

# BMO Financial Group Reports Third Quarter 2021 Results

## REPORT TO SHAREHOLDERS

BMO's Third Quarter 2021 Report to Shareholders, including the unaudited interim consolidated financial statements for the period ended July 31, 2021, is available online at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations) and at [www.sedar.com](http://www.sedar.com).

## Financial Results Highlights

### Third Quarter 2021 Compared With Third Quarter 2020:

- Net income of \$2,275 million, an increase of 85%; adjusted net income<sup>1,4</sup> of \$2,292 million, an increase of 82%
- Reported EPS<sup>2</sup> of \$3.41, an increase of 89%; adjusted EPS<sup>1,2,4</sup> of \$3.44, an increase of 86%
- Recovery of credit losses of \$70 million, compared with a provision for credit losses (PCL) of \$1,054 million
- Reported net efficiency ratio<sup>3</sup> of 56.0%, compared with 57.4%; adjusted net efficiency ratio<sup>1,3,4</sup> of 55.7%, compared with 56.8%
- Return on equity (ROE) of 17.5%, an increase from 9.4%; adjusted ROE<sup>1,4</sup> of 17.6%, an increase from 9.6%
- Common Equity Tier 1 Ratio of 13.4%, an increase from 11.6% in the prior year

### Year-to-Date 2021 Compared With Year-to-Date 2020:

- Net income of \$5,595 million, an increase of 59%; adjusted net income<sup>1,4,5</sup> of \$6,425 million, an increase of 79%
- Reported EPS<sup>2</sup> of \$8.35, an increase of 61%; adjusted EPS<sup>1,2,4,5</sup> of \$9.63, an increase of 82%
- PCL of \$146 million, compared with \$2,521 million
- Reported net efficiency ratio<sup>3</sup> of 60.6%, compared with 60.8%; adjusted net efficiency ratio<sup>1,3,4,5</sup> of 56.2%, compared with 60.2%
- ROE of 14.5%, an increase from 9.3%; adjusted ROE<sup>1,4,5</sup> of 16.7%, an increase from 9.5%

**Toronto, August 24, 2021** – For the third quarter ended July 31, 2021, BMO Financial Group recorded net income of \$2,275 million or \$3.41 per share on a reported basis, and net income of \$2,292 million or \$3.44 per share on an adjusted basis.

“Operating momentum across our diversified businesses continues to drive strong financial performance. We recorded third quarter adjusted earnings per share of \$3.44, with strong pre-provision pre-tax earnings of \$2.9 billion, up 12% year-over-year, driven by revenue growth of 10%,” said Darryl White, Chief Executive Officer, BMO Financial Group.

“We are executing strategies and investing in our businesses to deliver strong returns and efficiency improvements, which this quarter, delivered positive operating leverage of 2.1%, an efficiency ratio of 55.7%, a 110 basis point improvement from last year, and return on equity of 17.6%. Our leadership in risk and balance sheet management remains a key differentiator and contributed to continued strong credit metrics and a robust capital position with a CET1 ratio of 13.4%.”

“Our consistent financial performance enables us to deliver on our vision for a sustainable future. This quarter, we continued to advance our work to address the impact of climate change and champion inclusivity, and made a long-term pledge to supporting the development of affordable housing. With the economic recovery continuing to take hold, and as communities adapt to the most recent pandemic developments, we are committed to helping our clients make real financial progress and supporting their growth ambitions.” concluded Mr. White.

(1) Results and measures in this document are presented on a GAAP basis. They are also presented on an adjusted basis that excluded 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 deducting total dividends on preferred shares and distributions payable on other equity instruments.

(3) On a basis that nets insurance claims, commissions and changes in policy benefit liabilities (CCPB) against insurance revenue.

(4) Q3-2021 reported net income included expenses of \$18 million (\$24 million pre-tax) from the impact of divestitures related to the announced sale of our EMEA Asset Management business and the sale of our Private Banking business in Hong Kong and Singapore, offset by a partial reversal of restructuring charges recorded in Q4-2019 related to severance of \$18 million (\$24 million pre-tax), all recorded in non-interest expense, in Corporate Services.

(5) Q2-2021 reported net income included a \$747 million pre-tax and after-tax write-down of goodwill related to the announced sale of our EMEA Asset Management business, a \$22 million (\$29 million pre-tax) net gain on the sale of our Private Banking business in Hong Kong and Singapore, and \$47 million (\$53 million pre-tax) of divestiture-related costs for both transactions. The net gain on the sale was included in revenue with the goodwill write-down and divestiture costs included in non-interest expense, all recorded in Corporate Services.

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

Adjusted results in the current quarter excluded the impact of divestitures and a partial reversal of restructuring charges recorded in the fourth quarter of 2019, related to severance. Adjusted results also excluded the amortization of acquisition-related intangible assets and acquisition integration costs in both the current and prior years. Reported and adjusted net income increased from the prior year, driven by net revenue growth of 10%, higher expenses, including higher performance-based compensation reflective of strong revenue, and the impact of lower provisions for credit losses. Net income increased across all operating groups.

Return on equity (ROE) was 17.5%, an increase from 9.4% in the prior year, and adjusted ROE was 17.6%, an increase from 9.6%. Reported and adjusted return on tangible common equity (ROTCE) were both 19.8% in the current quarter, an increase from 11.1% on both a reported and an adjusted basis in the prior year.

Concurrent with the release of results, BMO announced a fourth quarter 2021 dividend of \$1.06 per common share, unchanged from the prior quarter and the prior year. The quarterly dividend of \$1.06 per common share is equivalent to an annual dividend of \$4.24 per common share.

## Third Quarter Performance Review

### Canadian P&C

Reported and adjusted net income were \$815 million, both increasing \$496 million from the prior year. Results were driven by a 14% increase in revenue with higher net interest income and non-interest revenue, higher expenses and a decrease in the provision for credit losses.

During the quarter, we were named Best Commercial Bank in Canada by *World Finance* magazine for the seventh consecutive year, recognized for our innovative and client-centric approach, commitment to digital transformation and experience, and holistic understanding of market trends and changing client needs – especially during the COVID-19 pandemic. This award speaks to our continued focus and commitment to our clients, and our expertise across industries to meet clients' evolving and unique needs. In addition, to help our business clients through the challenging times brought on by the pandemic, we extended our Lifeworks Wellness Assistance Program to Canadian Business Banking clients across Canada, at no additional cost.

### U.S. P&C

Reported net income was \$553 million, an increase of \$290 million from the prior year, and adjusted net income was \$559 million, an increase of \$286 million.

Reported net income was US\$448 million, an increase of US\$256 million from the prior year, and adjusted net income was US\$453 million, an increase of US\$254 million. Results were driven by a 7% increase in revenue with higher net interest income and non-interest revenue, modestly higher expenses and a decrease in the provision for credit losses.

During the quarter, BMO Harris Bank and Lively, Inc. (Lively), creators of the modern Health Savings Account (HSA), announced that they will bring a modern HSA experience to eligible individual BMO customers and commercial banking clients. Beginning this fall, new HSAs will be delivered by Lively, providing BMO customers with a more engaging HSA experience, designed to help them make real financial progress through more powerful health savings tools.

### BMO Wealth Management

Reported net income was \$401 million, an increase of \$60 million or 18% from the prior year, and adjusted net income was \$406 million, an increase of \$57 million or 16%. Results were driven by an 11% increase in net revenue, partially offset by higher expenses. Traditional Wealth reported net income was \$328 million, an increase of \$57 million or 21%, and adjusted net income was \$333 million, an increase of \$54 million or 19%, driven by higher revenue, primarily from growth in client assets, including stronger global markets, partially offset by higher expenses. Insurance net income was \$73 million, relatively unchanged from the prior year.

BMO has been recognized as the Best Private Bank by *World Finance* magazine for the eleventh consecutive year. This award speaks to BMO Private Wealth's dedicated support to our clients and their families, as they navigate the complexity of managing their wealth during times of uncertainty. In addition, BMO Global Asset Management (BMO GAM) Canada was recognized at the Responsible Investment Association's 2021 Leadership Awards, receiving top honours in the Stewardship and Market Education categories. BMO GAM won the Stewardship Award for our work to accelerate Canadian diversity and inclusion beyond gender, and the Market Education Award for the development and launch of the MyESG™ analytics tool, a first-of-its-kind self-assessment tool that enables financial advisors to better achieve our clients' ESG objectives.

### BMO Capital Markets

Reported net income was \$558 million, an increase of \$132 million or 31% from the prior year, and adjusted net income was \$564 million, an increase of \$129 million or 30%. Results were driven by continued strong revenue performance, with higher Investment and Corporate Banking revenue partially offset by lower Global Markets revenue, higher expenses driven by increased performance-based compensation, and a recovery of credit losses, compared with elevated levels of provisions in the prior year.

During the quarter, BMO Capital Markets announced it is establishing a dedicated Energy Transition Group to support our clients in their pursuit of energy transition opportunities. This new group is expected to accelerate BMO Capital Markets' participation in the economy's energy transition by providing knowledge, tools and support our industry groups as we engage with clients on their energy transition endeavors. We also continue to leverage our deep industry expertise and insights across different sectors to support our clients, and acted as left lead arranger and left lead bookrunner to support OMERS' buyout of Gastro Health.

### Corporate Services

Reported and adjusted net loss for the quarter were \$52 million, compared with a reported and adjusted net loss of \$117 million in the prior year. Adjusted results increased due to higher revenue, driven by higher securities gains and treasury-related activities, partially offset by higher expenses.

Adjusted results in this Third Quarter Performance Review section are non-GAAP amounts or non-GAAP measures. Please refer to the Non-GAAP Measures section.

The order in which the impact on net income is discussed in this section, and elsewhere in the MD&A, follows the order of revenue, expenses and provision for credit losses, regardless of their relative impact.

## Capital

BMO's Common Equity Tier 1 (CET1) Ratio was 13.4% as at July 31, 2021, an increase from 13.0% at the end of the second quarter of fiscal 2021, driven by retained earnings growth.

## Credit Quality

Total recovery of credit losses was \$70 million, compared with a provision for credit losses of \$1,054 million in the prior year. The total recovery of credit losses ratio was 6 basis points, compared with a provision for credit losses ratio of 89 basis points in the prior year. The provision for credit losses on impaired loans was \$71 million, a decrease of \$375 million from \$446 million in the prior year, largely due to lower commercial provisions in our P&C businesses, and in BMO Capital Markets. The provision for credit losses on impaired loans ratio was 6 basis points, compared with 38 basis points in the prior year. There was a \$141 million recovery of credit losses on performing loans in the current quarter, compared with a \$608 million provision in the prior year. The \$141 million recovery of credit losses in the current quarter reflected an improving economic outlook and positive credit migration, partially offset by the impact of the uncertain economic environment on future credit conditions, as well as balance growth, while the \$608 million provision in the prior year reflected the impact of the extraordinary and highly uncertain environment on credit conditions, the economy and scenario weights.

Refer to the Accounting Policies and Critical Accounting Estimates section and Note 3 in our unaudited interim consolidated financial statements for further information on the allowance for credit losses as at July 31, 2021.

## Supporting a Sustainable and Inclusive Recovery

At BMO, we have a long-standing commitment to support a sustainable future, a thriving economy and an inclusive society, and we are acting with purpose. In support of our customers, communities and employees, BMO recently:

- Announced a \$12 billion commitment to finance affordable housing in Canada over a 10-year period.
- Deployed loans and investments as part of BMO EMpower™, a US\$5 billion commitment over five years to address key barriers faced by minority businesses, communities and families in the United States.
- Pledged \$200,000 in grants to women-owned businesses in Canada and the United States through BMO Celebrating Women, a bank-owned recognition program for women in North America.
- Continued to support economic self-sufficiency of Indigenous communities, creating a long-term partnership with the Native Women's Association of Canada and making eLearning available to help foster greater understanding of Indigenous perspectives through education.
- Assisted customers experiencing financial hardship caused by the COVID-19 pandemic, including facilitating access to relief programs introduced by the Canadian and U.S. governments, such as the Canada Emergency Business Account (CEBA) program, the Highly Affected Sector Credit Availability Program (HASCAP) and the Trade Expansion Lending Program (TELP) in Canada, and the Paycheck Protection Program (PPP) in the United States.

## Regulatory Filings

BMO's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and audited annual consolidated financial statements, Annual Information Form and Notice of Annual Meeting of Shareholders and Proxy Circular, are available on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations), on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com), and on the EDGAR section of the U.S. Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). Information contained in or otherwise accessible through our website ([www.bmo.com](http://www.bmo.com)), or any third party websites mentioned herein, does not form part of this document.

## Caution

The extent to which the COVID-19 pandemic impacts BMO's business, results of operations, reputation, financial performance and condition, including the potential for credit, counterparty and mark-to-market losses, its credit ratings and regulatory capital and liquidity ratios, as well as impacts to its customers and competitors will depend on future developments. Such developments are highly uncertain and cannot be predicted, including the scope, severity and duration of the pandemic and actions taken by third parties, governments, and governmental and regulatory authorities, which could vary by country and region. The COVID-19 pandemic may also impact the bank's ability to achieve, or the timing to achieve, certain previously announced targets, goals and objectives. For additional information, refer to the Top and Emerging Risks That May Affect Future Results section on page 34 in this document.

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

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**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.**

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# Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) commentary is as at August 24, 2021. 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, 2021, included in this document, as well as the audited consolidated financial statements for the year ended October 31, 2020, and the MD&A for fiscal 2020, contained in BMO's 2020 Annual Report.

BMO's 2020 Annual Report includes a comprehensive discussion of its businesses, strategies and objectives, and can be accessed on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations). Readers are also encouraged to visit the site to view other quarterly financial information.

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Bank of Montreal's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness, as at July 31, 2021, of Bank of Montreal's disclosure controls and procedures (as defined in the rules of the U.S. 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, 2021, 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 and recommended this document, and Bank of Montreal's Board of Directors approved the document prior to its release.

## 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 in this document may include, but are not limited to, statements with respect to our objectives and priorities for fiscal 2021 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, the regulatory environment in which we operate and the results of or outlook for our operations or for the Canadian, U.S. and international economies, the expected impact of the COVID-19 pandemic on our business, operations, earnings, results, and financial performance and condition, as well as its impact on our customers, competitors, reputation and trading exposures, and include statements of our management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "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. The uncertainty created by the COVID-19 pandemic has heightened this risk given the increased challenge in making assumptions, 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: the severity, duration and spread of the COVID-19 pandemic, its impact on local, national or international economies, and its heightening of certain risks that may affect our future results; the possible impact on our business and operations of outbreaks of disease or illness that affect local, national or international economies; general economic and market conditions in the countries in which we operate; information, privacy and cyber security, including the threat of data breaches, 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; changes in monetary, fiscal, or economic policy, and tax legislation and interpretation; interest rate and currency value fluctuations, as well as benchmark interest rate reforms; technological changes and technology resiliency; political conditions, including changes relating to or affecting economic or trade matters; the Canadian housing market and consumer leverage; climate change and other environmental and social risks; weak, volatile or illiquid capital or credit markets; 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; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans and to complete proposed acquisitions or dispositions, 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, including with respect to reliance on third parties; changes to our credit ratings; global capital markets activities; the possible effects on our business of war or terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; 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 refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, legal and regulatory, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section that starts on page 73 of BMO's 2020 Annual Report, and the Risk Management section that starts on page 34 in this document, all of which outline certain key factors and risks that may affect our 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. We do 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 Economic Developments and Outlook section on page 18 of BMO's 2020 Annual Report and updated in the Economic Review and Outlook section set forth in this document, as well as in the Allowance for Credit Losses section on page 114 of BMO's 2020 Annual Report and the Allowance for Credit Losses 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, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy. Please refer to the Economic Review and Outlook and Allowance for Credit Losses sections.

## Economic Review and Outlook

After contracting 5.3% in calendar 2020, Canada's economy is expected to expand 6.0% in calendar 2021, the most since 1973. This is despite economic growth slowing in the spring of 2021, as new restrictions were put in place to suppress a resurgence in COVID-19 cases. Nonetheless, the economy has shown resilience to earlier restrictions, with support from higher commodity prices, stronger U.S. demand, and record housing market activity. Despite a recent upturn in COVID-19 cases, Canada's aggressive vaccine distribution should limit the pressure on the medical care system, reducing the risk of significant new restrictions and allowing the economy to return to very strong growth in the second half of 2021. Activity will be assisted by new measures introduced in the federal budget, sizeable household savings, and substantial pent-up demand for travel, dining and personal-care services. Exports should benefit from higher-valued commodities and a recovering global economy, with the Euro Area anticipated to rebound after contracting at the turn of the year. Housing market activity will likely remain elevated, though some moderation is expected due to weakening affordability and a recent increase in the minimum qualifying rate on mortgages. The unemployment rate is expected to decline from 7.5% in July 2021 to below 6% at the end of 2022. To support the economic recovery, the Bank of Canada is projected to hold the overnight policy rate near zero until the fall of 2022. While the annual rate of consumer price index inflation has risen to a 18-year high of 3.7% in July 2021, led by higher energy costs, it is expected to moderate in 2022. The Canadian dollar was one of the best-performing currencies in the first half of the year, but it has weakened recently amid concern that the Delta variant of the coronavirus will slow the global economy, resulting in increased safe-haven demand for U.S. dollars. However, supported by elevated energy and other commodity prices, the Canadian dollar should resume rising if the global recovery remains intact. Industry-wide residential mortgage balances are expected to continue rising strongly in response to low mortgage rates, higher home prices, and improved employment, though the rate of growth will likely moderate alongside the housing market in coming quarters. While growth in consumer credit balances (excluding mortgages) has been held back by restrained consumer spending, it is anticipated to improve along with spending as pandemic-related restrictions are lifted. Industry-wide, non-financial corporate credit accelerated during the early stages of the pandemic as businesses built up precautionary balances, but has now moderated to a more gradual pace amid a reduced need for liquidity. Business credit is expected to increase moderately in the year ahead as business confidence and investment improve.

The U.S. economy weathered the pandemic better than most advanced countries, contracting 3.4% in calendar 2020, and it is expected to grow 6.0% in calendar 2021, the fastest rate in nearly four decades. Most pandemic-related constraints were lifted by mid-year and around one-half of the population is fully vaccinated, which may reduce the prospect of material new restrictions, notwithstanding some degree of vaccine hesitancy. Substantial fiscal stimulus, pent-up demand, and elevated household savings are expected to drive activity this year, though supply shortages and some increase in consumer anxiety about the latest wave of virus caseloads will temper the overall pace of growth. Two major rounds of fiscal stimulus were passed into law earlier this year, and additional proposed spending on infrastructure projects, childcare, and education should provide some additional support to the economy in the year ahead, though with a potential partial offset from higher taxes. Business spending is on the upswing, with non-residential investment surpassing pre-pandemic levels. Housing market activity, though moderating, is expected to remain strong in 2021 as a result of low interest rates and continued demand from Millennials. The unemployment rate is projected to fall from 5.4% in July 2021 to below 4% in late 2022. To support the recovery in labour markets, the Federal Reserve is expected to hold policy rates steady until early 2023. Though declining recently on concern about the global economic recovery, longer-term treasury yields are projected to increase moderately in response to strong economic growth and higher inflation. Rising commodity prices, supply shortages, a rebound in the cost of travel-related services, and low base-year effects have lifted the annual rate of the consumer price index to a 13-year high of 5.4% in July 2021. We expect the inflation rate to rise somewhat further this year, before falling below 3% in late 2022 as some of the near-term price pressures subside. Industry-wide residential mortgage growth will likely remain brisk in the near term due to supportive housing market activity. Consumer credit growth has been constrained by fiscal support programs, elevated household savings, and limited consumption of in-person services, but it should benefit from increased personal spending ahead. After rising strongly in the early stages of the pandemic, industry-wide nonfinancial corporate credit growth has been subdued recently, but it is expected to accelerate moderately as business confidence and investment strengthen.

The unpredictable course of the pandemic subjects the economic outlook to a high degree of uncertainty that is likely to persist until vaccines are more widely distributed to the global population. The Delta variant is currently resulting in an upturn in virus cases in many countries. A more severe mutation of the virus could lead to increased hospitalizations and the need for renewed shutdowns of business activity, potentially causing a sustained economic contraction. Other risks to the economy stem from U.S./China trade tensions, turbulence in some emerging market economies amid rising global interest rates, and the potential for higher inflation due to ongoing policy stimulus. Escalating house prices in Canada and the U.S. could also leave the economy vulnerable to a correction in the housing market.

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

## Financial Highlights

(Canadian \$ in millions, except as noted)

	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
<b>Summary Income Statement</b>					
Net interest income	3,521	3,455	3,535	10,554	10,441
Non-interest revenue	4,041	2,621	3,654	10,059	8,759
Revenue	7,562	6,076	7,189	20,613	19,200
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	984	(283)	1,189	1,302	1,708
Revenue, net of CCPB	6,578	6,359	6,000	19,311	17,492
Provision for credit losses on impaired loans	71	155	446	441	1,183
Provision for (recovery of) credit losses on performing loans	(141)	(95)	608	(295)	1,338
Total provision for credit losses	(70)	60	1,054	146	2,521
Non-interest expense	3,684	4,409	3,444	11,706	10,629
Provision for income taxes	689	587	270	1,864	829
Net income attributable to equity holders of the bank	2,275	1,303	1,232	5,595	3,513
Adjusted net income (1) (2)	2,292	2,095	1,259	6,425	3,591
<b>Common Share Data</b> (\$, except as noted)					
Earnings per share	3.41	1.91	1.81	8.35	5.18
Adjusted earnings per share	3.44	3.13	1.85	9.63	5.30
Earnings per share growth (%)	89.0	91.4	(22.8)	61.2	(24.7)
Adjusted earnings per share growth (%)	86.0	201.9	(22.3)	81.7	(24.3)
Dividends declared per share	1.06	1.06	1.06	3.18	3.18
Book value per share	80.00	76.72	76.60	80.00	76.60
Closing share price	123.53	116.01	73.28	123.53	73.28
Number of common shares outstanding (in millions)					
End of period	648.1	647.3	642.8	648.1	642.8
Average diluted	649.0	648.1	641.7	648.2	640.9
Total market value of common shares (\$ billions)	80.1	75.1	47.1	80.1	47.1
Dividend yield (%)	3.4	3.7	5.8	3.4	5.8
Dividend payout ratio (%)	31.0	55.5	58.7	38.0	61.4
Adjusted dividend payout ratio (%)	30.7	33.8	57.3	33.0	59.9
<b>Financial Measures and Ratios</b> (%)					
Return on equity	17.5	10.2	9.4	14.5	9.3
Adjusted return on equity	17.6	16.7	9.6	16.7	9.5
Return on tangible common equity	19.8	11.8	11.1	16.7	11.0
Adjusted return on tangible common equity	19.8	19.1	11.1	19.0	11.0
Net income growth	84.6	89.0	(20.9)	59.2	(23.0)
Adjusted net income growth	81.9	193.0	(20.4)	78.9	(22.6)
Revenue growth	5.2	15.4	7.8	7.4	(1.0)
Revenue growth, net of CCPB	9.6	16.4	3.8	10.4	2.8
Adjusted revenue growth, net of CCPB	9.6	15.9	3.8	10.2	2.8
Non-interest expense growth	7.0	25.4	(1.4)	10.1	(0.1)
Adjusted non-interest expense growth	7.5	2.8	(1.5)	2.9	(0.1)
Efficiency ratio, net of CCPB	56.0	69.3	57.4	60.6	60.8
Adjusted efficiency ratio, net of CCPB	55.7	56.6	56.8	56.2	60.2
Operating leverage, net of CCPB	2.6	(9.0)	5.2	0.3	2.9
Adjusted operating leverage, net of CCPB	2.1	13.1	5.3	7.3	2.9
Net interest margin on average earning assets	1.57	1.59	1.59	1.59	1.65
Effective tax rate	23.2	31.1	18.0	25.0	19.1
Adjusted effective tax rate	23.2	22.1	18.2	22.6	19.2
Total PCL-to-average net loans and acceptances (annualized)	(0.06)	0.05	0.89	0.04	0.72
PCL on impaired loans-to-average net loans and acceptances (annualized)	0.06	0.13	0.38	0.13	0.34
<b>Balance Sheet</b> (as at, \$ millions, except as noted)					
Assets	971,358	949,839	973,508	971,358	973,508
Gross loans and acceptances	472,703	459,589	468,767	472,703	468,767
Net loans and acceptances	469,879	456,561	465,516	469,879	465,516
Deposits	680,553	657,201	660,600	680,553	660,600
Common shareholders' equity	51,848	49,666	49,239	51,848	49,239
Cash and securities-to-total assets ratio (%)	33.3	33.7	32.1	33.3	32.1
<b>Capital ratios</b> (%)					
CET1 Ratio	13.4	13.0	11.6	13.4	11.6
Tier 1 Capital Ratio	15.1	14.8	13.1	15.1	13.1
Total Capital Ratio	17.4	16.7	15.8	17.4	15.8
Leverage Ratio	5.0	5.1	4.7	5.0	4.7
<b>Foreign Exchange Rates</b> (\$)					
As at Canadian/U.S. dollar	1.2479	1.2279	1.3386	1.2479	1.3386
Average Canadian/U.S. dollar	1.2316	1.2512	1.3584	1.2556	1.3517

(1) Q2-2021 reported net income included a \$747 million pre-tax and after-tax write-down of goodwill related to the announced sale of our EMEA Asset Management business, a \$22 million (\$29 million pre-tax) net gain on the sale of our Private Banking business in Hong Kong and Singapore, and \$47 million (\$53 million pre-tax) of divestiture-related costs for both transactions. The net gain on the sale was included in revenue with the goodwill write-down and divestiture costs included in non-interest expense, all recorded in Corporate Services.

