These investments are recorded at fair value with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in CCPB, as discussed on page 12. We generally focus on analyzing revenue net of CCPB given the extent to which insurance revenue can vary and that this variability is largely offset in CCPB.

Q3 2018 vs Q2 2018

Revenue increased $203 million or 4% from the prior quarter, or 3% excluding the impact of the stronger U.S. dollar. Net revenue increased $266 million or 5%, reflecting business growth and the impact of three more days in the current quarter.

Revenue increased in BMO Capital Markets, U.S. P&C and Canadian P&C, while revenue in Wealth Management was relatively unchanged.

Net interest income of $2,607 million increased $116 million or 5% compared with the prior quarter, or 4% excluding the impact of the stronger U.S. dollar, primarily due to the impact of three more days in the current quarter, increased loan volumes and higher deposit margins and volumes in the P&C businesses. Average earning assets increased $20.4 billion or 3%, largely driven by higher securities borrowed or purchased under resale agreements, loan growth and increased securities. BMO's overall net interest margin, on an all-in and excluding trading basis, decreased 3 basis points from the prior quarter to 1.86%, driven by lower spreads in BMO Capital Markets, mainly due to higher volumes of lower spread assets.

Net non-interest revenue increased $150 million or 5%, primarily due to higher trading revenue and underwriting and advisory fees.

Gross insurance revenue decreased $33 million due to lower annuity sales in the current quarter, partially offset by relatively unchanged long-term interest rates in the current quarter compared with increases in long-term interest rates decreasing the fair value of investments in the prior quarter and stronger equity markets in the current quarter. The decrease in insurance revenue was largely offset by higher insurance claims, commissions and changes in policy benefit liabilities as discussed on page 12.

Q3 YTD 2018 vs Q3 YTD 2017

Revenue for the year-to-date increased $510 million or 3% to $17,115 million from the prior year. On a net basis, revenue of $16,153 million increased $513 million or 3%, or 4% excluding the impact of the weaker U.S. dollar. Prior year net revenue includes the net gain of $133 million attributable to a gain on the sale of Moneris US and a loss on the sale of a portion of the U.S. indirect auto loan portfolio.

Revenue increased in U.S. P&C, Wealth Management and Canadian P&C, with lower revenue in BMO Capital Markets, mainly due to lower trading revenue and investment banking activity.

Net interest income of $7,644 million increased $172 million or 2%, or 4% excluding the impact of the weaker U.S. dollar due to increased loan volumes and higher deposit margins and volumes in the P&C businesses, partially offset by lower net interest income from certain trading businesses. Average earning assets of $673.2 billion increased $25.0 billion or 4%, or $32.5 billion or 5% excluding the impact of the weaker U.S. dollar, due to loan growth, higher securities and increased cash resources. BMO's overall net interest margin of 1.52% decreased 2 basis points, primarily due to lower net interest income from trading businesses, partially offset by higher spreads in the P&C businesses. Net interest margin on an excluding trading basis improved 3 basis points to 1.89%, driven by higher loan and deposit spreads and deposit volumes in Canadian P&C and higher deposit spreads in U.S. P&C.

Net non-interest revenue of $8,509 million increased $341 million or 4%, or 5% excluding the impact of the weaker U.S. dollar, as increases in most types of non-interest revenue were partially offset by the net gain in the prior year, and lower underwriting and advisory fees and insurance revenue.

Net interest income and non-interest revenue are detailed in the unaudited interim consolidated financial statements.

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

Provision for Credit Losses

Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. The provision for credit losses on impaired loans under IFRS 9, is consistent with the specific provision under IAS 39 in prior years. The provision for credit losses on performing loans replaced the collective provision under IAS 39. Refer to Note 3 to the unaudited interim consolidated financial statements for an explanation of the provision for credit losses. Prior periods have not been restated.

Q3 2018 vs Q3 2017

The total provision for credit losses was $186 million, an increase of $60 million from the prior year. Adjusted provision for credit losses, which excludes a $76 million pre-tax decrease in the collective allowance in the prior year, decreased $16 million. The provision for credit losses on impaired loans of $177 million decreased $25 million from $202 million in the prior year, primarily reflecting lower provisions in U.S. P&C. There was a provision for credit losses on performing loans of $9 million, with the largest driver being an increased weighting of the downside economic scenario due to trade concerns. Performing loan provisions in Canadian P&C and BMO Capital Markets were partially offset by a decrease in the allowance for performing loans in U.S. P&C. Changes in macroeconomic factors contributed to both the increase in Canadian P&C allowance and the decrease in U.S. P&C.

Q3 2018 vs Q2 2018

The total provision for credit losses increased $26 million from the prior quarter. The provision for credit losses on impaired loans increased $5 million. There was a $9 million provision for credit losses on performing loans in the quarter compared with a recovery of credit losses of $12 million in the prior quarter.

Q3 YTD 2018 vs Q3 YTD 2017

The total provision for credit losses was $487 million, a decrease of $57 million from the prior year. Adjusted provision for credit losses decreased $133 million and excludes the decrease in the collective allowance in the prior year. The provision for credit losses on impaired loans decreased $97 million reflecting net recoveries in BMO Capital Markets compared with net provisions in the prior year and lower provisions in other operating groups. There was a $36 million recovery of credit losses on performing loans in the current year.

Adjusted results in this Provision for Credit Losses section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

Provision for Credit Losses by Operating Group (1)

(Canadian $ in millions)	Canadian P&C	U.S. P&C	Total P&C	Wealth Management	BMO Capital Markets	Corporate Services	Total Bank
Q3-2018							
Provision for (recovery of) credit losses on impaired loans (1)	**120**	**54**	**174**	**2**	**3**	**(2)**	**177**
Provision for (recovery of) credit losses on performing loans (1)	**17**	**(14)**	**3**	**2**	**4**	**-**	**9**
Total provision for credit losses (1)	**137**	**40**	**177**	**4**	**7**	**(2)**	**186**
Q2-2018							
Provision for (recovery of) credit losses on impaired loans (1)	131	66	197	1	(16)	(10)	172
Provision for (recovery of) credit losses on performing loans (1)	(3)	(12)	(15)	(1)	3	1	(12)
Total provision for credit losses (1)	128	54	182	-	(13)	(9)	160
Q3-2017							
Total provision for (recovery of) credit losses (1)	119	77	196	5	(2)	(73)	126
YTD-2018							
Provision for (recovery of) credit losses on impaired loans (1)	**348**	**197**	**545**	**4**	**(14)**	**(12)**	**523**
Provision for (recovery of) credit losses on performing loans (1)	**18**	**(56)**	**(38)**	**(1)**	**3**	**-**	**(36)**
Total provision for credit losses (1)	**366**	**141**	**507**	**3**	**(11)**	**(12)**	**487**
YTD-2017							
Total provision for (recovery of) credit losses (1)	353	225	578	8	40	(82)	544

	Q3-2018	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Total PCL to average net loans and acceptances (annualized)	**0.19**	0.17	0.14	**0.17**	0.20
PCL on impaired loans to average net loans and acceptances (annualized)	**0.18**	0.18	0.22	**0.18**	0.22

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 includes both specific and collective provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.

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

Impaired Loans

Total gross impaired loans (GIL) were $2,076 million at the end of the current quarter, down from $2,154 million in the prior year with reductions in both consumer impaired loans and business and government impaired loans. GIL decreased $76 million from $2,152 million in the second quarter of 2018.

Factors contributing to the change in GIL are outlined in the table below. Loans classified as impaired during the quarter totalled $522 million, down from $578 million in the second quarter of 2018 and up from $405 million in the prior year.

Changes in Gross Impaired Loans (GIL) and Acceptances (1)

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
GIL, beginning of period	**2,152**	2,149	2,439	**2,220**	2,383
Classified as impaired during the period	**522**	578	405	**1,635**	1,666
Transferred to not impaired during the period	**(151)**	(193)	(159)	**(520)**	(472)
Net repayments	**(322)**	(271)	(238)	**(837)**	(833)
Amounts written-off	**(140)**	(161)	(149)	**(424)**	(472)
Recoveries of loans and advances previously written-off	**-**	-	-	**-**	-
Disposals of loans	**-**	(6)	1	**(6)**	(1)
Foreign exchange and other movements	**15**	56	(145)	**8**	(117)
GIL, end of period	**2,076**	2,152	2,154	**2,076**	2,154
GIL to gross loans and acceptances (%)	**0.53**	0.56	0.58	**0.53**	0.58

(1) GIL excludes purchased credit impaired loans.

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

Insurance Claims, Commissions and Changes in Policy Benefit Liabilities

Insurance claims, commissions and changes in policy benefit liabilities (CCPB) were $269 million in the third quarter of 2018, up $16 million from $253 million in the third quarter of 2017 due to relatively unchanged long-term interest rates in the current quarter compared with increases in long-term interest rates decreasing the fair value of policy benefit liabilities in the prior year, the impact of stronger equity markets in the current quarter and underlying business growth, largely offset by the impact of lower annuity sales. CCPB was down $63 million from $332 million in the second quarter of 2018 due to the impact of lower annuity sales in the current quarter, partially offset by relatively unchanged long-term interest rates in the current quarter compared with increases in long-term interest rates decreasing the fair value of policy benefit liabilities in the prior quarter and the impact of stronger equity markets in the current quarter. The changes related to the fair value of policy benefit liabilities and annuity sales were largely offset in revenue.

Non-Interest Expense

Reported non-interest expense of $3,386 million increased $100 million or 3% from the third quarter in the prior year. Adjusted non-interest expense of $3,350 million increased $119 million or 4%, with higher technology investments accounting for the majority of the increase. Adjusted non-interest expense excludes acquisition integration costs and the amortization of acquisition-related intangible assets in both periods.

Reported non-interest expense decreased $176 million or 5% from the second quarter of 2018, mainly due to a restructuring charge of $260 million pre-tax in the prior quarter. Adjusted non-interest expense increased $81 million or 2%, primarily due to the impact of three more days in the current quarter.

Reported operating leverage on a net revenue basis was positive 3.6% year-over-year. Adjusted operating leverage on a net revenue basis was positive 2.9% year-over-year.

The reported efficiency ratio was 58.2% compared with 60.2% in the prior year and was 61.0% on a net revenue basis compared with 63.1% in the prior year. The adjusted efficiency ratio was 57.6% compared with 59.2% in the prior year and was 60.3% on a net revenue basis compared with 62.1% in the prior year.

Reported non-interest expense for the year-to-date increased $434 million or 4% from the prior year. Adjusted non-interest expense increased $251 million or 3%, or 4% excluding the impact of the weaker U.S. dollar.

Non-interest expense is detailed in the unaudited interim consolidated financial statements.

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

Income Taxes

The provision for income taxes of $443 million increased $36 million from the third quarter of 2017 and increased $126 million from the second quarter of 2018. The effective tax rate for the quarter was 22.4% compared with 22.7% in the prior year and 20.3% in the second quarter of 2018.

The adjusted provision for income taxes of $450 million increased $51 million from the prior year and increased $57 million from the second quarter of 2018. The adjusted effective tax rate was 22.4% in the current quarter compared with 22.5% in the prior year and 21.2% in the second quarter of 2018. The higher adjusted tax rate in the current quarter relative to the second quarter of 2018 was primarily due to changes in earnings mix. The moderate change in the adjusted tax rate in the current quarter relative to the third quarter of 2017 was primarily due to changes in earnings mix, partially offset by the lower tax rate in the United States in the current quarter.

On a taxable equivalent basis (teb), the reported effective tax rate for the quarter was 24.7% compared with 25.3% in the prior year and 23.3% in the second quarter of 2018. On a teb basis, the adjusted effective tax rate for the quarter was 24.7% compared with 25.1% in the prior year and 23.7% in the second quarter of 2018.

For more information on the impact of the U.S. *Tax Cuts and Jobs Act*, see the Other Regulatory Developments section on page 28.

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

Capital Management

Third Quarter 2018 Regulatory Capital Review

BMO's Common Equity Tier 1 (CET1) Ratio was 11.4% at July 31, 2018.

The CET1 Ratio increased from 11.3% at the end of the second quarter driven by the impact of higher retained earnings, partially offset by higher risk-weighted assets (RWA) from business growth and share repurchases during the quarter. The CET1 Ratio was consistent with October 31, 2017, as higher retained earnings and the elimination of the Basel I floor were largely offset by higher RWA and share repurchases. The impact of foreign exchange movements on the CET1 Ratio was largely offset as outlined below.

CET1 Capital at July 31, 2018, was $31.7 billion, up from $30.8 billion at April 30, 2018, mainly due to higher retained earnings and accumulated other comprehensive income, partially offset by share repurchases during the quarter. CET1 Capital was up from $30.6 billion at October 31, 2017, largely driven by the impact of higher retained earnings, partially offset by share repurchases.

RWA were $277.5 billion at July 31, 2018, up from $273.0 billion at April 30, 2018, driven by business growth and the impact of foreign exchange movements, partially offset by changes in book quality. RWA were up from $269.5 billion at October 31, 2017, primarily from business growth, partially offset by the elimination of the Basel I floor.

The bank's Tier 1 and Total Capital Ratios were 12.9% and 14.9%, respectively, at July 31, 2018, compared with 12.9% and 15.0%, respectively, at April 30, 2018. The Tier 1 Capital Ratio was unchanged as higher CET1 Capital was offset by higher RWA and the preferred share redemptions announced during the quarter. The Total Capital Ratio was lower as higher Total Capital was more than offset by higher RWA. The Tier 1 and Total Capital Ratios were 13.0% and 15.1%, respectively, at October 31, 2017. The July 31, 2018 Tier 1 and Total Capital Ratios were lower compared with October 31, 2017, due to the impact of higher RWA which was partially offset by higher capital.

BMO's Basel III Leverage Ratio was 4.2% at July 31, 2018, consistent with April 30, 2018. The July 31, 2018 Leverage Ratio was down from 4.4% at October 31, 2017, mainly due to higher leverage exposures driven by business growth.

BMO's investments in foreign operations are primarily denominated in U.S. dollars. The foreign exchange impact of U.S.-dollar-denominated RWA and capital deductions may result in variability in the bank's capital ratios. BMO may offset the impact of foreign exchange movements on its capital ratios and did so during the third quarter. Any such activities could also impact our book value and return on equity.

Regulatory Developments

In July 2018, the Office of the Superintendent of Financial Institutions (OSFI) issued for consultation a discussion paper on the proposed domestic implementation of the final Basel III reforms, which were published by the Basel Committee on Banking Supervision (BCBS) in December 2017. The discussion paper sets out OSFI's preliminary views on the scope and timing of the implementation of Basel III reforms in Canada. While the BCBS outlined a five-year transition period for the RWA output floor from 50% in 2022 to 72.5% in 2027, OSFI proposes to set the output floor at 72.5% upon implementation of the reforms in the first quarter of 2022.

In July 2018, OSFI issued for consultation revisions to its Capital Adequacy Requirements (CAR) Guideline for implementation in the first quarter of 2019. The main revisions include the domestic implementation of the standardized approach for counterparty credit risk (SA-CCR) and revised capital requirements for bank exposures to central counterparties, as well as a revised securitization framework. These changes are expected to modestly increase the amount of capital we are required to hold. The revised CAR Guideline also incorporates the changes to the capital floor announced by OSFI in January 2018, which included a shift to the Basel II standardized approach, as well as a reduction of the floor factor to 70% in the second quarter of fiscal 2018, 72.5% in the third quarter and 75% for the fourth quarter onward. In August 2018, OSFI also issued for consultation revisions to the Leverage Requirements Guideline to align with the changes for counterparty credit risk and the securitization framework proposed in the revised CAR Guideline.

In June 2018, OSFI published details on the Domestic Stability Buffer (DSB), expected to be held by Canadian domestic systemically important banks (D-SIBs) against Pillar 2 risks associated with systemic vulnerabilities. The DSB, which is met with CET1 capital, will range between 0-2.5% of a bank's total RWA and is currently set at 1.5%.

In May 2018, the BCBS finalized its standard on Capital Treatment for Simple, Transparent and Comparable (STC) Short-term Securitizations which sets out additional guidance and requirements for short-term securitizations to apply preferential regulatory capital treatment. Similar to the STC framework for term securitizations, we expect that OSFI will adopt the framework for domestic implementation for the first quarter of 2019.

In April 2018, the Government of Canada published the final regulations on Canada's Bank Recapitalization (Bail-In) Regime, which will be effective on September 23, 2018. The bail-in regime is consistent with the international standards developed by the Financial Stability Board, but is tailored to the Canadian context. In conjunction with the regulations, OSFI released its final Total Loss Absorbing Capacity (TLAC) guideline for D-SIBs which requires a minimum risk-based TLAC ratio and a minimum TLAC leverage ratio beginning November 1, 2021. On August 21, 2018, OSFI set the minimum TLAC requirements as follows: (1) a minimum risk-based TLAC ratio of 21.5% RWA; and (2) a minimum TLAC Leverage ratio of 6.75%. In addition, D-SIBs will be expected to hold buffers above the minimum TLAC ratios including the DSB (currently 1.5% of total RWA) and any capital add-ons for idiosyncratic Pillar 2 risks. Inclusive of buffers as currently set, D-SIBs' supervisory target risk-based TLAC ratio is expected to be 23.0% when the minimum requirements come into effect on November 1, 2021. In May 2018, OSFI issued the final TLAC Disclosure Requirements guideline effective for the first quarter of fiscal 2019.

In March 2018, the BCBS issued a consultative document on revisions to the minimum capital requirements for market risk. The consultative document proposed a number of revisions to the market risk standard published in January 2016, including a simplified alternative to the revised standardized approach. The implementation of the revised market risk standard has been extended to January 1, 2022, allowing additional time for banks to develop the systems infrastructure needed to apply the standard and for BCBS to address certain outstanding issues.

For a more detailed discussion of regulatory developments, see the Enterprise-Wide Capital Management section on pages 69 to 75, the Liquidity and Funding Risk section on pages 99 to 105 and the Legal and Regulatory Risk section on pages 109 to 111 of BMO's 2017 Annual Report.

Regulatory Capital

Regulatory capital requirements for BMO are determined in accordance with OSFI's CAR Guideline, which is based on the capital standards developed by the BCBS. For more information see the Enterprise-Wide Capital Management section on pages 69 to 75 of BMO's 2017 Annual Report.

OSFI's capital requirements are summarized in the following table.

Basel III Capital and Leverage Ratios	Minimum capital requirements	Total Pillar 1 Capital Buffer (1)	Domestic Stability Buffer (2)	OSFI capital requirements including capital buffers	BMO Capital and Leverage Ratios as at July 31, 2018
Common Equity Tier 1 Ratio	4.5%	3.5%	1.5%	9.5%	11.4%
Tier 1 Capital Ratio	6.0%	3.5%	1.5%	11.0%	12.9%
Total Capital Ratio	8.0%	3.5%	1.5%	13.0%	14.9%
Leverage Ratio	3.0%	na	na	3.0%	4.2%

(1) The minimum 4.5% CET1 Ratio requirement is augmented by the 3.5% Total Pillar 1 Capital Buffer, which can absorb losses during periods of stress. The Pillar 1 Capital Buffer for BMO includes a 2.5% Capital Conservation Buffer, a 1.0% Common Equity Surcharge for D-SIBs and a Countercyclical Buffer as prescribed by OSFI (immaterial for the third quarter of 2018). If a bank's capital ratios fall within the range of this combined buffer, restrictions on discretionary distributions of earnings (such as dividends, share repurchases and discretionary compensation) would ensue, with the degree of such restrictions varying according to the position of the bank's ratios within the buffer range.

(2) OSFI requires all D-SIBs to hold a Domestic Stability Buffer (DSB) against Pillar 2 risks associated with systemic vulnerabilities. The DSB can range from 0-2.5% of total RWA and is currently set at 1.5%. Breaches of the DSB will not result in a bank being subject to automatic constraints on capital distributions.

na – not applicable

Qualifying Regulatory Capital and Risk-Weighted Assets

(Canadian $ in millions, except as noted)	Q3-2018	Q2-2018	Q4-2017
Gross Common Equity (1)	**40,516**	39,506	40,114
Regulatory adjustments applied to Common Equity	**(8,828)**	(8,713)	(9,481)
Common Equity Tier 1 Capital (CET1)	**31,688**	30,793	30,633
Additional Tier 1 Eligible Capital (2)	**4,390**	4,690	4,690
Regulatory adjustments applied to Tier 1	**(353)**	(269)	(215)
Additional Tier 1 Capital (AT1)	**4,037**	4,421	4,475
Tier 1 Capital (T1 = CET1 + AT1)	**35,725**	35,214	35,108
Tier 2 Eligible Capital (3)	**5,849**	5,849	5,538
Regulatory adjustments applied to Tier 2	**(141)**	(122)	(50)
Tier 2 Capital (T2)	**5,708**	5,727	5,488
Total Capital (TC = T1 + T2)	**41,433**	40,941	40,596
Risk-weighted assets (4) (5)			
CET1 Capital Risk-Weighted Assets	**277,506**	273,011	269,466
Tier 1 Capital Risk-Weighted Assets	**277,681**	273,184	269,466
Total Capital Risk-Weighted Assets	**277,857**	273,357	269,466
Capital Ratios (%)			
CET1 Ratio	**11.4**	11.3	11.4
Tier 1 Capital Ratio	**12.9**	12.9	13.0
Total Capital Ratio	**14.9**	15.0	15.1

(1) Gross Common Equity includes issued qualifying common shares, retained earnings, accumulated other comprehensive income and eligible common share capital issued by subsidiaries.

(2) Additional Tier 1 Eligible Capital includes directly and indirectly issued qualifying Additional Tier 1 instruments and directly and indirectly issued capital instruments, to the extent eligible, which are subject to phase-out under Basel III.

(3) Tier 2 Eligible Capital includes directly and indirectly issued qualifying Tier 2 instruments and directly and indirectly issued capital instruments, to the extent eligible, that are subject to phase-out under Basel III.

(4) The implementation of the Credit Valuation Adjustment (CVA) was phased in commencing Q1-2014. The applicable scalars to the fully implemented CVA charge for CET1, Tier 1 Capital and Total Capital are 72%, 77% and 81%, respectively in 2017; and 80%, 83% and 86%, respectively, in 2018.

(5) For institutions using advanced approaches for credit risk or operational risk, there is a capital floor as prescribed in OSFI's CAR Guideline. OSFI revised its capital floor approach effective Q2-2018 at a floor factor of 70% in the second quarter, 72.5% in the third quarter and 75% for the fourth quarter onward.

Outstanding Shares and Securities Convertible into Common Shares

As at July 31, 2018	Number of shares or dollar amount (in millions)
Common shares	639.9
Class B Preferred shares	
Series 16	$157
Series 17	$143
Series 25	$236
Series 26	$54
Series 27	$500
Series 29	$400
Series 31	$300
Series 33	$200
Series 35	$150
Series 36	$600
Series 38	$600
Series 40	$500
Series 42	$400
Medium-Term Notes	
Series H - First Tranche (1)	$1,000
Series H - Second Tranche (1)	$1,000
Series I - First Tranche (1)	$1,250
Series I - Second Tranche (1)	$850
3.803% Subordinated Notes (2)	US$1,250
Stock options	
Vested	4.5
Non-vested	2.3

(1) Details on the Series H Medium-Term Notes, First Tranche and Second Tranche and Series I Medium-Term Notes, First Tranche and Second Tranche are outlined in Note 15 to the audited consolidated financial statements on page 171 of BMO's 2017 Annual Report.

(2) Details on the 3.803% Subordinated Notes are outlined in Note 6 of the unaudited interim consolidated financial statements.

Details on share capital are outlined in Note 7 to the unaudited interim consolidated financial statements and Note 16 to the audited annual consolidated financial statements on page 172 of BMO's 2017 Annual Report.

Other Capital Developments

On June 1, 2018, we renewed our normal course issuer bid ("NCIB") effective for one year. Under this NCIB, we may purchase up to 20 million common shares for cancellation. NCIB is a regular part of BMO's capital management strategy. The timing and amount of purchases under the program are subject to regulatory approvals and to management discretion based on factors such as market conditions and capital adequacy. We will consult with OSFI before making purchases under the bid. During the quarter, we purchased for cancellation 1 million common shares under the NCIB for a total of 9 million shares year-to-date, and 10 million shares over the last four quarters.

During the quarter, 295,752 common shares were issued through the exercise of stock options.

On June 28, 2018, we announced our intention to redeem all of our 6,267,391 outstanding Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 16 (the "Series 16 Shares") and all of our 5,732,609 outstanding Non-Cumulative Floating Rate Class B Preferred Shares, Series 17 (the "Series 17 Shares") on August 25, 2018, at a redemption price of $25.00 per share plus all declared and unpaid dividends. On August 25, 2018, BMO redeemed the Series 16 Shares and Series 17 Shares.