(2) Q3-2021 reported net income included expenses of \$18 million (\$24 million pre-tax) from the impact of divestitures related to the announced sale of our EMEA Asset Management business and the sale of our Private Banking business in Hong Kong and Singapore, offset by a partial reversal of restructuring charges recorded in Q4-2019 related to severance of \$18 million (\$24 million pre-tax), all recorded in non-interest expense, in Corporate Services.

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

## 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 excluded the impact of certain items, as set out in the table below. Please refer to the Foreign Exchange section for a discussion of the effects of changes in exchange rates on BMO's results. Pre-provision pre-tax earnings (PPPT) is a non-GAAP measure, and is calculated as the difference between revenue, net of insurance claims, commissions and changes in policy benefit liabilities (CCPB), and non-interest expense. Management assesses performance on a reported basis and on an adjusted basis, and considers both to be useful in assessing underlying ongoing business performance. Presenting results on both bases provides readers with a better understanding of how management assesses results. It also permits readers to assess the impact of certain specified items on results for the periods presented, and to better assess results excluding those items that may not be reflective of ongoing results. As such, the presentation may facilitate readers' analysis of trends. Except as otherwise noted, management's discussion of changes in reported results in this document applies equally to changes in the corresponding adjusted results. Adjusted results and measures are non-GAAP and as such do not have standardized meanings under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from, or as a substitute for, GAAP results.

### Non-GAAP Measures

(Canadian \$ in millions, except as noted)

	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
<b>Reported Results</b>					
Revenue	7,562	6,076	7,189	20,613	19,200
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	(984)	283	(1,189)	(1,302)	(1,708)
Revenue, net of CCPB	6,578	6,359	6,000	19,311	17,492
Total provision for credit losses	70	(60)	(1,054)	(146)	(2,521)
Non-interest expense	(3,684)	(4,409)	(3,444)	(11,706)	(10,629)
Income before income taxes	2,964	1,890	1,502	7,459	4,342
Provision for income taxes	(689)	(587)	(270)	(1,864)	(829)
Net income	2,275	1,303	1,232	5,595	3,513
EPS (\$)	3.41	1.91	1.81	8.35	5.18
<b>Adjusting Items (Pre-tax) (1)</b>					
Acquisition integration costs (2)	(3)	(2)	(5)	(8)	(11)
Amortization of acquisition-related intangible assets (2)	(19)	(24)	(32)	(68)	(91)
Impact of divestitures (3) (4)	(24)	(771)	-	(795)	-
Restructuring costs (reversals) (4)	24	-	-	24	-
Adjusting items included in reported pre-tax income	(22)	(797)	(37)	(847)	(102)
<b>Adjusting Items (After tax) (1)</b>					
Acquisition integration costs (2)	(2)	(2)	(4)	(6)	(8)
Amortization of acquisition-related intangible assets (2)	(15)	(18)	(23)	(52)	(70)
Impact of divestitures (3) (4)	(18)	(772)	-	(790)	-
Restructuring costs (reversals) (4)	18	-	-	18	-
Adjusting items included in reported net income after tax	(17)	(792)	(27)	(830)	(78)
Impact on EPS (\$)	(0.03)	(1.22)	(0.04)	(1.28)	(0.12)
<b>Adjusted Results</b>					
Revenue	7,562	6,047	7,189	20,584	19,200
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	(984)	283	(1,189)	(1,302)	(1,708)
Revenue, net of CCPB	6,578	6,330	6,000	19,282	17,492
Total provision for credit losses	70	(60)	(1,054)	(146)	(2,521)
Non-interest expense	(3,662)	(3,583)	(3,407)	(10,830)	(10,527)
Income before income taxes	2,986	2,687	1,539	8,306	4,444
Provision for income taxes	(694)	(592)	(280)	(1,881)	(853)
Net income	2,292	2,095	1,259	6,425	3,591
EPS (\$)	3.44	3.13	1.85	9.63	5.30

- (1) Adjusting items are generally 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 amounts were charged to the non-interest expense of the operating groups. Before-tax and after-tax amounts for each operating group are provided below.
- (3) Q2-2021 reported net income included a \$747 million pre-tax and after-tax write-down of goodwill related to the announced sale of our EMEA Asset Management business, a \$22 million (\$29 million pre-tax) net gain on the sale of our Private Banking business in Hong Kong and Singapore, and \$47 million (\$53 million pre-tax) of divestiture-related costs for both transactions. The net gain on the sale was included in revenue with the goodwill write-down and divestiture costs included in non-interest expense, all recorded in Corporate Services.
- (4) Q3-2021 reported net income included expenses of \$18 million (\$24 million pre-tax) from the impact of divestitures related to the announced sale of our EMEA Asset Management business and the sale of our Private Banking business in Hong Kong and Singapore, offset by a partial reversal of restructuring charges recorded in Q4-2019 related to severance of \$18 million (\$24 million pre-tax), all recorded in non-interest expense, in Corporate Services.

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

## Summary of Reported and Adjusted Results by Operating Group

(Canadian \$ in millions)	Canadian P&C	U.S. P&C	Total P&C	BMO Wealth Management	BMO Capital Markets	Corporate Services	Total Bank
<b>Q3-2021</b>							
Reported net income (loss)	815	553	1,368	401	558	(52)	2,275
Acquisition integration costs (1)	-	-	-	-	2	-	2
Amortization of acquisition-related intangible assets (2)	-	6	6	5	4	-	15
Impact of divestitures (3)	-	-	-	-	-	18	18
Restructuring costs (reversals) (3)	-	-	-	-	-	(18)	(18)
Adjusted net income (loss)	815	559	1,374	406	564	(52)	2,292
<b>Q2-2021</b>							
Reported net income (loss)	764	542	1,306	346	563	(912)	1,303
Acquisition integration costs (1)	-	-	-	-	2	-	2
Amortization of acquisition-related intangible assets (2)	1	5	6	7	5	-	18
Impact of divestitures (4)	-	-	-	-	-	772	772
Adjusted net income (loss)	765	547	1,312	353	570	(140)	2,095
<b>Q3-2020</b>							
Reported net income (loss)	319	263	582	341	426	(117)	1,232
Acquisition integration costs (1)	-	-	-	-	4	-	4
Amortization of acquisition-related intangible assets (2)	-	10	10	8	5	-	23
Adjusted net income (loss)	319	273	592	349	435	(117)	1,259
<b>YTD-2021</b>							
Reported net income (loss)	2,316	1,677	3,993	1,105	1,604	(1,107)	5,595
Acquisition integration costs (1)	-	-	-	-	6	-	6
Amortization of acquisition-related intangible assets (2)	1	18	19	20	13	-	52
Impact of divestitures (3) (4)	-	-	-	-	-	790	790
Restructuring costs (reversals) (3)	-	-	-	-	-	(18)	(18)
Adjusted net income (loss)	2,317	1,695	4,012	1,125	1,623	(335)	6,425
<b>YTD-2020</b>							
Reported net income (loss)	1,380	953	2,333	776	708	(304)	3,513
Acquisition integration costs (1)	-	-	-	-	8	-	8
Amortization of acquisition-related intangible assets (2)	1	30	31	26	13	-	70
Adjusted net income (loss)	1,381	983	2,364	802	729	(304)	3,591

(1) KGS-Alpha and Clearpool acquisition integration costs before tax amounts of \$3 million in Q3-2021, \$2 million in Q2-2021, \$5 million in Q3-2020; \$8 million for YTD-2021 and \$11 million for YTD-2020 are included in non-interest expense in BMO Capital Markets.

(2) Amortization of acquisition-related intangible assets before tax is charged to the non-interest expense of the operating groups. Canadian P&C amounts of \$nil in Q3-2021, \$1 million in Q2-2021, and \$nil in Q3-2020; \$1 million for both YTD-2021 and YTD-2020. U.S. P&C amounts of \$9 million in Q3-2021, \$7 million in Q2-2021, and \$13 million in Q3-2020; \$25 million for YTD-2021 and \$40 million for YTD-2020. BMO Wealth Management amounts of \$5 million in Q3-2021, \$10 million in Q2-2021, and \$11 million in Q3-2020; \$25 million for YTD-2021 and \$33 million for YTD-2020. BMO Capital Markets amounts of \$5 million in Q3-2021, \$6 million in Q2-2021, and \$8 million in Q3-2020; \$17 million for both YTD-2021 and YTD-2020.

(3) Q3-2021 reported net income included expenses of \$18 million (\$24 million pre-tax) from the impact of divestitures related to the announced sale of our EMEA Asset Management business and the sale of our Private Banking business in Hong Kong and Singapore, offset by a partial reversal of restructuring charges recorded in Q4-2019 related to severance of \$18 million (\$24 million pre-tax), all recorded in non-interest expense, in Corporate Services.

(4) Q2-2021 reported net income included a \$747 million pre-tax and after-tax write-down of goodwill related to the announced sale of our EMEA Asset Management business, a \$22 million (\$29 million pre-tax) net gain on the sale of our Private Banking business in Hong Kong and Singapore, and \$47 million (\$53 million pre-tax) of divestiture-related costs for both transactions. The net gain on the sale was included in revenue with the goodwill write-down and divestiture costs included in non-interest expense, all recorded in Corporate Services.

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

## Foreign Exchange

The Canadian dollar equivalents of BMO's U.S. segment results that are denominated in U.S. dollars decreased relative to the second quarter of 2021 and the third quarter of 2020, due to changes in the U.S. dollar exchange rate. The table below indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in those rates on BMO's U.S. segment results. References in this document to the impact of the U.S. dollar do not include U.S. dollar-denominated amounts recorded outside of BMO's U.S. segment.

Changes in exchange rates will affect future results measured in Canadian dollars, and the impact on those results is a function of the periods in which revenue, expenses, provisions for (recoveries of) credit losses and income taxes arise.

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 enter into hedging transactions in order to mitigate the impact of foreign exchange rate movements on net income.

Refer to the Enterprise-Wide Capital Management section on page 63 of BMO's 2020 Annual Report for a discussion of the impact that changes in foreign exchange rates can have on our capital position. Changes in foreign exchange rates will also affect accumulated other comprehensive income, primarily as a result of the translation of our investment in foreign operations, and the carrying value of assets and liabilities on the balance sheet.

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

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

(Canadian \$ in millions, except as noted)	Q3-2021		YTD-2021
	vs. Q3-2020	vs. Q2-2021	vs. YTD-2020
Canadian/U.S. dollar exchange rate (average)			
Current period	1.2316	1.2316	1.2556
Prior period	1.3584	1.2512	1.3517
<b>Effects on U.S. segment reported results</b>			
Increased (Decreased) net interest income	(132)	(22)	(297)
Increased (Decreased) non-interest revenue	(83)	(14)	(148)
Increased (Decreased) revenues	(215)	(36)	(445)
Decreased (Increased) provision for credit losses	42	-	104
Decreased (Increased) expenses	126	21	287
Decreased (Increased) income taxes	8	3	7
Increased (Decreased) reported net income	(39)	(12)	(47)
Impact on earnings per share (\$)	(0.06)	(0.02)	(0.07)
<b>Effects on U.S. segment adjusted results</b>			
Increased (Decreased) net interest income	(132)	(22)	(297)
Increased (Decreased) non-interest revenue	(83)	(14)	(148)
Increased (Decreased) revenues	(215)	(36)	(445)
Decreased (Increased) provision for credit losses	42	-	104
Decreased (Increased) expenses	123	20	282
Decreased (Increased) income taxes	9	4	8
Increased (Decreased) adjusted net income	(41)	(12)	(51)
Impact on adjusted earnings per share (\$)	(0.06)	(0.02)	(0.08)

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

## Net Income

### Q3 2021 vs. Q3 2020

Reported net income was \$2,275 million, an increase of \$1,043 million or 85% from the prior year, and adjusted net income was \$2,292 million, an increase of \$1,033 million or 82%. Adjusted results in the current quarter excluded expenses of \$18 million (\$24 million pre-tax) from the impact of divestitures related to the announced sale of our EMEA Asset Management business and the sale of our Private Banking business in Hong Kong and Singapore, offset by a partial reversal of restructuring charges recorded in the fourth quarter of 2019 related to severance of \$18 million (\$24 million pre-tax). Adjusted results also excluded the amortization of acquisition-related intangible assets and acquisition integration costs in both the current and prior years. Reported EPS was \$3.41, an increase of \$1.60 from the prior year, and adjusted EPS was \$3.44, an increase of \$1.59.

Adjusted results were driven by higher revenue, higher expenses and the impact of lower provisions for credit losses. All operating groups recorded higher net income, while Corporate Services recorded a lower net loss.

### Q3 2021 vs. Q2 2021

Reported net income was \$2,275 million, an increase of \$972 million or 75% from the prior quarter, and adjusted net income was \$2,292 million, an increase of \$197 million or 9%. Adjusted net income in the prior quarter excluded a \$747 million pre-tax and after-tax write-down of goodwill related to the announced sale of our EMEA Asset Management business, a \$22 million (\$29 million pre-tax) net gain from the sale of our Private Banking business in Hong Kong and Singapore, and \$47 million (\$53 million pre-tax) of divestiture-related costs for both transactions. Adjusted results also excluded the amortization of acquisition-related intangible assets and acquisition integration costs in both the current and prior quarters. Reported EPS increased \$1.50 or 79% from the prior quarter, and adjusted EPS increased \$0.31 or 10%.

Adjusted results were driven by higher revenue, higher expenses and the impact of lower provisions for credit losses. Net income increased in BMO Wealth Management and our P&C businesses, while BMO Capital Markets decreased modestly. Corporate Services recorded a lower net loss.

## Q3 YTD 2021 vs. Q3 YTD 2020

Reported net income was \$5,595 million, an increase of \$2,082 million or 59% from the prior year, and adjusted net income was \$6,425 million, an increase of \$2,834 million or 79%. Adjusting items are noted above. Reported EPS was \$8.35, an increase of \$3.17 or 61% from the prior year, and adjusted EPS was \$9.63, an increase of \$4.33 or 82%. Adjusted results were driven by higher revenue, higher expenses and the impact of lower provisions for credit losses. Higher net income across all operating groups was partially offset by a modestly higher net loss in Corporate Services.

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

## Revenue

### Q3 2021 vs. Q3 2020

Total reported and adjusted revenue was \$7,562 million, an increase of \$373 million or 5% from the prior year. On a basis that nets insurance claims, commissions and changes in policy benefit liabilities (CCPB) against insurance revenue (net revenue), reported and adjusted revenue was \$6,578 million, an increase of \$578 million or 10% from the prior year.

Revenue increased in Canadian P&C due to higher net interest income and higher non-interest revenue, in BMO Wealth Management, primarily from growth in client assets, including stronger global markets, and in BMO Capital Markets with higher Investment and Corporate Banking revenue, partially offset by lower Global Markets revenue. Revenue decreased in U.S. P&C due to the weaker U.S. dollar, and increased on a source currency basis, due to higher net interest income and higher non-interest revenue. Corporate Services revenue increased from the prior year. The impact of the weaker U.S. dollar decreased total revenue by 4%.

Net interest income was \$3,521 million, a decrease of \$14 million from the prior year. Excluding trading, net interest income was \$3,134 million, an increase of \$194 million or 7%, primarily driven by higher net interest income in our P&C businesses, Corporate Services and BMO Wealth Management. Higher net interest income in U.S. P&C was more than offset by the impact of the weaker U.S. dollar.

Average earning assets were \$887.2 billion, relatively unchanged from the prior year as higher short-term cash positions, higher securities and loan growth were offset by the impact of the weaker U.S. dollar.

BMO's overall net interest margin decreased 2 basis points from the prior year, primarily driven by lower margins in BMO Capital Markets, partially offset by higher margins in our P&C businesses and the impact of treasury-related activities. Excluding trading, net interest margin increased 14 basis points, primarily driven by lower balances of low-yielding assets in BMO Capital Markets, higher margins in our P&C businesses and the impact of treasury-related activities.

Adjusted non-interest revenue, net of CCPB, was \$3,057 million, an increase of \$592 million or 24% from the prior year. Excluding trading and net of CCPB, adjusted non-interest revenue was \$2,922 million, an increase of \$525 million or 22%, with increases across all categories, including higher securities gains, and underwriting and advisory fee revenue, partially offset by the impact of the weaker U.S. dollar.

Gross insurance revenue decreased \$184 million from the prior year, primarily due to changes in the fair value of investments, partially offset by higher annuity sales. The decrease in insurance revenue was largely offset by changes in policy benefit liabilities, the impact of which is reflected in CCPB, as discussed on page 13. 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 2021 vs. Q2 2021

Total reported revenue was \$7,562 million, an increase of \$1,486 million or 24% from the prior quarter, and adjusted revenue was \$7,562 million, an increase of \$1,515 million or 25%. Reported revenue, net of CCPB was \$6,578 million, an increase of \$219 million or 3%, and adjusted revenue, net of CCPB was \$6,578 million, an increase of \$248 million or 4%. Results were impacted by three more days in the current quarter and the weaker U.S. dollar. Adjusted revenue excluded the net gain on the sale of our Private Banking business in Hong Kong and Singapore in the prior quarter.

Revenue increased in Canadian P&C due to higher net interest income and non-interest revenue, in BMO Capital Markets with higher Investment and Corporate Banking revenue partially offset by lower Global Markets revenue, and in BMO Wealth Management, primarily reflecting stronger global markets and higher insurance revenue, partially offset by lower brokerage revenue. Revenue decreased in U.S. P&C, but was relatively unchanged on a source currency basis. Corporate Services revenue increased from the prior quarter.

Net interest income increased \$66 million or 2% from the prior quarter. Excluding trading, net interest income increased \$128 million or 4%, and was higher across all operating groups, primarily due to the impact of three more days in the current quarter, partially offset by the weaker U.S. dollar.

Average earning assets decreased \$2.3 billion, primarily due to the impact of the weaker U.S. dollar and lower short-term cash positions, partially offset by loan growth.

BMO's overall net interest margin decreased 2 basis points, primarily due to lower trading income. Excluding trading, net interest margin increased 2 basis points, primarily due to the impact of treasury-related activities.

Adjusted non-interest revenue, net of CCPB, was \$3,057 million, an increase of \$182 million or 6% from the prior quarter. Excluding trading and net of CCPB, adjusted non-interest revenue increased \$94 million or 3%. The increase was primarily driven by higher securities gains, insurance revenue net of CCPB, and investment management and custodial fees, partially offset by lower securities commission and fees, foreign exchange, other than trading revenue and the impact of the weaker U.S. dollar.

Gross insurance revenue increased \$1,300 million from the prior quarter, due to changes in the fair value of investments and higher annuity sales. The increase in insurance revenue was largely offset by changes in CCPB, as discussed on page 13.

### Q3 YTD 2021 vs. Q3 YTD 2020

Total reported revenue was \$20,613 million, an increase of \$1,413 million or 7% from the prior year, and adjusted revenue was \$20,584 million, an increase of \$1,384 million or 7%. Revenue, net of CCPB was \$19,311 million, an increase of \$1,819 million or 10% from the prior year, and adjusted revenue, net of CCPB, was \$19,282 million, an increase of \$1,790 million or 10%.

Revenue increased in BMO Capital Markets due to higher Global Markets and Investment and Corporate Banking revenue, in BMO Wealth Management, primarily from growth in client assets, including stronger global markets, higher insurance and online brokerage revenue, and the impact of the legal provision in the prior year, and in our P&C businesses, primarily due to higher net interest income and non-interest revenue, partially offset by the impact of the weaker U.S. dollar. Corporate Services revenue increased from the prior year.

Net interest income was \$10,554 million, an increase of \$113 million or 1% from the prior year. Excluding trading, net interest income of \$9,240 million, increased \$218 million or 2%, largely due to higher net interest income in our P&C businesses, primarily due to volume growth, in Corporate Services and in BMO Wealth Management, partially offset by the impact of the weaker U.S. dollar and lower net interest income in BMO Capital Markets.

Average earning assets were \$890.2 billion, an increase of \$44.6 billion or 5%, primarily due to higher short-term cash positions, higher securities, and loan growth, partially offset by the impact of the weaker U.S. dollar.

BMO's overall net interest margin decreased 6 basis points from the prior year, primarily driven by higher liquidity levels and lower trading net interest income, partially offset by higher margins in our P&C businesses. Excluding trading, net interest margin decreased 1 basis point, primarily driven by higher liquidity levels, partially offset by lower balances of low-yielding assets in BMO Capital Markets and higher margins in our P&C businesses.