Dividends

On August 28, 2018, BMO announced that the Board of Directors had declared a quarterly dividend on common shares of $0.96 per share, unchanged from the preceding quarter and up $0.06 per share or approximately 7% from the prior year. The dividend is payable on November 27, 2018, to shareholders of record on November 1, 2018. Common shareholders may elect to have their cash dividends reinvested in common shares of BMO in accordance with the Shareholder Dividend Reinvestment and Share Purchase Plan.

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

Caution

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

Review of Operating Groups' Performance

How BMO Reports Operating Group Results

The following sections review the financial results of each of our operating groups and operating segments for the third quarter of 2018.

Periodically, certain business lines and units within the business lines are transferred between client and corporate support groups to more closely align BMO's organizational structure with its strategic priorities. In addition, revenue, provision for credit losses and expense allocations are updated to better align with current experience. Results for prior periods are reclassified to conform to the current presentation.

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

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

BMO analyzes revenue at the consolidated level based on GAAP revenue reflected in the consolidated financial statements rather than on a taxable equivalent basis (teb), which is consistent with our Canadian peer group. Like many banks, we analyze revenue on a teb basis at the operating group level. Revenue and the provision for income taxes are increased on tax-exempt securities to an equivalent before-tax basis to facilitate comparisons of income between taxable and tax-exempt sources. The offset to the group teb adjustments is reflected in Corporate Services revenue and income tax provisions.

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

Personal and Commercial Banking (P&C)

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Net interest income (teb)	**2,396**	2,274	2,229	**6,953**	6,549
Non-interest revenue	**841**	802	805	**2,476**	2,461
Total revenue (teb)	**3,237**	3,076	3,034	**9,429**	9,010
Provision for credit losses on impaired loans (1)	**174**	197	na	**545**	na
Provision for (recovery of) credit losses on performing loans (1)	**3**	(15)	na	**(38)**	na
Total provision for credit losses (1)	**177**	182	196	**507**	578
Non-interest expense	**1,732**	1,658	1,661	**5,077**	4,924
Income before income taxes	**1,328**	1,236	1,177	**3,845**	3,508
Provision for income taxes (teb)	**322**	298	296	**944**	864
Reported net income	**1,006**	938	881	**2,901**	2,644
Amortization of acquisition-related intangible assets (2)	**12**	12	12	**35**	37
Adjusted net income	**1,018**	950	893	**2,936**	2,681
Net income growth (%)	**14.1**	21.8	5.8	**9.7**	10.3
Adjusted net income growth (%)	**13.9**	21.3	5.6	**9.5**	10.0
Revenue growth (%)	**6.7**	7.0	3.4	**4.7**	4.7
Non-interest expense growth (%)	**4.4**	2.4	4.9	**3.1**	3.0
Adjusted non-interest expense growth (%)	**4.5**	2.5	5.0	**3.2**	3.1
Return on equity (%)	**18.5**	18.2	16.7	**18.4**	16.5
Adjusted return on equity (%)	**18.8**	18.5	16.9	**18.6**	16.8
Operating leverage (%) (teb)	**2.3**	4.6	(1.5)	**1.6**	1.7
Adjusted operating leverage (%) (teb)	**2.2**	4.5	(1.6)	**1.5**	1.6
Efficiency ratio (%) (teb)	**53.5**	53.9	54.7	**53.9**	54.6
Adjusted efficiency ratio (%) (teb)	**53.1**	53.4	54.2	**53.4**	54.1
Net interest margin on average earning assets (%) (teb)	**2.97**	2.97	2.91	**2.96**	2.88
Average earning assets	**319,954**	313,568	303,642	**313,780**	303,617
Average gross loans and acceptances	**325,545**	318,262	306,193	**318,516**	305,358
Average net loans and acceptances	**323,984**	316,712	306,089	**317,019**	305,213
Average deposits	**251,671**	248,013	238,998	**247,396**	239,130

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.

(2) Before tax amounts of: $15 million in each of Q3-2018 and Q2-2018; $17 million in Q3-2017; $45 million for YTD-2018 and $50 million for YTD-2017 are included in non-interest expense.

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

na – not applicable

The Personal and Commercial Banking (P&C) operating group represents the sum of our two retail and business banking operating segments, Canadian Personal and Commercial Banking (Canadian P&C) and U.S. Personal and Commercial Banking (U.S. P&C). The P&C banking business net income of $1,006 million was up 14% from the prior year. Adjusted net income of $1,018 million was up 14%. Adjusted net income excludes the amortization of acquisition-related intangible assets. These operating segments are reviewed separately in the sections that follow.

Adjusted results in this P&C section are non-GAAP amounts or non-GAAP measures. Please see the non-GAAP Measures section.

Canadian Personal and Commercial Banking (Canadian P&C)

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Net interest income	**1,402**	1,338	1,335	**4,120**	3,892
Non-interest revenue	**550**	521	521	**1,624**	1,667
Total revenue	**1,952**	1,859	1,856	**5,744**	5,559
Provision for credit losses on impaired loans (1)	**120**	131	na	**348**	na
Provision for (recovery of) credit losses on performing loans (1)	**17**	(3)	na	**18**	na
Total provision for credit losses (1)	**137**	128	119	**366**	353
Non-interest expense	**949**	936	912	**2,851**	2,705
Income before income taxes	**866**	795	825	**2,527**	2,501
Provision for income taxes	**224**	205	212	**648**	614
Reported net income	**642**	590	613	**1,879**	1,887
Amortization of acquisition-related intangible assets (2)	**-**	1	1	**1**	2
Adjusted net income	**642**	591	614	**1,880**	1,889
Personal revenue	**1,257**	1,214	1,205	**3,747**	3,491
Commercial revenue	**695**	645	651	**1,997**	2,068
Net income growth (%)	**4.6**	11.0	8.8	**(0.5)**	16.1
Revenue growth (%)	**5.2**	7.8	4.5	**3.3**	7.3
Non-interest expense growth (%)	**4.1**	5.3	4.5	**5.4**	3.7
Adjusted non-interest expense growth (%)	**4.1**	5.4	4.5	**5.4**	3.7
Operating leverage (%)	**1.1**	2.5	-	**(2.1)**	3.6
Adjusted operating leverage (%)	**1.1**	2.4	-	**(2.1)**	3.6
Efficiency ratio (%)	**48.6**	50.4	49.1	**49.6**	48.7
Net interest margin on average earning assets (%)	**2.60**	2.59	2.54	**2.60**	2.51
Average earning assets	**213,829**	211,840	208,682	**212,183**	207,041
Average gross loans and acceptances	**224,799**	222,153	217,065	**222,384**	214,746
Average net loans and acceptances	**223,936**	221,296	216,878	**221,529**	214,573
Average deposits	**159,818**	158,032	154,102	**158,472**	151,871

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.

(2) Before tax amounts of: $nil in Q3-2018; $1 million in each of Q2-2018 and Q3-2017; $1 million for YTD-2018 and $2 million for YTD-2017 are included in non-interest expense.

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

na – not applicable

Q3 2018 vs Q3 2017

Canadian P&C reported net income of $642 million increased $29 million or 5% and adjusted net income of $642 million increased $28 million or 5% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Results reflect revenue growth, partially offset by higher expenses and higher provisions for credit losses.

Revenue of $1,952 million increased $96 million or 5% from the prior year due to higher balances across most products, increased non-interest revenue and higher margins. Net interest margin of 2.60% was up 6 basis points due to higher loan and deposit spreads and higher deposit volumes.

Personal revenue increased $52 million or 4% due to higher non-interest revenue, higher margins and higher balances across most products. Commercial revenue increased $44 million or 7% due to higher balances across most products, increased non-interest revenue and higher margins.

Total provision for credit losses of $137 million increased $18 million from the prior year. The provision for credit losses on impaired loans increased $1 million to $120 million. There was a $17 million provision for credit losses on performing loans in the current quarter. Non-interest expense of $949 million increased $37 million or 4%, reflecting continued investment in the business, primarily related to higher technology investments.

Average gross loans and acceptances of $224.8 billion increased $7.7 billion or 4% from the prior year. Total personal lending balances (excluding retail cards) were unchanged, reflecting reduced participation in the non-proprietary mortgage channels, with proprietary mortgage growth of 3%. Commercial loan balances (excluding corporate cards) grew 11%. Average deposits of $159.8 billion increased $5.7 billion or 4%. Personal deposit balances increased 1%, including growth of 5% in chequing account balances, while commercial deposit balances grew 8%.

Q3 2018 vs Q2 2018

Reported net income increased $52 million or 9% and adjusted net income increased $51 million or 9% from the prior quarter.

Revenue increased $93 million or 5% due to the impact of three more days in the current quarter, increased non-interest revenue and higher balances across most products. Net interest margin of 2.60% was up 1 basis point.

Personal revenue increased $43 million or 4% due to the impact of three more days in the current quarter and higher balances across most products. Commercial revenue increased $50 million or 8% due to higher non-interest revenue, the impact of three more days in the current quarter and higher balances across most products.

Total provision for credit losses increased $9 million. The provision for credit losses on impaired loans decreased $11 million due to lower consumer provisions, partially offset by higher commercial provisions. There was a $17 million provision for credit losses on performing loans in the current quarter compared with a recovery of credit losses of $3 million in the prior quarter. Non-interest expense increased $13 million or 1%, including the impact of three more days in the current quarter.

Average gross loans and acceptances increased $2.6 billion or 1%, while average deposits increased $1.8 billion or 1%.

Q3 YTD 2018 vs Q3 YTD 2017

Reported net income of $1,879 million decreased $8 million and adjusted net income of $1,880 million decreased $9 million year-to-date.

Revenue increased $185 million or 3%, as increased balances across most products and higher margins were partially offset by lower non-interest revenue. The first quarter of 2018 included an Interac Corporation restructuring gain and the first quarter of 2017 included a $187 million gain on the sale of Moneris US. Net interest margin of 2.60% increased 9 basis points due to higher loan and deposit spreads and higher deposit volumes.

Total provision for credit losses increased $13 million. The provision for credit losses on impaired loans decreased $5 million due to lower commercial provisions, partially offset by higher consumer provisions. There was a $18 million provision for credit losses on performing loans in the current year. Non-interest expense increased $146 million or 5%, reflecting continued investment in the business, including higher technology investments, as well as a legal provision in the current year.

Average gross loans and acceptances increased $7.6 billion or 4%, while average deposits increased $6.6 billion or 4%.

Adjusted results in this Canadian P&C section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

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

(US$ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Net interest income (teb)	**762**	729	689	**2,209**	2,010
Non-interest revenue	**223**	218	219	**664**	601
Total revenue (teb)	**985**	947	908	**2,873**	2,611
Provision for credit losses on impaired loans (1)	**42**	51	na	**155**	na
Provision for (recovery of) credit losses on performing loans (1)	**(11)**	(9)	na	**(45)**	na
Total provision for credit losses (1)	**31**	42	58	**110**	169
Non-interest expense	**601**	562	578	**1,736**	1,679
Income before income taxes	**353**	343	272	**1,027**	763
Provision for income taxes (teb)	**74**	71	66	**229**	190
Reported net income	**279**	272	206	**798**	573
Amortization of acquisition-related intangible assets (2)	**9**	8	9	**26**	27
Adjusted net income	**288**	280	215	**824**	600
Net income growth (%)	**35.3**	52.1	0.1	**39.3**	(1.8)
Adjusted net income growth (%)	**33.8**	49.5	(0.1)	**37.4**	(1.9)
Revenue growth (%)	**8.5**	10.4	2.2	**10.0**	1.1
Non-interest expense growth (%)	**4.1**	3.0	5.8	**3.4**	2.4
Adjusted non-interest expense growth (%)	**4.3**	3.2	6.1	**3.6**	2.6
Operating leverage (%) (teb)	**4.4**	7.4	(3.6)	**6.6**	(1.3)
Adjusted operating leverage (%) (teb)	**4.2**	7.2	(3.9)	**6.4**	(1.5)
Efficiency ratio (%) (teb)	**61.0**	59.3	63.6	**60.4**	64.3
Adjusted efficiency ratio (%) (teb)	**59.9**	58.1	62.2	**59.2**	62.9
Net interest margin on average earning assets (%) (teb)	**3.71**	3.77	3.74	**3.73**	3.68
Average earning assets	**81,428**	79,118	73,221	**79,217**	73,045
Average gross loans and acceptances	**77,301**	74,747	68,727	**74,954**	68,536
Average net loans and acceptances	**76,765**	74,208	68,791	**74,454**	68,557
Average deposits	**70,478**	69,982	65,424	**69,341**	65,984

(Canadian $ equivalent in millions)					
Net interest income (teb)	**994**	936	894	**2,833**	2,657
Non-interest revenue	**291**	281	284	**852**	794
Total revenue (teb)	**1,285**	1,217	1,178	**3,685**	3,451
Provision for credit losses on impaired loans (1)	**54**	66	na	**197**	na
Provision for (recovery of) credit losses on performing loans (1)	**(14)**	(12)	na	**(56)**	na
Total provision for credit losses (1)	**40**	54	77	**141**	225
Non-interest expense	**783**	722	749	**2,226**	2,219
Income before income taxes	**462**	441	352	**1,318**	1,007
Provision for income taxes (teb)	**98**	93	84	**296**	250
Reported net income	**364**	348	268	**1,022**	757
Adjusted net income	**376**	359	279	**1,056**	792
Net income growth (%)	**36.0**	45.6	(0.4)	**35.1**	(2.1)
Adjusted net income growth (%)	**34.4**	43.2	(0.6)	**33.3**	(2.2)
Revenue growth (%)	**9.0**	5.9	1.8	**6.8**	0.8
Non-interest expense growth (%)	**4.6**	(1.2)	5.4	**0.3**	2.0
Adjusted non-interest expense growth (%)	**4.9**	(1.0)	5.6	**0.6**	2.2
Average earning assets	**106,125**	101,728	94,960	**101,597**	96,576
Average gross loans and acceptances	**100,746**	96,109	89,128	**96,132**	90,612
Average net loans and acceptances	**100,048**	95,416	89,211	**95,490**	90,640
Average deposits	**91,853**	89,981	84,896	**88,924**	87,259

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.

(2) Before tax amounts of: US$11 million in each of Q3-2018 and Q2-2018; US$12 million in Q3-2017; US$34 million for YTD-2018 and US$36 million for YTD-2017 are included in non-interest expense.

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

na – not applicable

Q3 2018 vs Q3 2017

Reported net income of $364 million increased $96 million or 36% and adjusted net income of $376 million increased $97 million or 34% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income of $279 million increased $73 million or 35% and adjusted net income of $288 million increased $73 million or 34% from the prior year, due to good revenue growth, the tax reform benefit and lower provision for credit losses, partially offset by higher expenses. The benefit from the tax reform was approximately $29 million to reported net income and $31 million to adjusted net income.

Revenue of $985 million increased $77 million or 9% from the prior year, mainly due to higher deposit revenue and increased commercial loan volumes, net of loan spread compression. Net interest margin decreased 3 basis points to 3.71% due to loans growing faster than deposits, change in business mix, loan spread compression and lower interest recoveries, partially offset by improved deposit revenue driven primarily by higher interest rates.

Total provision for credit losses of $31 million decreased $27 million from the prior year. The provision for credit losses on impaired loans was

$42 million, a decrease of $16 million due to lower commercial and consumer provisions. There was a $11 million recovery of credit losses on performing loans in the current quarter. Non-interest expense of $601 million increased $23 million or 4% and adjusted non-interest expense of $590 million increased $24 million or 4%, due to the impact of non-recurring items and continued investment in the business, including technology investments.

Average gross loans and acceptances increased $8.6 billion or 12% from the prior year to $77.3 billion, driven by commercial loan growth of 13% and increased personal loan volumes due largely to the purchase of a $2.1 billion mortgage portfolio in the first quarter of 2018.

Average deposits of $70.5 billion increased $5.1 billion or 8% from the prior year with 11% growth in personal and 2% growth in commercial volumes.

Q3 2018 vs Q2 2018

Reported net income increased $16 million or 4% and adjusted net income increased $17 million or 4% from the prior quarter. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income increased $7 million or 3% and adjusted net income increased $8 million or 3% due to revenue growth and lower provision for credit losses, partially offset by higher expenses.

Revenue increased $38 million or 4%, mainly due to the impact of three more days in the current quarter, higher deposit revenue and increased commercial loan volumes, net of loan spread compression. Net interest margin decreased 6 basis points due to loans growing faster than deposits, continued loan spread compression and lower interest recoveries, partially offset by improved deposit revenue.

Total provision for credit losses decreased $11 million from the prior quarter. The provision for credit losses on impaired loans decreased $9 million due to lower commercial and consumer provisions. There was a $11 million recovery of credit losses on performing loans in the current quarter compared with $9 million in the prior quarter. Non-interest expense and adjusted non-interest expense both increased $39 million or 7%, largely due to the impact of non-recurring items and the impact of three more days in the current quarter.

Average gross loans and acceptances increased $2.6 billion or 3% due to growth in commercial and personal loan volumes. Average deposits increased $0.5 billion or 1% due to 4% growth in personal, partially offset by lower commercial volumes.

Q3 YTD 2018 vs Q3 YTD 2017

Reported net income of $1,022 million increased 35% and adjusted net income of $1,056 million increased 33% compared with the prior year. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income of $798 million increased $225 million or 39% and adjusted net income of $824 million increased $224 million or 37%, primarily due to higher revenue, the tax reform benefit and lower provision for credit losses, partially offset by higher expenses. The benefit from the tax reform was approximately $63 million to reported net income and $66 million to adjusted net income. Prior year results included a $27 million after-tax ($43 million pre-tax) loss on a loan sale.

Revenue of $2,873 million increased $262 million or 10%, mainly due to higher deposit revenue and loan volumes in the current year, and the loss on a loan sale in the prior year, net of loan spread compression. Net interest margin increased 5 basis points to 3.73%, mainly due to higher deposit revenue driven by higher interest rates, net of loans growing faster than deposits, change in business mix and loan spread compression.

Total provision for credit losses decreased $59 million. The provision for credit losses on impaired loans decreased $14 million due to lower consumer provisions, partially offset by higher commercial provisions. There was a $45 million recovery of credit losses on performing loans in the current year. Non-interest expense of $1,736 million increased $57 million or 3% and adjusted non-interest expense of $1,702 million increased $59 million or 4%, primarily due to higher technology investments.

Average gross loans and acceptances increased $6.4 billion or 9% from the prior year to $75.0 billion driven by growth in commercial and personal loan volumes of 10% and 8%, respectively.

Average deposits of $69.3 billion increased $3.4 billion or 5% from the prior year driven by 7% growth in personal volumes and higher commercial volumes.

Adjusted results in this U.S. P&C section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

BMO Wealth Management

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Net interest income	**212**	204	181	**616**	528
Non-interest revenue	**1,326**	1,378	1,262	**4,109**	4,002
Total revenue	**1,538**	1,582	1,443	**4,725**	4,530
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**269**	332	253	**962**	965
Revenue, net of CCPB	**1,269**	1,250	1,190	**3,763**	3,565
Provision for credit losses on impaired loans (1)	**2**	1	na	**4**	na
Provision for (recovery of) credit losses on performing loans (1)	**2**	(1)	na	**(1)**	na
Total provision for (recovery of) credit losses (1)	**4**	-	5	**3**	8
Non-interest expense	**875**	860	833	**2,629**	2,510
Income before income taxes	**390**	390	352	**1,131**	1,047
Provision for income taxes	**99**	94	83	**278**	255
Reported net income	**291**	296	269	**853**	792
Amortization of acquisition-related intangible assets (2)	**10**	11	15	**31**	51
Adjusted net income	**301**	307	284	**884**	843
Traditional Wealth businesses reported net income	**202**	227	192	**613**	537
Traditional Wealth businesses adjusted net income	**212**	238	207	**644**	588
Insurance reported net income	**89**	69	77	**240**	255
Net income growth (%)	**8.3**	16.8	31.3	**7.8**	60.2
Adjusted net income growth (%)	**6.5**	11.7	22.6	**5.0**	47.2
Revenue growth (%)	**6.7**	(15.4)	(18.8)	**4.3**	(2.0)
Revenue growth, net of CCPB (%)	**6.8**	7.6	9.6	**5.6**	12.9
Non-interest expense growth (%)	**5.0**	4.5	2.8	**4.7**	0.3
Adjusted non-interest expense growth (%)	**5.7**	6.3	4.7	**5.8**	1.7
Return on equity (%)	**18.9**	20.4	17.8	**19.2**	17.4
Adjusted return on equity (%)	**19.5**	21.1	18.8	**19.9**	18.5
Operating leverage, net of CCPB (%)	**1.8**	3.1	6.8	**0.9**	12.6
Adjusted operating leverage, net of CCPB (%)	**1.1**	1.3	4.9	**(0.2)**	11.2
Efficiency ratio, net of CCPB (%)	**68.9**	68.8	70.0	**69.8**	70.4
Adjusted efficiency ratio (%)	**56.0**	53.5	56.5	**54.8**	54.0
Adjusted efficiency ratio, net of CCPB (%)	**67.8**	67.7	68.5	**68.8**	68.7
Assets under management	**451,216**	439,193	413,210	**451,216**	413,210
Assets under administration (3)	**394,513**	386,493	465,213	**394,513**	465,213
Average earning assets	**31,704**	30,509	28,444	**30,622**	27,781
Average gross loans and acceptances	**20,736**	19,784	18,328	**19,862**	17,909
Average net loans and acceptances	**20,706**	19,752	18,323	**19,831**	17,904
Average deposits	**34,327**	34,717	33,778	**34,347**	33,291

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.

(2) Before tax amounts of: $13 million in each of Q3-2018 and Q2-2018; $17 million in Q3-2017; $39 million for YTD-2018 and $62 million for YTD-2017 are included in non-interest expense.

(3) We have certain assets under management that are also administered by us and included in assets under administration.

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

na – not applicable

Q3 2018 vs Q3 2017

Reported net income of $291 million increased $22 million or 8% and adjusted net income of $301 million increased $17 million or 6% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Traditional wealth reported net income of $202 million increased $10 million or 6% and adjusted net income of $212 million increased $5 million or 3% from the prior year, due to growth across our diversified businesses and improved equity markets, partially offset by a legal provision and technology investments. Insurance net income of $89 million increased $12 million or 15% due to business growth and a benefit from more favourable market movements in the current quarter.

Revenue of $1,538 million increased $95 million or 7% from the prior year. Revenue, net of CCPB, was $1,269 million, an increase of $79 million or 7%. Revenue in traditional wealth was $1,124 million, an increase of $67 million or 6%, due to growth from our diversified businesses and improved equity markets, partially offset by the legal provision and the impact of a divestiture of a non-core business in the prior year. Insurance revenue, net of CCPB, of $145 million increased $12 million or 10% from the prior year due to the drivers noted above.

Non-interest expense of $875 million increased $42 million or 5% and adjusted non-interest expense of $862 million increased $46 million or 6%, largely due to higher revenue-based costs and technology investments.

Assets under management increased $38 billion or 9% from the prior year to $451 billion, driven by market appreciation, growth in client assets, and favourable foreign exchange movements. Assets under administration decreased $71 billion or 15% from the prior year to $395 billion, driven by the impact of a divestiture of a non-core business in the prior year, partially offset by market appreciation, favourable foreign exchange movements and growth in new client assets. Year-over-year loans and deposits grew by 13% and 2%, respectively, as we continue to diversify our product mix.

Q3 2018 vs Q2 2018

Reported net income of $291 million decreased $5 million from the prior quarter and adjusted net income of $301 million decreased $6 million. Traditional wealth reported net income was $202 million compared with $227 million in the prior quarter and adjusted net income was $212 million compared with $238 million in the prior quarter, primarily due to the legal provision, partially offset by the impact of three more days in the current quarter. Insurance net income of $89 million increased $20 million or 27% from the prior quarter, primarily due to favourable market movements in the current quarter compared with unfavourable market movements in the prior quarter.

Revenue, net of CCPB, increased $19 million or 2%. Revenue in traditional wealth decreased $7 million primarily due to the legal provision, partially offset by the impact of three more days in the current quarter. Net insurance revenue increased $26 million or 23%, due to the drivers noted above.

Reported and adjusted non-interest expense both increased $15 million or 2%, primarily due to the impact of three more days in the current quarter.

Assets under management increased $12 billion or 3%, driven by favourable foreign exchange movements and growth in new client assets. Assets under administration increased $8 billion or 2%, mainly due to favourable foreign exchange movements. Quarter-over-quarter loans grew by 5%, while deposits were relatively unchanged.

Q3 YTD 2018 vs Q3 YTD 2017

Reported net income of $853 million increased $61 million or 8% from the prior year and adjusted net income of $884 million increased $41 million or 5%. Traditional wealth reported net income of $613 million increased $76 million or 14% and adjusted net income of $644 million increased $56 million or 10%, due to growth from our diversified businesses and improved equity markets, partially offset by higher expenses. Insurance net income was $240 million compared with $255 million in the prior year, primarily due to higher benefits from market movements in the prior year, partially offset by underlying business growth in the current year.

Revenue, net of CCPB, of $3,763 million increased $198 million or 6%. Revenue in traditional wealth was $3,363 million, an increase of $225 million or 7%, due to growth from our diversified businesses and improved equity markets, partially offset by the impact of a divestiture of a non-core business in the prior year. Net insurance revenue was $400 million compared with $427 million in the prior year, due to the drivers noted above.

Non-interest expense of $2,629 million increased $119 million or 5% and adjusted non-interest expense of $2,590 million increased $142 million or 6%, primarily due to higher revenue-based costs and technology investments, partially offset by the impact of a divestiture of a non-core business in the prior year.

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

BMO Capital Markets

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Net interest income (teb)	**135**	144	219	**512**	918
Non-interest revenue	**968**	897	833	**2,714**	2,536
Total revenue (teb)	**1,103**	1,041	1,052	**3,226**	3,454
Provision for (recovery of) credit losses on impaired loans (1)	**3**	(16)	na	**(14)**	na
Provision for (recovery of) credit losses on performing loans (1)	**4**	3	na	**3**	na
Total provision for (recovery of) credit losses (1)	**7**	(13)	(2)	**(11)**	40
Non-interest expense	**698**	670	691	**2,088**	2,099
Income before income taxes	**398**	384	363	**1,149**	1,315
Provision for income taxes (teb)	**97**	98	82	**291**	356
Reported net income	**301**	286	281	**858**	959
Acquisition integration costs (2)	**2**	-	-	**2**	-
Amortization of acquisition-related intangible assets (3)	**-**	-	1	**-**	2
Adjusted net income	**303**	286	282	**860**	961
Trading Products revenue	**638**	622	604	**1,910**	2,049
Investment and Corporate Banking revenue	**465**	419	448	**1,316**	1,405
Net income growth (%)	**7.0**	(7.9)	(10.1)	**(10.6)**	13.1
Adjusted net income growth (%)	**7.5**	(8.0)	(10.0)	**(10.5)**	13.2
Revenue growth (%)	**4.8**	(12.3)	(2.2)	**(6.6)**	9.9
Non-interest expense growth (%)	**1.1**	(2.3)	11.3	**(0.5)**	9.7
Adjusted non-interest expense growth (%)	**0.8**	(2.2)	11.2	**(0.5)**	9.6
Return on equity (%)	**13.2**	13.4	13.1	**13.1**	15.2
Adjusted return on equity (%)	**13.3**	13.4	13.1	**13.1**	15.2
Operating leverage (%) (teb)	**3.7**	(10.0)	(13.5)	**(6.1)**	0.2
Adjusted operating leverage (%) (teb)	**4.0**	(10.1)	(13.4)	**(6.1)**	0.3
Efficiency ratio (%) (teb)	**63.3**	64.4	65.7	**64.7**	60.8
Adjusted efficiency ratio (%) (teb)	**63.1**	64.4	65.6	**64.7**	60.7
Net interest margin on average earning assets (%) (teb)	**0.19**	0.22	0.33	**0.26**	0.46
Average earning assets	**276,780**	266,948	263,975	**267,657**	265,141
Average assets	**312,369**	302,772	304,015	**303,526**	305,019
Average gross loans and acceptances	**46,653**	46,489	48,730	**46,304**	48,684
Average net loans and acceptances	**46,590**	46,419	48,702	**46,237**	48,657
Average deposits	**139,051**	137,266	141,621	**136,617**	146,426

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 is comprised of specific provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.

(2) KGS-Alpha acquisition integration costs before tax amounts of: $2 million in both Q3-2018 and for YTD-2018 are included in non-interest expense.

(3) Before tax amounts of: $nil in Q3-2018; $1 million in each of Q2-2018 and Q3-2017; $1 million for YTD-2018 and $3 million for YTD-2017 are included in non-interest expense.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.
na – not applicable

Q3 2018 vs Q3 2017

Reported net income of $301 million increased $20 million or 7% and adjusted net income of $303 million increased $21 million or 7% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets and acquisition integration costs. Results reflect stronger revenues across both Trading Products and Investment and Corporate Banking.

Revenue of $1,103 million increased $51 million or 5% from the prior year. Trading Products revenue increased, primarily due to higher trading revenue and securities commissions and fees. Investment and Corporate Banking revenue increased due to growth in underwriting and advisory fees.

Total provision on credit losses was $7 million compared with a net recovery of credit losses of $2 million in the prior year. The provision of credit losses on impaired loans was $3 million compared with a net recovery of $2 million in the prior year. There was a $4 million provision for credit losses on performing loans in the current quarter. Non-interest expense of $698 million increased $7 million or 1% and adjusted non-interest expense of $696 million increased $6 million or 1%.

Q3 2018 vs Q2 2018

Reported net income of $301 million increased $15 million or 5% and adjusted net income of $303 million increased $17 million or 6% from the prior quarter, primarily due to stronger revenues across both Trading Products and Investment and Corporate Banking, partially offset by higher expenses and higher net provisions for credit losses.

Revenue increased $62 million or 6%, or 5% excluding the impact of the stronger U.S. dollar. Investment and Corporate Banking revenue increased, primarily due to higher underwriting and advisory fees and higher corporate banking-related revenue. Trading Products revenue increased due to higher equities and interest rate trading revenue.

Total provision on credit losses was $7 million compared with a net recovery of credit losses of $13 million in the prior quarter. The provision on credit losses on impaired loans was $3 million compared with a net recovery of $16 million in the prior quarter. There was a $4 million provision for credit losses on performing loans compared with a $3 million provision in the prior quarter. Non-interest expense increased $28 million or 4% and adjusted non-interest expense increased $27 million or 4%, or 3% excluding the impact of the stronger U.S. dollar. Adjusted non-interest expense increased primarily due to the impact of three more days in the current quarter and higher performance-based compensation expenses.

Q3 YTD 2018 vs Q3 YTD 2017

Reported and adjusted net income decreased $101 million or 11% from the prior year, or 10% excluding the impact of the weaker U.S. dollar. Adjusted net income decreased due to lower revenue, partially offset by net recoveries of credit losses.

Revenue of $3,226 million decreased $228 million or 7%, or 6% excluding the impact of the weaker U.S. dollar. Trading Products revenue decreased due to lower interest rate and equities trading revenue and lower new equity issuances. In Investment and Corporate Banking, revenue decreased, primarily due to lower investment banking activity.

Total net recovery of credit losses was $11 million compared with total net provision of $40 million in the prior year. The net recovery of credit losses on impaired loans was $14 million compared with net provision of $40 million in the prior year. There was a $3 million provision for credit losses on performing loans in the current year. Non-interest expense of $2,088 million and adjusted non-interest expense of $2,085 million both decreased $11 million or 1%.

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

Corporate Services

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q3-2017	**YTD-2018**	YTD-2017
Net interest income before group teb offset	**(74)**	(70)	(34)	**(191)**	(132)
Group teb offset	**(62)**	(61)	(62)	**(246)**	(391)
Net interest income (teb)	**(136)**	(131)	(96)	**(437)**	(523)
Non-interest revenue	**78**	49	26	**172**	134
Total revenue (teb)	**(58)**	(82)	(70)	**(265)**	(389)
Provision for (recovery of) credit losses on impaired loans (1)	**(2)**	(10)	na	**(12)**	na
Provision for (recovery of) credit losses on performing loans (1)	**-**	1	na	**-**	na
Total provision (recovery) of credit losses (1)	**(2)**	(9)	(73)	**(12)**	(82)
Non-interest expense	**81**	374	101	**595**	422
Loss before income taxes	**(137)**	(447)	(98)	**(848)**	(729)
Provision for (recovery of) income taxes (teb)	**(75)**	(173)	(54)	**9**	(457)
Reported net loss	**(62)**	(274)	(44)	**(857)**	(272)
Acquisition integration costs (2)	**5**	2	13	**10**	40
Restructuring costs (3)	**-**	192	-	**192**	-
U.S. net deferred tax asset revaluation (4)	**-**	-	-	**425**	-
Decrease in the collective allowance for credit losses (5)	**-**	-	(54)	**-**	(54)
Adjusted net loss	**(57)**	(80)	(85)	**(230)**	(286)

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 includes both specific and collective provisions. Refer to the Changes in Accounting Policies section on page 27 for further details.
(2) Acquisition integration costs related to the acquired BMO Transportation Finance business are included in non-interest expense.
(3) In Q2-18, we recorded a restructuring charge of $260 million pre-tax, primarily related to severance, as a result of an ongoing bank-wide initiative to simplify how we work, drive increased efficiency, and invest in technology to move our business forward. Restructuring costs are included in non-interest expense.
(4) Charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*. For more information see the Other Regulatory Developments section on page 28.
(5) In Q3-17, the adjustment to the collective allowance for credit losses before-tax amount of $76 million was excluded from Corporate Services adjusted provision for (recovery of) credit losses.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.
na – not applicable

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

The costs of these Corporate Units and T&O services are largely transferred to the three operating groups (P&C, BMO Wealth Management and BMO Capital Markets), with remaining amounts retained in Corporate Services results. As such, Corporate Services results largely reflect the impact of residual treasury-related activities, the elimination of taxable equivalent adjustments, residual unallocated expenses, certain acquisition integration costs and restructuring costs, as well as the one-time non-cash charge due to the revaluation of our U.S. net deferred tax asset in the first quarter of 2018.

Q3 2018 vs Q3 2017

Corporate Services net loss for the quarter was $62 million compared with a net loss of $44 million in the prior year. Corporate Services adjusted net loss for the quarter was $57 million compared with an adjusted net loss of $85 million in the prior year. Adjusted results exclude acquisition integration costs in both periods, as well as a decrease in the collective allowance of $54 million after-tax in the prior year. Adjusted results increased mainly due to higher revenue excluding the taxable equivalent basis (teb) adjustment, lower expenses and higher credit recoveries. Results benefited from positive items in the current quarter, none of which were individually significant. Reported results were lower due to the decrease in the collective allowance in the prior year, partially offset by the drivers noted above.

Q3 2018 vs Q2 2018

Corporate Services net loss for the quarter was $62 million compared with a net loss of $274 million in the prior quarter. Corporate Services adjusted net loss was $57 million compared with an adjusted net loss of $80 million in the prior quarter. Adjusted results exclude acquisition integration costs in both periods, as well as a $192 million after-tax restructuring charge in the prior quarter. Adjusted results increased due to lower expenses and higher revenue excluding teb. Results benefited from positive items in the current quarter, none of which were individually significant. Reported results increased due to the restructuring charge in the prior quarter and the drivers noted above.

Q3 YTD 2018 vs Q3 YTD 2017

Corporate Services net loss for the year-to-date was $857 million compared with a net loss of $272 million in the prior year. Corporate Services adjusted net loss was $230 million compared with an adjusted net loss of $286 million in the prior year. Adjusted results exclude a one-time non-cash charge due to a revaluation of our U.S. net deferred tax asset and a restructuring charge in the current year, as well as acquisition integration costs in both periods. The prior year also excludes the decrease in the collective allowance. Adjusted results increased primarily due to lower expenses. Reported results decreased due to the U.S. net deferred tax asset revaluation charge and the restructuring charge in the current year, and the decrease in the collective allowance in the prior year, partially offset by the drivers noted above.

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

Summary Quarterly Earnings Trends

(Canadian $ in millions, except as noted)	**Q3-2018**	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Q4-2016
Revenue	**5,820**	5,617	5,678	5,655	5,459	5,741	5,405	5,278
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**269**	332	361	573	253	708	4	79
Revenue, net of CCPB	**5,551**	5,285	5,317	5,082	5,206	5,033	5,401	5,199
Provision for credit losses on impaired loans (1)	**177**	172	174	na	na	na	na	na
Provision for (recovery of) credit losses on performing loans (1)	**9**	(12)	(33)	na	na	na	na	na
Total provision for credit losses (1)	**186**	160	141	202	126	251	167	167
Non-interest expense	**3,386**	3,562	3,441	3,375	3,286	3,284	3,385	3,330
Income before income taxes	**1,979**	1,563	1,735	1,505	1,794	1,498	1,849	1,702
Provision for income taxes	**443**	317	762	278	407	250	361	357
Reported net income (see below)	**1,536**	1,246	973	1,227	1,387	1,248	1,488	1,345
Acquisition integration costs (2)	**7**	2	3	15	13	13	14	21
Amortization of acquisition-related intangible assets (3)	**22**	23	21	26	28	34	28	29
Restructuring costs (4)	**-**	192	-	41	-	-	-	-
Decrease in the collective allowance for credit losses (5)	**-**	-	-	-	(54)	-	-	-
U.S. net deferred tax asset revaluation (6)	**-**	-	425	-	-	-	-	-
Adjusted net income (see below)	**1,565**	1,463	1,422	1,309	1,374	1,295	1,530	1,395
Basic earnings per share ($)	**2.32**	1.86	1.43	1.82	2.05	1.85	2.23	2.03
Diluted earnings per share ($)	**2.31**	1.86	1.43	1.81	2.05	1.84	2.22	2.02
Adjusted diluted earnings per share ($)	**2.36**	2.20	2.12	1.94	2.03	1.92	2.28	2.10

(1) Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. The total provision for credit losses in the periods prior to the first quarter of 2018 includes both specific and collective provisions. Changes in the provision for credit losses on performing loans under this methodology will not be considered an adjusting item. Refer to the Changes in Accounting Policies section on page 27 for further details.

(2) Acquisition integration costs before tax are included in non-interest expense.

(3) Amortization of acquisition-related intangible assets before tax is charged to the non-interest expense of the operating groups.

(4) In Q2-18, we recorded a restructuring charge of $260 million pre-tax, primarily related to severance, as a result of an ongoing bank-wide initiative to simplify how we work, drive increased efficiency, and invest in technology to move our business forward. Restructuring charge pre-tax amount of $59 million in Q4-17. Restructuring costs are included in non-interest expense in Corporate Services.

(5) In Q3-17 the adjustment to the collective allowance for credit losses before-tax amount of $76 million was excluded from the Corporate Services adjusted provision for (recovery of) credit losses.

(6) Charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*. For more information see the Other Regulatory Developments section on page 28.

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

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

na – not applicable

BMO's quarterly earnings trends were reviewed in detail on pages 62 and 63 of BMO's 2017 Annual Report. 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. Quarterly earnings are also impacted by foreign currency translation. The table above outlines summary results for the fourth quarter of fiscal 2016 through the third quarter of fiscal 2018.

Earnings Trends

Reported and adjusted results include elevated reinsurance claims in the fourth quarter of 2017, a gain on the sale of Moneris US, net of a loss on a loan sale in the first quarter of 2017, and a gain on sale of an investment in the fourth quarter of 2016.

Reported results reflect restructuring charges in the second quarter of 2018 and the fourth quarter of 2017, the U.S. net deferred tax asset revaluation in the first quarter of 2018, and a decrease in the collective allowance in the third quarter of 2017.

Canadian P&C delivered positive year-over-year net income growth in seven of the last eight quarters, reflecting revenue growth driven by higher balances and non-interest revenue. U.S. P&C growth largely reflects higher deposit revenue, driven by higher interest rates and steadily growing loan and deposit volumes. Wealth Management's results in 2018 reflect growth in our diversified businesses and improved Canadian and U.S. equity markets. Quarterly insurance results have been subject to variability, resulting primarily from impacts of interest rates, equity markets and reinsurance claims, as well as methodology and actuarial assumption changes. BMO Capital Markets results in the third quarter of 2018 reflect improved performance following the impact of lower underwriting and advisory activity in the first half of the year. Performance in 2017 was good, notwithstanding the impact of tax law changes on certain clients in our equities business. Corporate Services results can vary from quarter to quarter, largely due to the inclusion of adjusting items, which are largely recorded in Corporate Services.

Effective in the first quarter of 2018, the bank prospectively adopted IFRS 9. Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Refer to Note 3 to the unaudited interim consolidated financial statements for an explanation of the provision for credit losses. BMO's provision for credit losses on impaired loans to average net loans and acceptances has been relatively stable, with some quarter-to-quarter variability. As a result of the forward-looking nature of IFRS 9, we anticipate there will be increased variability in the bank's provision for credit losses on performing loans.

The higher reported tax rate in the first quarter of 2018 was due to the one-time non-cash tax charge due to a revaluation of our U.S. net deferred tax asset, resulting from the reduction in the U.S. federal tax rate. The effective income tax rate can vary, as it depends on tax law changes, the timing of resolution of certain tax matters, adjustments of prior periods' income taxes and earnings mix, including the relative proportion of earnings attributable to the different jurisdictions in which we operate and the amount of tax-exempt income from securities.

Adjusted results in this Summary Quarterly Earnings Trends section are non-GAAP amounts or non-GAAP measures. Please see the Non-GAAP Measures section.

Caution

This Summary Quarterly Earnings Trends section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Balance Sheet

Total assets of $765.3 billion as at July 31, 2018 increased $55.7 billion from October 31, 2017. The stronger U.S. dollar increased assets by $2.4 billion, excluding the impact on derivative financial assets.

The following discussion excludes the impact of changes in the U.S. dollar. Securities borrowed or purchased under resale agreements increased $26.3 billion, primarily driven by higher client activity in BMO Capital Markets. Net loans increased $16.2 billion, largely driven by an increase of $10.6 billion in business and government loans, mainly due to U.S. and Canadian commercial loan growth and a $3.4 billion increase in residential mortgages, largely due to the purchase of a mortgage portfolio in U.S. P&C. Cash and cash equivalents and interest bearing deposits with banks increased $9.3 billion, primarily due to higher balances held with central banks. Securities increased $3.5 billion, mainly reflecting treasury activities. Customers' liability under acceptances increased $1.3 billion. All other assets, excluding derivative financial assets, increased $0.8 billion.

Liabilities increased $55.3 billion from October 31, 2017. The stronger U.S. dollar increased liabilities by $2.3 billion, excluding the impact on derivative financial liabilities.

The following discussion excludes the impact of changes in the U.S. dollar. Securities lent or sold under repurchase agreements increased $28.1 billion due to higher client activity in BMO Capital Markets. Deposits increased $25.2 billion, reflecting higher levels of both customer and wholesale deposits, including a $7.6 billion increase in deposits by individuals and a $17.6 billion increase in business and government deposits. Higher business and government deposits are a result of growth in customer balances, as well as treasury funding activities. Customers' liability under acceptances increased $1.3 billion. Subordinated debt increased $0.6 billion, as a result of a new issuance in the first quarter, partially offset by a redemption in the second quarter. All other liabilities, excluding derivative financial liabilities, increased $1.1 billion.

Derivative financial assets decreased $4.1 billion and derivative financial liabilities decreased $3.3 billion, including the impact of changes in the U.S. dollar. The decline was driven by a decrease in the fair value of foreign exchange, interest rate and equity contracts, partially offset by an increase in the fair value of commodity contracts.

Total equity increased $0.4 billion from October 31, 2017. Retained earnings increased $1.2 billion, as a result of net income earned in the current year, partially offset by dividends and common shares repurchased for cancellation. Common Shares declined $0.1 billion due to common shares repurchased for cancellation, partially offset by shares issued under the Stock Option Plan. Accumulated other comprehensive income decreased $0.7 billion, primarily due to the impact of higher interest rates.

Contractual obligations by year of maturity are outlined in Note 14 to the unaudited interim consolidated financial statements.

Transactions with Related Parties

In the ordinary course of business, we provide banking services to our key management personnel on the same terms that we offer to our preferred customers for those services. Key management personnel are defined as those persons having authority and responsibility for planning, directing and/or controlling the activities of an entity, being the directors and most senior executives of the bank. We provide banking services to our joint ventures and equity-accounted investees on the same terms offered to our customers for these services.

The bank's policies and procedures for related party transactions did not materially change from October 31, 2017, as described in Note 28 to the audited consolidated financial statements on page 198 of BMO's 2017 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, structured entities and guarantees, which are described on page 77 of BMO's 2017 Annual Report. We consolidate all of our structured entities, except for our Canadian customer securitization vehicles, structured finance vehicles, certain capital and funding vehicles and various BMO managed and non-managed investment funds. There have been no changes of substance during the quarter ended July 31, 2018.

Accounting Policies and Critical Accounting Estimates

Significant accounting policies are described in our 2017 Annual MD&A and in the notes to our audited consolidated financial statements for the year ended October 31, 2017 and in Note 1 to the unaudited interim consolidated financial statements, together with 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 on pages 113 to 115 and 144 to 147 in BMO's 2017 Annual Report.

Changes in Accounting Policies

Effective November 1, 2017, we prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9), which addressed impairment, classification and measurement, and hedge accounting.

Impairment

IFRS 9 introduces a new single expected credit loss (ECL) impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from our previous approach where the allowance recorded on performing loans was designed to capture only incurred losses, whether or not they have been specifically identified.

Classification and Measurement

IFRS 9 requires that we classify debt instruments based on our business model for managing the assets and the contractual cash flow characteristics of the asset. Equity instruments are measured at fair value through profit and loss unless we elect to measure at fair value through other comprehensive income.

Hedge Accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. Consistent with a policy choice allowed in IFRS 9, we have elected to continue to apply the existing hedge accounting rules.

Note 1 to the unaudited interim consolidated financial statements provides details on the impact of the new standard.

Future Changes in Accounting Policies

BMO monitors the potential changes proposed by the International Accounting Standards Board (IASB), and analyzes the effect that changes in the standards may have on BMO's financial reporting and accounting policies. New standards and amendments to existing standards, which are effective for the bank in the future, can be found on pages 116 to 117 and in Note 1 to the audited annual consolidated financial statements on pages 147 to 148 of BMO's 2017 Annual Report, and in Note 1 to the unaudited interim consolidated financial statements.

Select Financial Instruments

The Financial Stability Board (FSB) issued a report in 2012 encouraging enhanced disclosure related to financial instruments that market participants had come to regard as carrying higher risk. An index of where the disclosures recommended by the Enhanced Disclosure Task Force (EDTF) of the FSB are located is provided on our website at www.bmo.com/investorrelations.

We follow a practice of reporting on significant changes in select financial instruments since year end, if any, in our interim MD&A. There have been no changes of substance from the disclosure on pages 76 to 77 in our 2017 Annual Report.

Other Regulatory Developments

On December 22, 2017, the U.S. *Tax Cuts and Jobs Act* (the Act) was signed into law in the United States. Consequently, effective January 1, 2018, the U.S. federal corporate tax rate was reduced from 35% to 21%. The tax rate change resulted in a one-time non-cash charge to our net income in the first quarter due to the revaluation of our U.S. net deferred tax asset to the lower tax rate. The charge included estimates for certain income tax effects and may be updated in the future. The lower tax rate will be a benefit on BMO's U.S. earnings and we will continue to monitor further guidance related to the Act, including the base broadening measures and possible state tax proposals for their possible impact.

We continue to monitor and prepare for regulatory developments, including those referenced elsewhere in this Report to Shareholders.

For a comprehensive discussion of regulatory developments, see the Enterprise-Wide Capital Management section starting on page 69, the Risks That May Affect Future Results section starting on page 79, the Liquidity and Funding Risk section starting on page 99, and the Legal and Regulatory Risk section starting on page 109 of BMO's 2017 Annual Report.

This Other Regulatory Developments section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements.

Risk Management

Our risk management policies and processes to measure, monitor and control credit and counterparty, market, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social and reputation risk have not changed significantly from those outlined in the Enterprise-Wide Risk Management section on pages 78 to 112 of BMO's 2017 Annual MD&A.

We face common banking information security risks, including the threat of hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption. BMO has conducted a review of the previously announced cyber incident where fraudsters claimed to be in possession of personal and financial information of a limited number of customers. We are committed to protecting customer information and privacy and have worked directly with impacted customers to protect their accounts. Two related class actions have been filed against BMO on behalf of customers who allege their personal information was disclosed as a result of the cyber incident. BMO's operational risk management practices, including with respect to cyber security, are outlined on pages 105 to 107 of BMO's 2017 Annual Report.

Market Risk

BMO's market risk management practices and key measures are outlined on pages 94 to 98 of BMO's 2017 Annual Report.

Linkages between Balance Sheet Items and Market Risk Disclosures

The table below presents items reported in our Consolidated Balance Sheet that are subject to market risk, comprised of balances that are subject to either traded risk or non-traded risk measurement techniques.