Adjusted non-interest revenue, net of CCPB, was \$8,728 million, an increase of \$1,677 million or 24% from the prior year. Excluding trading and net of CCPB, adjusted non-interest revenue was \$8,334 million, an increase of \$1,275 million or 18%, due to increases across all categories, including higher securities gains, underwriting and advisory fee revenue, lending revenue and mutual fund revenue, partially offset by the impact of the weaker U.S. dollar.

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

### Q3 2021 vs. Q3 2020

Total recovery of credit losses was \$70 million, compared with a provision for credit losses of \$1,054 million in the prior year. Total recovery of credit losses ratio was 6 basis points, compared with a provision for credit losses ratio of 89 basis points in the prior year. The provision for credit losses on impaired loans was \$71 million, a decrease of \$375 million from \$446 million in the prior year, largely due to lower commercial provisions in our P&C businesses, and in BMO Capital Markets. The provision for credit losses on impaired loans ratio was 6 basis points, compared with 38 basis points in the prior year. There was a \$141 million recovery of credit losses on performing loans in the current quarter, compared with a \$608 million provision in the prior year. The \$141 million recovery of credit losses in the current quarter reflected an improving economic outlook and positive credit migration, partially offset by the impact of the uncertain economic environment on future credit conditions, as well as balance growth, while the \$608 million provision in the prior year reflected the impact of the extraordinary and highly uncertain environment on credit conditions, the economy and scenario weights.

### Q3 2021 vs. Q2 2021

Total recovery of credit losses was \$70 million, compared with a provision for credit losses of \$60 million in the prior quarter. Total recovery of credit losses ratio was 6 basis points, compared with a provision for credit losses ratio of 5 basis points in the prior quarter. The provision for credit losses on impaired loans decreased \$84 million from the prior quarter, primarily due to lower provisions in Canadian P&C. The provision for credit losses on impaired loans ratio was 6 basis points, compared with 13 basis points in the prior quarter. There was a \$141 million recovery of credit losses on performing loans in the current quarter, compared with a \$95 million recovery in the prior quarter. The \$46 million increase in the recovery of credit losses on performing loans from the prior quarter reflected an improving economic outlook and positive credit migration, partially offset by the impact of the uncertain economic environment on future credit conditions, as well as balance growth, while the prior quarter reflected positive credit migration and an improving economic outlook, partially offset by a more severe adverse scenario.

### Q3 YTD 2021 vs. Q3 YTD 2020

Total provision for credit losses was \$146 million, a decrease of \$2,375 million from the prior year. The total provision for credit losses ratio was 4 basis points, compared with 72 basis points in the prior year. The provision for credit losses on impaired loans was \$441 million, a decrease of \$742 million from \$1,183 million in the prior year, largely due to lower provisions in our P&C businesses and in BMO Capital Markets. The provision for credit losses on impaired loans ratio was 13 basis points, compared with 34 basis points in the prior year. There was a \$295 million recovery of credit losses on performing loans in the current year, compared with a \$1,338 million provision in the prior year. The \$295 million recovery in the current year primarily reflected an improving economic outlook and positive credit migration, partially offset by the impact of the uncertain environment on future credit conditions, including adoption of a higher adverse scenario weight in the first quarter of the current year, as well as a more severe adverse scenario in the second quarter. The \$1,338 million provision in the prior year was primarily due to a weaker economic outlook in the second quarter, and an increased adverse scenario weight in the third quarter.

## Provision for Credit Losses by Operating Group

(Canadian \$ in millions)	Canadian P&C	U.S. P&C	Total P&C	BMO Wealth Management	BMO Capital Markets	Corporate Services	Total Bank
<b>Q3-2021</b>							
Provision for (recovery of) credit losses on impaired loans	101	(9)	92	-	(19)	(2)	71
Provision for (recovery of) credit losses on performing loans	(7)	(53)	(60)	(2)	(75)	(4)	(141)
Total provision for (recovery of) credit losses	94	(62)	32	(2)	(94)	(6)	(70)
<b>Q2-2021</b>							
Provision for (recovery of) credit losses on impaired loans	154	6	160	1	(6)	-	155
Provision for (recovery of) credit losses on performing loans	(13)	(29)	(42)	(4)	(49)	-	(95)
Total provision for (recovery of) credit losses	141	(23)	118	(3)	(55)	-	60
<b>Q3-2020</b>							
Provision for (recovery of) credit losses on impaired loans	257	109	366	1	79	-	446
Provision for (recovery of) credit losses on performing loans	313	223	536	7	58	7	608
Total provision for (recovery of) credit losses	570	332	902	8	137	7	1,054
<b>YTD-2021</b>							
Provision for (recovery of) credit losses on impaired loans	404	17	421	3	20	(3)	441
Provision for (recovery of) credit losses on performing loans	(22)	(133)	(155)	(10)	(126)	(4)	(295)
Total provision for (recovery of) credit losses	382	(116)	266	(7)	(106)	(7)	146
<b>YTD-2020</b>							
Provision for (recovery of) credit losses on impaired loans	607	365	972	4	205	2	1,183
Provision for (recovery of) credit losses on performing loans	612	315	927	13	390	8	1,338
Total provision for (recovery of) credit losses	1,219	680	1,899	17	595	10	2,521

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

## Provision for Credit Losses Performance Ratios

	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
Total PCL-to-average net loans and acceptances (annualized) (%)	(0.06)	0.05	0.89	0.04	0.72
PCL on impaired loans-to-average net loans and acceptances (annualized) (%)	0.06	0.13	0.38	0.13	0.34

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

## Impaired Loans

Total gross impaired loans (GIL) were \$2,430 million, compared with \$4,413 million in the prior year, with the largest decrease in impaired loans attributed to the oil and gas industry. GIL decreased \$570 million from \$3,000 million in the prior quarter.

Factors contributing to the change in GIL are outlined in the table below. Loans classified as impaired during the quarter totalled \$390 million, compared with \$1,760 million in the prior year, and \$425 million in the prior quarter.

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

(Canadian \$ in millions, except as noted)	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
GIL, beginning of period	3,000	3,442	3,645	3,638	2,629
Classified as impaired during the period	390	425	1,760	1,480	3,987
Transferred to not impaired during the period	(293)	(193)	(113)	(668)	(424)
Net repayments	(488)	(459)	(409)	(1,349)	(1,005)
Amounts written-off	(159)	(140)	(384)	(478)	(773)
Recoveries of loans and advances previously written-off	-	-	-	-	-
Disposals of loans	(47)	-	-	(61)	(17)
Foreign exchange and other movements	27	(75)	(86)	(132)	16
GIL, end of period	2,430	3,000	4,413	2,430	4,413
GIL to gross loans and acceptances (%)	0.51	0.65	0.94	0.51	0.94

(1) GIL excluded 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 \$984 million, a decrease of \$205 million from the prior year. Results decreased, largely due to changes in the fair value of policy benefit liabilities. CCPB increased \$1,267 million from the prior quarter due to changes in the fair value of policy benefit liabilities. The changes were largely offset in revenue.

## Non-Interest Expense

Reported non-interest expense was \$3,684 million, an increase of \$240 million or 7% from the prior year, and adjusted non-interest expense was \$3,662 million, an increase of \$255 million or 8%. Adjusted non-interest expense increased, primarily due to higher performance-based compensation, computer and equipment costs, and travel and business development costs, partially offset by the impact of the weaker U.S. dollar that decreased expenses by 4%.

Reported non-interest expense decreased \$725 million from the prior quarter, primarily due to the impact of divestitures, including the \$747 million write-down of goodwill in the prior quarter and lower divestiture-related costs. Adjusted non-interest expense increased \$79 million or 2%, primarily due to higher employee-related costs, including the impact of three more days in the quarter, partially offset by the impact of the weaker U.S. dollar.

Year-to-date reported non-interest expense was \$11,706 million, an increase of \$1,077 million or 10% from the prior year, largely due to the impact of the divestitures, and adjusted non-interest expense was \$10,830 million, an increase of \$303 million or 3%. The increase was primarily driven by higher performance-based compensation and higher premises and equipment costs, partially offset by the impact of the weaker U.S. dollar that decreased expenses by 3%.

Reported operating leverage on a net revenue basis was positive 2.6% and adjusted operating leverage on a net revenue basis was positive 2.1%. Year-to-date adjusted operating leverage on a net revenue basis was positive 7.3%.

The reported efficiency ratio was 48.7%, compared with 47.9% in the prior year, and was 56.0% on a net revenue basis, compared with 57.4% in the prior year. The adjusted efficiency ratio on a net revenue basis was 55.7%, compared with 56.8% in the prior year. Year-to-date adjusted efficiency ratio on a net revenue basis was 56.2%, compared with 60.2% in the prior year.

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 refer to the Non-GAAP Measures section.

## Income Taxes

The provision for income taxes was \$689 million, an increase of \$419 million from the third quarter of 2020, and an increase of \$102 million from the second quarter of 2021. The effective tax rate for the current quarter was 23.2%, compared with 18.0% in the third quarter of 2020, and 31.1% in the second quarter of 2021.

The adjusted provision for income taxes was \$694 million, an increase of \$414 million from the third quarter of 2020, and an increase of \$102 million from the second quarter of 2021. The adjusted effective tax rate was 23.2% in the current quarter, compared with 18.2% in the third quarter of 2020, and 22.1% in the second quarter of 2021. The change in the reported effective tax rate in the current quarter relative to the third quarter of 2020 was primarily due to earnings mix, including the impact of lower pre-tax income in the prior year, and the change relative to the prior quarter was primarily due to the write-down of goodwill related to the announced sale of our EMEA Asset Management business in the second quarter of 2021. The change in the adjusted effective tax rate in the current quarter relative to the third quarter of 2020 was primarily due to earnings mix, including the impact of lower pre-tax income in the prior year.

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

## Balance Sheet

(Canadian \$ in millions)	As at July 31, 2021	As at October 31, 2020
<b>Assets</b>		
Cash and interest bearing deposits with banks	92,618	66,443
Securities	230,776	234,260
Securities borrowed or purchased under resale agreements	104,738	111,878
Net Loans and Acceptances	469,879	460,913
Derivative instruments	36,331	36,815
Other assets	37,016	38,952
<b>Total assets</b>	<b>971,358</b>	<b>949,261</b>
<b>Liabilities and Equity</b>		
Deposits	680,553	659,034
Derivative instruments	29,167	30,375
Securities lent or sold under repurchase agreements	92,990	88,658
Other liabilities	103,979	106,185
Subordinated debt	6,973	8,416
Equity	57,696	56,593
<b>Total liabilities and equity</b>	<b>971,358</b>	<b>949,261</b>

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

Total assets were \$971.4 billion as at July 31, 2021, an increase of \$22.1 billion from October 31, 2020. The weaker U.S. dollar decreased assets by \$27.3 billion, excluding the impact on derivative financial assets.

Cash and cash equivalents and interest bearing deposits with banks increased \$26.2 billion, due to higher balances held with central banks, driven by customer deposit growth in excess of loan growth and treasury activities in Corporate Services, partially offset by the impact of the weaker U.S. dollar.

Securities decreased \$3.5 billion, due to the impact of the weaker U.S. dollar and treasury activities in Corporate Services, partially offset by higher client activity in BMO Capital Markets.

Securities borrowed or purchased under resale agreements decreased \$7.1 billion, due to treasury activities in Corporate Services and the impact of the weaker U.S. dollar, partially offset by higher client activity in BMO Capital Markets.

Net loans and acceptances increased \$9.0 billion. Business and government loans and acceptances decreased \$3.0 billion, primarily due to the impact of the weaker U.S. dollar and lower balances in BMO Capital Markets, primarily due to declining balances in the non-Canadian energy portfolio, partially offset by growth in our P&C businesses. Residential mortgages increased \$7.3 billion, due to growth in Canadian P&C, partially offset by lower balances in U.S. P&C, including the impact of the weaker U.S. dollar. Consumer instalment and other personal loans increased \$4.9 billion, due to growth in our P&C businesses and BMO Wealth Management, partially offset by the impact of the weaker U.S. dollar.

Derivative financial assets decreased \$0.5 billion, due to a decrease in the fair value of interest rate and equity contracts, largely offset by an increase in the fair value of foreign exchange and commodities contracts.

Other assets decreased \$1.9 billion, due to the impact of the weaker U.S. dollar and the write-down of goodwill related to the announced sale of our EMEA Asset Management business.

Liabilities increased \$21.0 billion from October 31, 2020. The weaker U.S. dollar decreased liabilities by \$25.3 billion, excluding the impact on derivative financial liabilities.

Deposits increased \$21.5 billion, primarily due to growth in customer deposits across all operating groups, partially offset by the impact of the weaker U.S. dollar.

Derivative financial liabilities decreased \$1.2 billion, due to a decrease in the fair value of interest rate and commodities contracts, partially offset by an increase in the fair value of foreign exchange and equity contracts.

Securities lent or sold under repurchase agreements increased \$4.3 billion, driven by higher client activity in BMO Capital Markets, partially offset by the impact of the weaker U.S. dollar and maturing Bank of Canada term repo funding.

Other liabilities decreased \$2.2 billion, primarily due to lower secured funding and the impact of the weaker U.S. dollar, partially offset by higher cash collateral received on over-the-counter derivatives and an increase in acceptances.

Subordinated debt decreased \$1.4 billion, largely due to redemptions net of a new issuance in the current year.

Equity increased \$1.1 billion from October 31, 2020, largely due to higher retained earnings, partially offset by a decrease in accumulated other comprehensive income and lower preferred shares and other equity instruments. Retained earnings increased \$3.3 billion as a result of net income earned in the year, partially offset by dividends and distributions on other equity instruments. Accumulated other comprehensive income decreased \$1.7 billion, primarily due to the impact of the weaker U.S. dollar on the translation of net foreign operations and the impact of higher interest rates on cash flow hedges, partially offset by an increase in pension and other employee future benefit plans, due to an increase in the value of pension plan assets and the impact of higher interest rates on the pension liability. Preferred shares and other equity instruments decreased \$0.8 billion, due to redemptions in the year.

Contractual obligations by year of maturity are outlined on page 41 in this document.

## Capital Management

BMO continues to manage its capital within the framework described on page 63 of BMO's 2020 Annual Report.

### Third Quarter 2021 Regulatory Capital Review

BMO's Common Equity Tier 1 (CET1) Ratio was 13.4% as at July 31, 2021, an increase from 13.0% at the end of the second quarter of fiscal 2021, driven by retained earnings growth.

CET1 Capital was \$43.3 billion as at July 31, 2021, an increase from \$41.4 billion as at April 30, 2021, primarily due to retained earnings growth and the impact of foreign exchange movements.

Risk weighted assets (RWA) were \$322.5 billion as at July 31, 2021, an increase from \$319.8 billion as at April 30, 2021, primarily due to increased asset size, the impact of foreign exchange movements and higher market risk capital requirements driven by the unwinding of the temporary reduction in the Stressed Value at Risk (SVaR) multiplier, partially offset by changes in asset quality.

The bank's Tier 1 and Total Capital Ratios were 15.1% and 17.4%, respectively, as at July 31, 2021, compared with 14.8% and 16.7%, respectively, as at April 30, 2021. The Tier 1 Capital Ratio was higher than the prior quarter, primarily due to the factors impacting the CET1 Ratio, partially offset by the announced preferred shares redemption. The Total Capital Ratio was higher due to the factors impacting the Tier 1 Capital Ratio and a subordinated note issuance.

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

BMO's Leverage Ratio was 5.0% as at July 31, 2021, a decrease from 5.1% at the end of the second quarter of fiscal 2021, primarily due to higher leverage exposures, partially offset by higher Tier 1 Capital.

### Regulatory Capital Developments

On August 12, 2021, the Office of the Superintendent of Financial Institutions (OSFI) confirmed that the temporary exclusion of sovereign-issued securities from the leverage ratio exposure measure for deposit-taking institutions (DTIs) will end on December 31, 2021. Central bank reserves will continue to be excluded.

As a continuation of the Basel III reforms industry consultation that started on March 18, 2021, which proposed a three-year phase-in of the capital floor factor and a leverage ratio buffer for D-SIB's, on June 18, 2021, OSFI launched an industry consultation on proposed regulatory changes to the treatment of credit valuation adjustments (CVA) and market risk hedges of other valuation adjustments.

On June 17, 2021, OSFI announced the Domestic Stability Buffer (DSB) would increase to 2.5%, up from 1.0%, effective October 31, 2021. This increase reflects OSFI's view that key vulnerabilities such as household and corporate debt levels remain elevated, and in some cases have increased since March 2020, while the economic and market disruptions stemming from the COVID-19 pandemic have abated and banks' capital levels have been resilient.

Effective May 1, 2021, the SVaR multiplier for the market risk capital requirement calculation, which was temporarily reduced to a minimum value of one, returned to the pre-pandemic minimum value of three.

On January 27, 2021, OSFI advised DTIs that loans to businesses through the Government of Canada's Highly Affected Sectors Credit Availability Program (HASCAP) could be treated as exposures to the Government of Canada. DTIs must include the entire amount of the loan in the leverage ratio calculation.

On December 14, 2020, OSFI announced that while the restrictions on regular dividend increases remain in place, there may be exceptional circumstances where a non-recurring payment of special or irregular dividends may be acceptable, but the objective cannot be the distribution of capital to a broad group of shareholders.

Please refer to the Enterprise-Wide Capital Management section on pages 63 to 70 of BMO's 2020 Annual Report for a summary of the modifications to capital requirements announced by OSFI in 2020, to address the market disruption posed by the COVID-19 pandemic. For those that are temporary in nature, OSFI will continue to closely monitor the economic and financial outlook and provide guidance on the unwinding of the modifications.

## Regulatory Capital

Regulatory capital requirements for BMO are determined in accordance with OSFI's Capital Adequacy Requirements (CAR) Guideline, which is based on the capital standards developed by the Basel Committee on Banking Supervision. For more information see the Enterprise-Wide Capital Management section on pages 63 to 70 of BMO's 2020 Annual Report.

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

(% of risk-weighted assets or leverage exposures)	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, 2021
Common Equity Tier 1 Ratio	4.5%	3.5%	1.0%	9.0%	13.4%
Tier 1 Capital Ratio	6.0%	3.5%	1.0%	10.5%	15.1%
Total Capital Ratio	8.0%	3.5%	1.0%	12.5%	17.4%
Leverage Ratio	3.0%	na	na	3.0%	5.0%

- (1) The minimum 4.5% CET1 Ratio requirement is augmented by the 3.5% Total Pillar 1 Capital Buffers, which can absorb losses during periods of stress. The Pillar 1 Capital Buffers include a 2.5% Capital Conservation Buffer, a 1.0% Common Equity Surcharge for domestic systemically important banks (D-SIBs) and a Countercyclical Buffer, as prescribed by OSFI (immaterial for the third quarter of 2021). 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% to 2.5% of total RWA and is currently set at 1.0%, which will increase to 2.5% as at October 31, 2021. Breaches of the DSB do not result in a bank being subject to automatic constraints on capital distributions.

na - not applicable

Under Canada's Bank Recapitalization (Bail-In) Regime, eligible senior debt issued on or after September 23, 2018, is subject to statutory conversion requirements. Canada Deposit Insurance Corporation has the power to trigger the conversion of bail-in debt into common shares. This statutory conversion supplements non-viable contingent capital (NVCC) instruments, which must be converted in full, prior to the conversion of bail-in debt. The prospective minimum requirements for TLAC are currently set at a risk-based TLAC ratio of 24.0% of RWA, including a 2.5% DSB, and a TLAC leverage ratio of 6.75%. The bank expects to meet the minimum requirements when they come into effect on November 1, 2021. As at July 31, 2021, BMO's TLAC ratio was 26.1% and its TLAC leverage ratio was 8.7%.

## Regulatory Capital Position

(Canadian \$ in millions, except as noted)	Q3-2021	Q2-2021	Q4-2020
Gross common equity (1)	51,848	49,666	49,995
Regulatory adjustments applied to common equity	(8,499)	(8,251)	(9,918)
<b>Common Equity Tier 1 capital (CET1)</b>	<b>43,349</b>	<b>41,415</b>	<b>40,077</b>
Additional Tier 1 eligible capital (2)	5,558	5,848	5,848
Regulatory adjustments applied to Tier 1	(81)	(83)	(85)
<b>Additional Tier 1 capital (AT1)</b>	<b>5,477</b>	<b>5,765</b>	<b>5,763</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>48,826</b>	<b>47,180</b>	<b>45,840</b>
Tier 2 eligible capital (3)	7,428	6,372	8,874
Regulatory adjustments applied to Tier 2	(51)	(69)	(53)
<b>Tier 2 capital (T2)</b>	<b>7,377</b>	<b>6,303</b>	<b>8,821</b>
<b>Total capital (TC = T1 + T2)</b>	<b>56,203</b>	<b>53,483</b>	<b>54,661</b>
Risk-weighted Assets (4)	322,529	319,802	336,607
Leverage Ratio Exposures	969,824	926,323	953,640
<b>Capital ratios (%)</b>			
CET1 Ratio	13.4	13.0	11.9
Tier 1 Capital Ratio	15.1	14.8	13.6
Total Capital Ratio	17.4	16.7	16.2
Leverage Ratio	5.0	5.1	4.8

- (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.
- (3) Tier 2 Eligible Capital includes subordinated debentures and may include portion of expected credit loss provisions.
- (4) For institutions using advanced approaches for credit risk or operational risk, there is a capital floor as prescribed in OSFI's CAR Guideline.

## Outstanding Shares and Securities Convertible into Common Shares (1)

As at July 31, 2021	Number of shares or dollar amount (in millions)
<b>Common shares (2)</b>	648.1
<b>Class B Preferred shares</b>	
Series 25	\$236
Series 26	\$54
Series 27*	\$500
Series 29*	\$400
Series 31*	\$300
Series 33*	\$200
Series 38*	\$600
Series 40*	\$500
Series 42*	\$400
Series 44*	\$400
Series 46*	\$350
<b>Other Equity Instruments*</b>	
4.8% Additional Tier 1 Capital Notes	US\$500
4.3% Limited Recourse Capital Notes, Series 1 (LRCNs)	\$1,250
<b>Medium-Term Notes*</b>	
Series I - Second Tranche	\$850
3.803% Subordinated Notes due 2032	US\$1,250
4.338% Subordinated Notes due 2028	US\$850
Series J - First Tranche	\$1,000
Series J - Second Tranche	\$1,250
Series K - First Tranche	\$1,000
<b>Stock options</b>	
Vested	2.9
Non-vested	3.2

\* Convertible into common shares. For LRCNs, convertible into common shares by virtue of the recourse to the \$1,250 million of Preferred Shares Series 48, issued concurrently with the LRCNs, which currently comprise the limited recourse trust assets.

- (1) Details on the Medium-Term Notes are outlined in Note 15 to the audited consolidated financial statements on page 183 of BMO's 2020 Annual Report. Details on share capital and Other Equity Instruments are outlined in Note 5 to the unaudited interim consolidated financial statements and Note 16 to the audited annual consolidated financial statements on page 184 of BMO's 2020 Annual Report.
- (2) Common shares are net of 222,652 treasury shares.

## Other Capital Developments

During the quarter, 503,580 common shares were issued through the exercise of stock options.

On July 22, 2021, we issued \$1,000 million of 1.928% NVCC subordinated notes through our Canadian Medium-Term Note Program. The Series K Medium-Term Notes First Tranche are due July 22, 2031, and are redeemable at any time on or after July 22, 2026, subject to OSFI's prior approval.

On July 16, 2021, we announced our intention to redeem all of our 9.4 million outstanding Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 25 and 2.2 million outstanding Non-Cumulative Floating Rate Class B Preferred Shares, Series 26 for an aggregate total of \$290 million.

On June 1, 2021, we redeemed all of our outstanding \$1,250 million subordinated debentures, Series I Medium-Term Notes First Tranche (NVCC) at par, together with accrued and unpaid interest to, but excluding, the redemption date.

On December 8, 2020, we redeemed all of our outstanding \$1,000 million subordinated debentures, Series H Medium-Term Notes Second Tranche (NVCC) at par, together with accrued and unpaid interest to, but excluding, the redemption date.

On November 25, 2020, we redeemed all of our 6 million issued and outstanding Non-Cumulative Perpetual Class B Preferred Shares, Series 35 (NVCC) for an aggregate total of \$156 million and all of our 600,000 issued and outstanding Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 36 (NVCC) for an aggregate total of \$600 million.

If an NVCC trigger event were to occur, our NVCC instruments would be converted into BMO common shares pursuant to automatic conversion formulas, with a conversion price based on the greater of: (i) a floor price of \$5.00; and (ii) the current market price of our common shares at the time of the trigger event (calculated using a 10-day weighted average). Based on a floor price of \$5.00, these NVCC capital instruments would be converted into approximately 3.2 billion BMO common shares, assuming no accrued interest and no declared and unpaid dividends.

## Dividends

On August 24, 2021, BMO announced that the Board of Directors had declared a quarterly dividend on common shares of \$1.06 per share, unchanged from the prior quarter and the prior year. The dividend is payable on November 26, 2021, to shareholders of record on November 1, 2021. OSFI's expectation that federally regulated financial institutions should halt dividend increases, set in March 2020, remains in effect until further notice. 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. Until further notice, such additional common shares will be purchased on the open market.

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 refer to 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 the operating groups for the third quarter of 2021. See also the Risk Management section starting on page 34 in this document, as well as the Enterprise-Wide Risk Management sections in BMO's 2020 Annual Report starting on page 73.

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, allocations of revenue, provisions for credit losses and expenses are updated to better align with current experience.

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

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

(Canadian \$ in millions, except as noted)

	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
Net interest income (teb)	<b>2,708</b>	2,636	2,616	<b>8,043</b>	7,848
Non-interest revenue	<b>885</b>	873	745	<b>2,568</b>	2,355
Total revenue (teb)	<b>3,593</b>	3,509	3,361	<b>10,611</b>	10,203
Provision for (recovery of) credit losses on impaired loans	<b>92</b>	160	366	<b>421</b>	972
Provision for (recovery of) credit losses on performing loans	<b>(60)</b>	(42)	536	<b>(155)</b>	927
Total provision for credit losses	<b>32</b>	118	902	<b>266</b>	1,899
Non-interest expense	<b>1,735</b>	1,652	1,713	<b>5,026</b>	5,254
Income before income taxes	<b>1,826</b>	1,739	746	<b>5,319</b>	3,050
Provision for income taxes (teb)	<b>458</b>	433	164	<b>1,326</b>	717
Reported net income	<b>1,368</b>	1,306	582	<b>3,993</b>	2,333
Amortization of acquisition-related intangible assets (1)	<b>6</b>	6	10	<b>19</b>	31
Adjusted net income	<b>1,374</b>	1,312	592	<b>4,012</b>	2,364
Net income growth (%)	<b>134.8</b>	86.6	(42.8)	<b>71.1</b>	(25.5)
Adjusted net income growth (%)	<b>131.7</b>	84.7	(42.4)	<b>69.7</b>	(25.3)
Revenue growth (%)	<b>6.9</b>	3.1	(1.4)	<b>4.0</b>	2.8
Non-interest expense growth (%)	<b>1.3</b>	(7.8)	(2.9)	<b>(4.3)</b>	0.9
Adjusted non-interest expense growth (%)	<b>1.6</b>	(7.6)	(2.9)	<b>(4.1)</b>	1.0
Return on equity (%)	<b>21.9</b>	21.4	8.5	<b>21.3</b>	11.7
Adjusted return on equity (%)	<b>22.0</b>	21.5	8.7	<b>21.4</b>	11.9
Operating leverage (teb) (%)	<b>5.6</b>	10.9	1.5	<b>8.3</b>	1.9
Adjusted operating leverage (teb) (%)	<b>5.3</b>	10.7	1.5	<b>8.1</b>	1.8
Efficiency ratio (teb) (%)	<b>48.3</b>	47.1	51.0	<b>47.4</b>	51.5
Adjusted efficiency ratio (teb) (%)	<b>48.1</b>	46.9	50.6	<b>47.1</b>	51.1
Net interest margin on average earning assets (teb) (%)	<b>2.90</b>	2.95	2.82	<b>2.93</b>	2.86
Average earning assets	<b>370,109</b>	366,885	369,298	<b>366,726</b>	366,050
Average gross loans and acceptances	<b>377,590</b>	374,747	377,828	<b>374,467</b>	375,398
Average net loans and acceptances	<b>375,093</b>	372,180	375,420	<b>371,898</b>	373,355
Average deposits	<b>364,585</b>	360,378	357,162	<b>361,255</b>	329,935

(1) Total P&C before tax amounts of \$9 million in Q3-2021, \$8 million in Q2-2021, and \$13 million in Q3-2020; \$26 million for YTD-2021 and \$41 million for YTD-2020 are included in non-interest expense.

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

The Personal and Commercial Banking (P&C) operating group represents the sum of our two retail and commercial 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 reported net income was \$1,368 million, an increase from \$582 million from the prior year. Adjusted net income was \$1,374 million, an increase from \$592 million from the prior year. 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 refer to the Non-GAAP Measures section.

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

(Canadian \$ in millions, except as noted)	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
Net interest income	1,660	1,581	1,509	4,849	4,561
Non-interest revenue	581	561	453	1,633	1,443
Total revenue	2,241	2,142	1,962	6,482	6,004
Provision for (recovery of) credit losses on impaired loans	101	154	257	404	607
Provision for (recovery of) credit losses on performing loans	(7)	(13)	313	(22)	612
Total provision for credit losses	94	141	570	382	1,219
Non-interest expense	1,046	972	961	2,972	2,924
Income before income taxes	1,101	1,029	431	3,128	1,861
Provision for income taxes	286	265	112	812	481
Reported net income	815	764	319	2,316	1,380
Amortization of acquisition-related intangible assets (1)	-	1	-	1	1
Adjusted net income	815	765	319	2,317	1,381
Personal revenue	1,343	1,300	1,217	3,935	3,733
Commercial revenue	898	842	745	2,547	2,271
Net income growth (%)	154.7	112.0	(50.8)	67.8	(27.9)
Revenue growth (%)	14.2	9.4	(4.0)	8.0	1.6
Non-interest expense growth (%)	8.8	(0.4)	-	1.6	2.2
Adjusted non-interest expense growth (%)	8.8	(0.4)	-	1.6	2.2
Return on equity (%)	28.6	27.8	11.0	27.4	16.6
Adjusted return on equity (%)	28.6	27.8	11.0	27.4	16.6
Operating leverage (%)	5.4	9.8	(4.0)	6.4	(0.6)
Adjusted operating leverage (%)	5.4	9.8	(4.0)	6.4	(0.6)
Efficiency ratio (%)	46.7	45.4	49.0	45.9	48.7
Net interest margin on average earning assets (%)	2.62	2.66	2.54	2.65	2.60
Average earning assets	250,980	243,889	236,143	244,893	234,417
Average gross loans and acceptances	264,585	257,884	251,028	258,756	249,949
Average net loans and acceptances	263,063	256,352	249,628	257,234	248,794
Average deposits	227,029	222,787	213,086	223,262	200,582

(1) Before tax amounts of \$nil in Q3-2021, \$1 million in Q2-2021, and \$nil in Q3-2020; \$1 million for both YTD-2021 and YTD-2020 are included in non-interest expense.

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

### Q3 2021 vs. Q3 2020

Canadian P&C reported and adjusted net income were \$815 million, both increasing \$496 million from the prior year.

Total revenue was \$2,241 million, an increase of \$279 million or 14% from the prior year. Net interest income increased due to higher balances and higher loan margins, partially offset by lower deposit margins. Non-interest revenue increased across most categories, including higher securities gains in our commercial business and card-related revenue. Net interest margin of 2.62% increased 8 basis points, driven by higher loan margins and deposits growing faster than loans, partially offset by lower deposit margins reflecting the impact of the lower interest rate environment.

Personal revenue increased \$126 million or 10%, and commercial revenue increased \$153 million or 21%, both due to higher net interest income and higher non-interest revenue.

Total provision for credit losses was \$94 million, a decrease of \$476 million from the prior year. The provision for credit losses on impaired loans was \$101 million, a decrease of \$156 million, due to lower commercial and consumer provisions. There was a \$7 million recovery of credit losses on performing loans in the current quarter, compared with a \$313 million provision in the prior year.

Non-interest expense was \$1,046 million, an increase of \$85 million or 9% from the prior year, reflecting investment in the business, including employee-related, technology and marketing costs.

Average total gross loans and acceptances increased \$13.6 billion or 5% from the prior year to \$264.6 billion. Personal loan balances increased 8% and commercial loan balances increased 2%, while credit card balances were relatively unchanged. Average total deposits increased \$13.9 billion or 7% to \$227.0 billion, reflecting the higher liquidity retained by customers due to the impact of the COVID-19 pandemic. Commercial deposits increased 18%, while personal deposits decreased 1% as continued strong growth in chequing and savings deposits was more than offset by lower term deposit balances.

### Q3 2021 vs. Q2 2021

Reported net income was \$815 million, an increase of \$51 million, and adjusted net income was \$815 million, an increase of \$50 million, both increasing 7% from the prior quarter.

Total revenue was \$2,241 million, an increase of \$99 million or 5% from the prior quarter. Net interest income increased due to the impact of three more days in the current quarter and higher balances across most products, partially offset by lower margins. Non-interest revenue increased, as growth in most categories, including higher securities gains in our commercial business, was partially offset by non-recurring card-related revenue in the prior quarter. Net interest margin of 2.62% decreased 4 basis points, primarily driven by lower loan margins.

Personal revenue increased \$43 million or 3%, due to higher net interest income, while non-interest revenue was relatively unchanged. Commercial revenue increased \$56 million or 7%, due to higher net interest income and higher non-interest revenue.

Total provision for credit losses was \$94 million, a decrease of \$47 million from the prior quarter. The provision for credit losses on impaired loans decreased \$53 million, due to lower commercial and consumer provisions. There was a \$7 million recovery of credit losses on performing loans in the current quarter, compared with a \$13 million recovery in the prior quarter.

Non-interest expense was \$1,046 million, an increase of \$74 million or 8% from the prior quarter, reflecting investment in the business, including higher employee-related and technology costs, as well as the impact of three more days in the current quarter.

Average total gross loans and acceptances increased \$6.7 billion or 3% from the prior quarter. Personal loan balances increased 3% and commercial loan balances increased 2%, while credit card balances increased 4%. Average total deposits increased \$4.2 billion or 2%, with 4% growth in commercial deposits, while personal deposits were relatively unchanged as continued strong growth in chequing and savings deposits was offset by lower term deposit balances.

### **Q3 YTD 2021 vs. Q3 YTD 2020**

Reported net income was \$2,316 million and adjusted net income was \$2,317 million, both increasing \$936 million or 68% from the prior year.

Total revenue was \$6,482 million, an increase of \$478 million or 8% from the prior year. Net interest income increased due to higher balances and higher loan margins, partially offset by lower deposit margins. Non-interest revenue increased across most categories, including higher securities gains. Net interest margin of 2.65% increased 5 basis points, driven by deposits growing faster than loans and higher loan margins, partially offset by lower deposit margins reflecting the impact of the lower interest rate environment.

Personal revenue increased \$202 million or 5% from the prior year and commercial revenue increased \$276 million or 12%, both due to higher net interest income and higher non-interest revenue.

Total provision for credit losses was \$382 million, a decrease of \$837 million from the prior year. The provision for credit losses on impaired loans was \$404 million, a decrease of \$203 million, due to lower commercial and consumer provisions. There was a \$22 million recovery of credit losses on performing loans in the current year, compared with a \$612 million provision in the prior year.

Non-interest expense was \$2,972 million, an increase of \$48 million or 2% from the prior year, reflecting investment in the business, including technology, marketing and employee-related costs.

Average total gross loans and acceptances increased \$8.8 billion or 4% from the prior year to \$258.8 billion. Personal loan balances increased 6% and commercial loan balances increased 1%, while credit card balances decreased 9%. Average total deposits increased \$22.7 billion or 11% to \$223.3 billion, reflecting the higher liquidity retained by customers due to the impact of the COVID-19 pandemic. Personal deposits increased 4% and commercial deposits increased 24%.

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)	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
Net interest income (teb)	851	843	815	2,544	2,431
Non-interest revenue	247	249	215	745	675
Total revenue (teb)	1,098	1,092	1,030	3,289	3,106
Provision for (recovery of) credit losses on impaired loans	(6)	4	81	13	270
Provision for (recovery of) credit losses on performing loans	(43)	(23)	166	(106)	233
Total provision for (recovery of) credit losses	(49)	(19)	247	(93)	503
Non-interest expense	559	544	553	1,636	1,723
Income before income taxes	588	567	230	1,746	880
Provision for income taxes (teb)	140	133	38	410	175
Reported net income	448	434	192	1,336	705
Amortization of acquisition-related intangible assets (1)	5	5	7	15	22
Adjusted net income	453	439	199	1,351	727
Personal revenue	328	328	330	989	972
Commercial revenue	770	764	700	2,300	2,134
Net income growth (%)	133.2	76.4	(30.9)	89.5	(23.0)
Adjusted net income growth (%)	127.1	73.1	(30.3)	85.8	(22.6)
Revenue growth (%)	6.5	4.4	0.2	5.9	2.9
Non-interest expense growth (%)	1.1	(8.0)	(8.7)	(5.0)	(2.3)
Adjusted non-interest expense growth (%)	1.7	(7.6)	(8.6)	(4.5)	(2.2)
Return on equity (%)	16.3	16.2	6.6	16.2	8.2
Adjusted return on equity (%)	16.5	16.4	6.8	16.4	8.4
Operating leverage (teb) (%)	5.4	12.4	8.9	10.9	5.2
Adjusted operating leverage (teb) (%)	4.8	12.0	8.8	10.4	5.1
Efficiency ratio (teb) (%)	50.9	49.8	53.7	49.8	55.5
Adjusted efficiency ratio (teb) (%)	50.3	49.2	52.7	49.2	54.5
Net interest margin on average earning assets (teb) (%)	3.49	3.51	3.31	3.50	3.34
Average earning assets	96,730	98,296	97,997	97,035	97,332
Average gross loans and acceptances	91,758	93,394	93,317	92,158	92,758
Average net loans and acceptances	90,965	92,567	92,575	91,325	92,102
Average deposits	111,693	109,998	106,068	109,934	95,597

(Canadian \$ equivalent in millions)

Net interest income (teb)	1,048	1,055	1,107	3,194	3,287
Non-interest revenue	304	312	292	935	912
Total revenue (teb)	1,352	1,367	1,399	4,129	4,199
Provision for (recovery of) credit losses on impaired loans	(9)	6	109	17	365
Provision for (recovery of) credit losses on performing loans	(53)	(29)	223	(133)	315
Total provision for credit losses	(62)	(23)	332	(116)	680
Non-interest expense	689	680	752	2,054	2,330
Income before income taxes	725	710	315	2,191	1,189
Provision for income taxes (teb)	172	168	52	514	236
Reported net income	553	542	263	1,677	953
Adjusted net income	559	547	273	1,695	983
Net income growth (%)	110.5	59.6	(28.7)	76.0	(21.8)
Adjusted net income growth (%)	105.0	56.6	(28.1)	72.5	(21.4)
Revenue growth (%)	(3.4)	(5.4)	2.6	(1.7)	4.5
Non-interest expense growth (%)	(8.4)	(16.7)	(6.5)	(11.8)	(0.7)
Adjusted non-interest expense growth (%)	(7.8)	(16.3)	(6.4)	(11.4)	(0.6)
Average earning assets	119,129	122,996	133,155	121,833	131,633
Average gross loans and acceptances	113,005	116,863	126,800	115,711	125,449
Average net loans and acceptances	112,030	115,828	125,792	114,664	124,561
Average deposits	137,556	137,591	144,076	137,993	129,353

(1) Before tax amounts of US\$7 million in Q3-2021, US\$6 million in Q2-2021, and US\$9 million in Q3-2020; US\$20 million for YTD-2021 and US\$29 million for YTD-2020 are included in non-interest expense.

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

### Q3 2021 vs. Q3 2020

U.S. P&C reported net income was \$553 million, an increase of \$290 million from the prior year, and adjusted net income was \$559 million, an increase of \$286 million or 105%. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income was \$448 million, an increase of \$256 million from the prior year, and adjusted net income was \$453 million, an increase of \$254 million.

Total revenue was \$1,098 million, an increase of \$68 million or 7% from the prior year. Net interest income increased due to higher loan margins, deposit balances and Paycheck Protection Program (PPP) revenue, partially offset by lower deposit margins. Non-interest revenue increased across most categories. Net interest margin of 3.49% increased 18 basis points, primarily due to higher loan margins, deposits growing faster than loans and accelerated PPP revenue from loan forgiveness, partially offset by lower deposit margins reflecting the impact of the lower interest rate environment.

Personal revenue was relatively unchanged as higher net interest income was offset by lower non-interest revenue. Commercial revenue increased \$70 million or 10%, due to higher net interest income and higher non-interest revenue.

Total recovery of credit losses was \$49 million, compared with a provision for credit losses of \$247 million in the prior year. The recovery of credit losses on impaired loans was \$6 million, a decrease of \$87 million, largely due to lower commercial provisions. There was a \$43 million recovery of credit losses on performing loans in the current quarter, compared with a \$166 million provision in the prior year.

Non-interest expense was \$559 million, an increase of \$6 million or 1% from the prior year, and adjusted non-interest expense was \$552 million, an increase of \$8 million or 2%.

Average total gross loans and acceptances decreased \$1.6 billion or 2% from the prior year to \$91.8 billion. Commercial loan balances decreased 1%, or increased 1% excluding PPP loans, and personal loan balances decreased 5%. Average total deposits increased \$5.6 billion or 5% to \$111.7 billion, reflecting the higher liquidity retained by customers due to the impact of the COVID-19 pandemic. Commercial deposits increased 15%, while personal deposits decreased 5% as continued growth in chequing and savings deposits was more than offset by lower term deposits.

### **Q3 2021 vs. Q2 2021**

Reported net income was \$553 million, an increase of \$11 million, and adjusted net income was \$559 million, an increase of \$12 million, both increasing 2% from the prior quarter. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income was \$448 million and adjusted net income was \$453 million, both increasing \$14 million or 3% from the prior quarter.

Total revenue was \$1,098 million, an increase of \$6 million or 1% from the prior quarter. Net interest income increased, primarily due to the impact of three more days in the current quarter and higher deposit balances, partially offset by lower deposit margins and lower loan balances. Non-interest revenue decreased modestly from the prior quarter. Net interest margin of 3.49% decreased 2 basis points from the prior quarter, driven by lower deposit margins, partially offset by accelerated PPP revenue from loan forgiveness.

Personal revenue was unchanged from the prior quarter. Commercial revenue increased \$6 million, due to higher net interest income, partially offset by lower non-interest revenue.

Total recovery of credit losses was \$49 million, an increase of \$30 million from the prior quarter. The recovery of credit losses on impaired loans was \$6 million, compared with a \$4 million provision in the prior quarter, primarily due to higher recoveries. There was a \$43 million recovery of credit losses on performing loans in the current quarter, an increase of \$20 million from the prior quarter.

Non-interest expense was \$559 million, an increase of \$15 million, and adjusted non-interest expense was \$552 million, an increase of \$14 million, both increasing 3% from the prior quarter, primarily driven by three more days in the current quarter.

Average total gross loans and acceptances decreased \$1.6 billion or 2% from the prior quarter. Commercial loan balances decreased 2%, or 1% excluding PPP loans, and personal loan balances increased 1%. Average total deposits increased \$1.7 billion or 2% to \$111.7 billion. Commercial deposits increased 3%, while personal deposits were relatively unchanged as continued growth in chequing and savings deposits was more than offset by lower term deposits.

### **Q3 YTD 2021 vs. Q3 YTD 2020**

Reported net income was \$1,677 million, an increase of \$724 million or 76% from the prior year, and adjusted net income was \$1,695 million, an increase of \$712 million or 72%. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income was \$1,336 million, an increase of \$631 million or 90% from the prior year, and adjusted net income was \$1,351 million, an increase of \$624 million or 86%.

Total revenue was \$3,289 million, an increase of \$183 million or 6% from the prior year. Net interest income increased due to higher loan margins, deposit balances and PPP revenue, partially offset by lower deposit margins and loan balances. Non-interest revenue increased across most categories. Net interest margin of 3.50% increased 16 basis points, primarily due to higher loan margins, deposits growing faster than loans and accelerated PPP revenue from loan forgiveness, partially offset by lower deposit margins reflecting the impact of the lower interest rate environment.

Personal revenue increased \$17 million or 2%, and commercial revenue increased \$166 million or 8%, both due to higher net interest income and higher non-interest revenue.

Total recovery of credit losses was \$93 million, compared with a provision for credit losses of \$503 million in the prior year. The provision for credit losses on impaired loans decreased \$257 million, largely due to lower commercial provisions. There was a \$106 million recovery of credit losses on performing loans in the current year, compared with a \$233 million provision in the prior year.

Non-interest expense was \$1,636 million, a decrease of \$87 million or 5% from the prior year, and adjusted non-interest expense was \$1,616 million, a decrease of \$78 million or 5%, due to lower technology and employee-related costs, as well as other operating costs.

Average gross loans and acceptances decreased \$0.6 billion or 1% from the prior year to \$92.2 billion. Personal loan balances decreased 6% and commercial loan balances were relatively unchanged, or decreased 2% excluding PPP loans. Average total deposits increased \$14.3 billion or 15% to \$109.9 billion, reflecting the higher liquidity retained by customers due to the impact of the COVID-19 pandemic. Commercial deposits increased 32%, while personal deposits decreased 1% as continued growth in chequing and savings deposits was more than offset by lower term deposits.