Linkages between Balance Sheet Items and Market Risk Disclosures

	As at July 31, 2018				As at October 31, 2017				
		Subject to market risk				Subject to market risk			
(Canadian $ in millions)	**Consolidated Balance Sheet**	**Traded risk (1)**	**Non-traded risk (2)**	**Not subject to market risk**	Consolidated Balance Sheet	Traded risk (1)	Non-traded risk (2)	Not subject to market risk	Main risk factors for non-traded risk balances
Assets Subject to Market Risk									
Cash and cash equivalents	**41,072**	**-**	**41,072**	**-**	32,599	-	32,599	-	Interest rate
Interest bearing deposits with banks	**7,637**	**335**	**7,302**	**-**	6,490	346	6,144	-	Interest rate
Securities	**167,318**	**88,381**	**78,937**	**-**	163,198	90,449	72,749	-	Interest rate, credit spread, equity
Securities borrowed or purchased under resale agreements	**101,679**	**-**	**101,679**	**-**	75,047	-	75,047	-	Interest rate
Loans (net of allowance for credit losses)	**375,761**	**-**	**375,761**	**-**	358,507	-	358,507	-	Interest rate, foreign exchange
Derivative instruments	**24,810**	**22,630**	**2,180**	**-**	28,951	27,359	1,592	-	Interest rate, foreign exchange
Customer's liabilities under acceptances	**17,874**	**-**	**17,874**	**-**	16,546	-	16,546	-	Interest rate
Other assets	**29,167**	**-**	**14,232**	**14,935**	28,242	-	12,927	15,315	Interest rate
Total Assets	**765,318**	**111,346**	**639,037**	**14,935**	709,580	118,154	576,111	15,315	
Liabilities Subject to Market Risk									
Deposits	**506,916**	**14,358**	**492,558**	**-**	479,792	13,674	466,118	-	Interest rate, foreign exchange
Derivative instruments	**24,480**	**22,047**	**2,433**	**-**	27,804	26,122	1,682	-	Interest rate, foreign exchange
Acceptances	**17,874**	**-**	**17,874**	**-**	16,546	-	16,546	-	Interest rate
Securities sold but not yet purchased	**24,409**	**24,409**	**-**	**-**	25,163	25,163	-	-	
Securities lent or sold under repurchase agreements	**83,471**	**-**	**83,471**	**-**	55,119	-	55,119	-	Interest rate
Other liabilities	**57,794**	**-**	**57,680**	**114**	55,773	-	55,415	358	Interest rate
Subordinated debt	**5,618**	**-**	**5,618**	**-**	5,029	-	5,029	-	Interest rate
Total Liabilities	**720,562**	**60,814**	**659,634**	**114**	665,226	64,959	599,909	358	

(1) Primarily comprised of balance sheet items that are subject to the trading and underwriting risk management framework and fair valued through profit or loss.

(2) Primarily comprised of balance sheet items that are subject to the structural balance sheet and insurance risk management framework.

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

Trading and Underwriting Market Risk

The Average Total Trading Value at Risk (VaR) increased $0.7 million from the prior quarter from slightly higher interest rate, commodity and credit risks. The Average Total Trading Stressed VaR also increased quarter-over-quarter primarily from the increases in interest rate and credit risks.

The Average Total Trading VaR increased $2.9 million from the prior year due to higher equity and interest rate risks. The Average Total Trading Stressed VaR increased $6.6 million as a result of a methodology change in 2017, relating to market risk associated with the valuation of uncollateralized derivatives, and increases in interest rate and credit risks.

Total Trading Value at Risk (VaR) and Trading Stressed Value at Risk (SVaR) Summary (1)(2)

	For the quarter ended July 31, 2018				April 30, 2018	July 31, 2017	**YTD-2018**	YTD-2017
(Pre-tax Canadian $ equivalent in millions)	**Quarter-end**	**Average**	**High**	**Low**	Average	Average	**Average**	Average
Commodity VaR	**0.8**	**0.8**	**1.2**	**0.5**	0.5	0.8	**0.6**	0.9
Equity VaR	**3.3**	**5.0**	**6.3**	**3.3**	5.2	3.0	**4.6**	3.2
Foreign exchange VaR	**0.2**	**0.5**	**1.7**	**0.2**	0.6	0.9	**0.6**	0.9
Interest rate VaR	**5.8**	**6.4**	**7.8**	**5.1**	6.0	4.9	**5.9**	6.4
Credit VaR	**2.1**	**2.1**	**2.8**	**1.7**	1.9	2.4	**1.9**	2.2
Diversification	**(6.0)**	**(6.6)**	**nm**	**nm**	(6.7)	(6.7)	**(6.4)**	(7.1)
Total Trading VaR	**6.2**	**8.2**	**10.8**	**6.2**	7.5	5.3	**7.2**	6.5
Total Trading SVaR	**19.2**	**27.4**	**34.2**	**19.2**	23.1	20.8	**24.5**	20.2

(1) One-day measure using a 99% confidence interval. Benefits are presented in brackets and losses are presented as positive numbers.

(2) Stressed VaR is produced weekly and at month end.

nm - not meaningful

Structural (Non-Trading) Market Risk

Structural economic value exposure to rising interest rates and structural economic value benefit to falling interest rates were relatively unchanged over the quarter. Structural earnings benefit to rising interest rates and earnings exposure to falling interest rates increased relative to April 30, 2018, as more net assets are scheduled to reprice over the next 12 months as at July 31, 2018.

Structural Balance Sheet Earnings and Value Sensitivity to Changes in Interest Rates (1)(2)

	Economic value sensitivity (Pre-tax)			Earnings sensitivity over the next 12 months (Pre-tax)		
(Canadian $ equivalent in millions)	**July 31, 2018**	April 30, 2018	July 31, 2017	**July 31, 2018**	April 30, 2018	July 31, 2017
100 basis point increase	**(1,111.6)**	(1,144.3)	(935.9)	**130.4**	107.8	86.1
100 basis point decrease	**557.9**	585.7	267.1	**(335.9)**	(332.4)	(330.2)

(1) Losses are in brackets and benefits are presented as positive numbers.

(2) For BMO's Insurance businesses, a 100 basis point increase in interest rates at July 31, 2018, results in an increase in earnings before tax of $39 million and an increase in economic value before tax of $362 million ($46 million and $371 million, respectively, at April 30, 2018; $58 million and $423 million, respectively, at July 31, 2017). A 100 basis point decrease in interest rates at July 31, 2018, results in a decrease in earnings before tax of $38 million and a decrease in economic value before tax of $448 million ($43 million and $464 million, respectively, at April 30, 2018; $59 million and $515 million, respectively, at July 31, 2017). Insurance earnings are also affected by changes in equity markets. These impacts are not reflected in the table above.

Liquidity and Funding Risk

Liquidity and funding risk is managed under a robust risk management framework. There were no material changes in the framework during the quarter.

BMO's liquid assets are primarily held in our trading businesses, as well as in supplemental liquidity pools that are maintained for contingent liquidity risk management purposes. Liquid assets include unencumbered, high-quality assets that are marketable, can be pledged as security for borrowings, and can be converted to cash in a time frame that meets our liquidity and funding requirements. BMO's liquid assets are summarized in the table below.

In the ordinary course of business, BMO may encumber a portion of cash and securities holdings as collateral in support of trading activities and our participation in clearing and payment systems in Canada and abroad. In addition, BMO may receive liquid assets as collateral and may re-pledge these assets in exchange for cash or as collateral in support of trading activities. Net unencumbered liquid assets, defined as on-balance sheet assets such as BMO-owned cash and securities and securities borrowed or purchased under resale agreements, plus other off-balance sheet eligible collateral received, less collateral encumbered, totalled $226.7 billion at July 31, 2018, compared with $220.0 billion at April 30, 2018. The increase in unencumbered liquid assets was due to higher cash and security balances and the impact of the stronger U.S. dollar. Net unencumbered liquid assets are primarily held at the parent bank level, at BMO Harris Bank, our U.S. bank entity, and in our broker/dealer operations. In addition to liquid assets, BMO has access to the Bank of Canada's lending assistance programs, the Federal Reserve Bank discount window in the United States and European Central Bank standby liquidity facilities. We do not rely on central bank facilities as a source of available liquidity when assessing the strength of BMO's liquidity position.

In addition to cash and securities holdings, BMO may also pledge other assets, including mortgages and loans, to raise long-term secured funding. The Asset Encumbrance table on page 32 provides a summary of total encumbered and unencumbered assets.

Liquid Assets

	As at July 31, 2018					As at April 30, 2018
(Canadian $ in millions)	**Carrying value/on balance sheet assets (1)**	**Other cash & securities received**	**Total gross assets (2)**	**Encumbered assets**	**Net unencumbered assets (3)**	Net unencumbered assets (3)
Cash and cash equivalents	**41,072**	**-**	**41,072**	**1,377**	**39,695**	34,365
Deposits with other banks	**7,637**	**-**	**7,637**	**-**	**7,637**	7,637
Securities and securities borrowed or purchased under resale agreements						
Governments / Central banks / Multilateral development banks (4)	**163,552**	**23,287**	**186,839**	**113,274**	**73,565**	63,424
NHA mortgage-backed securities and US agency mortgage-backed securities & collateralized mortgage obligations	**23,563**	**346**	**23,909**	**5,681**	**18,228**	17,892
Corporate & other debt	**22,165**	**9,719**	**31,884**	**5,408**	**26,476**	25,870
Corporate equity	**59,717**	**20,255**	**79,972**	**44,573**	**35,399**	44,118
Total securities and securities borrowed or purchased under resale agreements	**268,997**	**53,607**	**322,604**	**168,936**	**153,668**	151,304
NHA mortgage-backed securities (reported as loans at amortized cost) (5)	**27,779**	**-**	**27,779**	**2,113**	**25,666**	26,695
Total liquid assets	**345,485**	**53,607**	**399,092**	**172,426**	**226,666**	220,001
Other eligible assets at central banks (not included above) (6)	**66,440**	**-**	**66,440**	**491**	**65,949**	66,141
Undrawn credit lines granted by central banks	**-**	**-**	**-**	**-**	**-**	-
Total liquid assets and other sources	**411,925**	**53,607**	**465,532**	**172,917**	**292,615**	286,142

(1) The carrying values outlined in this table are consistent with the carrying values reported in BMO's balance sheet as at July 31, 2018.

(2) Gross assets include on-balance sheet and off-balance sheet assets.

(3) Net unencumbered liquid assets are defined as on-balance sheet assets, such as BMO-owned cash and securities and securities borrowed or purchased under resale agreements, plus other off-balance sheet eligible collateral received, less encumbered assets.

(4) Includes securities issued or guaranteed by governments, central banks or multilateral developments banks.

(5) Under IFRS, NHA mortgage-backed securities that include mortgages owned by BMO as the underlying collateral are classified as loans. Unencumbered NHA mortgage-backed securities have liquidity value and are included as liquid assets under BMO's Liquidity and Funding Management Framework. This amount is shown as a separate line item, NHA mortgage-backed securities.

(6) Represents loans currently lodged at central banks that could potentially be used to access central bank funding. Loans available for pledging as collateral do not include other sources of additional liquidity that may be realized from the loan portfolio, including incremental securitization, covered bond issuances and Federal Home Loan Bank (FHLB) advances. In July 2018, the Bank of Canada announced that it was increasing the haircuts applied on non-mortgage loans that could be used to access the Bank of Canada's Standing Liquidity Facility effective August 2018, reducing the amount of funds the bank could access from the Bank of Canada in a stress environment. The impact of the change will be reflected in the table in the bank's Q4 financial results. The change does not materially impact the bank.

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

Asset Encumbrance (Canadian $ in millions)

As at July 31, 2018	Total gross assets (1)	Encumbered (2)		Net unencumbered	
		Pledged as collateral	Other encumbered	Other unencumbered (3)	Available as collateral (4)
Cash and deposits with other banks	**48,709**	**-**	**1,377**	**-**	**47,332**
Securities (5)	**350,383**	**144,257**	**26,792**	**10,309**	**169,025**
Loans	**347,982**	**73,564**	**491**	**207,978**	**65,949**
Other assets					
Derivative instruments	**24,810**	**-**	**-**	**24,810**	**-**
Customers' liability under acceptances	**17,874**	**-**	**-**	**17,874**	**-**
Premises and equipment	**1,924**	**-**	**-**	**1,924**	**-**
Goodwill	**6,275**	**-**	**-**	**6,275**	**-**
Intangible assets	**2,207**	**-**	**-**	**2,207**	**-**
Current tax assets	**1,647**	**-**	**-**	**1,647**	**-**
Deferred tax assets	**2,065**	**-**	**-**	**2,065**	**-**
Other assets	**15,049**	**3,316**	**-**	**11,733**	**-**
Total other assets	**71,851**	**3,316**	**-**	**68,535**	**-**
Total assets	**818,925**	**221,137**	**28,660**	**286,822**	**282,306**

As at April 30, 2018	Total gross assets (1)	Encumbered (2)		Net unencumbered	
		Pledged as collateral	Other encumbered	Other unencumbered (3)	Available as collateral (4)
Cash and deposits with other banks	43,559	-	1,557	-	42,002
Securities (5)	341,018	134,937	28,082	10,026	167,973
Loans	339,966	70,848	477	202,500	66,141
Other assets					
Derivative instruments	26,588	-	-	26,588	-
Customers' liability under acceptances	16,385	-	-	16,385	-
Premises and equipment	1,966	-	-	1,966	-
Goodwill	6,263	-	-	6,263	-
Intangible assets	2,190	-	-	2,190	-
Current tax assets	2,108	-	-	2,108	-
Deferred tax assets	2,159	-	-	2,159	-
Other assets	13,389	2,314	-	11,075	-
Total other assets	71,048	2,314	-	68,734	-
Total assets	795,591	208,099	30,116	281,260	276,116

(1) Gross assets include on-balance sheet and off-balance sheet assets.

(2) Pledged as collateral refers to the portion of on-balance sheet assets and other cash and securities that is pledged through repurchase agreements, securities lent, derivative contracts, minimum required deposits at central banks and requirements associated with participation in clearing houses and payment systems. Other encumbered assets include assets that are restricted for legal or other reasons, such as restricted cash and short sales.

(3) Other unencumbered assets include select liquid asset holdings that management believes are not readily available to support BMO's liquidity requirements. These include cash and securities of $10.3 billion as at July 31, 2018, which include securities held at BMO's insurance subsidiary, significant equity investments, and certain investments held at our merchant banking business. Other unencumbered assets also include mortgages and loans that may be securitized to access secured funding.

(4) Loans included as available as collateral represent loans currently lodged at central banks that could potentially be used to access central bank funding. Loans available for pledging as collateral do not include other sources of additional liquidity that may be realized from the loan portfolio, including incremental securitization, covered bond issuances and FHLB advances.

(5) Includes securities, securities borrowed or purchased under resale agreements and NHA mortgage-backed securities (reported as loans at amortized cost).

BMO's Liquidity Coverage Ratio (LCR) is summarized in the following table. The average daily LCR for the quarter ended July 31, 2018 is 146%. The LCR is calculated on a daily basis as the ratio of the stock of High-Quality Liquid Assets (HQLA) to total net stressed cash outflows over the next 30 calendar days. The average LCR ratio is down from 150% last quarter, due to an increase in net cash outflows partially offset by an increase in HQLA. While banks are required to maintain an LCR greater than 100% in normal conditions, banks are also expected to be able to utilize HQLA in a period of stress, which may result in an LCR of less than 100% during that period. BMO's HQLA are primarily comprised of cash, highly-rated debt issued or backed by governments, highly-rated covered bonds and non-financial corporate debt and non-financial equities that are part of a major stock index. Net cash flows include outflows from deposits, secured and unsecured wholesale funding, commitments and potential collateral requirements offset by permitted inflows from loans, securities lending and trading activities and other non-HQLA debt maturing over a 30-day horizon. OSFI prescribed weights are applied to cash flows and HQLA to arrive at the weighted values and the LCR. The LCR is only one measure of a bank's liquidity position and does not fully capture all of the bank's liquid assets or the funding alternatives that may be available in a period of stress. BMO's total liquid assets are shown in the Liquid Assets table on page 31.

Additional information on Liquidity and Funding Risk Governance can be found starting on page 99 of BMO's 2017 Annual Report.

Liquidity Coverage Ratio

(Canadian $ in billions, except as noted) For the quarter ended July 31, 2018	Total unweighted value (average) (1) (2)	Total weighted value (average) (2) (3)
High-Quality Liquid Assets		
Total high-quality liquid assets (HQLA)	*	**146.9**
Cash Outflows		
Retail deposits and deposits from small business customers, of which:	**167.1**	**10.3**
Stable deposits	**91.2**	**2.7**
Less stable deposits	**75.9**	**7.6**
Unsecured wholesale funding, of which:	**147.3**	**81.5**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**57.6**	**14.3**
Non-operational deposits (all counterparties)	**59.5**	**37.0**
Unsecured debt	**30.2**	**30.2**
Secured wholesale funding	*	**19.5**
Additional requirements, of which:	**130.2**	**28.8**
Outflows related to derivatives exposures and other collateral requirements	**8.4**	**4.5**
Outflows related to loss of funding on debt products	**2.4**	**2.4**
Credit and liquidity facilities	**119.4**	**21.9**
Other contractual funding obligations	**0.8**	**-**
Other contingent funding obligations	**380.4**	**6.6**
Total cash outflows	*	**146.7**
Cash Inflows		
Secured lending (e.g. reverse repos)	**134.5**	**21.4**
Inflows from fully performing exposures	**9.1**	**5.5**
Other cash inflows	**18.8**	**18.8**
Total cash inflows	**162.4**	**45.7**

	Total adjusted value (4)
Total HQLA	**146.9**
Total net cash outflows	**101.0**
Liquidity Coverage Ratio (%) (2)	**146**

For the quarter ended April 30, 2018	Total adjusted value (4)
Total HQLA	140.2
Total net cash outflows	93.9
Liquidity Coverage Ratio (%)	150

* Disclosure is not required under the LCR disclosure standard.
(1) Unweighted values are calculated at market value (for HQLA) or as outstanding balances maturing or callable within 30 days (for inflows and outflows).
(2) Values are calculated based on the simple average of the daily LCR over 64 business days in the third quarter of 2018.
(3) Weighted values are calculated after the application of the weights prescribed under the OSFI Liquidity Adequacy Requirements (LAR) Guideline for HQLA and cash inflows and outflows.
(4) Adjusted values are calculated based on total weighted values after applicable caps as defined by the LAR Guideline.

Funding Strategy

Our funding philosophy requires that secured and unsecured wholesale funding used to support loans and less liquid assets must be of a term (typically maturing in two to ten years) which will support the effective term to maturity of these assets. Wholesale secured and unsecured funding for liquid trading assets is largely shorter term (maturing in one year or less), is aligned with the liquidity of the assets being funded, and is subject to limits on aggregate maturities that are permitted across different time periods. Supplemental liquidity pools are funded largely with wholesale term funding.

BMO maintains a large and stable base of customer deposits that, in combination with our strong capital base, is a source of strength. It supports the maintenance of a sound liquidity position and reduces our reliance on wholesale funding. Customer deposits totalled $317.8 billion at July 31, 2018, up from $310.0 billion at April 30, 2018. The increase in customer deposits was due to deposit growth and the impact of the stronger U.S. dollar. BMO also receives non-marketable deposits from corporate and institutional customers in support of certain trading activities. These deposits totalled $31.3 billion as at July 31, 2018.

Total wholesale funding outstanding, largely consisting of negotiable marketable securities, was $195.8 billion at July 31, 2018, with $62.2 billion sourced as secured funding and $133.6 billion as unsecured funding. Wholesale funding outstanding increased from $184.2 billion at April 30, 2018 primarily due to wholesale funding issuances. The mix and maturities of BMO's wholesale term funding are outlined in the following table. Additional information on deposit maturities can be found in Note 14 of the unaudited interim consolidated financial statements. BMO maintains a sizeable portfolio of unencumbered liquid assets, totalling $226.7 billion as at July 31, 2018, that can be monetized to meet potential funding requirements, as described on page 31.

Diversification of our wholesale funding sources is an important part of our overall liquidity management strategy. BMO's wholesale funding activities are well-diversified by jurisdiction, currency, investor segment, instrument and maturity profile. BMO maintains ready access to long-term wholesale funding through various borrowing programs, including a European Note Issuance Program, Canadian, Australian and U.S. Medium-Term Note programs, Canadian and U.S. mortgage securitizations, Canadian credit card, auto and home equity line of credit (HELOC) securitizations, covered bonds and Canadian and U.S. senior unsecured deposits.

BMO's wholesale funding plan seeks to ensure sufficient funding capacity is available to execute business strategies. The funding plan considers expected maturities, as well as asset and liability growth projected for our businesses in our forecasting and planning process, and assesses funding needs in relation to the funding sources available. The funding plan is reviewed annually by the Balance Sheet and Capital Management Committee and Risk Management Committee and approved by the Risk Review Committee, and is regularly updated to reflect actual results and incorporate updated forecast information. BMO does not expect a material impact to its funding plan as a result of Canada's bail-in regime and TLAC requirements. For more information on Canada's bail-in regime and TLAC requirements please see Regulatory Developments under Capital Management on page 13.

Wholesale Funding Maturities (Canadian $ in millions) (1)

As at July 31, 2018	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Subtotal less than 1 year	1 to 2 years	Over 2 years	Total (As at July 31, 2018)	Total (As at April 30, 2018)
Deposits from banks	**5,127**	**98**	**80**	**47**	**5,352**	**-**	**9**	**5,361**	5,036
Certificates of deposit and commercial paper	**14,926**	**18,343**	**15,402**	**12,106**	**60,777**	**1,133**	**-**	**61,910**	59,240
Bearer deposit notes	**1,113**	**676**	**139**	**25**	**1,953**	**-**	**-**	**1,953**	824
Asset-backed commercial paper (ABCP)	**1,182**	**2,213**	**479**	**-**	**3,874**	**-**	**-**	**3,874**	4,131
Senior unsecured medium-term notes	**1,300**	**1,510**	**1,300**	**4,833**	**8,943**	**12,355**	**33,772**	**55,070**	48,670
Senior unsecured structured notes (2)	**-**	**-**	**-**	**-**	**-**	**6**	**3,564**	**3,570**	3,424
Covered bonds and securitizations									
Mortgage and HELOC securitizations	**-**	**557**	**993**	**973**	**2,523**	**2,798**	**12,642**	**17,963**	17,818
Covered bonds	**-**	**-**	**2,280**	**1,520**	**3,800**	**3,645**	**18,134**	**25,579**	25,957
Other asset-backed securitizations (3)	**-**	**77**	**1,058**	**47**	**1,182**	**1,298**	**3,152**	**5,632**	5,800
Subordinated debt (4)	**-**	**-**	**-**	**-**	**-**	**-**	**5,757**	**5,757**	5,626
Other (5)	**-**	**4,908**	**-**	**-**	**4,908**	**-**	**4,239**	**9,147**	7,673
Total	**23,648**	**28,382**	**21,731**	**19,551**	**93,312**	**21,235**	**81,269**	**195,816**	184,199
Of which:									
Secured	**1,182**	**7,755**	**4,810**	**2,540**	**16,287**	**7,741**	**38,167**	**62,195**	61,379
Unsecured	**22,466**	**20,627**	**16,921**	**17,011**	**77,025**	**13,494**	**43,102**	**133,621**	122,820
Total (6)	**23,648**	**28,382**	**21,731**	**19,551**	**93,312**	**21,235**	**81,269**	**195,816**	184,199

(1) Wholesale unsecured funding primarily includes funding raised through the issuance of marketable, negotiable instruments. Wholesale funding excludes repo transactions and bankers' acceptances, which are disclosed in the contractual maturity table in Note 14 to the unaudited interim consolidated financial statements, and excludes ABCP issued by certain ABCP conduits that is not consolidated for financial reporting purposes.

(2) Primarily issued to institutional investors.

(3) Includes credit card and auto securitizations.

(4) Includes certain subordinated debt instruments reported as deposits or other liabilities for accounting purposes. Subordinated debt is reported in this table in accordance with recommended Enhanced Disclosure Task Force disclosures.

(5) Refers to FHLB advances.

(6) Total wholesale funding consists of Canadian-dollar-denominated funding of $48.8 billion and U.S.-dollar and other foreign-denominated funding of $147.0 billion as at July 31, 2018.

Regulatory Developments

The Net Stable Funding Ratio (NSFR) is a regulatory liquidity metric that assesses the stability of a bank's funding profile in relation to the liquidity value of the bank's assets. In February 2018, OSFI announced that it will target a revised NSFR implementation date for Canadian deposit-taking institutions of January 2020, given progress made on implementation at the international level.

Credit Rating

The credit ratings assigned to BMO's short-term and senior long-term 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 capital markets at competitive pricing levels. Should our credit ratings experience a downgrade, our cost of funding would likely increase and our access to funding and capital through capital markets could be reduced. A material downgrade of our ratings could also have other consequences, including those set out in Note 8 starting on page 159 of BMO's 2017 Annual Report. The credit ratings assigned to BMO's senior debt by rating agencies continue to be indicative of high-grade, high-quality issues.

On August 14, 2018, S&P revised upwards its stand-alone credit profile on BMO from 'a-' to 'a', reflecting a move up in BMO's risk position in S&P's assessment. S&P affirmed its 'A+/A-1' long and short-term issuer credit ratings on BMO and its operating subsidiaries, and the outlook remains stable. At the same time, S&P raised its ratings on BMO's subordinated debt and additional Tier 1 instruments by one notch, reflecting improvements in the entity's stand-alone creditworthiness.