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)

	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
Net interest income	247	237	229	723	672
Non-interest revenue	2,179	878	2,255	4,795	4,727
Total revenue	2,426	1,115	2,484	5,518	5,399
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	984	(283)	1,189	1,302	1,708
Revenue, net of CCPB	1,442	1,398	1,295	4,216	3,691
Provision for (recovery of) credit losses on impaired loans	-	1	1	3	4
Provision for (recovery of) credit losses on performing loans	(2)	(4)	7	(10)	13
Total provision for (recovery of) credit losses	(2)	(3)	8	(7)	17
Non-interest expense	913	941	837	2,760	2,637
Income before income taxes	531	460	450	1,463	1,037
Provision for income taxes	130	114	109	358	261
Reported net income	401	346	341	1,105	776
Amortization of acquisition-related intangible assets (1)	5	7	8	20	26
Adjusted net income	406	353	349	1,125	802
Traditional Wealth businesses reported net income	328	296	271	910	640
Traditional Wealth businesses adjusted net income	333	303	279	930	666
Insurance reported net income (loss)	73	50	70	195	136
Insurance adjusted net income (loss)	73	50	70	195	136
Net income growth (%)	17.6	139.8	36.9	42.4	(2.1)
Adjusted net income growth (%)	16.0	130.8	35.5	40.2	(2.3)
Revenue growth (%)	(2.4)	25.4	17.6	2.2	(11.4)
Revenue growth, net of CCPB (%)	11.1	28.7	5.7	14.2	(0.8)
Adjusted CCPB	984	(283)	1,189	1,302	1,708
Revenue growth, net of adjusted CCPB (%)	11.1	28.7	5.7	14.2	(0.8)
Non-interest expense growth (%)	9.0	6.0	(5.4)	4.7	(1.0)
Adjusted non-interest expense growth (%)	9.8	6.2	(5.4)	5.0	(0.9)
Return on equity (%)	28.6	23.0	21.1	24.5	16.1
Adjusted return on equity (%)	28.9	23.6	21.6	25.0	16.7
Operating leverage, net of CCPB (%)	2.1	22.7	11.1	9.5	0.2
Adjusted operating leverage, net of CCPB (%)	1.3	22.5	11.1	9.2	0.1
Reported efficiency ratio (%)	37.6	84.5	33.7	50.0	48.8
Reported efficiency ratio, net of CCPB (%)	63.3	67.3	64.6	65.5	71.4
Adjusted efficiency ratio (%)	37.4	83.6	33.3	49.6	48.2
Adjusted efficiency ratio, net of CCPB (%)	63.0	66.6	63.7	64.9	70.5
Assets under management	526,542	525,230	498,020	526,542	498,020
Assets under administration (2)	457,964	454,241	411,122	457,964	411,122
Average assets	48,053	47,693	46,308	47,761	45,234
Average gross loans and acceptances	29,040	28,486	26,999	28,436	26,331
Average net loans and acceptances	29,002	28,446	26,959	28,395	26,295
Average deposits	50,054	51,438	45,345	50,265	42,586

(1) Before tax amounts of \$5 million in Q3-2021, \$10 million in Q2-2021 and \$11 million in Q3-2020; \$25 million for YTD-2021 and \$33 million for YTD-2020 are included in non-interest expense.

(2) Certain assets under management that are also administered by the bank are included in assets under administration.

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

### Q3 2021 vs. Q3 2020

BMO Wealth Management reported net income was \$401 million, an increase of \$60 million or 18% from the prior year, and adjusted net income was \$406 million, an increase of \$57 million or 16%. Traditional Wealth reported net income was \$328 million, an increase of \$57 million or 21%, and adjusted net income was \$333 million, an increase of \$54 million or 19%. Insurance net income was \$73 million, relatively unchanged from the prior year.

Total revenue was \$2,426 million, compared with \$2,484 million in the prior year. Revenue, net of CCPB, was \$1,442 million, an increase of \$147 million or 11%. Revenue in Traditional Wealth was \$1,308 million, an increase of \$132 million or 11%, due to higher non-interest revenue from growth in client assets, including stronger global markets, partially offset by the impact of the weaker U.S. dollar. Higher net interest income was driven by strong deposit and loan growth, partially offset by lower margins and the impact of the weaker U.S. dollar. Insurance revenue, net of CCPB, was \$134 million, an increase of \$15 million or 11%, primarily due to business growth, with benefits from changes in investments to improve asset liability management largely offset by favourable market movements in the prior year.

Non-interest expense was \$913 million, an increase of \$76 million or 9% from the prior year, and adjusted non-interest expense was \$908 million, an increase of \$82 million or 10%, primarily due to higher revenue-based, technology and employee-related costs, partially offset by the impact of the weaker U.S. dollar.

Assets under management increased \$28.5 billion or 6% from the prior year, primarily due to stronger global markets, partially offset by the attrition of low-yielding assets and foreign exchange movements. Assets under administration increased \$46.8 billion or 11%, due to stronger global markets, partially offset by foreign exchange movements. Average gross loans and average deposits increased 8% and 10%, respectively.

### **Q3 2021 vs. Q2 2021**

Reported net income was \$401 million, an increase of \$55 million or 16% from the prior quarter, and adjusted net income was \$406 million, an increase of \$53 million or 15%. Traditional Wealth reported net income was \$328 million, an increase of \$32 million or 11%, and adjusted net income was \$333 million, an increase of \$30 million or 10%. Insurance net income was \$73 million, an increase of \$23 million or 45%.

Total revenue was \$2,426 million, an increase of \$1,311 million. Revenue, net of CCPB, was \$1,442 million, an increase of \$44 million or 3%. Traditional Wealth revenue was \$1,308 million, an increase of \$15 million or 1%, primarily from stronger global markets and the impact of three more days in the current quarter, partially offset by lower brokerage revenue. Insurance revenue, net of CCPB, was \$134 million, an increase of \$29 million or 27%, due to business growth and benefits from changes in investments to improve asset liability management, largely offset by favourable market movements in the prior quarter.

Non-interest expense decreased \$28 million or 3%, and adjusted non-interest expense decreased \$23 million or 3%, primarily due to a legal provision in the prior quarter and lower revenue-based costs, partially offset by the impact of three more days in the current quarter.

Assets under management remained relatively unchanged as the attrition of low-yielding assets, including the expected impact of the discontinuation of Bank of Canada's Provincial Bond Purchase Program introduced during the COVID-19 pandemic, were offset by growth in client assets, including stronger global equity markets and foreign exchange movements. Assets under administration remained relatively unchanged. Average gross loans increased 2%, while average deposits decreased 3%.

### **Q3 YTD 2021 vs. Q3 YTD 2020**

Reported net income was \$1,105 million, an increase of \$329 million or 42%, and adjusted net income was \$1,125 million, an increase of \$323 million or 40%. Traditional Wealth reported net income was \$910 million, an increase of \$270 million or 42%, and adjusted net income was \$930 million, an increase of \$264 million or 39%. Insurance net income was \$195 million, an increase of \$59 million or 44% from the prior year.

Total revenue was \$5,518 million, an increase of \$119 million or 2% from the prior year. Revenue, net of CCPB, was \$4,216 million, an increase of \$525 million or 14%. Revenue in Traditional Wealth was \$3,846 million, an increase of \$435 million or 13% from the prior year, due to higher non-interest revenue from growth in client assets, including stronger global markets, an increase in online brokerage revenue and the impact of the legal provision in the prior year, partially offset by the impact of the weaker U.S. dollar. Net interest income increased, primarily due to strong deposit and loan growth, partially offset by lower margins and the impact of the weaker U.S. dollar. Insurance revenue, net of CCPB, was \$370 million, an increase of \$90 million or 32% from the prior year, primarily due to the impact of favourable market movements in the current year, relative to unfavourable market movements in the prior year, and benefits from changes in investments to improve asset liability management.

Non-interest expense was \$2,760 million, an increase of \$123 million or 5% from the prior year, and adjusted non-interest expense was \$2,735 million, an increase of \$131 million or 5%, primarily due to higher revenue-based costs, a legal provision in the current year and technology costs, partially offset by the impact of the weaker U.S. dollar.

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)

	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
Net interest income (teb)	696	743	952	2,242	2,503
Non-interest revenue	888	795	576	2,454	1,445
Total revenue (teb)	1,584	1,538	1,528	4,696	3,948
Provision for (recovery of) credit losses on impaired loans	(19)	(6)	79	20	205
Provision for (recovery of) credit losses on performing loans	(75)	(49)	58	(126)	390
Total provision for (recovery of) credit losses	(94)	(55)	137	(106)	595
Non-interest expense	918	836	825	2,633	2,435
Income before income taxes	760	757	566	2,169	918
Provision for income taxes (teb)	202	194	140	565	210
Reported net income	558	563	426	1,604	708
Acquisition integration costs (1)	2	2	4	6	8
Amortization of acquisition-related intangible assets (2)	4	5	5	13	13
Adjusted net income	564	570	435	1,623	729
Global Markets revenue	881	919	981	2,831	2,368
Investment and Corporate Banking revenue	703	619	547	1,865	1,580
Net income growth (%)	31.0	861.0	35.7	126.7	(13.7)
Adjusted net income growth (%)	29.8	943.9	36.2	122.8	(12.9)
Revenue growth (%)	3.7	46.3	26.6	19.0	10.3
Non-interest expense growth (%)	11.4	10.2	3.2	8.2	(2.1)
Adjusted non-interest expense growth (%)	12.2	10.2	2.5	8.4	(2.4)
Return on equity (%)	20.3	20.9	13.6	19.2	8.0
Adjusted return on equity (%)	20.5	21.1	13.9	19.4	8.2
Operating leverage (teb) (%)	(7.7)	36.1	23.4	10.8	12.4
Adjusted operating leverage (teb) (%)	(8.5)	36.1	24.1	10.6	12.7
Efficiency ratio (teb) (%)	58.0	54.3	54.0	56.1	61.7
Adjusted efficiency ratio (teb) (%)	57.5	53.8	53.1	55.5	61.0
Average assets	367,900	360,123	379,131	371,046	370,363
Average gross loans and acceptances	56,981	59,013	73,397	59,565	69,479
Average net loans and acceptances	56,536	58,468	72,861	59,045	69,148

(1) KGS-Alpha and Clearpool acquisition integration costs before tax amounts of \$3 million in Q3-2021, \$2 million in Q2-2021, and \$5 million in Q3-2020; \$8 million for YTD-2021 and \$11 million for YTD-2020 are included in non-interest expense.

(2) Before tax amounts of \$5 million in Q3-2021, \$6 million in Q2-2021, and \$8 million in Q3-2020; \$17 million for both YTD-2021 and YTD-2020 are included in non-interest expense.

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

### Q3 2021 vs. Q3 2020

BMO Capital Markets reported net income was \$558 million, an increase of \$132 million or 31% from the prior year, and adjusted net income was \$564 million, an increase of \$129 million or 30%.

Total revenue was \$1,584 million, an increase of \$56 million or 4% from the prior year. Global Markets revenue decreased due to lower interest rate and commodities trading revenue, and the impact of the weaker U.S. dollar, partially offset by higher equities trading revenue and new debt and equity issuances. Investment and Corporate Banking revenue increased, primarily driven by higher underwriting revenue and net securities gains, partially offset by the impact of the weaker U.S. dollar.

Total recovery of credit losses was \$94 million, compared with a provision for credit losses of \$137 million in the prior year. The recovery of credit losses on impaired loans was \$19 million, compared with a \$79 million provision in the prior year. There was a \$75 million recovery of credit losses on performing loans in the current quarter, compared with a \$58 million provision in the prior year.

Non-interest expense was \$918 million, an increase of \$93 million or 11% from the prior year, and adjusted non-interest expense was \$910 million, an increase of \$98 million or 12%. The increase was driven by higher performance-based compensation and higher other operating costs, partially offset by the impact of the weaker U.S. dollar.

Average total gross loans and acceptances decreased \$16.4 billion or 22% from the prior year to \$57 billion, primarily driven by lower loan utilizations from elevated levels in the prior year, the impact of the weaker U.S. dollar and declining balances in the non-Canadian energy portfolio.

### Q3 2021 vs. Q2 2021

Reported net income was \$558 million and adjusted net income was \$564 million, both declining modestly from the prior quarter.

Total revenue was \$1,584 million, an increase of \$46 million or 3%. Global Markets revenue decreased due to lower new equities issuances and securities commissions and fees, compared with stronger client activity in the prior quarter, as well as lower commodities trading revenue and the impact of the weaker U.S. dollar, partially offset by higher interest rate trading revenue. Investment and Corporate Banking revenue increased, driven by higher underwriting and advisory revenue, corporate banking-related revenue and net securities gains.

Total recovery of credit losses was \$94 million, an increase of \$39 million from the prior quarter. The recovery of credit losses on impaired loans was \$19 million, an increase of \$13 million from the prior quarter. There was a \$75 million recovery of credit losses on performing loans in the current quarter, an increase of \$26 million from the prior quarter.

Non-interest expense was \$918 million, an increase of \$82 million or 10% from the prior quarter, and adjusted non-interest expense was \$910 million, an increase of \$82 million or 10%. The increase was driven by higher employee-related costs, including performance-based compensation, and the impact of three more days in the current quarter, partially offset by the impact of the weaker U.S. dollar.

Average total gross loans and acceptances decreased \$2.0 billion or 3% from the prior year to \$57 billion, due to declining balances in the non-Canadian energy portfolio and the impact of the weaker U.S. dollar.

### Q3 YTD 2021 vs. Q3 YTD 2020

Reported net income was \$1,604 million, an increase of \$896 million from the prior year, and adjusted net income was \$1,623 million, an increase of \$894 million.

Total revenue was \$4,696 million, an increase of \$748 million or 19%. Global Markets revenue increased, driven by strong client activity in equities trading revenue, as well as higher new equity and debt issuances, partially offset by the impact of the weaker U.S. dollar and lower foreign exchange, commodities and interest rate trading revenue. The prior year included negative impacts from equity linked notes-related businesses and the unfavourable impact from a widening of credit and funding spreads on derivative valuation adjustments. Investment and Corporate Banking revenue increased, driven by higher underwriting revenue and net securities gains, partially offset by lower corporate banking-related revenue, the impact of the weaker U.S. dollar and lower advisory revenue. The prior year was impacted by markdowns on the held-for-sale loan portfolio.

Total recovery of credit losses was \$106 million, compared with a provision for credit losses of \$595 million in the prior year. The provision for credit losses on impaired loans was \$20 million, a decrease of \$185 million from the prior year. There was a \$126 million recovery of credit losses on performing loans in the current year, compared with a \$390 million provision in the prior year.

Non-interest expense was \$2,633 million, an increase of \$198 million or 8% from the prior year, and adjusted non-interest expense was \$2,608 million, an increase of \$201 million or 8%. The increase was driven by higher performance-based compensation, partially offset by the impact of the weaker U.S. dollar and lower other operating costs.

Average total gross loans and acceptances decreased \$9.9 billion or 14% to \$59.6 billion, primarily due to lower loan utilizations from elevated levels in the prior year, the impact of the weaker U.S. dollar and declining balances in the non-Canadian energy portfolio.

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

## Corporate Services

(Canadian \$ in millions, except as noted)

	Q3-2021	Q2-2021	Q3-2020	YTD-2021	YTD-2020
Net interest income before group teb offset	(53)	(78)	(161)	(217)	(325)
Group teb offset	(77)	(83)	(101)	(237)	(257)
Net interest income (teb)	(130)	(161)	(262)	(454)	(582)
Non-interest revenue	89	75	78	242	232
Total revenue (teb)	(41)	(86)	(184)	(212)	(350)
Provision for (recovery of) credit losses on impaired loans	(2)	-	-	(3)	2
Provision for (recovery of) credit losses on performing loans	(4)	-	7	(4)	8
Total provision for (recovery of) credit losses	(6)	-	7	(7)	10
Non-interest expense	118	980	69	1,287	303
Income (loss) before income taxes	(153)	(1,066)	(260)	(1,492)	(663)
Provision for (recovery of) income taxes (teb)	(101)	(154)	(143)	(385)	(359)
Reported net loss	(52)	(912)	(117)	(1,107)	(304)
Impact of divestitures (1) (2)	18	772	-	790	-
Restructuring costs (reversals) (2)	(18)	-	-	(18)	-
Adjusted net loss (1) (2)	(52)	(140)	(117)	(335)	(304)
Adjusted total revenue (teb)	(41)	(115)	(184)	(241)	(350)
Adjusted non-interest expense	118	180	69	487	303

(1) Q2-2021 reported net income included a \$747 million pre-tax and after-tax write-down of goodwill related to the announced sale of our EMEA Asset Management business, a \$22 million (\$29 million pre-tax) net gain on the sale of our Private Banking business in Hong Kong and Singapore, and \$47 million (\$53 million pre-tax) of divestiture-related costs for both transactions. The net gain on the sale was included in revenue with the goodwill write-down and divestiture costs included in non-interest expense, all recorded in Corporate Services.

(2) Q3-2021 reported net income included expenses of \$18 million (\$24 million pre-tax) from the impact of divestitures related to the announced sale of our EMEA Asset Management business and the sale of our Private Banking business in Hong Kong and Singapore, offset by a partial reversal of restructuring charges recorded in Q4-2019 related to severance of \$18 million (\$24 million pre-tax), all recorded in non-interest expense, in Corporate Services.

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

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

The costs of these Corporate Units and T&O services are largely transferred to the three operating groups (Personal and Commercial Banking, BMO Wealth Management and BMO Capital Markets), with any remaining amounts retained in Corporate Services results. As such, Corporate Services results largely reflect the impact of residual treasury-related activities, the elimination of taxable equivalent adjustments, and residual unallocated expenses.

### Q3 2021 vs. Q3 2020

Corporate Services reported and adjusted net loss for the quarter were \$52 million, compared with a reported and adjusted net loss of \$117 million in the prior year. Adjusted results increased due to higher revenue, driven by higher securities gains and treasury-related activities, partially offset by higher expenses.

### Q3 2021 vs. Q2 2021

Reported and adjusted net loss for the quarter were \$52 million, compared with a reported net loss of \$912 million and adjusted net loss of \$140 million in the prior quarter. Adjusted results increased due to higher revenue, driven by higher treasury-related activities and securities gains, and lower expenses, partially offset by the impact of a less favourable tax rate in the current quarter.

### Q3 YTD 2021 vs. Q3 YTD 2020

Reported net loss was \$1,107 million and adjusted net loss was \$335 million, compared with a reported and adjusted net loss of \$304 million in the prior year. Adjusted results decreased due to higher expenses, partially offset by higher revenue, driven by higher treasury-related activities, and the impact of a less favourable tax rate in the prior year.

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)	Q3-2021	Q2-2021	Q1-2021	Q4-2020	Q3-2020	Q2-2020	Q1-2020	Q4-2019
Revenue (1)	7,562	6,076	6,975	5,986	7,189	5,264	6,747	6,087
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	984	(283)	601	-	1,189	(197)	716	335
Revenue, net of CCPB (1)	6,578	6,359	6,374	5,986	6,000	5,461	6,031	5,752
Provision for (recovery of) credit losses on impaired loans	71	155	215	339	446	413	324	231
Provision for (recovery of) credit losses on performing loans	(141)	(95)	(59)	93	608	705	25	22
Total provision for credit losses	(70)	60	156	432	1,054	1,118	349	253
Non-interest expense (1)	3,684	4,409	3,613	3,548	3,444	3,516	3,669	3,987
Income before income taxes	2,964	1,890	2,605	2,006	1,502	827	2,013	1,512
Provision for income taxes	689	587	588	422	270	138	421	318
Reported net income (see below)	2,275	1,303	2,017	1,584	1,232	689	1,592	1,194
Acquisition integration costs (2)	2	2	2	3	4	2	2	2
Amortization of acquisition-related intangible assets (2)	15	18	19	23	23	24	23	29
Impact of divestitures (3) (4)	18	772	-	-	-	-	-	-
Restructuring costs (reversals) (4) (5)	(18)	-	-	-	-	-	-	357
Reinsurance adjustment (6)	-	-	-	-	-	-	-	25
Adjusted net income (see below)	2,292	2,095	2,038	1,610	1,259	715	1,617	1,607
Basic earnings per share (\$)	3.42	1.91	3.03	2.37	1.81	1.00	2.38	1.79
Diluted earnings per share (\$)	3.41	1.91	3.03	2.37	1.81	1.00	2.37	1.78
Adjusted diluted earnings per share (\$)	3.44	3.13	3.06	2.41	1.85	1.04	2.41	2.43

- Effective the first quarter of 2020, the bank adopted IFRS 16, *Leases* (IFRS 16), recognizing the cumulative effect of adoption in opening retained earnings with no changes to prior periods. Under IFRS 16, the bank as lessee is required to recognize a right-of-use asset and a corresponding lease liability for most leases. Refer to the Changes in Accounting Policies in 2020 section on page 118 and in Note 1 of the audited consolidated financial statements on pages 151 and 152 in our 2020 Annual Report for further details.
- Acquisition integration costs before tax and amortization of acquisition-related intangible assets before tax are charged to the non-interest expense of the operating groups.
- Q2-2021 reported net income included a \$747 million pre-tax and after-tax write-down of goodwill related to the announced sale of our EMEA Asset Management business, a \$22 million (\$29 million pre-tax) net gain on the sale of our Private Banking business in Hong Kong and Singapore, and \$47 million (\$53 million pre-tax) of divestiture-related costs for both transactions. The net gain on the sale was included in revenue with the goodwill write-down and divestiture costs included in non-interest expense, all recorded in Corporate Services.
- Q3-2021 reported net income included expenses of \$18 million (\$24 million pre-tax) from the impact of divestitures related to the announced sale of our EMEA Asset Management business and the sale of our Private Banking business in Hong Kong and Singapore, offset by a partial reversal of restructuring charges recorded in Q4-2019 related to severance of \$18 million (\$24 million pre-tax), all recorded in non-interest expense, in Corporate Services.
- Restructuring charges recorded in Q4-2019 of \$357 million after-tax (\$484 million pre-tax), included in non-interest expense in Corporate Services.
- Q4-2019 reported net income included a reinsurance adjustment of \$25 million (pre-tax and after-tax) in CCPB, related to the net impact of major reinsurance claims from Japanese typhoons that were incurred after our announced decision to wind down our reinsurance business. This reinsurance adjustment was included in CCPB in BMO Wealth Management.

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

BMO's quarterly earnings trends were reviewed in detail on pages 54 and 55 of BMO's 2020 Annual Report. Please 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 2019 through the third quarter of fiscal 2021.

### Earnings Trends

During the second and third quarters of 2020, the major adverse impact to the global economy from the COVID-19 pandemic had a corresponding negative impact on our financial results, including higher provisions for credit losses, lower loan growth, stronger deposit growth, a negative impact on revenue from lower interest rates and reduced consumer spending, a positive impact on trading revenue due to higher client activity, and lower expense growth. In recent quarters, earnings have generally been trending upwards, driven by revenue growth across our operating groups, in particular from strong global equity markets and client activity in BMO Capital Markets and BMO Wealth management, and lower provisions for credit losses, partially offset by higher expenses. However, the unpredictable course of the pandemic, including mutations of the virus and a possible resurgence of COVID-19 cases globally, contribute to ongoing economic uncertainty.

Reported results in the second quarter of 2021 included a write-down of goodwill related to the announced sale of our EMEA Asset Management business, a net gain on the sale of our Private Banking business in Hong Kong and Singapore, as well as divestiture-related costs. The fourth quarter of 2019 included a restructuring charge and a reinsurance adjustment. In the current quarter, we recorded expenses from the impact of the divestitures related to the transactions in the second quarter of 2021, as well as a partial reversal of the restructuring charges recorded in the fourth quarter of 2019. All periods were impacted by the amortization of acquisition-related intangible assets, as well as acquisition integration costs.