On July 16, 2018, Moody's took various rating actions related to Canadian banks, including an upgrade to the ratings for BMO's senior unsecured debt and junior subordinated bank debt (NVCC). Moody's also changed the outlook to stable from negative. The rating actions followed the introduction of a bank resolution framework in Canada.

As at July 31, 2018

Rating agency(1)	Short-term debt	Senior long-term debt	Subordinated debt – NVCC	Outlook
Moody's	P-1	Aa2	Baa1	Stable
S&P(2)	A-1	A+	BBB+	Stable
Fitch	F1+	AA-	A+	Stable
DBRS	R-1 (high)	AA	A (low)	Stable

(1) Canada's bail-in regime will be effective on September 23, 2018. Bail-in eligible senior debt will be assigned ratings when issued. For more information on Canada's bail-in regime, see the Capital Management – Regulatory Developments section on page 13.

(2) On August 14, 2018, S&P upgraded the ratings on BMO's Subordinated debt (NVCC) to BBB+ from BBB.

We are required to deliver collateral to certain counterparties in the event of a downgrade to our current credit rating. The incremental collateral required is based on mark-to-market exposure, collateral valuations, and collateral threshold arrangements, as applicable. As at July 31, 2018, the bank would be required to provide additional collateral to counterparties totalling $110 million, $528 million and $834 million under a one-notch, two-notch and three-notch downgrade, respectively.

European Exposures

BMO's European exposures were disclosed and discussed on pages 92 and 93 of BMO's 2017 Annual Report. Our exposure to European countries, as at July 31, 2018, is set out in the tables that follow. Our net portfolio exposures are summarized in the below tables for funded lending, securities (inclusive of credit default swaps (CDS) activity), repo-style transactions and derivatives.

European Exposure by Country and Counterparty (1) (Canadian $ in millions)

As at July 31, 2018

	Funded lending (2)	Securities (3)(4)				Repo-style transactions and derivatives (5)(6)				
Country	Total	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	Total Net Exposure
GIIPS										
Greece	-	-	-	-	-	-	-	-	-	-
Ireland (7)	4	-	-	-	-	-	23	-	23	27
Italy	18	-	-	-	-	3	-	-	3	21
Portugal	-	-	-	-	-	-	-	-	-	-
Spain	129	3	3	-	6	1	-	-	1	136
Total – GIIPS	**151**	**3**	**3**	**-**	**6**	**4**	**23**	**-**	**27**	**184**
Eurozone (excluding GIIPS)										
France	135	147	7	119	273	33	7	15	55	463
Germany	342	20	55	5,061	5,136	19	4	1	24	5,502
Netherlands	359	130	-	-	130	4	41	-	45	534
Other (8)	166	12	2	148	162	1	83	12	96	424
Total – Eurozone (excluding GIIPS)	**1,002**	**309**	**64**	**5,328**	**5,701**	**57**	**135**	**28**	**220**	**6,923**
Rest of Europe										
Norway	295	108	1	-	109	-	2	-	2	406
Sweden	20	170	7	261	438	2	-	-	2	460
Switzerland	249	5	-	-	5	53	9	23	85	339
United Kingdom	1,087	27	692	3,523	4,242	91	179	14	284	5,613
Other (8)	32	199	-	-	199	2	-	3	5	236
Total – Rest of Europe	**1,683**	**509**	**700**	**3,784**	**4,993**	**148**	**190**	**40**	**378**	**7,054**
Total – All of Europe (9)	**2,836**	**821**	**767**	**9,112**	**10,700**	**209**	**348**	**68**	**625**	**14,161**

As at April 30, 2018

	Funded lending (2)	Securities (3)				Repo-style transactions and derivatives (5)(6)				
Country	Total	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	Total Net Exposure
Total – GIIPS	184	1	-	-	1	17	47	-	64	249
Total – Eurozone (excluding GIIPS)	991	318	84	5,539	5,941	120	157	38	315	7,247
Total – Rest of Europe	2,502	686	76	3,494	4,256	246	140	69	455	7,213
Total – All of Europe (9)	3,677	1,005	160	9,033	10,198	383	344	107	834	14,709

As at October 31, 2017

	Funded lending (2)	Securities (3)				Repo-style transactions and derivatives (5)(6)				
Country	Total	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	Total Net Exposure
Total – GIIPS	151	-	1	-	1	19	46	-	65	217
Total – Eurozone (excluding GIIPS)	1,120	247	133	1,188	1,568	84	85	28	197	2,885
Total – Rest of Europe	2,081	479	77	572	1,128	243	63	13	319	3,528
Total – All of Europe (9)	3,352	726	211	1,760	2,697	346	194	41	581	6,630

Refer to footnotes in the following table.

European Lending Exposure by Country and Counterparty (1) (Canadian $ in millions)

	Lending (2)								
	Funded lending as at July 31, 2018			As at July 31, 2018		As at April 30, 2018		As at October 31, 2017	
Country	Bank	Corporate	Sovereign	Commitments	Funded	Commitments	Funded	Commitments	Funded
GIIPS									
Greece	-	-	-	-	-	-	-	-	-
Ireland (7)	-	4	-	5	4	8	7	103	6
Italy	8	10	-	18	18	1	1	27	27
Portugal	-	-	-	-	-	-	-	-	-
Spain	123	6	-	146	129	192	176	149	118
Total – GIIPS	**131**	**20**	**-**	**169**	**151**	201	184	279	151
Eurozone (excluding GIIPS)									
France	135	-	-	186	135	167	121	152	107
Germany	187	155	-	415	342	386	310	488	358
Netherlands	111	248	-	468	359	529	397	756	554
Other (8)	101	65	-	287	166	407	163	247	101
Total – Eurozone (excluding GIIPS)	**534**	**468**	**-**	**1,356**	**1,002**	1,489	991	1,643	1,120
Rest of Europe									
Norway	46	249	-	543	295	515	252	287	153
Sweden	14	6	-	289	20	179	39	195	49
Switzerland	34	215	-	322	249	385	289	156	99
United Kingdom	5	1,082	-	1,748	1,087	2,479	1,899	2,285	1,746
Other (8)	7	25	-	149	32	58	23	66	34
Total – Rest of Europe	**106**	**1,577**	**-**	**3,051**	**1,683**	3,616	2,502	2,989	2,081
Total – All of Europe (9)	**771**	**2,065**	**-**	**4,576**	**2,836**	5,306	3,677	4,911	3,352

(1) BMO has the following indirect exposures to Europe as at July 31, 2018:
– Collateral of €769 million to support trading activity in securities (€17 million from GIIPS) and €127 million of cash collateral held.
– Guarantees of $2.3 billion ($58 million to GIIPS).

(2) Funded lending includes loans.

(3) Securities include cash products, insurance investments and traded credit.

(4) BMO's total net notional CDS exposure (embedded as part of the securities exposure in this table) to Europe was $176 million, with no net single-name* CDS exposure to GIIPS countries as at July 31, 2018 (*includes a net position of $123 million (bought protection) on a CDS Index, of which 19% is comprised of GIIPS domiciled entities).

(5) Repo-style transactions are primarily with bank counterparties for which BMO holds collateral ($25 billion for Europe as at July 31, 2018).

(6) Derivatives amounts are marked-to-market, incorporating transaction netting where master netting agreements with counterparties have been entered into, and collateral offsets for counterparties where a Credit Support Annex is in effect.

(7) Does not include Irish subsidiary reserves we are required to maintain with the Irish Central Bank of $15 million as at July 31, 2018.

(8) Other Eurozone exposure includes 6 countries with less than $300 million net exposure. Other European exposure is distributed across 5 countries, with no exposure to the Russian Federation as at July 31, 2018.

(9) Of our total net direct exposure to Europe, approximately 54% was to counterparties in countries with a rating of Aaa/AAA from at least one of Moody's and S&P.

Caution

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

Consolidated Statement of Income

(Unaudited) (Canadian $ in millions, except as noted)	For the three months ended			For the nine months ended	
	July 31, 2018	April 30, 2018	July 31, 2017	**July 31, 2018**	July 31, 2017
Interest, Dividend and Fee Income					
Loans	**$ 4,246**	$ 3,838	$ 3,439	**$ 11,789**	$ 9,981
Securities (Note 2)	**686**	567	472	**1,789**	1,336
Deposits with banks	**161**	152	92	**435**	218
	5,093	4,557	4,003	**14,013**	11,535
Interest Expense					
Deposits	**1,626**	1,372	986	**4,199**	2,793
Subordinated debt	**55**	57	38	**165**	112
Other liabilities	**805**	637	446	**2,005**	1,158
	2,486	2,066	1,470	**6,369**	4,063
Net Interest Income	**2,607**	2,491	2,533	**7,644**	7,472
Non-Interest Revenue					
Securities commissions and fees	**259**	251	240	**772**	735
Deposit and payment service charges	**294**	279	286	**852**	841
Trading revenues	**503**	433	376	**1,353**	1,050
Lending fees	**248**	236	238	**731**	687
Card fees	**144**	149	129	**421**	347
Investment management and custodial fees	**446**	435	404	**1,304**	1,206
Mutual fund revenues	**372**	376	360	**1,114**	1,057
Underwriting and advisory fees	**262**	213	226	**694**	785
Securities gains, other than trading	**51**	38	43	**156**	130
Foreign exchange, other than trading	**41**	63	29	**140**	131
Insurance revenue	**427**	460	401	**1,394**	1,441
Investments in associates and joint ventures	**44**	41	58	**129**	339
Other	**122**	152	136	**411**	384
	3,213	3,126	2,926	**9,471**	9,133
Total Revenue	**5,820**	5,617	5,459	**17,115**	16,605
Provision for Credit Losses (Notes 1, 3)	**186**	160	126	**487**	544
Insurance Claims, Commissions and Changes in Policy Benefit Liabilities	**269**	332	253	**962**	965
Non-Interest Expense					
Employee compensation	**1,873**	2,011	1,864	**5,847**	5,625
Premises and equipment	**672**	672	605	**2,008**	1,863
Amortization of intangible assets	**126**	129	117	**378**	358
Travel and business development	**157**	173	170	**487**	510
Communications	**70**	75	74	**212**	217
Business and capital taxes	**11**	9	9	**30**	28
Professional fees	**142**	141	139	**406**	391
Other	**335**	352	308	**1,021**	963
	3,386	3,562	3,286	**10,389**	9,955
Income Before Provision for Income Taxes	**1,979**	1,563	1,794	**5,277**	5,141
Provision for income taxes (Note 12)	**443**	317	407	**1,522**	1,018
Net Income	**$ 1,536**	$ 1,246	$ 1,387	**$ 3,755**	$ 4,123
Attributable to:					
Bank shareholders	**1,536**	1,246	1,387	**3,755**	4,121
Non-controlling interest in subsidiaries	**-**	-	-	**-**	2
Net Income	**$ 1,536**	$ 1,246	$ 1,387	**$ 3,755**	$ 4,123
Earnings Per Share (Canadian $) (Note 11)					
Basic	**$ 2.32**	$ 1.86	$ 2.05	**$ 5.61**	$ 6.13
Diluted	**2.31**	1.86	2.05	**5.59**	6.11
Dividends per common share	**0.96**	0.93	0.90	**2.82**	2.66

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.

Consolidated Statement of Comprehensive Income

(Unaudited) (Canadian $ in millions)	For the three months ended			For the nine months ended	
	July 31, 2018	April 30, 2018	July 31, 2017	**July 31, 2018**	July 31, 2017
Net Income	**$ 1,536**	$ 1,246	$ 1,387	**$ 3,755**	$ 4,123
Other Comprehensive Income (Loss), net of taxes					
Items that may be subsequently reclassified to net income					
Net change in unrealized gains (losses) on fair value through OCI securities (1)					
Unrealized gains (losses) on fair value through OCI securities arising during the period (2)	**16**	(105)	na	**(202)**	na
Unrealized gains on available-for-sale securities arising during the period (3)	**na**	na	9	**na**	68
Reclassification to earnings of (gains) in the period (4)	**(7)**	(23)	(28)	**(43)**	(70)
	9	(128)	(19)	**(245)**	(2)
Net change in unrealized (losses) on cash flow hedges					
(Losses) on cash flow hedges arising during the period (5)	**(218)**	(106)	(369)	**(919)**	(812)
Reclassification to earnings of losses on cash flow hedges (6)	**101**	84	3	**216**	25
	(117)	(22)	(366)	**(703)**	(787)
Net gains (losses) on translation of net foreign operations					
Unrealized gains (losses) on translation of net foreign operations	**145**	1,059	(2,410)	**114**	(1,837)
Unrealized gains (losses) on hedges of net foreign operations (7)	**(43)**	(181)	252	**(93)**	161
	102	878	(2,158)	**21**	(1,676)
Items that will not be reclassified to net income					
Gains on remeasurement of pension and other employee future benefit plans (8)	**204**	27	172	**303**	317
Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value (9)	**26**	42	42	**(6)**	(116)
	230	69	214	**297**	201
Other Comprehensive Income (Loss), net of taxes	**224**	797	(2,329)	**(630)**	(2,264)
Total Comprehensive Income (Loss)	**$ 1,760**	$ 2,043	$ (942)	**$ 3,125**	$ 1,859
Attributable to:					
Bank shareholders	**1,760**	2,043	(942)	**3,125**	1,857
Non-controlling interest in subsidiaries	**-**	-	-	**-**	2
Total Comprehensive Income (Loss)	**$ 1,760**	$ 2,043	$ (942)	**$ 3,125**	$ 1,859

(1) Periods reported before November 1, 2017 represent available-for-sale securities (Note 1).
(2) Net of income tax (provision) recovery of $(7) million, $30 million, na for the three months ended, and $47 million, na for the nine months ended, respectively (Note 12).
(3) Net of income tax (provision) of na, na, $(6) million for the three months ended, and na, $(20) million for the nine months ended, respectively.
(4) Net of income tax provision of $3 million, $8 million, $10 million for the three months ended, and $15 million, $28 million for the nine months ended, respectively.
(5) Net of income tax recovery of $78 million, $39 million, $126 million for the three months ended, and $318 million, $307 million for the nine months ended, respectively (Note 12).
(6) Net of income tax (recovery) of $(37) million, $(30) million, $(1) million for the three months ended, and $(78) million, $(8) million for the nine months ended, respectively.
(7) Net of income tax (provision) recovery of $16 million, $65 million, $(91) million for the three months ended, and $34 million, $(58) million for the nine months ended, respectively.
(8) Net of income tax (provision) of $(74) million, $(10) million, $(65) million for the three months ended, and $(134) million, $(128) million for the nine months ended, respectively (Note 12).
(9) Net of income tax (provision) recovery of $(12) million, $(15) million, $(16) million for the three months ended, and $(1) million, $41 million for the nine months ended, respectively.

na – Not applicable due to IFRS 9 adoption.

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

Consolidated Balance Sheet

(Unaudited) (Canadian $ in millions)	As at		
	July 31, 2018	April 30, 2018	October 31, 2017
Assets			
Cash and Cash Equivalents	**$ 41,072**	$ 35,922	$ 32,599
Interest Bearing Deposits with Banks	**7,637**	7,637	6,490
Securities (Note 2)	**167,318**	165,380	163,198
Securities Borrowed or Purchased Under Resale Agreements	**101,679**	94,681	75,047
Loans			
Residential mortgages	**118,736**	117,770	115,258
Consumer instalment and other personal	**62,485**	61,733	61,944
Credit cards	**8,236**	8,175	8,071
Business and government	**187,964**	182,870	175,067
	377,421	370,548	360,340
Allowance for credit losses (Notes 1, 3)	**(1,660)**	(1,647)	(1,833)
	375,761	368,901	358,507
Other Assets			
Derivative instruments	**24,810**	26,588	28,951
Customers' liability under acceptances	**17,874**	16,385	16,546
Premises and equipment	**1,924**	1,966	2,033
Goodwill	**6,275**	6,263	6,244
Intangible assets	**2,207**	2,190	2,159
Current tax assets	**1,647**	2,108	1,371
Deferred tax assets (Note 12)	**2,065**	2,159	2,865
Other	**15,049**	13,389	13,570
	71,851	71,048	73,739
Total Assets	**$ 765,318**	$ 743,569	$ 709,580
Liabilities and Equity			
Deposits (Note 6)	**$ 506,916**	$ 491,198	$ 479,792
Other Liabilities			
Derivative instruments	**24,480**	24,770	27,804
Acceptances	**17,874**	16,385	16,546
Securities sold but not yet purchased	**24,409**	25,414	25,163
Securities lent or sold under repurchase agreements	**83,471**	78,782	55,119
Securitization and structured entities' liabilities	**23,545**	23,565	23,054
Current tax liabilities	**48**	47	125
Deferred tax liabilities	**66**	185	233
Other	**34,135**	33,850	32,361
	208,028	202,998	180,405
Subordinated Debt (Note 6)	**5,618**	5,627	5,029
Equity			
Preferred shares (Note 7)	**4,240**	4,240	4,240
Common shares (Note 7)	**12,924**	12,926	13,032
Contributed surplus	**302**	304	307
Retained earnings (Note 1)	**24,909**	24,119	23,709
Accumulated other comprehensive income	**2,381**	2,157	3,066
Total shareholders' equity	**44,756**	43,746	44,354
Non-controlling interest in subsidiaries	**-**	-	-
Total Equity	**44,756**	43,746	44,354
Total Liabilities and Equity	**$ 765,318**	$ 743,569	$ 709,580

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

Consolidated Statement of Changes in Equity

(Unaudited) (Canadian $ in millions)	For the three months ended		For the nine months ended	
	July 31, 2018	July 31, 2017	**July 31, 2018**	July 31, 2017
Preferred Shares (Note 7)				
Balance at beginning of period	**$ 4,240**	$ 4,340	**$ 4,240**	$ 3,840
Issued during the period	**-**	400	**-**	900
Redeemed during the period	**-**	(500)	**-**	(500)
Balance at End of Period	**4,240**	4,240	**4,240**	4,240
Common Shares (Note 7)				
Balance at beginning of period	**12,926**	13,072	**13,032**	12,539
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	**-**	47	**-**	448
Issued under the Stock Option Plan	**18**	5	**73**	137
Repurchased for cancellation (Note 7)	**(20)**	(80)	**(181)**	(80)
Balance at End of Period	**12,924**	13,044	**12,924**	13,044
Contributed Surplus				
Balance at beginning of period	**304**	307	**307**	294
Issuance of stock options, net of options exercised	**(1)**	(2)	**(10)**	4
Other	**(1)**	-	**5**	7
Balance at End of Period	**302**	305	**302**	305
Retained Earnings				
Balance at beginning of period	**24,119**	22,703	**23,709**	21,205
Impact from adopting IFRS 9 (Note 1)	**-**	na	**99**	na
Net income attributable to bank shareholders	**1,536**	1,387	**3,755**	4,121
Dividends – Preferred shares	**(50)**	(49)	**(141)**	(136)
– Common shares	**(614)**	(584)	**(1,810)**	(1,729)
Share issue expense	**-**	(5)	**-**	(9)
Common shares repurchased for cancellation (Note 7)	**(82)**	(269)	**(703)**	(269)
Balance at End of Period	**24,909**	23,183	**24,909**	23,183
Accumulated Other Comprehensive Income (Loss) on Fair Value through OCI Securities, net of taxes (1)				
Balance at beginning of period	**(253)**	65	**56**	48
Impact from adopting IFRS 9 (Note 1)	**-**	na	**(55)**	na
Unrealized gains (losses) on fair value through OCI securities arising during the period	**16**	na	**(202)**	na
Unrealized gains on available-for-sale securities arising during the period	**na**	9	**na**	68
Reclassification to earnings of (gains) in the period	**(7)**	(28)	**(43)**	(70)
Balance at End of Period	**(244)**	46	**(244)**	46
Accumulated Other Comprehensive (Loss) on Cash Flow Hedges, net of taxes				
Balance at beginning of period	**(768)**	175	**(182)**	596
(Losses) on cash flow hedges arising during the period	**(218)**	(369)	**(919)**	(812)
Reclassification to earnings of losses in the period	**101**	3	**216**	25
Balance at End of Period	**(885)**	(191)	**(885)**	(191)
Accumulated Other Comprehensive Income on Translation of Net Foreign Operations, net of taxes				
Balance at beginning of period	**3,384**	4,809	**3,465**	4,327
Unrealized gains (losses) on translation of net foreign operations	**145**	(2,410)	**114**	(1,837)
Unrealized gains (losses) on hedges of net foreign operations	**(43)**	252	**(93)**	161
Balance at End of Period	**3,486**	2,651	**3,486**	2,651
Accumulated Other Comprehensive Income (Loss) on Pension and Other Employee Future Benefit Plans, net of taxes				
Balance at beginning of period	**7**	(367)	**(92)**	(512)
Gains on remeasurement of pension and other employee future benefit plans	**204**	172	**303**	317
Balance at End of Period	**211**	(195)	**211**	(195)
Accumulated Other Comprehensive (Loss) on Own Credit Risk on Financial Liabilities Designated at Fair Value, net of taxes				
Balance at beginning of period	**(213)**	(191)	**(181)**	(33)
Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value	**26**	42	**(6)**	(116)
Balance at End of Period	**(187)**	(149)	**(187)**	(149)
Total Accumulated Other Comprehensive Income	**2,381**	2,162	**2,381**	2,162
Total Shareholders' Equity	**$ 44,756**	$ 42,934	**$ 44,756**	$ 42,934
Non-controlling Interest in Subsidiaries				
Balance at beginning of period	**-**	-	**-**	24
Net income attributable to non-controlling interest	**-**	-	**-**	2
Redemption/purchase of non-controlling interest	**-**	-	**-**	(25)
Other	**-**	-	**-**	(1)
Balance at End of Period	**-**	-	**-**	-
Total Equity	**$ 44,756**	$ 42,934	**$ 44,756**	$ 42,934

(1) Periods reported before November 1, 2017 represent available-for-sale securities (Note 1).

na – Not applicable due to IFRS 9 adoption.

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, 2018	July 31, 2017	**July 31, 2018**	July 31, 2017
Cash Flows from Operating Activities				
Net Income	**$ 1,536**	$ 1,387	**$ 3,755**	$ 4,123
Adjustments to determine net cash flows provided by (used in) operating activities				
Provision on securities, other than trading	**(1)**	8	**14**	17
Net (gain) on securities, other than trading	**(50)**	(51)	**(170)**	(147)
Net (increase) decrease in trading securities	**830**	(7,070)	**2,626**	(13,626)
Provision for credit losses (Note 3)	**186**	126	**487**	544
Change in derivative instruments – (increase) decrease in derivative asset	**2,233**	(643)	**6,824**	8,528
– increase (decrease) in derivative liability	**(1,380)**	3,320	**(6,213)**	(4,763)
Amortization of premises and equipment	**100**	95	**295**	287
Amortization of other assets	**54**	59	**171**	173
Amortization of intangible assets	**126**	117	**378**	358
Net decrease in deferred income tax asset	**107**	182	**793**	156
Net increase (decrease) in deferred income tax liability	**43**	(7)	**(7)**	(10)
Net (increase) decrease in current income tax asset	**320**	(82)	**(391)**	(587)
Net increase (decrease) in current income tax liability	**-**	2	**(86)**	(39)
Change in accrued interest – (increase) decrease in interest receivable	**(40)**	71	**(191)**	(30)
– increase (decrease) in interest payable	**88**	(13)	**223**	(34)
Changes in other items and accruals, net	**(2,261)**	(6,688)	**(2,283)**	(8,792)
Net increase in deposits	**13,584**	6,182	**23,042**	16,470
Net (increase) in loans	**(5,402)**	(5,890)	**(16,587)**	(9,785)
Net increase (decrease) in securities sold but not yet purchased	**(1,108)**	3,055	**(800)**	1,813
Net increase in securities lent or sold under repurchase agreements	**4,117**	4,052	**27,770**	24,776
Net (increase) decrease in securities borrowed or purchased under resale agreements	**(6,453)**	1,853	**(26,177)**	(11,800)
Net increase (decrease) in securitization and structured entities' liabilities	**(75)**	(301)	**417**	(502)
Net Cash Provided by (Used in) Operating Activities	**6,554**	(236)	**13,890**	7,130
Cash Flows from Financing Activities				
Net increase (decrease) in liabilities of subsidiaries	**1,294**	127	**2,121**	(1,243)
Proceeds from issuance of covered bonds	**-**	1,315	**2,706**	3,592
Redemption of covered bonds	**-**	-	**(567)**	(2,602)
Proceeds from issuance of subordinated debt (Note 6)	**-**	850	**1,566**	850
Repayment of subordinated debt (Note 6)	**-**	-	**(900)**	(100)
Proceeds from issuance of preferred shares (Note 7)	**-**	400	**-**	900
Redemption of preferred shares (Note 7)	**-**	(500)	**-**	(500)
Share issue expense	**-**	(5)	**-**	(9)
Proceeds from issuance of common shares (Note 7)	**16**	7	**71**	140
Common shares repurchased for cancellation (Note 7)	**(102)**	(349)	**(884)**	(349)
Cash dividends paid	**(642)**	(570)	**(1,918)**	(1,376)
Net Cash Provided by (Used in) Financing Activities	**566**	1,275	**2,195**	(697)
Cash Flows from Investing Activities				
Net (increase) decrease in interest bearing deposits with banks	**53**	(102)	**(1,052)**	(1,886)
Purchases of securities, other than trading	**(9,275)**	(7,822)	**(31,112)**	(23,743)
Maturities of securities, other than trading	**4,378**	1,343	**9,927**	4,362
Proceeds from sales of securities, other than trading	**3,187**	4,983	**15,084**	18,025
Purchase of non-controlling interest	**-**	-	**-**	(25)
Premises and equipment – net (purchases)	**(49)**	(75)	**(168)**	(168)
Purchased and developed software – net (purchases)	**(148)**	(125)	**(415)**	(343)
Net Cash (Used in) Investing Activities	**(1,854)**	(1,798)	**(7,736)**	(3,778)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(116)**	(2,195)	**124**	(1,734)
Net increase (decrease) in Cash and Cash Equivalents	**5,150**	(2,954)	**8,473**	921
Cash and Cash Equivalents at Beginning of Period	**35,922**	35,528	**32,599**	31,653
Cash and Cash Equivalents at End of Period	**$ 41,072**	$ 32,574	**$ 41,072**	$ 32,574
Supplemental Disclosure of Cash Flow Information				
Net cash provided by operating activities includes:				
Amount of interest paid in the period	**$ 2,391**	$ 1,549	**$ 6,143**	$ 4,227
Amount of income taxes paid in the period	**$ 63**	$ 253	**$ 1,140**	$ 1,237
Amount of interest and dividend income received in the period	**$ 5,010**	$ 4,138	**$ 13,732**	$ 11,826

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, 2018 (Unaudited)

Note 1: Basis of Presentation

Bank of Montreal ("the bank") is a chartered bank under the *Bank Act (Canada)* and is a public company incorporated in Canada. We are a highly diversified financial services company, providing a broad range of personal and commercial banking, wealth management and investment banking products and services. The bank's head office is 129 rue Saint Jacques, Montreal, Quebec. Its executive offices are 100 King Street West, 1 First Canadian Place, Toronto, Ontario. Our common shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") using the same accounting policies as disclosed in our annual consolidated financial statements for the year ended October 31, 2017, with the exception of the adoption of IFRS 9 *Financial Instruments* discussed below. These condensed interim consolidated financial statements should be read in conjunction with the notes to our annual consolidated financial statements for the year ended October 31, 2017 as set out on pages 144 to 201 of our 2017 Annual Report. We also comply with interpretations of International Financial Reporting Standards ("IFRS") by our regulator, the Office of the Superintendent of Financial Institutions of Canada ("OSFI"). These interim consolidated financial statements were authorized for issue by the Board of Directors on August 28, 2018.