Total revenue in the third quarter of 2021 reflected good performance across all operating groups. Revenue growth in the P&C businesses in recent quarters was negatively impacted by the COVID-19 pandemic, the lower interest rate environment and lower non-interest revenue, reflecting changes in client activity, which is beginning to return to pre-pandemic levels. Revenue performance in BMO Wealth Management in recent quarters reflected the impact of improved global equity markets and fluctuations in online brokerage transaction volumes, while the second quarter of 2020 was impacted by weaker markets and a legal provision. Insurance revenue, net of CCPB, is subject to variability, primarily resulting from changes in long-term interest rates and equity markets. BMO Capital Markets had year-over-year revenue growth in seven of the past eight quarters, primarily due to higher trading and underwriting revenue from strong client activity, with the second quarter of 2020 negatively impacted by volatile market conditions resulting from the COVID-19 pandemic.

In 2020, we recorded higher provisions for credit losses in all businesses, primarily due to the impact of the pandemic, including higher provisions on performing loans. In 2021, we recorded lower provisions for credit losses on impaired loans and higher recoveries of credit losses on performing loans, which reflected improving credit conditions and economic outlook.

Non-interest expense reflected our focus on expense management and efficiency improvement. Reported non-interest expense included the impact of the write-down of goodwill and divestiture-related costs in the second and third quarters of 2021, and the restructuring charge in the fourth quarter of 2019 and a partial reversal of this charge in the third quarter of 2021. In recent quarters, non-interest expense was driven by higher

employee-related costs given business performance and higher technology-related costs, partially offset by the impact of the weaker U.S. dollar, lower COVID-19 related costs, as well as lower travel costs due to the continued impact of the pandemic.

The effective tax rate has varied with legislative changes; changes in tax policy, including their interpretation by tax authorities and the courts; earnings mix, including the relative proportion of earnings attributable to the different jurisdictions in which we operate, the level of pre-tax income, and the level of tax-exempt income from securities. The effective tax rate in the prior quarter was impacted by the write-down of goodwill related to the announced sale of our EMEA Asset Management business.

The bank's results reflect the impact of IFRS 16, *Leases* (IFRS 16), which was adopted in the first quarter of 2020, recognizing the cumulative effect of adoption in opening retained earnings with no changes to prior periods. Under IFRS 16, the bank as lessee is required to recognize a right-of-use asset and a corresponding lease liability for most leases. Refer to the Changes in Accounting Policies in 2020 section on page 118 of BMO's 2020 Annual Report for further details.

Adjusted results in this Summary Quarterly Earnings Trends section are non-GAAP amounts or non-GAAP measures. Please refer to the Non-GAAP Measures section. See also the Risk Management section.

## 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. We also offer employees a subsidy on annual credit card fees.

The bank's policies and procedures for related party transactions did not materially change from October 31, 2020, as described in Note 27 to the audited consolidated financial statements on page 211 of BMO's 2020 Annual Report.

## Off-Balance Sheet Arrangements

We enter into a number of off-balance sheet arrangements in the normal course of operations. The most significant of these are Structured Entities, Credit Instruments and Guarantees, which are described on page 71 of BMO's 2020 Annual Report. We consolidate our own securitization vehicles, the U.S. customer securitization vehicle, and certain capital and funding vehicles. We do not consolidate Canadian customer securitization vehicles, certain capital vehicles, various BMO-managed funds or various other structured entities where investments are held. There have been no significant changes to the bank's off-balance sheet arrangements since October 31, 2020.

## Accounting Policies and Critical Accounting Estimates

Significant accounting policies are described in our 2020 Annual Report and in the notes to our audited consolidated financial statements for the year ended October 31, 2020, 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 114 to 119 and Note 1 to the audited consolidated financial statements on pages 150 to 155 in BMO's 2020 Annual Report, as well as the updates provided in Note 1 to the unaudited interim consolidated financial statements.

## Allowance for Credit Losses

The allowance for credit losses (ACL) consists of allowances on impaired loans, which represent estimated losses related to impaired loans in the portfolio provided for but not yet written off, and allowances on performing loans, which is the bank's best estimate of impairment in the existing portfolio for loans that have not yet been individually identified as impaired. Expected credit losses (ECL) are calculated on a probability-weighted basis, based on the economic scenarios described below, and are calculated for each exposure in the portfolio as 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. Where there has been a significant increase in credit risk, lifetime ECL is recorded; otherwise 12 months of ECL is generally recorded. 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 the change in PD since origination and certain other criteria, such as 30-day past due and watchlist status. We may apply experienced credit judgment to reflect factors not captured in the ECL models, as we deem necessary. We have applied experienced credit judgment to reflect the impact of the extraordinary and highly uncertain environment on credit conditions, and the economy as a result of the COVID-19 pandemic. For additional information, refer to pages 114 to 116, and Note 4 of our audited annual consolidated financial statements on pages 159 to 164 of BMO's 2020 Annual Report, as well as Note 3 of our unaudited interim consolidated financial statements on page 54.

Our total allowance for credit losses as at July 31, 2021, was \$3,248 million (\$3,814 million as at October 31, 2020), comprised of an allowance on performing loans of \$2,686 million and an allowance on impaired loans of \$562 million (\$3,075 million and \$739 million, respectively, as at October 31, 2020). The allowance on performing loans decreased \$389 million from the fourth quarter of 2020, primarily driven by an improving economic outlook, positive credit migration and movements in foreign exchange rates, partially offset by the impact of the uncertain environment on future credit conditions, including adoption of a higher adverse scenario weight in the first quarter of the current year, as well as a more severe adverse scenario in the second quarter.

In establishing our allowance for performing loans, we attach probability weightings to three economic scenarios, which are representative of our view of economic and market conditions – a base scenario, which in our view represents the most probable outcome, as well as benign and adverse scenarios, all developed by our Economics group.

As at July 31, 2021, our base case scenario depicts a stronger economic forecast in both Canada and the United States. In Canada, annual real GDP growth averages 7.3% over the next 12 months as a result of significant policy stimulus and continuing rollback of pandemic restrictions, combined with a wave of pent-up demand. Annual real GDP growth is expected to average 3.9% over the following 12 months, as the economic recovery continues and spending returns to more normal levels. The Canadian unemployment rate is forecasted to decline steadily, though remains elevated, averaging 7.1% over the next 12 months and 5.8% over the following year. The U.S. economy follows a similar trajectory albeit with a higher level of growth compared with Canada over the next 12 months at 8.7% given a larger policy stimulus and an initially faster vaccine rollout. Real GDP is expected to grow 3.3% in the following 12 months. The U.S. unemployment rate is forecasted to fall to an average of 4.9% over the next 12 months and then falls to 3.7% in the following year. Our base case economic forecast as at October 31, 2020 depicted more moderate economic growth in both Canada and the United States over the near-term projection period. If we assume a 100% base case economic forecast and include the impact of loan migration by restaging, with other assumptions held constant, including the application of experienced credit judgment, the allowance on performing loans would be approximately \$1,850 million as at July 31, 2021 (\$2,375 million as at October 31, 2020), compared with the reported allowance on performing loans of \$2,686 million (\$3,075 million as at October 31, 2020).

As at July 31, 2021, our adverse case economic scenario depicts de minimis annual average real GDP growth in both Canada and the U.S. over the next 12 months at 0.7% and 0.1% respectively, with both contracting at a rate of 1.1% in the following 12 months. The adverse case scenario assumes a sustained large increase in COVID-19 infections, accompanied by renewed restrictions on a broad range of activities leading to a decline in consumer and business confidence. The unemployment rates remain elevated in both Canada and the United States, in particular increasing from an average of 11.2% over the next 12 months to an average of 13.1% in the following year in Canada, and from 9.1% to 11.6% in the United States over the same period. The adverse case as at October 31, 2020 depicted a less severe economic contraction in Canada and the United States compared with the adverse case as at July 31, 2021, as real GDP in Canada and the United States contracted approximately 3% over several quarters, instead of 5%. If we assume a 100% adverse economic forecast and include the impact of loan migration by restaging, with other assumptions held constant, including the application of experienced credit judgment, the allowance on performing loans would be approximately \$4,225 million as at July 31, 2021 (\$4,875 million as at October 31, 2020), compared with the reported allowance on performing loans of \$2,686 million (\$3,075 million as at October 31, 2020).

When we measure changes in economic performance in our forecasts, we use real GDP as the basis, which acts as the key driver for movements in many of the other economic and market variables used, including VIX equity volatility index, corporate BBB credit spreads, unemployment rates, housing price indices and consumer credit. Many of the variables have a high degree of interdependency and as such, there is no one single factor to which loan impairment allowances as a whole are sensitive.

The following table shows certain key economic variables used to estimate the allowance on performing loans during the forecast period. This table is typically provided on an annual basis; however, given the continued level of uncertainty in the forward-looking information due to the impact of the COVID-19 pandemic, the disclosures have been provided as an update to information in our 2020 Annual Report. The values shown represent the national annual average levels or growth rates for the next 12 months and subsequent 12 months following each reporting period for all scenarios. While the values disclosed below are national variables, we use regional variables in the underlying models where appropriate.

		As at July 31, 2021					
		Benign scenario		Base scenario		Adverse scenario	
All figures are annual average values		First 12 months	Second 12 months	First 12 months	Second 12 months	First 12 months	Second 12 months
<b>Real GDP growth rates (1)</b>	Canada	9.6%	5.5%	7.3%	3.9%	0.7%	(1.1)%
	United States	10.9%	4.6%	8.7%	3.3%	0.1%	(1.1)%
<b>Corporate BBB 10-year spread</b>	Canada	1.5%	1.9%	1.9%	2.2%	3.6%	4.4%
	United States	1.0%	1.2%	1.3%	1.6%	4.2%	4.5%
<b>Unemployment rates</b>	Canada	5.9%	4.8%	7.1%	5.8%	11.2%	13.1%
	United States	4.3%	3.2%	4.9%	3.7%	9.1%	11.6%
<b>Housing price index (1)</b>	Canada (2)	24.0%	10.9%	20.9%	6.0%	(8.6)%	(18.0)%
	United States (3)	13.8%	7.0%	11.5%	4.5%	(7.4)%	(15.5)%

		As at April 30, 2021					
		Benign scenario		Base scenario		Adverse scenario	
All figures are annual average values		First 12 months	Second 12 months	First 12 months	Second 12 months	First 12 months	Second 12 months
<b>Real GDP growth rates (1)</b>	Canada	8.5%	5.7%	6.2%	4.1%	(0.7)%	(1.1)%
	United States	8.8%	5.8%	6.6%	4.5%	(1.4)%	(1.1)%
<b>Corporate BBB 10-year spread</b>	Canada	1.5%	1.9%	1.9%	2.2%	3.6%	4.4%
	United States	1.0%	1.2%	1.4%	1.5%	4.2%	4.5%
<b>Unemployment rates</b>	Canada	6.4%	5.1%	7.8%	6.3%	12.0%	13.9%
	United States	4.6%	3.4%	5.4%	4.1%	9.8%	12.3%
<b>Housing price index (1)</b>	Canada (2)	20.7%	10.1%	17.8%	5.2%	(11.9)%	(18.0)%
	United States (3)	10.9%	6.5%	8.6%	4.1%	(8.4)%	(15.5)%

		As at October 31, 2020					
		Benign scenario		Base scenario		Adverse scenario	
All figures are annual average values		First 12 months	Second 12 months	First 12 months	Second 12 months	First 12 months	Second 12 months
<b>Real GDP growth rates (1)</b>	Canada	3.7%	6.4%	1.8%	4.2%	(4.4)%	(1.1)%
	United States	1.6%	6.0%	(0.4)%	4.0%	(5.1)%	(1.2)%
<b>Corporate BBB 10-year spread</b>	Canada	1.8%	1.9%	2.2%	2.2%	3.6%	4.5%
	United States	1.7%	1.7%	2.0%	2.0%	3.9%	4.1%
<b>Unemployment rates</b>	Canada	7.4%	6.1%	8.9%	7.5%	12.7%	13.9%
	United States	6.4%	4.8%	8.0%	6.0%	11.5%	12.8%
<b>Housing price index (1)</b>	Canada (2)	10.3%	7.7%	7.2%	2.8%	(1.2)%	(8.7)%
	United States (3)	4.6%	4.5%	2.4%	2.1%	(2.4)%	(6.2)%

(1) Real gross domestic product and housing price index are four quarter averages of year-over-year growth rates.

(2) In Canada, we use the HPI Benchmark Composite.

(3) In the United States, we use the National Case-Shiller House Price Index.

The table below shows how the bank expects the real GDP year-over-year growth rate for the base case in Canada and the United States to trend by calendar quarter. In addition, the table includes the real GDP level compared with the calendar quarter Q4 2019, which marked the quarterly peak in real GDP prior to the pandemic beginning in calendar Q1 2020, expressed as a percentage.

Calendar quarter ended	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022	March 30, 2023
<b>Real GDP growth rates year-over-year</b>								
Canada	13.1 %	6.0 %	5.2 %	5.0 %	5.7 %	4.1 %	3.2 %	2.6%
United States	13.2 %	7.4 %	7.5 %	6.7 %	4.7 %	3.3 %	2.8 %	2.6%
<b>Real GDP level compared with calendar Q4 2019</b>								
Canada	98.3 %	100.5 %	102.0 %	103.2 %	103.9 %	104.6 %	105.3 %	105.9%
United States	101.8 %	103.7 %	104.9 %	105.7 %	106.5 %	107.2 %	107.8 %	108.5%

The ECL approach requires the recognition of credit losses generally based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses for performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Under our current probability-weighted scenarios and based on the current risk profile of our loan exposures, if all our performing loans were in Stage 1, our allowance for performing loans would be approximately \$1,925 million (\$2,300 million as at October 31, 2020), compared with the reported allowance for performing loans of \$2,686 million (\$3,075 million as at October 31, 2020).

Information on the Provision for Credit Losses for the three and nine months ended July 31, 2021, can be found on page 12 in this document.

This Allowance for Credit Losses section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements section. See also the Risk Management section.

### Caution

This Accounting Policies and Critical Accounting Estimates section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

## Changes in Accounting Policies

### Interbank Offered Rate (IBOR) Reform

Effective November 1, 2020, we early adopted Phase 2 amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39), IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, as well as IFRS 16, *Leases*. These amendments address issues that arise from implementation of IBOR reform, where IBOR are replaced with alternative benchmark rates.

For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments also provide additional temporary relief from applying specific IAS 39 hedge accounting requirements to hedging relationships affected by IBOR reform. For example, there is an exception from the requirement to discontinue hedge accounting as a result of changes to hedge documentation required solely by IBOR reform. The amendments also require additional disclosure that allows users to understand the effect of IBOR reform on our financial instruments and risk management strategy.

Further details are provided in Note 1 to our unaudited interim consolidated financial statements on page 51.

### Conceptual Framework

Effective November 1, 2020, BMO adopted the revised Conceptual Framework (Framework), which sets out the fundamental concepts for financial reporting to ensure consistency in standard-setting decisions and that similar transactions are treated in a similar way, so as to provide useful information to users of financial statements. The revised Framework had no impact on our accounting policies.

## Future Changes in Accounting Policies

We monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on BMO's financial reporting and accounting policies. Information on new standards and amendments to existing standards, which are effective for the bank in the future, can be found on page 119 and in Note 1 to the audited annual consolidated financial statements on page 155 of BMO's 2020 Annual Report.

## Other Regulatory Developments

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

On May 27, 2021, the Canadian Securities Administrators (CSA) announced the adoption of National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure* (NI 52-112) and related consequential amendments. Replacing the previous CSA staff notice on Non-GAAP Measures, NI 52-112 governs how entities present non-GAAP and other financial measures and ratios, such as adjusted net income, adjusted earnings per share and pre-provision pre-tax earnings. The aim is to provide investors with additional information to help them understand the context of such measures in our public disclosures. The requirements will apply to our disclosure documents, including the MD&A, beginning with our fiscal 2021 year-end disclosures. We are in the process of completing our assessment of the required changes to our public disclosures.

For a comprehensive discussion of other regulatory developments, see the Enterprise-Wide Capital Management section starting on page 63, the Risks That May Affect Future Results section starting on page 73, the Liquidity and Funding Risk section starting on page 97, and the Legal and Regulatory Risk section starting on page 110 of BMO's 2020 Annual Report. This Other Regulatory Developments section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

## Risk Management

BMO's risk management policies and processes to identify, measure, manage, monitor, mitigate and report its credit and counterparty, market, insurance, liquidity and funding, operational, including technology and cyber-related risks, legal and regulatory, strategic, environmental and social, and reputation risks are outlined in the Enterprise-Wide Risk Management section on pages 73 to 113 of BMO's 2020 Annual Report.

### Top and Emerging Risks That May Affect Future Results

BMO's top and emerging risks and other factors that may affect future results are described on pages 73 to 77 of BMO's 2020 Annual Report. The following is an update to the 2020 Annual Report.

#### General Economic Conditions and COVID-19 Pandemic Related Risks

The economic outlook for the second half of 2021 has improved based on the increased availability of a number of COVID-19 vaccines, as well as the acceleration of vaccine roll-out programs. However, vaccine availability and hesitancy, emergence of mutations of the virus and a possible resurgence of cases contribute to ongoing economic uncertainty and pose a risk to the bank in the event that they may necessitate further lockdown measures across North America and globally. This may significantly impact our stakeholders, partners and customers, particularly those already impacted by the pandemic and lockdown measures.

#### Benchmark Interest Rate Reform

On March 5, 2021, the Financial Conduct Authority (FCA) confirmed that London Interbank Offered Rate (LIBOR) settings will cease to be provided by any administrator immediately after December 31, 2021, for all sterling, euro, Swiss franc and Japanese yen settings, as well as the 1-week and 2-month USD LIBOR settings. The remaining USD LIBOR settings will cease to be provided immediately after June 30, 2023. U.S. prudential regulators have issued supervisory guidance that the extension of certain USD LIBOR settings to June 30, 2023, applies only to legacy contracts; new issuances of LIBOR-based instruments must cease by December 31, 2021. The announcement followed the completion of the ICE Benchmark Administration consultation regarding the process and timing for the orderly wind-down of LIBOR for legacy contracts. Our enterprise-wide Interbank Offered Rates Transition Office (ITO) has adjusted the project plan accordingly, to align with these extended timelines and continues to monitor for changes and updates from regulators and industry working groups, in order to facilitate a smooth and timely transition for BMO and its clients.

The ITO, as part of its mandate, continues to monitor the development and usage of Alternative Reference Rates (ARRs) across the industry, including the Alternative Reference Rate Committee's formal recommendation of the CME Group's forward-looking Secured Overnight Financing Rate term rate. As the market develops, and in line with regulatory expectation, the bank has begun to add ARR-based products to its suite of offerings.

### Market Risk

BMO's market risk management practices and key measures are outlined on pages 92 to 96 of BMO's 2020 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, 2021				As at October 31, 2020				Primary risk factors for non-traded risk balances
	Consolidated Balance Sheet	Subject to market risk		Not subject to market risk	Consolidated Balance Sheet	Subject to market risk		Not subject to market risk	
(Canadian \$ in millions)		Traded risk (1)	Non-traded risk (2)			Traded risk (1)	Non-traded risk (2)		
<b>Assets Subject to Market Risk</b>									
Cash and cash equivalents	83,825	-	83,825	-	57,408	-	57,408	-	Interest rate
Interest bearing deposits with banks	8,793	141	8,652	-	9,035	217	8,818	-	Interest rate
Securities	230,776	102,041	128,735	-	234,260	97,723	136,537	-	Interest rate, credit spread, equity
Securities borrowed or purchased under resale agreements	104,738	-	104,738	-	111,878	-	111,878	-	Interest rate
Loans (net of allowance for credit losses)	455,616	2,996	452,620	-	447,420	2,416	445,004	-	Interest rate, foreign exchange
Derivative instruments	36,331	33,246	3,085	-	36,815	32,457	4,358	-	Interest rate, foreign exchange
Customer's liabilities under acceptances	14,263	-	14,263	-	13,493	-	13,493	-	Interest rate
Other assets	37,016	3,359	17,252	16,405	38,952	5,446	16,105	17,401	Interest rate
<b>Total Assets</b>	<b>971,358</b>	<b>141,783</b>	<b>813,170</b>	<b>16,405</b>	<b>949,261</b>	<b>138,259</b>	<b>793,601</b>	<b>17,401</b>	
<b>Liabilities Subject to Market Risk</b>									
Deposits	680,553	22,085	658,468	-	659,034	18,074	640,960	-	Interest rate, foreign exchange
Derivative instruments	29,167	26,685	2,482	-	30,375	26,355	4,020	-	Interest rate, foreign exchange
Acceptances	14,263	-	14,263	-	13,493	-	13,493	-	Interest rate
Securities sold but not yet purchased	28,497	28,497	-	-	29,376	29,376	-	-	
Securities lent or sold under repurchase agreements	92,990	-	92,990	-	88,658	-	88,658	-	Interest rate
Other liabilities	61,219	85	60,780	324	63,316	118	62,964	234	Interest rate
Subordinated debt	6,973	-	6,973	-	8,416	-	8,416	-	Interest rate
<b>Total Liabilities</b>	<b>913,662</b>	<b>77,352</b>	<b>835,956</b>	<b>324</b>	<b>892,668</b>	<b>73,923</b>	<b>818,511</b>	<b>234</b>	

(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, insurance risk management framework and secured financing transactions.

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

## Trading Market Risk Measures

Average Total Trading Value at Risk (VaR) decreased quarter-over-quarter as the heightened market volatility in the second and third quarters of 2020 transitioned out of the historical period used for VaR. The VaR reduction was partially offset by higher fixed income credit risks and equity option risks. Average Total Trading Stressed Value at Risk (SVaR) was also marginally higher from the rise in credit and equity risks.

## Total Trading Value at Risk (VaR) and Trading Stressed Value at Risk (SVaR) Summary <sup>(1)(2)</sup>

(Pre-tax Canadian \$ equivalent in millions)	For the quarter ended July 31, 2021				April 30, 2021	July 31, 2020
	Quarter-end	Average	High	Low	Average	Average
Commodity VaR	2.1	1.8	3.7	1.2	2.4	2.8
Equity VaR	12.0	12.4	14.8	10.6	15.9	20.6
Foreign exchange VaR	1.7	1.4	2.2	1.0	2.0	4.2
Interest rate VaR (3)	14.0	14.8	17.9	9.8	36.1	28.3
Debt-specific risk	2.3	2.4	3.0	1.9	3.6	5.7
Diversification	(13.7)	(12.2)	nm	nm	(24.0)	(23.8)
Total Trading VaR	18.4	20.6	26.7	15.3	36.0	37.8
Total Trading SVaR	41.0	43.4	45.8	39.2	40.5	53.4

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

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

(3) Interest rate VaR includes general credit spread risk.

nm - not meaningful

## Structural (Non-Trading) Market Risk

Structural economic value exposure to rising interest rates and the benefit to falling interest rates decreased relative to April 30, 2021, primarily due to modelled deposit pricing being less rate-sensitive at lower projected interest rate levels following the decrease in term market rates during the current quarter. The earnings benefit to rising interest rates and the earnings exposure to falling interest rates increased relative to April 30, 2021, largely driven by deposit growth.

## Structural Balance Sheet Earnings and Value Sensitivity to Changes in Interest Rates <sup>(1)(2)</sup>

(Pre-tax Canadian \$ equivalent in millions)	Economic value sensitivity					Earnings sensitivity over the next 12 months				
	July 31, 2021			April 30, 2021	July 31, 2020	July 31, 2021			April 30, 2021	July 31, 2020
	Canada (3) (4)	United States	Total	Total (4)	Total (4)	Canada (3) (4)	United States	Total	Total (4)	Total (4)
100 basis point increase	(773.2)	(439.7)	(1,212.9)	(1,462.5)	(725.6)	57.7	308.5	366.2	304.1	292.1
25 basis point decrease	152.9	(9.2)	143.8	243.3	(31.5)	(49.3)	(94.2)	(143.5)	(122.8)	(92.7)

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

(2) The impact of insurance market risk is not reflected in the table. Insurance market risk includes interest rate and equity market risk arising from BMO's insurance business activities. A 100 basis point increase in interest rates as at July 31, 2021 would result in an increase in earnings before tax of \$46 million (\$43 million as at April 30, 2021 and \$49 million as at July 31, 2020). A 25 basis point decrease in interest rates as at July 31, 2021 would result in a decrease in earnings before tax of \$12 million (\$11 million as at April 30, 2021 and \$12 million as at July 31, 2020). A 10% increase in equity market values as at July 31, 2021 would result in an increase in earnings before tax of \$21 million (\$31 million as at April 30, 2021 and \$66 million as at July 31, 2020). A 10% decrease in equity market values as at July 31, 2021 would result in a decrease in earnings before tax of \$21 million (\$31 million as at April 30, 2021 and \$65 million as at July 31, 2020). BMO may enter into hedging arrangements to offset the impact of changes in equity market values on its earnings, and did so during the 2021 and 2020 fiscal years. The impact of insurance market risk on earnings is reflected in insurance claims, commissions and changes in policy benefit liabilities on the Consolidated Statement of Income, and the corresponding change in the fair value of the bank's policy benefit liabilities is reflected in other liabilities on the Consolidated Balance Sheet.

(3) Includes Canadian dollar and other currencies.

(4) Measures reflect revised modeling assumptions effective January 31, 2021. Prior periods have been updated to reflect the revised approach and to conform with the current period's presentation.

## 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 continued to maintain a strong liquidity position in the third quarter of 2021. We experienced strong customer deposit and loan growth in the current quarter, as well as higher wholesale funding reflecting net issuances. Growth in loans, customer deposits, and wholesale funding was also impacted by the stronger U.S. dollar. BMO's liquidity metrics, including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), remained well above internal targets and regulatory requirements.

BMO's liquid assets are primarily held in our trading businesses, as well as in liquidity portfolios that are maintained for contingent liquidity risk management purposes and as investments of excess structural liquidity. 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, the United States 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 \$313.5 billion as at July 31, 2021, compared with \$308.1 billion as at April 30, 2021. The increase in unencumbered liquid assets was primarily due to higher securities and the impact of the stronger U.S. dollar, partially offset by lower cash balances. Net unencumbered liquid assets are primarily held at the parent bank level, at our U.S. bank entity BMO Harris Bank, 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.

In addition to cash and securities holdings, BMO may also pledge other assets, including mortgages and loans, to raise long-term secured funding. BMO's total encumbered assets and unencumbered liquid assets are summarized in the Asset Encumbrance table on page 37.

## Liquid Assets

	As at July 31, 2021					As at April 30, 2021
	Bank-owned assets	Other cash & securities received	Total gross assets (1)	Encumbered assets	Net unencumbered assets (2)	Net unencumbered assets (2)
(Canadian \$ in millions)						
Cash and cash equivalents	83,825	-	83,825	106	83,719	98,503
Deposits with other banks	8,793	-	8,793	-	8,793	8,955
Securities and securities borrowed or purchased under resale agreements						
Sovereigns/Central banks/Multilateral development banks	94,308	93,107	187,415	107,806	79,609	68,352
NHA mortgage-backed securities and U.S. agency mortgage-backed securities and collateralized mortgage obligations	53,882	6,712	60,594	21,086	39,508	37,744
Corporate & other debt	21,504	21,020	42,524	8,164	34,360	33,862
Corporate equity	61,082	55,973	117,055	64,945	52,110	44,737
Total securities and securities borrowed or purchased under resale agreements	230,776	176,812	407,588	202,001	205,587	184,695
NHA mortgage-backed securities (reported as loans at amortized cost) (3)	19,802	-	19,802	4,449	15,353	15,907
<b>Total liquid assets</b>	<b>343,196</b>	<b>176,812</b>	<b>520,008</b>	<b>206,556</b>	<b>313,452</b>	<b>308,060</b>

(1) Gross assets include bank-owned assets and cash and securities received from third parties.

(2) Net unencumbered liquid assets are defined as total gross assets less encumbered assets.

(3) Under IFRS, National Housing Act (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.

## Asset Encumbrance

(Canadian \$ in millions) As at July 31, 2021	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	92,618	-	106	-	92,512
Securities (5)	427,390	173,415	33,035	13,404	207,536
Loans	435,814	57,282	817	231,261	146,454
Other assets					
Derivative instruments	36,331	-	-	36,331	-
Customers' liability under acceptances	14,263	-	-	14,263	-
Premises and equipment	4,266	-	-	4,266	-
Goodwill	5,450	-	-	5,450	-
Intangible assets	2,298	-	-	2,298	-
Current tax assets	1,145	-	-	1,145	-
Deferred tax assets	1,209	-	-	1,209	-
Other assets	22,648	6,756	-	15,892	-
Total other assets	87,610	6,756	-	80,854	-
<b>Total assets</b>	<b>1,043,432</b>	<b>237,453</b>	<b>33,958</b>	<b>325,519</b>	<b>446,502</b>

(Canadian \$ in millions) As at April 30, 2021	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	107,548	-	90	-	107,458
Securities (5)	405,259	167,836	36,821	12,575	188,027
Loans	424,471	56,194	785	228,727	138,765
Other assets					
Derivative instruments	37,998	-	-	37,998	-
Customers' liability under acceptances	11,952	-	-	11,952	-
Premises and equipment	4,298	-	-	4,298	-
Goodwill	5,375	-	-	5,375	-
Intangible assets	2,323	-	-	2,323	-
Current tax assets	1,141	-	-	1,141	-
Deferred tax assets	1,294	-	-	1,294	-
Other assets	22,107	6,876	-	15,231	-
Total other assets	86,488	6,876	-	79,612	-
<b>Total assets</b>	<b>1,023,766</b>	<b>230,906</b>	<b>37,696</b>	<b>320,914</b>	<b>434,250</b>

(1) Gross assets include bank-owned assets and cash and securities received from third parties.

(2) Pledged as collateral refers to the portion of on-balance sheet assets and other cash and securities that are pledged through repurchase agreements, securities lending, 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 \$13.4 billion as at July 31, 2021, which include securities held at BMO's insurance subsidiary, significant equity investments, and certain investments held in our merchant banking business. Other unencumbered assets also include mortgages and loans that may be securitized to access secured funding.

(4) Loans included in 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 bank's loan portfolio, such as incremental securitization, covered bond issuances and Federal Home Loan Bank advances.

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

## Funding Strategy

Our funding philosophy requires that secured and unsecured wholesale funding used to support loans and less liquid assets must have a term (typically maturing in two to ten years) that will support the effective term to maturity of these assets. Secured and unsecured wholesale 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 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 \$489.7 billion as at July 31, 2021, increasing from \$474.4 billion as at April 30, 2021. Underlying growth in retail and commercial deposits was also impacted by 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 \$27.8 billion as at July 31, 2021, a decrease from \$30.4 billion as at April 30, 2021.

Total wholesale funding outstanding, which largely consists of negotiable marketable securities, was \$190.6 billion as at July 31, 2021, with \$50.0 billion sourced as secured funding and \$140.6 billion as unsecured funding. Wholesale funding outstanding increased from \$182.4 billion as at April 30, 2021, primarily due to net wholesale funding issuances during the quarter and the stronger U.S. dollar. The mix and maturities of BMO's wholesale term funding are outlined in the table below. Additional information on deposit maturities can be found on page 41. BMO maintains a sizeable portfolio of unencumbered liquid assets, totaling \$313.5 billion as at July 31, 2021, that can be monetized to meet potential funding requirements, as described on page 36.

The Government of Canada's final regulations on Canada's Bank Recapitalization (Bail-In) Regime became effective on September 23, 2018. Bail-in debt includes senior unsecured debt issued directly by the bank on or after September 23, 2018, that has an original term greater than 400 days and is marketable, subject to certain exceptions. BMO is required to meet minimum Total Loss Absorbing Capacity (TLAC) ratio requirements by November 1, 2021. We continue to be well-positioned to meet TLAC requirements when they come into force. For more information, please see Regulatory Capital and Total Loss Absorbing Capacity Ratios on page 64 of BMO's 2020 Annual Report.

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 loans, auto loans and home equity line of credit (HELOC) securitizations, U.S. transportation finance (TF) loans, 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 our business strategies. The funding plan considers expected maturities, as well as asset and liability growth projected for our businesses in our forecasting and planning processes, and assesses funding needs in relation to the 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.

## Wholesale Funding Maturities <sup>(1)</sup>

(Canadian \$ in millions)	As at July 31, 2021								As at April 30, 2021
	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	Total
Deposits from banks	4,239	1,110	41	62	5,452	-	-	5,452	5,383
Certificates of deposit and commercial paper	7,881	14,193	16,297	26,837	65,208	1,054	7	66,269	59,997
Bearer deposit notes	363	1,100	19	-	1,482	-	-	1,482	2,008
Asset-backed commercial paper (ABCP)	916	1,678	1,972	112	4,678	-	-	4,678	4,333
Senior unsecured medium-term notes	3,120	5,571	2,086	7,504	18,281	10,282	27,013	55,576	51,991
Senior unsecured structured notes (2)	54	-	-	2	56	65	4,730	4,851	4,559
Covered bonds and securitizations									
Mortgage and HELOC securitizations	-	442	354	1,755	2,551	3,249	13,343	19,143	21,084
Covered bonds	-	-	2,184	2,184	4,368	9,772	7,155	21,295	21,225
Other asset-backed securitizations (3)	-	-	1,324	-	1,324	1,782	1,738	4,844	4,652
Subordinated debt	-	-	-	-	-	-	6,972	6,972	7,143
<b>Total</b>	<b>16,573</b>	<b>24,094</b>	<b>24,277</b>	<b>38,456</b>	<b>103,400</b>	<b>26,204</b>	<b>60,958</b>	<b>190,562</b>	<b>182,375</b>
Of which:									
Secured	916	2,120	5,834	4,051	12,921	14,803	22,236	49,960	51,294
Unsecured	15,657	21,974	18,443	34,405	90,479	11,401	38,722	140,602	131,081
<b>Total (4)</b>	<b>16,573</b>	<b>24,094</b>	<b>24,277</b>	<b>38,456</b>	<b>103,400</b>	<b>26,204</b>	<b>60,958</b>	<b>190,562</b>	<b>182,375</b>

(1) Wholesale unsecured funding primarily includes funding raised through the issuance of marketable, negotiable instruments. Wholesale funding excluded covered bonds issued to access central bank programs, repo transactions and bankers' acceptances, which are disclosed in the contractual maturity table on page 41, and also excluded ABCP issued by certain ABCP conduits that are not consolidated for financial reporting purposes.

(2) Primarily issued to institutional investors.

(3) Includes credit card, auto and transportation finance loan securitizations.

(4) Total wholesale funding consists of Canadian-dollar-denominated funding totalling \$48.8 billion and U.S.-dollar-denominated and other foreign-currency-denominated funding totalling \$141.8 billion as at July 31, 2021.

## Credit Ratings

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 the wholesale markets at competitive pricing levels. Should our credit ratings experience a downgrade, cost of funding would likely increase and access to funding and capital through the wholesale markets could be reduced. A material downgrade of its ratings could also have other consequences, including those set out in Note 8 starting on page 168 of BMO's 2020 Annual Report.

The credit ratings assigned to BMO's senior debt by rating agencies are indicative of high-grade, high-quality issues. During the quarter Moody's, Standard & Poor's (S&P) DBRS, and Fitch affirmed their ratings on BMO. Moody's, S&P and DBRS have a stable outlook on BMO and Fitch has a negative outlook.

As at July 31, 2021

Rating agency	Short-term debt	Senior debt (1)	Long-term deposits/ Legacy senior debt (2)	Subordinated debt (NVCC)	Outlook
Moody's	P-1	A2	Aa2	Baa1(hyb)	Stable
S&P	A-1	A-	A+	BBB+	Stable
Fitch	F1+	AA-	AA	A	Negative
DBRS	R-1 (high)	AA (low)	AA	A (low)	Stable

(1) Subject to conversion under the Bank Recapitalization (Bail-In) Regime.

(2) Long-term deposits/Legacy senior debt includes senior debt issued prior to September 23, 2018, and senior debt issued on or after September 23, 2018, that is excluded from the Bank Recapitalization (Bail-In) Regime.

BMO is required to deliver collateral to certain counterparties in the event of a downgrade of its 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, 2021, we would be required to provide additional collateral to counterparties totalling \$141 million, \$364 million and \$700 million, as a result of a one-notch, two-notch and three-notch downgrade, respectively.

## Liquidity Coverage Ratio

The average daily LCR for the quarter ended July 31, 2021 was 125%. 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 was down from 129% in the prior quarter, primarily due to a decrease in HQLA, partially offset by lower net cash outflows. While banks are required to maintain an LCR of 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 such a 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 activities and other non-HQLA debt maturing over a 30-day horizon. Weights prescribed by the Office of the Superintendent of Financial Institutions (OSFI) are applied to cash flows and HQLA to arrive at the weighted values and the LCR. The LCR does not reflect excess liquidity in BMO Financial Corp. above 100%, because of limitations on the transfer of liquidity between BMO Financial Corp. and the parent bank. 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 during a period of stress. BMO's total liquid assets are shown in the Liquid Assets table on page 36.

Additional information on Liquidity and Funding Risk governance can be found on page 97 of BMO's 2020 Annual Report. Please also see the Risk Management section.

	For the quarter ended July 31, 2021	
	Total unweighted value (average) (1) (2)	Total weighted value (average) (2) (3)
<i>(Canadian \$ in billions, except as noted)</i>		
<b>High-Quality Liquid Assets</b>		
Total high-quality liquid assets (HQLA)	*	<b>189.0</b>
<b>Cash Outflows</b>		
Retail deposits and deposits from small business customers, of which:	<b>225.3</b>	<b>15.1</b>
Stable deposits	<b>112.0</b>	<b>3.4</b>
Less stable deposits	<b>113.3</b>	<b>11.7</b>
Unsecured wholesale funding, of which:	<b>243.5</b>	<b>116.9</b>
Operational deposits (all counterparties) and deposits in networks of cooperative banks	<b>116.7</b>	<b>29.0</b>
Non-operational deposits (all counterparties)	<b>105.6</b>	<b>66.7</b>
Unsecured debt	<b>21.2</b>	<b>21.2</b>
Secured wholesale funding	*	<b>25.5</b>
Additional requirements, of which:	<b>174.2</b>	<b>35.6</b>
Outflows related to derivatives exposures and other collateral requirements	<b>11.7</b>	<b>4.5</b>
Outflows related to loss of funding on debt products	<b>3.1</b>	<b>3.1</b>
Credit and liquidity facilities	<b>159.4</b>	<b>28.0</b>
Other contractual funding obligations	<b>1.8</b>	<b>0.2</b>
Other contingent funding obligations	<b>413.5</b>	<b>8.1</b>
Total cash outflows	*	<b>201.4</b>
<b>Cash Inflows</b>		
Secured lending (e.g. reverse repos)	<b>141.3</b>	<b>35.3</b>
Inflows from fully performing exposures	<b>8.5</b>	<b>4.6</b>
Other cash inflows	<b>10.3</b>	<b>10.3</b>
Total cash inflows	<b>160.1</b>	<b>50.2</b>
		<b>Total adjusted value (4)</b>
Total HQLA		<b>189.0</b>
Total net cash outflows		<b>151.2</b>
Liquidity Coverage Ratio (%) (2)		<b>125</b>
For the quarter ended April 30, 2021		Total adjusted value (4)
Total HQLA		197.8
Total net cash outflows		152.9
Liquidity Coverage Ratio (%)		129

\*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 2021.

(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.

## Net Stable Funding Ratio

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 a bank's assets. The NSFR is defined as the ratio between the amount of available stable funding (ASF) and the amount of required stable funding (RSF). ASF means the proportion of own and third-party resources that are expected to be reliable over the one-year horizon (includes customer deposits and long-term wholesale funding). Therefore, unlike the LCR, which is short-term, the NSFR measures a bank's medium and long-term resilience. The stable funding requirements for each institution are set based on the liquidity and maturity characteristics of its balance sheet assets and off-balance sheet exposures. OSFI-prescribed weights are applied to notional asset and liability balances to determine ASF and RSF and the NSFR. Canadian domestic systemically important banks (D-SIBs), including BMO, are required to maintain a minimum NSFR of 100% effective January 1, 2020, and to publicly disclose their NSFR effective for the quarter ended January 31, 2021. BMO's NSFR was 118% as at July 31, 2021, exceeding the regulatory minimum. The NSFR was down from 119% in the prior quarter, primarily due to higher required stable funding, partially offset by higher available stable funding.

	For the quarter ended July 31, 2021				Weighted Value (2)
	Unweighted Value by Residual Maturity				
(Canadian \$ in billions, except as noted)	No maturity (1)	Less than 6 months	6 to 12 months	Over 1 year	
<b>Available Stable Funding (ASF) Item</b>					
Capital:	-	-	-	64.1	64.1
Regulatory capital	-	-	-	64.0	64.0
Other capital instruments	-	-	-	0.1	0.1
Retail deposits and deposits from small business customers:	207.9	28.8	14.6	30	262.1
Stable deposits	103.9	14.3	7.1	6.9	125.8
Less stable deposits	104.0	14.5	7.5	23.1	136.3
Wholesale funding:	228.1	178.2	46	68.8	196.7
Operational deposits	118.9	-	-	-	59.5
Other wholesale funding	109.2	178.2	46	68.8	137.2
Liabilities with matching interdependent assets	-	0.8	1.8	13.9	-
Other liabilities:	1.9	*	*	41.6	4.6
NSFR derivative liabilities	*	*	*	5.5	*
All other liabilities and equity not included in the above categories	1.9	31.4	0.2	4.5	4.6
<b>Total ASF</b>	*	*	*	*	527.5
<b>Required Stable Funding (RSF) Item</b>					
Total NSFR high-quality liquid assets (HQLA)	*	*	*	*	22.7
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	145.8	139.4	42.4	246.7	367.6
Performing loans to financial institutions secured by Level 1 HQLA	-	48.0	3.1	-	3.9
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	23.8	54.2	7.4	11.7	45.4
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	84.3	29.2	23.6	117.9	194.0
With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
Performing residential mortgages, of which:	12.5	6.5	8.1	107.3	93.7
With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	12.5	6.2	8.0	105.3	91.7
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	25.2	1.5	0.2	9.8	30.6
Assets with matching interdependent liabilities	-	0.8	1.8	13.9	-
Other assets:	15.1	*	*	33.0	40.8
Physical traded commodities, including gold	3.3	*	*	*	2.8
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	*	*	*	9.0	7.7
NSFR derivative assets	*	*	*	8.3	2.8
NSFR derivative liabilities before deduction of variation margin posted	*	*	*	0.5	0.5
All other assets not included in the above categories	11.8	2.4	0.1	12.7	27.0
Off-balance sheet items	*	*	*	468.2	16.3
<b>Total RSF</b>	*	*	*	*	447.4
<b>Net Stable Funding Ratio (%)</b>	*	*	*	*	118

	Weighted Value (2)
For the quarter ended April 30, 2021	
Total ASF	509.7
Total RSF	427.3
<b>Net Stable Funding Ratio (%)</b>	119

\*Disclosure is not required under the NSFR disclosure standard.

- (1) Items to be reported in the "no maturity" time bucket do not have a stated maturity. These may include, but are not limited to, items such as non-maturity deposits, short positions, open maturity positions, non-HQLA equities, physical traded commodities and demand loans.
- (2) Weighted values are calculated after the application of the weights prescribed under the OSFI LAR Guideline for ASF and RSF.

## Contractual Maturities of Assets and Liabilities and Off-Balance Sheet Commitments

The tables below show the remaining contractual maturities 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. BMO forecasts asset and liability cash flows, under both normal market conditions and 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 over which liquid assets can be monetized and the related haircuts and potential collateral requirements that may result from both market volatility and credit rating downgrades, among other assumptions.

	July 31, 2021									
	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
<b>On-Balance Sheet Financial Instruments</b>										
<b>Assets</b>										
Cash and Cash Equivalents	82,689	-	-	-	-	-	-	-	1,136	83,825
Interest Bearing Deposits with Banks	3,551	1,451	1,110	979	1,702	-	-	-	-	8,793
Securities	3,639	4,330	4,988	3,337	3,251	15,174	43,965	91,010	61,082	230,776
Securities Borrowed or Purchased under Resale Agreements	72,000	22,496	5,706	3,268	563	705	-	-	-	104,738
<b>Loans</b>										
Residential mortgages	1,265	1,782	2,618	2,706	5,336	22,015	91,395	7,257	-	134,374
Consumer instalment and other personal	535	610	843	747	1,223	5,386	31,512	12,618	21,618	75,092
Credit cards	-	-	-	-	-	-	-	-	7,866	7,866
Business and government	15,984	9,954	9,173	9,559	9,492	28,222	79,501	14,303	64,920	241,108
Allowance for credit losses	-	-	-	-	-	-	-	-	(2,824)	(2,824)
Total Loans, net of allowance	17,784	12,346	12,634	13,012	16,051	55,623	202,408	34,178	91,580	455,616
<b>Other Assets</b>										
Derivative instruments	1,620	2,360	5,373	1,459	1,368	5,901	9,810	8,440	-	36,331
Customers' liability under acceptances	9,694	4,566	3	-	-	-	-	-	-	14,263
Other	2,551	336	242	7	5	8	2	4,914	28,951	37,016
Total Other Assets	13,865	7,262	5,618	1,466	1,373	5,909	9,812	13,354	28,951	87,610
Total Assets	193,528	47,885	30,056	22,062	22,940	77,411	256,185	138,542	182,749	971,358

	July 31, 2021									
	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
<b>Liabilities and Equity</b>										
<b>Deposits (1)(2)</b>										
Banks	8,831	5,519	2,832	3,253	159	6	-	30	8,597	29,227
Business and government	20,893	28,990	24,225	22,057	19,075	22,903	33,793	16,881	245,937	434,754
Individuals	3,914	6,867	9,720	8,761	6,821	9,164	10,007	3,143	158,175	216,572
Total Deposits	33,638	41,376	36,777	34,071	26,055	32,073	43,800	20,054	412,709	680,553
<b>Other Liabilities</b>										
Derivative instruments	1,660	2,062	3,462	1,718	1,255	4,547	7,898	6,565	-	29,167
Acceptances	9,694	4,566	3	-	-	-	-	-	-	14,263
Securities sold but not yet purchased (3)	28,497	-	-	-	-	-	-	-	-	28,497
Securities lent or sold under repurchase agreements (3)	73,913	11,507	3,669	3,870	31	-	-	-	-	92,990
Securitization and structured entities' liabilities	26	469	1,859	1,360	757	5,666	9,910	3,880	-	23,927
Other	9,276	289	1,040	109	150	839	1,399	3,444	20,746	37,292
Total Other Liabilities	123,066	18,893	10,033	7,057	2,193	11,052	19,207	13,889	20,746	226,136
Subordinated Debt	-	-	-	-	-	-	25	6,948	-	6,973
Total Equity	-	-	-	-	-	-	-	-	57,696	57,696
Total Liabilities and Equity	156,704	60,269	46,810	41,128	28,248	43,125	63,032	40,891	491,151	971,358

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

(2) Deposits totalling \$21,108 million as at July 31, 2021 have a fixed maturity date; however, they can be early redeemed (either fully or partially) by customers without penalty. These are classified as payable on a fixed date due to their stated contractual maturity date. BMO does not expect a significant amount to be redeemed before maturity.