Changes in Accounting Policy

Financial Instruments

Effective November 1, 2017 we adopted IFRS 9 *Financial Instruments* ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 addresses impairment, classification and measurement, and hedge accounting. The impact to shareholders' equity at November 1, 2017 is an increase of $70 million ($44 million after-tax) related to the impairment requirements of the standard. Prior periods have not been restated. Refer to Note 15, Transition to IFRS 9, in our First Quarter 2018 Report to Shareholders for the impact on the opening balance sheet at November 1, 2017.

Impairment

IFRS 9 introduces a new single expected credit loss ("ECL") impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from our previous approach where the allowance recorded on performing loans was designed to capture only incurred losses whether or not they have been specifically identified.

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2).

The determination of a significant increase in credit risk takes into account many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status. The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. Stage 3 requires lifetime losses for all credit impaired assets.

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions, in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes.

In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period including pre-payment, extension and other options. For revolving instruments, such as credit cards, that may not have a defined contractual period, lifetime is based on the historical behaviour.

Classification and Measurement

Debt instruments, including loans, are classified based on both our business model for managing the assets and the contractual cash flow characteristics of the asset. Debt instruments will be measured at fair value through profit or loss ("FVTPL") unless certain conditions are met that permit either fair value through other comprehensive income ("FVOCI") or amortized cost.

FVOCI is permitted where debt instruments are held with the objective of collecting contractual cash flows and selling the assets and those cash flows represent solely payments of principal and interest. These securities may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in credit risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs. Changes in fair value are recorded in other comprehensive income; gains or losses on disposal and impairment losses are recorded in the Consolidated Statement of Income.

Amortized cost is permitted where debt instruments are held with the objective of collecting contractual cash flows and those cash flows represent solely payments of principal and interest. Gains or losses on disposal and impairment losses are recorded in the Consolidated Statement of Income.

For both FVOCI and amortized cost instruments, premiums, discounts and transaction costs are amortized over the term of the instrument on an effective yield basis as an adjustment to interest income.

Equity instruments are measured at fair value through profit or loss unless we elect to measure at FVOCI, in which case gains and losses are never recognized in income.

As permitted by IFRS 9, in fiscal 2015, the bank early adopted the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss. Additional information regarding changes in own credit risk is included in Note 8.

Hedge accounting

IFRS 9 introduced a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. IFRS 9 includes a policy choice that allows us to continue to apply the existing hedge accounting rules which we have elected.

Use of Estimates and Judgments

Classification of debt instruments

Debt instruments, including loans, are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. We exercise judgment in determining both the business model for managing the assets and whether cash flows comprise solely principal and interest.

Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria such as 30-day past due and watchlist status. The assessment of significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. We have developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Key economic variables for our retail portfolios include unemployment rate, housing price index and interest rates and for our wholesale portfolios include GDP, interest rates and volatility index, for our primary operating markets of Canada, the United States and regional markets where considered significant. The forecast is developed internally by our Economics group, considering external data and our view of future economic conditions. We exercise experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

Additional information regarding the allowance for credit loss is included in Note 3.

Future Changes in Accounting Policy

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") replaces existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, providing a principles-based approach and introducing the concept of recognizing revenue for performance obligations as they are satisfied. Revenues outside of the scope of IFRS 15 include interest and dividend income, trading revenues, securities gains/losses, insurance revenues and lease income.

We have substantially completed our assessment of IFRS 15 and determined that the impact of adopting relates primarily to the reclassification of amounts within the consolidated statement of income. The expected impacts are not material.

IFRS 15 is effective for our fiscal year beginning November 1, 2018. On transition, prior periods will be restated as if we had always applied IFRS 15.

Note 2: Securities

Securities are divided into six types, each with a different business purpose or accounting treatment as follows:

Trading securities are securities purchased for resale over a short period of time. Trading securities are recorded at fair value through profit or loss. Transaction costs and changes in fair value are recorded in our Consolidated Statement of Income in trading revenues.

Fair value through profit or loss securities are measured at fair value with changes in fair value and related transaction costs recorded in our Consolidated Statement of Income in securities gains and losses, other than trading, except as noted below. This category includes the following:

Securities designated at FVTPL

In order to qualify for this designation the security must have reliably measurable fair values and the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the gains and losses on a different basis. Securities must be designated on initial recognition, and the designation is irrevocable. If these securities were not designated at FVTPL, they would be accounted for as either FVOCI or amortized cost. Changes in fair value and transaction costs on securities held by our insurance subsidiary are recorded in non-interest revenue, insurance revenue.

Other securities mandatorily measured at FVTPL

Securities managed on a fair value basis, but not held for trading, or debt securities whose cash flows do not represent solely payments of principal and interest and equity securities not held for trading.

Debt securities measured at amortized cost are debt securities purchased with the objective of collecting contractual cash flows and those cash flows represent solely payments of principal and interest. These securities are initially recorded at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest method. Impairment losses are recorded in our Consolidated Statement of Income. Interest income earned and amortization of premiums, discounts and transaction costs are recorded in our Consolidated Statement of Income in interest, dividend and fee income, securities.

Debt securities measured at FVOCI are debt securities purchased with the objective of collecting contractual cash flows and selling the assets and the security's cash flows represent solely payments of principal and interest. These securities may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in credit risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs.

Debt securities measured at FVOCI are initially recorded at fair value plus transaction costs. They are subsequently measured at fair value, with unrealized gains and losses recorded in our Consolidated Statement of Comprehensive Income until the security is sold or impaired. Gains and losses on disposal and impairment losses (recoveries) are recorded in our Consolidated Statement of Income in non-interest revenue, securities gains, other than trading. Interest income earned is recorded in our Consolidated Statement of Income in interest, dividend and fee income, securities using the effective interest method.

Equity securities measured at FVOCI are equity securities where we have elected to record changes in the fair value of the instrument in other comprehensive income as opposed to fair value through profit or loss. Gains or losses recorded on these instruments will never be recognized in profit or loss. Equity securities measured at FVOCI are not subject to an impairment assessment.

Other securities are investments in associates where we exert significant influence over operating, investing and financing decisions (generally companies in which we own between 20% and 50% of the voting shares). These are accounted for using the equity method of accounting. Our share of the net income or loss is recorded in investments in associates and joint ventures in our Consolidated Statement of Income. Any other comprehensive income amounts are reflected in the relevant section of our Statement of Comprehensive Income.

We account for all of our securities transactions using settlement date accounting in our Consolidated Balance Sheet. Changes in fair value between the trade date and settlement date are recorded in net income, except for those related to securities measured at FVOCI, which are recorded in other comprehensive income.

Impairment of securities

Debt securities classified as amortized cost or FVOCI are assessed for impairment using the ECL methodology, with the exception of securities determined to have low credit risk where the allowance for credit losses is measured at 12 month expected credit loss.

Classification of securities

The bank's securities are classified as at July 31, 2018 under IFRS 9 and as at October 31, 2017 under IAS 39 as follows:

(Canadian $ in millions)	**July 31, 2018**	October 31, 2017
Trading	**88,534**	99,069
FVTPL (1)	**11,531**	na
FVOCI - Debt and equity	**59,322**	na
Available-for-sale	**na**	54,075
Amortized cost (2)	**7,256**	na
Held-to-maturity	**na**	9,094
Other	**675**	960
Total	**167,318**	163,198

(1) Comprised of $2,694 million mandatorily measured at fair value and $8,837 million designated at fair value.

(2) Net of allowances for credit losses of $1 million (na at October 31, 2017).

na – Not applicable due to IFRS 9 adoption.

Unrealized Gains and Losses

The following table summarizes the unrealized gains and losses on FVOCI securities as at July 31, 2018 under IFRS 9 and the unrealized gains and losses on available-for-sale securities as at October 31, 2017 under IAS 39:

(Canadian $ in millions)				**July 31, 2018**				October 31, 2017
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Issued or guaranteed by:								
Canadian federal government	**13,232**	**1**	**73**	**13,160**	9,212	6	38	9,180
Canadian provincial and municipal governments	**5,535**	**11**	**33**	**5,513**	3,613	29	15	3,627
U.S. federal government	**16,116**	**4**	**577**	**15,543**	14,481	12	224	14,269
U.S. states, municipalities and agencies	**3,603**	**26**	**32**	**3,597**	4,058	43	5	4,096
Other governments	**3,375**	**3**	**24**	**3,354**	3,567	3	12	3,558
National Housing Act (NHA) mortgage-backed securities (MBS)	**2,347**	**6**	**18**	**2,335**	2,457	9	11	2,455
U.S. agency MBS and collateralized mortgage obligations (CMO)	**12,079**	**3**	**444**	**11,638**	10,902	6	147	10,761
Corporate debt	**4,165**	**4**	**46**	**4,123**	4,514	23	12	4,525
Corporate equity	**59**	**-**	**-**	**59**	1,499	121	16	1,604
Total	**60,511**	**58**	**1,247**	**59,322**	54,303	252	480	54,075

Unrealized gains (losses) may be offset by related (losses) gains on hedge contracts.

Interest income on debt securities

The following table presents interest income calculated using the effective interest method for the three and nine months ended July 31, 2018:

(Canadian $ in millions)	For the three months ended July 31, 2018	For the nine months ended July 31, 2018
FVOCI - Debt	**311**	**783**
Amortized cost	**42**	**134**
Total	**353**	**917**

Note 3: Loans and Allowance for Credit Losses

Allowance for Credit Losses ("ACL")

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 and other credit instruments. The allowance for credit losses amounted to $1,899 million at July 31, 2018 of which $1,660 million was recorded in loans and $239 million recorded in other liabilities in our Consolidated Balance Sheet.

Allowance on Performing Loans

We maintain an allowance in order to cover impairment in the existing portfolio for loans that have not yet been individually identified as impaired. Our approach to establishing and maintaining the allowance for performing loans is based on the requirements of IFRS, considering guidelines issued by OSFI.

Under the IFRS 9 expected credit loss ECL methodology, an allowance is recorded for expected credit losses on financial assets regardless of whether there has been an actual loss event. We recognize a loss allowance at an amount equal to 12 month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). We will record expected credit losses over the remaining life of performing financial assets which are considered to have experienced a significant increase in credit risk (Stage 2).

The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status.

ECL is a function of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment to reflect factors not captured in ECL models.

The PD represents the likelihood that a loan will not be repaid and will go into default in either a 12 month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and is modelled based on historic data and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

We consider past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses. In assessing information about possible future economic conditions, we utilized multiple economic scenarios including our base case, which represents the most probable outcome and is consistent with our strategic plan, as well as benign and adverse forecasts, all of which are developed by our Economics group. Key economic variables used in the determination of the allowance for credit losses reflect the geographic diversity of our portfolios, where appropriate.

In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used. For revolving instruments, such as credit cards, which may not have a defined contractual period, the lifetime is based on historical behaviour.

Our ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results.

Allowance on Impaired Loans

We maintain an allowance for impaired loans (Stage 3) to reduce their carrying value to the expected recoverable amount of $1,667 million ($1,827 million as at October 31, 2017). These allowances are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. We review our loans on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded (excluding credit card loans, which are classified as impaired and written off when principal or interest payments are 180 days past due). The review of individually significant problem loans is conducted at least quarterly by the account managers, each of whom assesses the ultimate collectability and estimated recoveries for a specific loan based on all events and conditions that are relevant to the loan. This assessment is then reviewed and approved by an independent credit officer.

Individually Significant Impaired Loans

To determine the amount we expect to recover from an individually significant impaired loan, we use the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower. Security can vary by type of loan and may include cash, securities, real properties, accounts receivable, guarantees, inventory or other capital assets.

Individually Insignificant Impaired Loans

Residential mortgages, consumer instalment and other personal loans are individually insignificant and may be individually assessed or collectively assessed for losses at the time of impairment, taking into account historical loss experience and expectations of future economic conditions.

The following table shows the continuity in the loss allowance by each product type for the three months ended July 31, 2018:

(Canadian $ in millions)

For the three months ended	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Balance as at May 1, 2018	19	31	46	96
Transfer to Stage 1	7	(6)	(1)	-
Transfer to Stage 2	-	2	(2)	-
Transfer to Stage 3	-	(1)	1	-
Net remeasurement of loss allowance	(7)	11	9	13
Loan originations	2	-	-	2
Derecognitions and maturities	(1)	(1)	-	(2)
Total PCL (1)	1	5	7	13
Write-offs	-	-	(5)	(5)
Recoveries of previous write-offs	-	-	1	1
Foreign exchange and other	1	1	(4)	(2)
Balance as at July 31, 2018	21	37	45	103
Loans: Consumer instalment and other personal				
Balance as at May 1, 2018	86	328	147	561
Transfer to Stage 1	44	(41)	(3)	-
Transfer to Stage 2	(3)	20	(17)	-
Transfer to Stage 3	(1)	(29)	30	-
Net remeasurement of loss allowance	(40)	81	39	80
Loan originations	10	-	-	10
Derecognitions and maturities	(5)	(13)	-	(18)
Total PCL (1)	5	18	49	72
Write-offs	-	-	(75)	(75)
Recoveries of previous write-offs	-	-	28	28
Foreign exchange and other	(1)	2	(3)	(2)
Balance as at July 31, 2018	90	348	146	584
Loans: Credit cards				
Balance as at May 1, 2018	77	246	-	323
Transfer to Stage 1	33	(33)	-	-
Transfer to Stage 2	(6)	6	-	-
Transfer to Stage 3	-	(51)	51	-
Net remeasurement of loss allowance	(34)	75	2	43
Loan originations	4	-	-	4
Derecognitions and maturities	(1)	(11)	-	(12)
Total PCL (1)	(4)	(14)	53	35
Write-offs	-	-	(79)	(79)
Recoveries of previous write-offs	-	-	26	26
Foreign exchange and other	-	1	-	1
Balance as at July 31, 2018	73	233	-	306
Loans: Business and government				
Balance as at May 1, 2018	291	368	233	892
Transfer to Stage 1	44	(40)	(4)	-
Transfer to Stage 2	(8)	12	(4)	-
Transfer to Stage 3	(1)	(22)	23	-
Net remeasurement of loss allowance	(54)	81	53	80
Loan originations	51	-	-	51
Derecognitions and maturities	(25)	(31)	-	(56)
Model changes	(7)	(3)	-	(10)
Total PCL (1)	-	(3)	68	65
Write-offs	-	-	(60)	(60)
Recoveries of previous write-offs	-	-	14	14
Foreign exchange and other	1	3	(9)	(5)
Balance as at July 31, 2018	292	368	246	906
Total Balance as at July 31, 2018	476	986	437	1,899
Comprised of: Loans	369	882	409	1,660
Other credit instruments (2)	107	104	28	239

(1) Excludes provision for credit losses on other assets of $1 million.

(2) Recorded in other liabilities on the balance sheet.

The following table shows the continuity in the loss allowance by each product type for the nine months ended July 31, 2018:

(Canadian $ in millions)

For the nine months ended	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Balance as at November 1, 2017	**16**	**34**	**49**	**99**
Transfer to Stage 1	**25**	**(23)**	**(2)**	**-**
Transfer to Stage 2	**(1)**	**6**	**(5)**	**-**
Transfer to Stage 3	**-**	**(7)**	**7**	**-**
Net remeasurement of loss allowance	**(26)**	**31**	**14**	**19**
Loan originations	**8**	**-**	**-**	**8**
Derecognitions and maturities	**(2)**	**(4)**	**-**	**(6)**
Total PCL (1)	**4**	**3**	**14**	**21**
Write-offs	**-**	**-**	**(15)**	**(15)**
Recoveries of previous write-offs	**-**	**-**	**5**	**5**
Foreign exchange and other	**1**	**-**	**(8)**	**(7)**
Balance as at July 31, 2018	**21**	**37**	**45**	**103**
Loans: Consumer instalment and other personal				
Balance as at November 1, 2017	**76**	**357**	**137**	**570**
Transfer to Stage 1	**171**	**(160)**	**(11)**	**-**
Transfer to Stage 2	**(17)**	**82**	**(65)**	**-**
Transfer to Stage 3	**(3)**	**(132)**	**135**	**-**
Net remeasurement of loss allowance	**(151)**	**235**	**113**	**197**
Loan originations	**28**	**-**	**-**	**28**
Derecognitions and maturities	**(14)**	**(36)**	**-**	**(50)**
Total PCL (1)	**14**	**(11)**	**172**	**175**
Write-offs	**-**	**-**	**(219)**	**(219)**
Recoveries of previous write-offs	**-**	**-**	**67**	**67**
Foreign exchange and other	**-**	**2**	**(11)**	**(9)**
Balance as at July 31, 2018	**90**	**348**	**146**	**584**
Loans: Credit cards				
Balance as at November 1, 2017	**83**	**254**	**-**	**337**
Transfer to Stage 1	**149**	**(149)**	**-**	**-**
Transfer to Stage 2	**(32)**	**32**	**-**	**-**
Transfer to Stage 3	**(1)**	**(152)**	**153**	**-**
Net remeasurement of loss allowance	**(139)**	**282**	**13**	**156**
Loan originations	**15**	**-**	**-**	**15**
Derecognitions and maturities	**(2)**	**(35)**	**-**	**(37)**
Total PCL (1)	**(10)**	**(22)**	**166**	**134**
Write-offs	**-**	**-**	**(242)**	**(242)**
Recoveries of previous write-offs	**-**	**-**	**76**	**76**
Foreign exchange and other	**-**	**1**	**-**	**1**
Balance as at July 31, 2018	**73**	**233**	**-**	**306**
Loans: Business and government				
Balance as at November 1, 2017	**268**	**410**	**234**	**912**
Transfer to Stage 1	**95**	**(90)**	**(5)**	**-**
Transfer to Stage 2	**(21)**	**35**	**(14)**	**-**
Transfer to Stage 3	**(1)**	**(50)**	**51**	**-**
Net remeasurement of loss allowance	**(99)**	**135**	**139**	**175**
Loan originations	**117**	**-**	**-**	**117**
Derecognitions and maturities	**(59)**	**(71)**	**-**	**(130)**
Model changes	**(7)**	**(3)**	**-**	**(10)**
Total PCL (1)	**25**	**(44)**	**171**	**152**
Write-offs	**-**	**-**	**(190)**	**(190)**
Recoveries of previous write-offs	**-**	**-**	**45**	**45**
Foreign exchange and other	**(1)**	**2**	**(14)**	**(13)**
Balance as at July 31, 2018	**292**	**368**	**246**	**906**
Total Balance as at July 31, 2018	**476**	**986**	**437**	**1,899**
Comprised of: Loans	**369**	**882**	**409**	**1,660**
Other credit instruments (2)	**107**	**104**	**28**	**239**

(1) Excludes provision for credit losses on other assets of $5 million.

(2) Recorded in other liabilities on the balance sheet.

The following tables show the continuity of our allowance for credit losses under IAS 39:

(Canadian $ in millions)	Residential mortgages	Credit card, consumer, instalment and other personal loans	Business and government loans	Total
For the three months ended	July 31, 2017	July 31, 2017	July 31, 2017	July 31, 2017
Impairment allowances (Specific ACL), beginning of period	57	135	257	449
Amounts written off	(7)	(156)	(71)	(234)
Recoveries of amounts written off in previous periods	1	44	16	61
Charge to income statement (Specific PCL)	6	112	84	202
Foreign exchange and other movements	(3)	(6)	(27)	(36)
Specific ACL, end of period	54	129	259	442
Collective ACL, beginning of period	70	573	1,053	1,696
Charge (recovery) to income statement (Collective PCL)	(4)	(26)	(46)	(76)
Foreign exchange and other movements	(3)	(10)	(56)	(69)
Collective ACL, end of period	63	537	951	1,551
Total ACL	117	666	1,210	1,993
Comprised of: Loans	92	666	1,064	1,822
Other credit instruments	25	-	146	171

(Canadian $ in millions)	Residential mortgages	Credit card, consumer, instalment and other personal loans	Business and government loans	Total
For the nine months ended	July 31, 2017	July 31, 2017	July 31, 2017	July 31, 2017
Impairment allowances (Specific ACL), beginning of period	59	123	250	432
Amounts written off	(20)	(473)	(231)	(724)
Recoveries of amounts written off in previous periods	9	141	44	194
Charge to income statement (Specific PCL)	15	351	254	620
Foreign exchange and other movements	(9)	(13)	(58)	(80)
Specific ACL, end of period	54	129	259	442
Collective ACL, beginning of period	71	596	1,015	1,682
Charge (recovery) to income statement (Collective PCL)	(6)	(51)	(19)	(76)
Foreign exchange and other movements	(2)	(8)	(45)	(55)
Collective ACL, end of period	63	537	951	1,551
Total ACL	117	666	1,210	1,993
Comprised of: Loans	92	666	1,064	1,822
Other credit instruments	25	-	146	171

Interest income on impaired loans of $21 million and $60 million, respectively, was recognized for the three and nine months ended July 31, 2017.

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

Significant changes in the gross balances, including originations, maturities and repayments in the normal course of operations, impact the allowance for credit losses.

Loans and allowance for credit losses by geographic region as at July 31, 2018 under IFRS 9 and as at October 31, 2017 under IAS 39 are as follows:

(Canadian $ in millions)			**July 31, 2018**					October 31, 2017
	Gross amount	**Allowance for credit losses on impaired loans (2)**	**Allowance for credit losses on performing loans (3)**	**Net Amount**	Gross amount	Specific allowance (2)	Collective allowance (3)	Net Amount
By geographic region (1):								
Canada	**240,295**	**205**	**697**	**239,393**	233,672	212	799	232,661
United States	**127,842**	**197**	**550**	**127,095**	115,029	161	641	114,227
Other countries	**9,284**	**7**	**4**	**9,273**	11,639	20	-	11,619
Total	**377,421**	**409**	**1,251**	**375,761**	360,340	393	1,440	358,507

(1) Geographic region is based upon country of ultimate risk.

(2) Excludes allowance for credit losses on impaired loans of $28 million for other credit instruments, which is included in other liabilities ($27 million as at October 31, 2017).

(3) Excludes allowance for credit losses on performing loans of $211 million for other credit instruments, which is included in other liabilities ($136 million as at October 31, 2017).

Renegotiated Loans

The carrying value of our renegotiated loans was $1,136 million as at July 31, 2018 ($1,064 million as at October 31, 2017), with $529 million classified as performing as at July 31, 2018 ($509 million as at October 31, 2017). Renegotiated loans of $9 million and $42 million, respectively, were written off in the three months and nine months ended July 31, 2018 ($16 million and $26 million, respectively, for the three and nine months ended July 31, 2017).

Note 4: Risk Management

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

Market Risk

Market risk is the potential for adverse changes in the value of our assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, and credit spreads, and includes the risk of credit migration and default in our trading book. We incur market risk in our trading and underwriting activities and in the management of structural market risk in our banking and insurance activities.

Our market risk management practices and key measures are disclosed in the text and tables presented in blue-tinted font in the Enterprise-Wide Risk Section of our 2017 Annual Management's Discussion and Analysis on pages 94 to 98.

Liquidity and Funding Risk

Liquidity and funding risk is the potential for loss if we are unable to meet our financial commitments in a timely manner at reasonable prices as they become due. Managing liquidity and funding risk is essential to maintaining a safe and sound enterprise, depositor confidence and earnings stability. 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.

Our liquidity and funding risk management practices and key measures are disclosed in the text and tables presented in blue-tinted font in the Enterprise-Wide Risk Management Section of our 2017 Annual Management's Discussion and Analysis on pages 99 to 103.

Credit and Counterparty Risk

Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation. Credit risk arises predominantly with respect to loans, over-the-counter and centrally cleared derivatives and other credit instruments. This is the most significant measurable risk that we face.

Our risk management practices and key measures are disclosed in the text and tables presented in blue-tinted font in the Enterprise-Wide Risk Management Section of our 2017 Annual Management's Discussion and Analysis on pages 86 to 90. Additional information on credit risk related to loans is disclosed in Note 3.

The following table sets out our credit risk exposure for all loans carried at amortized cost or FVTPL. Stage 1 represents those performing loans carried with a 12 month expected credit loss, Stage 2 represents those performing loans carried with a lifetime expected credit loss, and Stage 3 represents those loans with a lifetime credit loss that are credit impaired.

(Canadian $ in millions)				July 31, 2018
	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Exceptionally low	-	-	-	-
Very low	75,519	169	-	75,688
Low	18,817	2,395	-	21,212
Medium	12,972	3,628	-	16,600
High	101	418	-	519
Not rated	4,183	154	-	4,337
Impaired	-	-	380	380
Allowance for Credit Losses	21	34	20	75
Carrying Amount	111,571	6,730	360	118,661
Loans: Consumer instalment and other personal				
Exceptionally low	19,765	14	-	19,779
Very low	13,454	175	-	13,629
Low	12,414	300	-	12,714
Medium	7,835	3,823	-	11,658
High	101	1,742	-	1,843
Not rated	2,151	177	-	2,328
Impaired	-	-	534	534
Allowance for Credit Losses	83	334	144	561
Carrying Amount	55,637	5,897	390	61,924
Loans: Credit cards (1)				
Exceptionally low	2,492	-	-	2,492
Very low	1,154	18	-	1,172
Low	884	173	-	1,057
Medium	1,531	884	-	2,415
High	113	424	-	537
Not rated	562	1	-	563
Impaired	-	-	-	-
Allowance for Credit Losses	38	200	-	238
Carrying Amount	6,698	1,300	-	7,998
Loans: Business and government				
Acceptable				
Investment grade	95,350	1,067	-	96,417
Sub-investment grade	80,437	5,856	-	86,293
Watchlist	-	4,114	-	4,114
Impaired	-	-	1,140	1,140
Allowance for Credit Losses	222	307	245	774
Carrying Amount	175,565	10,730	895	187,190
Customers' liability under acceptances				
Acceptable				
Investment grade	12,030	31	-	12,061
Sub-investment grade	5,488	258	-	5,746
Watchlist	-	45	-	45
Impaired	-	-	22	22
Allowance for Credit Losses	5	7	-	12
Carrying Amount	17,513	327	22	17,862
Commitments and financial guarantee contracts				
Acceptable				
Investment grade	102,371	128	-	102,499
Sub-investment grade	41,825	3,440	-	45,265
Watchlist	-	1,687	-	1,687
Impaired	-	-	271	271
Allowance for Credit Losses	107	104	28	239
Carrying Amount	144,089	5,151	243	149,483

(1) Credit card loans are classified as impaired and written off when principal or interest payments are 180 days past due.

Note 5: Transfer of Assets

Loan Securitization

We sell Canadian mortgage loans to bank-sponsored and third-party Canadian securitization programs, including the Canadian Mortgage Bond program, and directly to third-party investors under the NHA-MBS program and under our own program. We assess whether substantially all of the risk and rewards of the loans have been transferred to determine if they qualify for derecognition.

The following table presents the carrying amount and fair value of transferred assets that did not qualify for derecognition and the associated liabilities:

(Canadian $ in millions)			**July 31, 2018**			October 31, 2017
	Carrying amount of assets	**Fair value of assets**	**Associated liabilities**	Carrying amount of assets	Fair value of assets	Associated liabilities
Residential mortgages	**5,301**			4,797		
Other related assets (1)	**11,759**			12,091		
Total	**17,060**	**16,984**	**16,682**	16,888	16,847	16,621

(1) Other related assets represent payments received on account of loans pledged under securitization that have not been applied against the associated liabilities. The payments received are held on behalf of the investors in the securitization vehicles until principal payments are required to be made on the associated liabilities. In order to compare all assets supporting the associated liabilities, this amount is added to the carrying value of the securitized assets in the above table.

During the three and nine months ended July 31, 2018, we sold $2,651 million and $6,682 million, respectively, of loans to these programs ($1,400 million and $6,308 million, respectively, for the three and nine months ended July 31, 2017).

Note 6: Deposits and Subordinated Debt

Deposits

	Payable on demand				Payable		Payable on			
(Canadian $ in millions)	Interest bearing		Non-interest bearing		after notice		a fixed date (4)		Total	
	July 31, 2018	October 31, 2017	**July 31, 2018**	October 31, 2017	**July 31, 2018**	October 31, 2017	**July 31, 2018**	October 31, 2017	**July 31, 2018**	October 31, 2017
Deposits by:										
Banks (1)	**1,274**	818	**1,330**	1,864	**483**	586	**25,383**	24,937	**28,470**	28,205
Business and government	**21,413**	20,621	**33,359**	33,968	**66,275**	61,790	**181,017**	166,897	**302,064**	283,276
Individuals	**3,364**	3,278	**21,193**	20,044	**89,418**	89,859	**62,407**	55,130	**176,382**	168,311
Total (2) (3)	**26,051**	24,717	**55,882**	55,876	**156,176**	152,235	**268,807**	246,964	**506,916**	479,792
Booked in:										
Canada	**21,292**	21,557	**46,710**	44,380	**80,990**	81,590	**157,459**	145,648	**306,451**	293,175
United States	**3,824**	2,259	**9,162**	11,496	**74,041**	69,555	**78,602**	75,517	**165,629**	158,827
Other countries	**935**	901	**10**	-	**1,145**	1,090	**32,746**	25,799	**34,836**	27,790
Total	**26,051**	24,717	**55,882**	55,876	**156,176**	152,235	**268,807**	246,964	**506,916**	479,792

(1) Includes regulated and central banks.

(2) Includes structured notes designated at fair value through profit or loss.

(3) As at July 31, 2018 and October 31, 2017, total deposits payable on a fixed date included $31,470 million and $30,419 million, respectively, of federal funds purchased and commercial paper issued and other deposit liabilities. Included in deposits as at July 31, 2018 and October 31, 2017 are $246,751 million and $237,127 million, respectively, of deposits denominated in U.S. dollars, and $36,909 million and $27,686 million, respectively, of deposits denominated in other foreign currencies.

(4) Includes $240,482 million of deposits, each greater than one hundred thousand dollars, of which $142,638 million were booked in Canada, $65,104 million were booked in the United States and $32,740 million were booked in other countries ($221,954 million, $130,197 million, $65,963 million and $25,794 million, respectively, as at October 31, 2017). Of the $142,638 million of deposits booked in Canada, $51,235 million mature in less than three months, $6,332 million mature in three to six months, $12,755 million mature in six to twelve months and $72,316 million mature after twelve months ($130,197 million, $41,418 million, $7,922 million, $10,574 million and $70,283 million, respectively, as at October 31, 2017).

Subordinated Debt

On March 28, 2018, we redeemed all of our outstanding $900 million Subordinate Debentures, Series F Medium-Term Notes First Tranche, at a redemption price of 100 percent of the principal amount plus unpaid accrued interest to, but excluding, the redemption date.

On December 12, 2017, we issued U.S. $1,250 million of 3.803% subordinated debt through our U.S. Medium-Term Note Program. The notes are due December 15, 2032 and reset to a fixed rate on December 15, 2027. The notes include a non-viability contingent capital provision, which is necessary for the notes to qualify as regulatory capital. As such, the notes are convertible into a variable number of our common shares if OSFI announces that the bank is, or is about to become, non-viable or if a federal or provincial government in Canada publicly announces that the bank has accepted or agreed to accept a capital injection or equivalent support, to avoid non-viability.

Note 7: Equity

Preferred and Common Shares Outstanding (1)

(Canadian $ in millions, except as noted)	July 31, 2018		October 31, 2017		
	Number of shares	**Amount**	Number of shares	Amount	Convertible into...
Preferred Shares - Classified as Equity					
Class B – Series 16	**6,267,391**	**157**	6,267,391	157	Class B - Series 17 (2)
Class B – Series 17	**5,732,609**	**143**	5,732,609	143	Class B - Series 16 (2)
Class B – Series 25	**9,425,607**	**236**	9,425,607	236	Class B - Series 26 (2)
Class B – Series 26	**2,174,393**	**54**	2,174,393	54	Class B - Series 25 (2)
Class B – Series 27	**20,000,000**	**500**	20,000,000	500	Class B - Series 28 (2)(3)
Class B – Series 29	**16,000,000**	**400**	16,000,000	400	Class B - Series 30 (2)(3)
Class B – Series 31	**12,000,000**	**300**	12,000,000	300	Class B - Series 32 (2)(3)
Class B – Series 33	**8,000,000**	**200**	8,000,000	200	Class B - Series 34 (2)(3)
Class B – Series 35	**6,000,000**	**150**	6,000,000	150	na (3)
Class B – Series 36	**600,000**	**600**	600,000	600	Class B - Series 37 (2)(3)
Class B – Series 38	**24,000,000**	**600**	24,000,000	600	Class B - series 39 (2)(3)
Class B – Series 40	**20,000,000**	**500**	20,000,000	500	Class B - series 41 (2)(3)
Class B – Series 42	**16,000,000**	**400**	16,000,000	400	Class B - series 43 (2)(3)
		4,240		4,240	
Common Shares (4) (5)	**639,929,845**	**12,924**	647,816,318	13,032	
Share Capital		**17,164**		17,272	

(1) For additional information refer to Notes 16 and 21 of our annual consolidated financial statements for the year ended October 31, 2017 on pages 172 to 184 of our 2017 Annual Report.
(2) If converted, the holders have the option to convert back to the original preferred shares on subsequent redemption dates.
(3) The shares are convertible into a variable number of our common shares if OSFI announces that the bank is, or is about to become, non-viable or if a federal or provincial government in Canada publicly announces that the bank has accepted or agreed to accept a capital injection, or equivalent support, to avoid non-viability.
(4) The stock options issued under the Stock Option Plan are convertible into 6,826,202 common shares as at July 31, 2018 (7,525,296 common shares as at October 31, 2017).
(5) During the three and nine months ended July 31, 2018, we did not issue any common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan and we issued 295,752 and 1,113,527 common shares, respectively, under the Stock Option Plan.

na – Not applicable

Preferred Shares

During the three and nine months ended July 31, 2018, we did not issue or redeem any preferred shares.

On August 25, 2018, we redeemed all of our 6,267,391 outstanding Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 16 and all of our 5,732,609 outstanding Non-Cumulative Floating Rate Class B Preferred Shares, Series 17 at the redemption price of $25.00 cash per share plus all declared and unpaid dividends.

Common Shares

On June 1, 2018, we renewed our normal course issuer bid ("NCIB") effective for one year. Under this bid, we may purchase up to 20 million common shares for cancellation. NCIB is a regular part of BMO's capital management strategy. The timing and amount of purchases under the program are subject to regulatory approvals and to management discretion based on factors such as market conditions and capital adequacy. We will consult with OSFI before making purchases under the bid. During the three and nine months ended July 31, 2018, we repurchased for cancellation 1 million and 9 million common shares respectively.

Note 8: Fair Value of Financial Instruments

Fair Value of Financial Instruments Not Carried at Fair Value on the Balance Sheet

Set out in the following tables are the amounts that would be reported if all financial assets and liabilities not currently carried at fair value were reported at their fair values. Refer to Note 17 to our annual consolidated financial statements for the year ended October 31, 2017 on pages 174 to 180 for further discussion on the determination of fair value.

(Canadian $ in millions)		**July 31, 2018**		October 31, 2017
	Carrying value	**Fair value**	Carrying value	Fair value
Securities				
Amortized cost	**7,256**	**7,099**	na	na
Held-to-maturity	**na**	**na**	9,094	9,096
Loans				
Residential mortgages	**118,736**	**117,711**	115,258	114,313
Consumer instalment and other personal	**62,485**	**61,422**	61,944	61,031
Credit cards	**8,236**	**7,922**	8,071	7,828
Business and government (1)	**186,378**	**184,344**	175,067	172,762
	375,835	**371,399**	360,340	355,934
Deposits (2)	**492,558**	**492,341**	466,118	466,441
Securitization and structured entities' liabilities	**23,545**	**23,419**	23,054	23,148
Subordinated debt	**5,618**	**5,730**	5,029	5,255

This table excludes financial instruments with a carrying value approximating fair value, such as cash and cash equivalents, interest bearing deposits with banks, securities borrowed or purchased under resale agreements, customers' liability under acceptances, other assets, acceptances, securities lent or sold under repurchase agreements and other liabilities.

(1) Excludes $1,586 million of loans reclassified as FVTPL upon adoption of IFRS 9.

(2) Excludes $14,358 million of structured note liabilities designated at fair value through profit or loss and accounted for at fair value ($13,674 million as at October 31, 2017).

na – Not applicable due to IFRS 9 adoption.

Financial Instruments Designated at Fair Value

Most of our structured note liabilities have been designated at fair value through profit or loss which aligns the accounting result with the way the portfolio is managed. The change in fair value of these structured notes was recorded as a decrease of $128 million and a decrease of $200 million in non-interest revenue, trading revenue and an increase of $36 million and a decrease of $6 million recorded in other comprehensive income related to changes in our credit spread, respectively, for the three and nine months ended July 31, 2018 (an increase of $177 million and an increase of $243 million recorded in non-interest revenue, trading revenue, and an increase of $60 million and a decrease of $134 million recorded in other comprehensive income related to changes in our own credit spread, respectively, for the three and nine months ended July 31, 2017). The impact of changes in our credit spread is measured based on movements in our credit spread quarter over quarter.

The cumulative change in fair value related to changes in our own credit spread that has been recognized since the notes were designated at fair value to July 31, 2018 was an unrealized loss of $309 million, of this an unrealized loss of $233 million was recorded in other comprehensive income, with an unrealized loss of $76 million recorded through the Statement of Income prior to the adoption of IFRS 9 own credit provision in 2015.

The fair value and notional amount due at contractual maturity of these structured notes as at July 31, 2018 were $14,358 million and $14,042 million, respectively ($13,674 million and $13,563 million, respectively, as at October 31, 2017). These structured notes are recorded in deposits in our Consolidated Balance Sheet.

We designate certain securities held by our insurance subsidiaries that support our insurance liabilities at fair value through profit or loss since the actuarial calculation of insurance liabilities is based on the fair value of the investments supporting them. This designation aligns the accounting result with the way the portfolio is managed on a fair value basis. The change in fair value of the assets is recorded in non-interest revenue, insurance revenue and the change in fair value of the liabilities is recorded in insurance claims, commissions and changes in policy benefit liabilities. The fair value of these investments as at July 31, 2018 of $8,837 million ($8,465 million as at October 31, 2017) is recorded in securities in our Consolidated Balance Sheet. The impact of recording these investments at fair value through profit or loss was an increase of $49 million and a decrease of $85 million in non-interest revenue, insurance revenue, respectively, for the three and nine months ended July 31, 2018 (a decrease of $269 million and $181 million, respectively, for the three and nine months ended July 31, 2017).

We designate the obligation related to certain investment contracts in our insurance business at fair value through profit or loss, which eliminates a measurement inconsistency that would otherwise arise from measuring the investment contract liabilities and offsetting changes in the fair value of the investments supporting them on a different basis. The fair value of these investment contract liabilities as at July 31, 2018 of $792 million ($749 million as at October 31, 2017) is recorded in other liabilities in our Consolidated Balance Sheet. The change in fair value of these investment contract liabilities resulted in a decrease of $2 million and a decrease of $15 million in insurance claims, commissions, and changes in policy benefit liabilities, respectively, for the three and nine months ended July 31, 2018 (a decrease of $32 million and a decrease of $51 million, respectively, for the three and nine months ended July 31, 2017). For the three and nine months ended July 31, 2018, an increase of $2 million and $1 million, respectively, was recorded in other comprehensive income related to changes in our own credit spread (a decrease of $2 million and $23 million, respectively, for the three and nine months ended July 31, 2017). Changes in the fair value of investments backing these investment contract liabilities are recorded in non-interest revenue, insurance revenue. The impact of changes in our credit spread is measured based on movements in our credit spread quarter over quarter.

Fair Value Hierarchy

We use a fair value hierarchy to categorize financial instruments according to the inputs we use in valuation techniques to measure fair value.

Valuation Techniques and Significant Inputs

We determine the fair value of publicly traded fixed maturity and equity securities using quoted 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 significant market inputs are not observable due to inactive markets or minimal market activity (Level 3). We maximize the use of market inputs to the extent possible.

Our Level 2 trading and FVTPL securities are primarily valued using discounted cash flow models with observable spreads or broker quotes. The fair value of Level 2 FVOCI securities, previously 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.

The extent of our use of actively 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, loans, fair value liabilities, derivative assets and derivative liabilities was as follows:

Classified under IFRS 9:

(Canadian $ in millions)				July 31, 2018
	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	Total
Trading Securities				
Issued or guaranteed by:				
Canadian federal government	8,526	1,224	-	9,750
Canadian provincial and municipal governments	3,102	4,003	-	7,105
U.S. federal government	13,880	58	-	13,938
U.S. states, municipalities and agencies	103	1,734	-	1,837
Other governments	673	58	-	731
NHA MBS and U.S. agency MBS and CMO	-	840	-	840
Corporate debt	2,633	5,275	-	7,908
Loans	-	292	-	292
Corporate equity	46,130	3	-	46,133
	75,047	13,487	-	88,534
FVTPL Securities				
Issued or guaranteed by:				
Canadian federal government	478	103	-	581
Canadian provincial and municipal governments	91	835	-	926
U.S. federal government	39	-	-	39
U.S. states, municipalities and agencies	-	-	-	-
Other governments	-	-	-	-
NHA MBS and U.S. agency MBS and CMO	-	7	-	7
Corporate debt	91	6,586	-	6,677
Corporate equity	1,436	106	1,759	3,301
	2,135	7,637	1,759	11,531
FVOCI Securities				
Issued or guaranteed by:				
Canadian federal government	12,326	834	-	13,160
Canadian provincial and municipal governments	2,878	2,635	-	5,513
U.S. federal government	15,513	30	-	15,543
U.S. states, municipalities and agencies	17	3,579	1	3,597
Other governments	1,990	1,364	-	3,354
NHA MBS and U.S. agency MBS and CMO	-	13,973	-	13,973
Corporate debt	1,975	2,147	1	4,123
Corporate equity	-	-	59	59
	34,699	24,562	61	59,322
Business and government Loans	-	-	1,586	1,586
Fair Value Liabilities				
Securities sold but not yet purchased	20,391	4,018	-	24,409
Structured note liabilities and other note liabilities	-	14,358	-	14,358
Annuity liabilities	-	792	-	792
	20,391	19,168	-	39,559
Derivative Assets				
Interest rate contracts	7	8,694	-	8,701
Foreign exchange contracts	12	12,641	-	12,653
Commodity contracts	153	2,064	-	2,217
Equity contracts	226	1,008	-	1,234
Credit default swaps	-	5	-	5
	398	24,412	-	24,810
Derivative Liabilities				
Interest rate contracts	9	7,985	-	7,994
Foreign exchange contracts	1	11,939	-	11,940
Commodity contracts	397	1,280	-	1,677
Equity contracts	221	2,608	-	2,829
Credit default swaps	-	40	-	40
	628	23,852	-	24,480

Classified under IAS 39:

(Canadian $ in millions)				October 31, 2017
	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	Total
Trading Securities				
Issued or guaranteed by:				
Canadian federal government	8,712	2,115	-	10,827
Canadian provincial and municipal governments	3,177	4,150	-	7,327
U.S. federal government	9,417	56	-	9,473
U.S. states, municipalities and agencies	189	1,942	-	2,131
Other governments	630	193	-	823
NHA MBS and U.S. agency MBS and CMO	-	931	-	931
Corporate debt	1,485	10,278	-	11,763
Loans	3	150	-	153
Corporate equity	55,640	1	-	55,641
	79,253	19,816	-	99,069
Available-for-Sale Securities				
Issued or guaranteed by:				
Canadian federal government	8,283	897	-	9,180
Canadian provincial and municipal governments	920	2,707	-	3,627
U.S. federal government	14,269	-	-	14,269
U.S. states, municipalities and agencies	18	4,077	1	4,096
Other governments	2,290	1,268	-	3,558
NHA MBS and U.S. agency MBS and CMO	-	13,216	-	13,216
Corporate debt	1,551	2,972	2	4,525
Corporate equity	37	126	1,441	1,604
	27,368	25,263	1,444	54,075
Other Securities	-	-	333	333
Fair Value Liabilities				
Securities sold but not yet purchased	22,992	2,171	-	25,163
Structured note liabilities and other note liabilities	-	13,674	-	13,674
Annuity liabilities	-	749	-	749
	22,992	16,594	-	39,586
Derivative Assets				
Interest rate contracts	4	9,223	-	9,227
Foreign exchange contracts	17	17,196	-	17,213
Commodity contracts	232	846	-	1,078
Equity contracts	93	1,333	-	1,426
Credit default swaps	-	7	-	7
	346	28,605	-	28,951
Derivative Liabilities				
Interest rate contracts	7	8,309	-	8,316
Foreign exchange contracts	6	14,967	-	14,973
Commodity contracts	239	835	-	1,074
Equity contracts	166	3,220	-	3,386
Credit default swaps	-	55	-	55
	418	27,386	-	27,804

Significant Transfers

Our policy is to record transfers of assets and liabilities between fair value hierarchy levels at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Transfers between the various fair value hierarchy levels reflect changes in the availability of quoted market prices or observable market inputs that result from changes in 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, 2018.

During the three and nine months ended July 31, 2018, $960 million and $2,165 million, respectively, of trading securities, $304 million and $679 million, respectively, of FVTPL securities, and $976 million and $1,823 million, respectively, of FVOCI securities were transferred from Level 1 to Level 2 due to reduced observability of the inputs used to value these securities. During the three and nine months ended July 31, 2018, $896 million and $3,104 million, respectively, of trading securities, $41 million and $479 million, respectively, of FVTPL securities and $865 million and $3,481 million, respectively, of FVOCI securities were transferred from Level 2 to Level 1 due to increased availability of quoted prices in active markets.

Changes in Level 3 Fair Value Measurements

The table below presents a reconciliation of all changes in Level 3 financial instruments during the three and nine months ended July 31, 2018, including realized and unrealized gains (losses) included in earnings and other comprehensive income.

For the three months ended July 31, 2018 (Canadian $ in millions)	Balance April 30, 2018	Change in fair value: Included in earnings	Change in fair value: Included in other comprehensive income (1)	Issuances/ Purchases	Sales	Maturities/ Settlement	Transfers into Level 3	Transfers out of Level 3	Fair Value as at July 31, 2018	Change in unrealized gains (losses) recorded in income for instruments still held (2)
FVTPL securities										
Corporate debt	-	-	-	-	-	-	-	-	-	-
Corporate equity	1,684	8	15	107	(55)	-	-	-	1,759	(7)
Total FVTPL securities	1,684	8	15	107	(55)	-	-	-	1,759	(7)
FVOCI securities										
Issued or guaranteed by:										
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na
Corporate debt	1	-	-	-	-	-	-	-	1	na
Corporate equity	59	-	-	-	-	-	-	-	59	na
Total FVOCI securities	61	-	-	-	-	-	-	-	61	na
Business and government Loans (3)	1,749	2	19	106	-	(290)	-	-	1,586	-

(1) Foreign exchange translation on financial instruments held by foreign subsidiaries is included in other comprehensive income, net foreign operations.

(2) Changes in unrealized gains or losses on FVTPL securities still held on July 31, 2018 are included in earnings in the period.

(3) Business and government loans were reclassified from amortized cost to FVTPL as a result of IFRS 9 adoption.

na – Not applicable

For the nine months ended July 31, 2018 (Canadian $ in millions)	Balance November 1, 2017	Change in fair value: Included in earnings	Change in fair value: Included in other comprehensive income (1)	Issuances/ Purchases	Sales	Maturities/ Settlement	Transfers into Level 3	Transfers out of Level 3 (2)	Fair Value as at July 31, 2018	Change in unrealized gains (losses) recorded in income for instruments still held (3)
FVTPL securities										
Corporate debt (4)	73	-	(4)	5	-	-	-	(74)	-	-
Corporate equity (4)(5)	1,701	(8)	13	243	(126)	(2)	-	(62)	1,759	(5)
Total FVTPL	1,774	(8)	9	248	(126)	(2)	-	(136)	1,759	(5)
FVOCI securities										
Issued or guaranteed by:										
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na
Corporate debt	2	-	-	-	-	(1)	-	-	1	na
Corporate equity	-	-	-	59	-	-	-	-	59	na
Total FVOCI securities	3	-	-	59	-	(1)	-	-	61	na
Business and government Loans (6)	2,372	(9)	4	498	-	(1,279)	-	-	1,586	-

(1) Foreign exchange translation on financial instruments held by foreign subsidiaries is included in other comprehensive income, net foreign operations.

(2) Includes $62 million transferred out of Level 3 as a result of certain financial instruments being reclassified to amortized cost upon adoption of IFRS 9.

(3) Changes in unrealized gains or losses on FVTPL securities still held on July 31, 2018 are included in earnings in the period.

(4) Includes $73 million of debt instruments and $260 million of equity instruments reclassified from Other Securities to FVTPL as a result of IFRS 9 adoption.

(5) Includes $1,441 million of equity instruments reclassified from available-for-sale to FVTPL as a result of IFRS 9 adoption.

(6) Business and government loans were reclassified from amortized cost to FVTPL as a result of IFRS 9 adoption.

na – Not applicable

Note 9: Capital Management

Our objective is to maintain a strong capital position in a cost-effective structure that: is appropriate given our target regulatory capital ratios and internal assessment of required economic capital; is consistent with our target credit ratings; underpins our operating groups' business strategies; and supports depositor, investor and regulator confidence, while building long-term shareholder value.

As at July 31, 2018, we met OSFI's target capital ratios requirement, which includes a 2.5% Capital Conservation Buffer, a 1.0% Common Equity Surcharge for Domestic Systemically Important Banks ("D-SIBs"), a Countercyclical Buffer and a 1.5% Domestic Stability Buffer. Our capital position as at July 31, 2018 is detailed in the Capital Management section of Management's Discussion and Analysis of the Third Quarter 2018 Report to Shareholders.

Note 10: Employee Compensation

Stock Options

We did not grant any stock options during the three months ended July 31, 2018 and 2017. During the nine months ended July 31, 2018, we granted a total of 705,398 stock options (723,431 stock options during the nine months ended July 31, 2017). The weighted-average fair value of options granted during the nine months ended July 31, 2018 was $11.30 per option ($11.62 per option for the nine months ended July 31, 2017).

To determine the fair value of the stock option tranches (i.e. the portion that vests each year) on the grant date, the following ranges of values were used for each option pricing assumption:

For stock options granted during the nine months ended	**July 31, 2018**	July 31, 2017
Expected dividend yield	**4.1%**	4.3% - 4.4%
Expected share price volatility	**17.0% - 17.3%**	18.4% - 18.8%
Risk-free rate of return	**2.1%**	1.7% - 1.8%
Expected period until exercise (in years)	**6.5 - 7.0**	6.5 - 7.0
Exercise price ($)	**100.63**	96.90

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

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	
For the three months ended	**July 31, 2018**	July 31, 2017	**July 31, 2018**	July 31, 2017
Current service cost	**52**	59	**7**	8
Net interest (income) expense on net defined benefit (asset) liability	**(2)**	2	**11**	11
Administrative expenses	**1**	1	**-**	-
Benefits expense	**51**	62	**18**	19
Canada and Quebec pension plan expense	**21**	21	**-**	-
Defined contribution expense	**34**	33	**-**	-
Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	**106**	116	**18**	19

(Canadian $ in millions)

	Pension benefit plans		Other employee future benefit plans	
For the nine months ended	**July 31, 2018**	July 31, 2017	**July 31, 2018**	July 31, 2017
Current service cost	**157**	201	**22**	24
Net interest (income) expense on net defined benefit (asset) liability	**(6)**	6	**34**	35
Administrative expenses	**3**	4	**-**	-
Benefits expense	**154**	211	**56**	59
Canada and Quebec pension plan expense	**65**	64	**-**	-
Defined contribution expense	**124**	96	**-**	-
Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	**343**	371	**56**	59

Note 11: Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to our shareholders, after deducting total preferred shares dividends, by the daily average number of fully paid common shares outstanding throughout the period.

Diluted earnings per share is calculated in the same manner, with further adjustments made to reflect the dilutive impact of instruments convertible into our common shares.

The following tables present our 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, 2018	July 31, 2017	**July 31, 2018**	July 31, 2017
Net income attributable to bank shareholders	**1,536**	1,387	**3,755**	4,121
Dividends on preferred shares	**(50)**	(49)	**(141)**	(136)
Net income available to common shareholders	**1,486**	1,338	**3,614**	3,985
Weighted-average number of common shares outstanding (in thousands)	**640,400**	651,599	**643,937**	650,136
Basic earnings per share (Canadian $)	**2.32**	2.05	**5.61**	6.13

Diluted earnings per share

Net income available to common shareholders adjusted for impact of dilutive instruments	**1,486**	1,338	**3,614**	3,985
Weighted-average number of common shares outstanding (in thousands)	**640,400**	651,599	**643,937**	650,136
Effect of dilutive instruments				
Stock options potentially exercisable (1)	**5,925**	6,491	**5,560**	7,013
Common shares potentially repurchased	**(3,970)**	(4,374)	**(3,549)**	(4,623)
Weighted-average number of diluted common shares outstanding (in thousands)	**642,355**	653,716	**645,948**	652,526
Diluted earnings per share (Canadian $)	**2.31**	2.05	**5.59**	6.11

(1) In computing diluted earnings per share we excluded average stock options outstanding of 1,007,064 and 1,612,662 with a weighted-average exercise price of $132.86 and $120.44, respectively, for the three and nine months ended July 31, 2018 (1,415,164 and 1,344,740 with a weighted-average exercise price of $183.15 and $189.70, respectively, for the three and nine months ended July 31, 2017) as the average share price for the period did not exceed the exercise price.

Note 12: Income Taxes

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. Under the new legislation, in the first quarter of fiscal 2018 the U.S. net deferred tax asset was revalued by $483 million because of the lower income tax rate. This revaluation was based on estimates for certain income tax effects and may be updated in the future. The $483 million revaluation is comprised of a $425 million income tax expense to the Consolidated Statement of Income, and a $58 million income tax charge in Other Comprehensive Income and Shareholders' Equity for the nine months ended July 31, 2018. In addition, there was a reclassification to current tax assets of $101 million during the first quarter of fiscal 2018.

During the quarter, the Canada Revenue Agency ("CRA") reassessed us for income tax and interest of approximately $136 million and issued a new proposal to reassess us for further income tax and interest of approximately $33 million, in each case, in respect of certain 2013 Canadian corporate dividends. In addition, during the years ended October 31, 2017 and October 31, 2016, we were reassessed by the CRA for additional income taxes and interest of approximately $116 million and $76 million, respectively, for certain 2012 and 2011 Canadian corporate dividends. In its reassessments and proposed reassessment, the CRA denied dividend deductions on the basis that the dividends were received as part of a "dividend rental arrangement". The tax rules raised by the CRA in the reassessments and the proposed reassessment were prospectively addressed in the 2015 and 2018 Canadian Federal Budgets. It is possible that we may be reassessed for significant income tax for similar activities in 2014 and subsequent years. We remain of the view that our tax filing positions were appropriate and intend to challenge any reassessment.

Note 13: Operating Segmentation

Operating Groups

We conduct our business through three operating groups, each of which has a distinct mandate. Our operating groups are Personal and Commercial Banking ("P&C") (comprised of Canadian Personal and Commercial Banking ("Canadian P&C") and U.S. Personal and Commercial Banking ("U.S. P&C")), Wealth Management and BMO Capital Markets ("BMO CM"), along with a Corporate Services unit.

For additional information refer to Note 26 of the consolidated financial statements for the year ended October 31, 2017 on pages 194 to 196 of the Annual Report.

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

(Canadian $ in millions)

For the three months ended July 31, 2018	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
Net interest income	**1,402**	**994**	**212**	**135**	**(136)**	**2,607**
Non-interest revenue	**550**	**291**	**1,326**	**968**	**78**	**3,213**
Total Revenue	**1,952**	**1,285**	**1,538**	**1,103**	**(58)**	**5,820**
Provision for (recovery of) credit losses on impaired loans	**120**	**54**	**2**	**3**	**(2)**	**177**
Provision for (recovery of) credit losses on performing loans	**17**	**(14)**	**2**	**4**	**-**	**9**
Total provision for (recovery of) credit losses	**137**	**40**	**4**	**7**	**(2)**	**186**
Insurance claims, commissions and changes in policy benefit liabilities	**-**	**-**	**269**	**-**	**-**	**269**
Amortization	**81**	**111**	**56**	**32**	**-**	**280**
Non-interest expense	**868**	**672**	**819**	**666**	**81**	**3,106**
Income before taxes and non-controlling interest in subsidiaries	**866**	**462**	**390**	**398**	**(137)**	**1,979**
Provision for income taxes	**224**	**98**	**99**	**97**	**(75)**	**443**
Net Income	**642**	**364**	**291**	**301**	**(62)**	**1,536**
Non-controlling interest in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**
Net Income attributable to bank shareholders	**642**	**364**	**291**	**301**	**(62)**	**1,536**
Average Assets	**225,562**	**112,935**	**36,595**	**312,369**	**76,929**	**764,390**

For the three months ended July 31, 2017	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
Net interest income	1,335	894	181	219	(96)	2,533
Non-interest revenue	521	284	1,262	833	26	2,926
Total Revenue	1,856	1,178	1,443	1,052	(70)	5,459
Provision for (recovery of) credit losses (2)	119	77	5	(2)	(73)	126
Insurance claims, commissions and changes in policy benefit liabilities	-	-	253	-	-	253
Amortization	79	108	57	27	-	271
Non-interest expense	833	641	776	664	101	3,015
Income before taxes and non-controlling interest in subsidiaries	825	352	352	363	(98)	1,794
Provision for income taxes	212	84	83	82	(54)	407
Net Income	613	268	269	281	(44)	1,387
Non-controlling interest in subsidiaries	-	-	-	-	-	-
Net Income attributable to bank shareholders	613	268	269	281	(44)	1,387
Average Assets	218,830	102,621	33,003	304,015	65,039	723,508

(Canadian $ in millions)

For the nine months ended July 31, 2018	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
Net interest income	**4,120**	**2,833**	**616**	**512**	**(437)**	**7,644**
Non-interest revenue	**1,624**	**852**	**4,109**	**2,714**	**172**	**9,471**
Total Revenue	**5,744**	**3,685**	**4,725**	**3,226**	**(265)**	**17,115**
Provision for (recovery of) credit losses on impaired loans	**348**	**197**	**4**	**(14)**	**(12)**	**523**
Provision for (recovery of) credit losses on performing loans	**18**	**(56)**	**(1)**	**3**	**-**	**(36)**
Total provision for (recovery of) credit losses	**366**	**141**	**3**	**(11)**	**(12)**	**487**
Insurance claims, commissions and changes in policy benefit liabilities	**-**	**-**	**962**	**-**	**-**	**962**
Amortization	**242**	**338**	**172**	**92**	**-**	**844**
Non-interest expense	**2,609**	**1,888**	**2,457**	**1,996**	**595**	**9,545**
Income before taxes and non-controlling interest in subsidiaries	**2,527**	**1,318**	**1,131**	**1,149**	**(848)**	**5,277**
Provision for income taxes	**648**	**296**	**278**	**291**	**9**	**1,522**
Net Income	**1,879**	**1,022**	**853**	**858**	**(857)**	**3,755**
Non-controlling interest in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**
Net Income attributable to bank shareholders	**1,879**	**1,022**	**853**	**858**	**(857)**	**3,755**
Average Assets	**223,467**	**108,591**	**35,375**	**303,526**	**74,222**	**745,181**

For the nine months ended July 31, 2017	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
Net interest income	3,892	2,657	528	918	(523)	7,472
Non-interest revenue	1,667	794	4,002	2,536	134	9,133
Total Revenue	5,559	3,451	4,530	3,454	(389)	16,605
Provision for (recovery of) credit losses (2)	353	225	8	40	(82)	544
Insurance claims, commissions and changes in policy benefit liabilities	-	-	965	-	-	965
Amortization	223	328	179	88	-	818
Non-interest expense	2,482	1,891	2,331	2,011	422	9,137
Income before taxes and non-controlling interest in subsidiaries	2,501	1,007	1,047	1,315	(729)	5,141
Provision for income taxes	614	250	255	356	(457)	1,018
Net Income	1,887	757	792	959	(272)	4,123
Non-controlling interest in subsidiaries	-	-	2	-	-	2
Net Income attributable to bank shareholders	1,887	757	790	959	(272)	4,121
Average Assets	216,617	104,548	32,319	305,019	66,422	724,925

(1) Corporate Services includes Technology and Operations.

(2) 2017 has not been restated to reflect the adoption of IFRS 9.

We analyze revenue on a taxable equivalent basis ("teb") at the operating group level. Revenue and the provision for income taxes are increased on tax-exempt securities to an equivalent before-tax basis to facilitate comparisons of income between taxable and tax-exempt sources. The offset to the groups' teb adjustments is reflected in Corporate Services revenue and provision for income taxes.

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

Note 14: Contractual Maturities of Assets and Liabilities and Off-Balance Sheet Commitments

The tables below show the remaining contractual maturity of on-balance sheet assets and liabilities and off-balance sheet commitments. The contractual maturity of financial assets and liabilities is an input to but is not necessarily consistent with the expected maturity of assets and liabilities that is used in the management of liquidity and funding risk. We forecast asset and liability cash flows under both normal market conditions and under a number of stress scenarios to manage liquidity and funding risk. Stress scenarios include assumptions for loan repayments, deposit withdrawals, and credit commitment and liquidity facility drawdowns by counterparty and product type. Stress scenarios also consider the time horizon and amount for which liquid assets can be monetized and potential collateral requirements that may occur due to both market volatility and credit rating downgrades amongst other assumptions. For further details, see the Liquidity and Funding Risk Section on pages 99 to 105 of our 2017 Annual Report.

(Canadian $ in millions)										July 31, 2018
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
On-Balance Sheet Financial Instruments										
Assets										
Cash and Cash Equivalents	40,087	-	-	-	-	-	-	-	985	41,072
Interest Bearing Deposits with Banks	4,524	1,242	1,034	411	426	-	-	-	-	7,637
Securities	4,321	3,650	5,850	4,419	8,163	11,058	28,051	51,639	50,167	167,318
Securities Borrowed or Purchased under Resale Agreements	76,803	21,221	2,685	707	263	-	-	-	-	101,679
Loans										
Residential mortgages	2,844	2,835	3,447	4,456	6,446	21,664	65,423	11,621	-	118,736
Consumer instalment and other personal	728	655	785	1,001	1,307	4,746	20,007	9,429	23,827	62,485
Credit cards	-	-	-	-	-	-	-	-	8,236	8,236
Business and government	11,498	7,035	5,876	4,833	23,733	19,259	71,608	11,690	32,432	187,964
Allowance for credit losses	-	-	-	-	-	-	-	-	(1,660)	(1,660)
Total Loans, net of allowance	15,070	10,525	10,108	10,290	31,486	45,669	157,038	32,740	62,835	375,761
Other assets										
Derivative instruments	2,949	2,475	2,023	870	704	2,563	5,758	7,468	-	24,810
Customers' liability under acceptances	15,398	2,408	64	1	3	-	-	-	-	17,874
Other	1,551	343	311	21	9	12	21	4,889	22,010	29,167
Total Other Assets	19,898	5,226	2,398	892	716	2,575	5,779	12,357	22,010	71,851
Total Assets	160,703	41,864	22,075	16,719	41,054	59,302	190,868	96,736	135,997	765,318
Liabilities and Equity										
Deposits (1)										
Banks	14,747	8,823	1,439	156	218	-	-	-	3,087	28,470
Business and government	27,759	24,186	23,736	13,149	12,279	18,567	47,962	13,379	121,047	302,064
Individuals	2,437	5,721	8,107	8,055	8,572	10,709	16,615	2,191	113,975	176,382
Total Deposits	44,943	38,730	33,282	21,360	21,069	29,276	64,577	15,570	238,109	506,916
Other liabilities										
Derivative instruments	2,997	2,979	1,498	1,161	621	3,015	5,490	6,719	-	24,480
Acceptances	15,398	2,408	64	1	3	-	-	-	-	17,874
Securities sold but not yet purchased	24,409	-	-	-	-	-	-	-	-	24,409
Securities lent or sold under repurchase agreements	79,013	4,020	438	-	-	-	-	-	-	83,471
Securitization and structured entities' liabilities	-	681	2,078	510	514	4,102	12,312	3,348	-	23,545
Other	7,554	5,288	166	52	161	726	4,353	2,268	13,681	34,249
Total Other Liabilities	129,371	15,376	4,244	1,724	1,299	7,843	22,155	12,335	13,681	208,028
Subordinated Debt	-	-	-	-	-	-	-	5,618	-	5,618
Total Equity	-	-	-	-	-	-	-	-	44,756	44,756
Total Liabilities and Equity	174,314	54,106	37,526	23,084	22,368	37,119	86,732	33,523	296,546	765,318

(1) Deposits payable on demand and payable after notice have been included under no maturity.

(Canadian $ in millions)										July 31, 2018
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
Off-Balance Sheet Commitments										
Commitments to extend credit (1)	838	4,280	6,135	4,807	12,317	21,678	77,423	2,604	-	130,082
Backstop liquidity facilities	-	-	-	-	-	-	5,647	-	-	5,647
Operating leases	34	67	95	93	91	345	703	1,009	-	2,437
Securities lending	5,161	-	-	-	-	-	-	-	-	5,161
Purchase obligations	50	102	149	144	143	574	302	60	-	1,524

(1) 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.

(Canadian $ in millions)										October 31, 2017
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
On-Balance Sheet Financial Instruments										
Assets										
Cash and Cash Equivalents	31,641	-	-	-	-	-	-	-	958	32,599
Interest Bearing Deposits with Banks	3,784	1,579	626	319	182	-	-	-	-	6,490
Securities	3,620	2,917	5,933	5,845	3,625	7,675	22,842	52,615	58,126	163,198
Securities Borrowed or Purchased under Resale Agreements	57,919	13,236	2,353	1,241	249	49	-	-	-	75,047
Loans										
Residential mortgages	1,045	1,551	4,531	7,687	6,201	19,866	65,547	8,830	-	115,258
Consumer instalment and other personal	517	371	1,084	1,374	1,285	4,211	20,845	8,590	23,667	61,944
Credit cards	-	-	-	-	-	-	-	-	8,071	8,071
Business and government	13,379	7,352	6,454	6,169	18,694	17,948	63,614	11,380	30,077	175,067
Allowance for credit losses	-	-	-	-	-	-	-	-	(1,833)	(1,833)
Total Loans, net of allowance	14,941	9,274	12,069	15,230	26,180	42,025	150,006	28,800	59,982	358,507
Other Assets										
Derivative instruments	1,701	3,748	1,580	1,229	1,306	3,272	7,426	8,689	-	28,951
Customers’ liability under acceptances	14,179	2,263	104	-	-	-	-	-	-	16,546
Other	1,340	475	129	17	11	11	131	4,431	21,697	28,242
Total Other Assets	17,220	6,486	1,813	1,246	1,317	3,283	7,557	13,120	21,697	73,739
Total Assets	129,125	33,492	22,794	23,881	31,553	53,032	180,405	94,535	140,763	709,580
Liabilities and Equity										
Deposits (1)										
Banks	12,462	9,321	2,633	496	25	-	-	-	3,268	28,205
Business and government	23,917	25,224	19,112	12,897	10,806	16,522	42,707	15,712	116,379	283,276
Individuals	3,835	5,081	5,569	5,662	7,999	9,098	15,811	2,075	113,181	168,311
Total Deposits	40,214	39,626	27,314	19,055	18,830	25,620	58,518	17,787	232,828	479,792
Other Liabilities										
Derivative instruments	1,876	3,227	1,512	1,510	1,206	3,477	6,885	8,111	-	27,804
Acceptances	14,179	2,263	104	-	-	-	-	-	-	16,546
Securities sold but not yet purchased	25,163	-	-	-	-	-	-	-	-	25,163
Securities lent or sold under repurchase agreements	53,165	1,644	290	20	-	-	-	-	-	55,119
Securitization and structured entities' liabilities	10	709	1,523	556	845	3,931	11,812	3,668	-	23,054
Other	12,616	2,536	517	43	239	752	154	2,361	13,501	32,719
Total Other Liabilities	107,009	10,379	3,946	2,129	2,290	8,160	18,851	14,140	13,501	180,405
Subordinated Debt	-	-	-	-	-	-	-	5,029	-	5,029
Total Equity	-	-	-	-	-	-	-	-	44,354	44,354
Total Liabilities and Equity	147,223	50,005	31,260	21,184	21,120	33,780	77,369	36,956	290,683	709,580

(1) Deposits payable on demand and payable after notice have been included as having no maturity.

(Canadian $ in millions)										October 31, 2017
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
Off-Balance Sheet Commitments										
Commitments to extend credit (1)	1,377	2,302	4,755	8,312	14,560	21,985	71,481	2,283	-	127,055
Backstop liquidity facilities	-	-	-	-	-	-	5,044	-	-	5,044
Operating leases	31	62	91	89	87	329	712	1,032	-	2,433
Securities lending	5,336	-	-	-	-	-	-	-	-	5,336
Purchase obligations	42	83	128	124	129	519	577	157	-	1,759

(1) 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.

Note 15: Future Acquisition – KGS-Alpha Capital Markets ("KGS")

On May 1, 2018, we entered into an agreement to acquire KGS, a U.S. fixed income broker-dealer specializing in U.S. mortgage and asset-backed securities in the institutional investor market. The acquisition is expected to close in the fourth quarter of fiscal 2018. Upon closing, KGS will form part of our Capital Markets reporting segment. The impact of this acquisition is not expected to be material to the Bank.

INVESTOR AND MEDIA PRESENTATION

Investor Presentation Materials

Interested parties are invited to visit our website at www.bmo.com/investorrelations to review our 2017 Annual MD&A and audited annual consolidated financial statements, quarterly presentation materials and supplementary financial information package.

Quarterly Conference Call and Webcast Presentations

Interested parties are also invited to listen to our quarterly conference call on Tuesday, August 28, 2018, 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 416-641-2144 (from within Toronto) or 1-888-789-9572 (toll-free outside Toronto) Passcode: 5126346. A replay of the conference call can be accessed until Monday, December 3, 2018, by calling 905-694-9451 (from within Toronto) or 1-800-408-3053 (toll-free outside Toronto) and entering Passcode: 5740558.

A live webcast of the call can be accessed on our website at www.bmo.com/investorrelations. A replay can also be accessed on the site.

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Christine Viau, Director, Investor Relations, christine.viau@bmo.com, 416-867-6956

Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan)

Average market price as defined under the Plan
May 2018: $101.54
June 2018: $101.80
July 2018: $104.05

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

Computershare Trust Company of Canada
100 University Avenue, 8th 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

For other shareholder information, including the notice for our normal course issuer bid, please contact

Bank of Montreal
Shareholder Services
Corporate Secretary's Department
One First Canadian Place, 21st Floor
Toronto, Ontario M5X 1A1
Telephone: (416) 867-6785
Fax: (416) 867-6793
E-mail: corp.secretary@bmo.com

For further information on this document, please contact

Bank of Montreal
Investor Relations Department
P.O. Box 1, One First Canadian Place, 10th Floor
Toronto, Ontario M5X 1A1

To review financial results and regulatory filings and disclosures online, please visit our website at www.bmo.com/investorrelations.

Our 2017 Annual MD&A, audited annual consolidated financial statements and annual report on Form 40-F (filed with the U.S. Securities and Exchange Commission) are available online at www.bmo.com/investorrelations and at www.sedar.com. Printed copies of the bank's complete 2017 audited financial statements are available free of charge upon request at 416-867-6785 or corp.secretary@bmo.com.

Annual Meeting 2019

The next Annual Meeting of Shareholders will be held on Tuesday, April 2, 2019 in Toronto, Ontario.