(3) Presented based on their earliest maturity date.

	July 31, 2021									
	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
<b>Off-Balance Sheet Commitments</b>										
Commitments to extend credit (1)	1,452	5,691	7,274	10,222	17,384	38,291	96,079	4,896	-	181,289
Backstop liquidity facilities	-	-	-	-	-	-	4,868	-	-	4,868
Leases	-	-	-	1	3	12	67	381	-	464
Securities lending	3,976	-	-	-	-	-	-	-	-	3,976
Purchase obligations	16	31	49	44	41	153	261	47	-	642

(1) Commitments to extend credit excluded personal lines of credit, credit cards and other credit instruments that are unconditionally cancellable at BMO's discretion. 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, 2020

	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
<b>On-Balance Sheet Financial Instruments</b>										
<b>Assets</b>										
Cash and Cash Equivalents	56,434	-	-	-	-	-	-	-	974	57,408
Interest Bearing Deposits with Banks	3,901	1,673	1,266	1,204	991	-	-	-	-	9,035
Securities	4,838	5,804	7,817	6,263	4,678	15,730	54,846	85,949	48,335	234,260
Securities Borrowed or Purchased under Resale Agreements	79,354	17,030	12,111	2,172	708	503	-	-	-	111,878
<b>Loans</b>										
Residential mortgages	2,077	2,110	4,627	5,795	4,928	19,551	80,480	7,456	-	127,024
Consumer instalment and other personal	677	690	1,229	1,223	1,217	5,229	25,243	12,135	22,505	70,148
Credit cards	-	-	-	-	-	-	-	-	7,889	7,889
Business and government	13,746	8,055	6,830	13,049	6,830	27,042	75,161	35,046	59,903	245,662
Allowance for credit losses	-	-	-	-	-	-	-	-	(3,303)	(3,303)
Total Loans, net of allowance	16,500	10,855	12,686	20,067	12,975	51,822	180,884	54,637	86,994	447,420
<b>Other Assets</b>										
Derivative instruments	3,400	5,472	2,111	1,140	915	4,369	9,393	10,015	-	36,815
Customers' liability under acceptances	9,609	3,633	251	-	-	-	-	-	-	13,493
Other	1,873	580	188	20	13	16	4	4,530	31,728	38,952
Total Other Assets	14,882	9,685	2,550	1,160	928	4,385	9,397	14,545	31,728	89,260
Total Assets	175,909	45,047	36,430	30,866	20,280	72,440	245,127	155,131	168,031	949,261

(Canadian \$ in millions)

October 31, 2020

	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
<b>Liabilities and Equity</b>										
<b>Deposits (1)(2)</b>										
Banks	13,499	3,982	13,106	455	463	7	-	28	7,285	38,825
Business and government	24,056	21,813	33,713	13,862	17,567	20,070	45,287	11,129	213,182	400,679
Individuals	4,295	11,509	13,019	11,086	10,192	7,778	12,709	2,007	146,935	219,530
Total Deposits	41,850	37,304	59,838	25,403	28,222	27,855	57,996	13,164	367,402	659,034
<b>Other Liabilities</b>										
Derivative instruments	1,374	4,499	1,684	1,171	1,088	3,911	8,588	8,060	-	30,375
Acceptances	9,609	3,633	251	-	-	-	-	-	-	13,493
Securities sold but not yet purchased (3)	29,376	-	-	-	-	-	-	-	-	29,376
Securities lent or sold under repurchase agreements (3)	69,142	10,747	7,439	878	-	452	-	-	-	88,658
Securitization and structured entities' liabilities	30	1,656	334	2,810	1,169	4,946	12,577	3,367	-	26,889
Other	10,301	804	102	109	181	798	1,326	3,706	19,100	36,427
Total Other Liabilities	119,832	21,339	9,810	4,968	2,438	10,107	22,491	15,133	19,100	225,218
Subordinated Debt	-	-	-	-	-	-	-	8,416	-	8,416
Total Equity	-	-	-	-	-	-	-	-	56,593	56,593
Total Liabilities and Equity	161,682	58,643	69,648	30,371	30,660	37,962	80,487	36,713	443,095	949,261

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

(2) Deposits totalling \$27,353 million as at October 31, 2020 have a fixed maturity date; however, they can be early redeemed (either fully or partially) by customers without penalty. These are classified as payable on a fixed date due to their stated contractual maturity date. BMO does not expect a significant amount to be redeemed before maturity.

(3) Presented based on their earliest maturity date.

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

(Canadian \$ in millions)

October 31, 2020

	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
<b>Off-Balance Sheet Commitments</b>										
Commitments to extend credit (1)	1,789	5,617	11,163	12,287	14,289	31,607	95,881	6,595	-	179,228
Backstop liquidity facilities	-	-	-	-	-	-	5,601	-	-	5,601
Leases	-	-	3	3	3	38	158	786	-	991
Securities lending	4,349	-	-	-	-	-	-	-	-	4,349
Purchase obligations	14	27	38	38	56	162	179	62	-	576

(1) Commitments to extend credit excluded personal lines of credit, credit cards and other credit instruments that are unconditionally cancellable at BMO's discretion. 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.

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

## European Exposures

BMO's European exposures were disclosed and discussed on pages 90 and 91 of BMO's 2020 Annual Report. Our exposure to European countries, as at July 31, 2021, 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 <sup>(1)</sup>

(Canadian \$ in millions)

As at July 31, 2021	Funded lending (2)	Securities (3) (4)				Repo-style transactions and derivatives (5) (6)				Total Net Exposure
		Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	
Country	Total									
<b>GIIPS</b>										
Greece	-	-	-	-	-	-	-	-	-	-
Ireland (7)	448	-	-	-	-	10	97	-	107	555
Italy	12	-	-	-	-	-	-	-	-	12
Portugal	-	-	-	-	-	-	-	-	-	-
Spain	98	50	1	-	51	2	2	-	4	153
<b>Total – GIIPS</b>	<b>558</b>	<b>50</b>	<b>1</b>	<b>-</b>	<b>51</b>	<b>12</b>	<b>99</b>	<b>-</b>	<b>111</b>	<b>720</b>
<b>Eurozone (excluding GIIPS)</b>										
France	166	68	-	467	535	75	58	69	202	903
Germany	238	741	38	400	1,179	168	3	-	171	1,588
Netherlands	357	588	-	-	588	31	171	-	202	1,147
Other (8)	310	-	47	74	121	2	15	6	23	454
<b>Total – Eurozone (excluding GIIPS)</b>	<b>1,071</b>	<b>1,397</b>	<b>85</b>	<b>941</b>	<b>2,423</b>	<b>276</b>	<b>247</b>	<b>75</b>	<b>598</b>	<b>4,092</b>
<b>Rest of Europe</b>										
Norway	325	-	-	47	47	-	5	1	6	378
Sweden	26	249	-	303	552	5	-	-	5	583
Switzerland	254	-	-	-	-	44	16	-	60	314
United Kingdom	2,009	106	613	5,592	6,311	91	400	141	632	8,952
Other (8)	-	41	-	6	47	11	7	5	23	70
<b>Total – Rest of Europe</b>	<b>2,614</b>	<b>396</b>	<b>613</b>	<b>5,948</b>	<b>6,957</b>	<b>151</b>	<b>428</b>	<b>147</b>	<b>726</b>	<b>10,297</b>
<b>Total – All of Europe (9)</b>	<b>4,243</b>	<b>1,843</b>	<b>699</b>	<b>6,889</b>	<b>9,431</b>	<b>439</b>	<b>774</b>	<b>222</b>	<b>1,435</b>	<b>15,109</b>

As at April 30, 2021	Funded lending (2)	Securities (3)				Repo-style transactions and derivatives (5) (6)				Total Net Exposure
		Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	
Country	Total									
<b>Total – GIIPS</b>	<b>568</b>	<b>49</b>	<b>2</b>	<b>-</b>	<b>51</b>	<b>19</b>	<b>176</b>	<b>-</b>	<b>195</b>	<b>814</b>
<b>Total – Eurozone (excluding GIIPS)</b>	<b>1,200</b>	<b>1,280</b>	<b>44</b>	<b>857</b>	<b>2,181</b>	<b>300</b>	<b>340</b>	<b>7</b>	<b>647</b>	<b>4,028</b>
<b>Total – Rest of Europe</b>	<b>3,152</b>	<b>475</b>	<b>150</b>	<b>5,914</b>	<b>6,539</b>	<b>621</b>	<b>218</b>	<b>89</b>	<b>928</b>	<b>10,619</b>
<b>Total – All of Europe (9)</b>	<b>4,920</b>	<b>1,804</b>	<b>196</b>	<b>6,771</b>	<b>8,771</b>	<b>940</b>	<b>734</b>	<b>96</b>	<b>1,770</b>	<b>15,461</b>

Refer to footnotes in the following table.

### European Lending Exposure by Country and Counterparty <sup>(1)</sup>

(Canadian \$ in millions)	Country	Lending (2)						
		Funded lending as at July 31, 2021			As at July 31, 2021		As at April 30, 2021	
		Bank	Corporate	Sovereign	Commitments	Funded	Commitments	Funded
<b>GIIPS</b>								
Greece	-	-	-	-	-	-	-	-
Ireland (7)	-	448	-	-	551	448	558	446
Italy	12	-	-	-	12	12	15	15
Portugal	-	-	-	-	-	-	-	-
Spain	94	4	-	-	172	98	182	107
<b>Total – GIIPS</b>	<b>106</b>	<b>452</b>	<b>-</b>	<b>-</b>	<b>735</b>	<b>558</b>	<b>755</b>	<b>568</b>
<b>Eurozone (excluding GIIPS)</b>								
France	164	2	-	-	299	166	322	183
Germany	151	87	-	-	398	238	512	346
Netherlands	37	320	-	-	391	357	407	348
Other (8)	122	188	-	-	380	310	384	323
<b>Total – Eurozone (excluding GIIPS)</b>	<b>474</b>	<b>597</b>	<b>-</b>	<b>-</b>	<b>1,468</b>	<b>1,071</b>	<b>1,625</b>	<b>1,200</b>
<b>Rest of Europe</b>								
Norway	26	299	-	-	635	325	1,062	558
Sweden	26	-	-	-	85	26	190	16
Switzerland	16	238	-	-	323	254	443	370
United Kingdom	7	2,002	-	-	3,029	2,009	3,248	2,149
Other (8)	-	-	-	-	77	-	90	59
<b>Total – Rest of Europe</b>	<b>75</b>	<b>2,539</b>	<b>-</b>	<b>-</b>	<b>4,149</b>	<b>2,614</b>	<b>5,033</b>	<b>3,152</b>
<b>Total – All of Europe (9)</b>	<b>655</b>	<b>3,588</b>	<b>-</b>	<b>-</b>	<b>6,352</b>	<b>4,243</b>	<b>7,413</b>	<b>4,920</b>

(1) BMO has the following indirect exposures to Europe as at July 31, 2021: Collateral of €1,375 million to support trading activity in securities (€71 million from GIIPS) and €277 million of cash collateral held; and, guarantees of \$11.2 billion (\$323 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 \$181 million, with no net single-name<sup>®</sup> CDS exposure to GIIPS countries as at July 31, 2021 ("includes a net position of \$144 million (bought protection) on a CDS Index, of which 12% is comprised of GIIPS domiciled entities).

(5) Repo-style transactions are primarily with bank counterparties for which BMO holds collateral (\$43 billion for Europe as at July 31, 2021).

(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 \$117 million as at July 31, 2021.

(8) Other Eurozone exposure includes 5 countries with less than \$300 million net exposure. Other European exposure is distributed across 4 countries.

(9) Of our total net direct exposure to Europe, approximately 95% was to counterparties in countries with a rating of Aa2/AA from at least one of Moody's or S&P.

## Caution

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

## Enhanced Disclosure Task Force

On October 29, 2012, the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board published its first report, Enhancing the Risk Disclosures of Banks. We support the recommendations issued by EDTF for the provision of high-quality, transparent risk disclosures.

Disclosures related to the EDTF recommendations are detailed in the index below, as presented in the 2020 Annual Report and the Third Quarter 2021 Report to Shareholders (RTS), Supplemental Financial Information (SFI) or Supplemental Regulatory Capital Information (SRC). Information within the SFI or SRC is not and should not be considered incorporated by reference into our Third Quarter 2021 Report to Shareholders.

Topic	EDTF Disclosure	Q3 2021			Annual Report Page
		RTS Page	SFI Page	SRC Page	
<b>General</b>					
1	Present all risk-related information in each report, providing an index for easy navigation.	4	Index	Index	73-113
2	Define the bank's risk terminology and risk measures and present key parameters used.	34	-	-	84-113, 212-213
3	Discuss top and emerging risks for the bank.	6, 34	-	-	73-75
4	Outline plans to meet new key regulatory ratios once the applicable rules are finalized.	16-17	-	-	64, 67-68, 103
<b>Risk Governance and Risk Management Strategies/Business Model</b>					
5	Summarize the bank's risk management organization, processes, and key functions.	-	-	-	78-83
6	Describe the bank's risk culture and procedures applied to support the culture.	-	-	-	79
7	Describe key risks that arise from the bank's business model and activities.	-	-	-	80, 82
8	Describe the use of stress testing within the bank's risk governance and capital frameworks.	-	-	-	83
<b>Capital Adequacy and Risk-Weighted Assets (RWA)</b>					
9	Provide minimum Pillar 1 capital requirements.	-	-	3-4, 10	63-66
10	Summarize information contained in the composition of capital templates and reconciliation of the accounting balance sheet to the regulatory balance sheet. <ul style="list-style-type: none"> <li>A Main Features template can also be found on BMO's website at <a href="http://www.bmo.com">www.bmo.com</a> under Investor Relations and Regulatory Filings.</li> </ul>	17	-	3-5	67
11	Present a flow statement of movements in regulatory capital, including changes in Common Equity Tier 1, Additional Tier 1, and Tier 2 capital.	-	-	6	-
12	Discuss capital planning within a more general discussion of management's strategic planning.	-	-	-	63
13	Provide granular information to explain how RWA relate to business activities.	-	-	11	68
14	Present a table showing the capital requirements for each method used for calculating RWA. <ul style="list-style-type: none"> <li>Information about significant models used to determine RWA is provided in our Annual Report.</li> </ul>	-	-	11, 17, 18, 21-30 and 37-43	68, 85-87
15	Tabulate credit risk in the banking book for Basel asset classes and major portfolios. <ul style="list-style-type: none"> <li>Information on retail and wholesale credit risk in the banking book is provided.</li> </ul>	-	-	17-30, 37-43	-
16	Present a flow statement that reconciles movements in RWA by credit risk and market risk. <ul style="list-style-type: none"> <li>Includes flow statements for credit risk and market risk RWA movement by key driver.</li> </ul>	-	-	31, 57	-

Topic	EDTF Disclosure	Q3 2021			Annual Report Page
		RTS Page	SFI Page	SRC Page	
<b>Liquidity</b>					
17	Describe the bank's Basel validation and back-testing process. Included in our SRC information is our estimated and actual loss parameter information.	-	-	58	109
18	Describe how the bank manages its potential liquidity needs and the liquidity reserve held to meet those needs.	36, 39	-	-	97-103
<b>Funding</b>					
19	Summarize encumbered and unencumbered assets in a table by balance sheet category.	37	33	-	100
20	Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity.	41-42	-	-	104-105
21	Discuss the bank's sources of funding and describe the bank's funding strategy. • Includes tables showing the composition and maturity of wholesale funding.	37-38	-	-	101-102
<b>Market Risk</b>					
22	Provide a breakdown of balance sheet positions into trading and non-trading market risk measures.	34	-	-	96
23	Provide qualitative and quantitative breakdowns of significant trading and non-trading market risk measures.	35	-	-	92-94, 95-96
24	Describe significant market risk measurement model validation procedures and back-testing and how these are used to enhance the parameters of the model.	-	-	-	92, 93, 95, 109
25	Describe the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures. • Includes information on the use of stress testing, scenario analysis, stressed VaR, structural balance sheet and economic value sensitivities for market risk management.	35	-	-	92-93
<b>Credit Risk</b>					
26	Provide information about the bank's credit risk profile.	12-13, 54-58	18-30	11-56	84-91, 159-164
27	Describe the bank's policies related to impaired loans and renegotiated loans.	-	-	-	159, 164
28	Provide reconciliations of impaired loans and the allowance for credit losses.	13, 55-56	-	-	89, 162
29	Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivative transactions.	-	-	35-48	84-85, 91
30	Provide a discussion of credit risk mitigation. • Information on credit and counterparty risk management and collateral management.	-	-	16, 32, 44	84-85, 169, 175, 205-206
<b>Other Risks</b>					
31	Describe other risks and discuss how each is identified, governed, measured and managed.	-	-	-	80, 106-113
32	Discuss publicly known risk events related to other risks, where material or potentially material loss events have occurred.	-	-	-	106-113

# Consolidated Statement of Income

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

	For the three months ended			For the nine months ended	
	July 31, 2021	April 30, 2021	July 31, 2020	July 31, 2021	July 31, 2020
<b>Interest, Dividend and Fee Income</b>					
Loans	\$ 3,916	\$ 3,849	\$ 4,204	\$ 11,794	\$ 13,856
Securities (Note 2)	929	1,002	1,249	2,921	3,971
Deposits with banks	50	50	49	144	343
	<b>4,895</b>	<b>4,901</b>	<b>5,502</b>	<b>14,859</b>	<b>18,170</b>
<b>Interest Expense</b>					
Deposits	745	817	1,292	2,483	5,157
Subordinated debt	44	51	65	153	201
Other liabilities	585	578	610	1,669	2,371
	<b>1,374</b>	<b>1,446</b>	<b>1,967</b>	<b>4,305</b>	<b>7,729</b>
<b>Net Interest Income</b>	<b>3,521</b>	<b>3,455</b>	<b>3,535</b>	<b>10,554</b>	<b>10,441</b>
<b>Non-Interest Revenue</b>					
Securities commissions and fees	264	300	260	849	789
Deposit and payment service charges	319	306	299	930	916
Trading revenues	135	47	68	394	(8)
Lending fees	348	343	309	1,047	956
Card fees	113	122	85	316	264
Investment management and custodial fees	502	476	455	1,460	1,341
Mutual fund revenues	406	396	348	1,176	1,062
Underwriting and advisory fees	411	404	287	1,073	811
Securities gains, other than trading	198	111	31	411	84
Foreign exchange gains, other than trading	41	63	21	128	89
Insurance revenues	1,137	(163)	1,321	1,718	2,035
Investments in associates and joint ventures	67	60	52	183	112
Other	100	156	118	374	308
	<b>4,041</b>	<b>2,621</b>	<b>3,654</b>	<b>10,059</b>	<b>8,759</b>
<b>Total Revenue</b>	<b>7,562</b>	<b>6,076</b>	<b>7,189</b>	<b>20,613</b>	<b>19,200</b>
<b>Provision for Credit Losses (Note 3)</b>	<b>(70)</b>	<b>60</b>	<b>1,054</b>	<b>146</b>	<b>2,521</b>
<b>Insurance Claims, Commissions and Changes in Policy Benefit Liabilities</b>	<b>984</b>	<b>(283)</b>	<b>1,189</b>	<b>1,302</b>	<b>1,708</b>
<b>Non-Interest Expense</b>					
Employee compensation (Note 8)	2,102	2,042	1,964	6,263	5,994
Premises and equipment	829	863	785	2,496	2,348
Amortization of intangible assets	157	158	154	471	461
Travel and business development	101	97	57	264	296
Communications	63	72	71	199	233
Professional fees	140	147	135	423	396
Other (Note 12)	292	1,030	278	1,590	901
	<b>3,684</b>	<b>4,409</b>	<b>3,444</b>	<b>11,706</b>	<b>10,629</b>
<b>Income Before Provision for Income Taxes</b>	<b>2,964</b>	<b>1,890</b>	<b>1,502</b>	<b>7,459</b>	<b>4,342</b>
Provision for income taxes (Note 10)	689	587	270	1,864	829
<b>Net Income</b>	<b>\$ 2,275</b>	<b>\$ 1,303</b>	<b>\$ 1,232</b>	<b>\$ 5,595</b>	<b>\$ 3,513</b>
<b>Earnings Per Share (Canadian \$) (Note 9)</b>					
Basic	\$ 3.42	\$ 1.91	\$ 1.81	\$ 8.36	\$ 5.18
Diluted	3.41	1.91	1.81	8.35	5.18
Dividends per common share	1.06	1.06	1.06	3.18	3.18

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

# Consolidated Statement of Comprehensive Income

(Unaudited) (Canadian \$ in millions)	For the three months ended			For the nine months ended	
	July 31, 2021	April 30, 2021	July 31, 2020	July 31, 2021	July 31, 2020
<b>Net Income</b>	<b>\$ 2,275</b>	<b>\$ 1,303</b>	<b>\$ 1,232</b>	<b>\$ 5,595</b>	<b>\$ 3,513</b>
<b>Other Comprehensive Income (Loss), net of taxes</b>					
Items that may subsequently be reclassified to net income					
Net change in unrealized gains (losses) on fair value through OCI debt securities					
Unrealized gains (losses) on fair value through OCI debt securities arising during the period (1)	22	(89)	141	(10)	421
Reclassification to earnings of (gains) in the period (2)	(5)	(19)	(18)	(33)	(74)
	17	(108)	123	(43)	347
Net change in unrealized gains (losses) on cash flow hedges					
Gains (losses) on derivatives designated as cash flow hedges arising during the period (3)	218	(479)	83	(392)	1,673
Reclassification to earnings of (gains) losses on derivatives designated as cash flow hedges in the period (4)	(116)	(86)	(37)	(279)	8
	102	(565)	46	(671)	1,681
Net gains (losses) on translation of net foreign operations					
Unrealized gains (losses) on translation of net foreign operations	521	(1,304)	(1,180)	(1,914)	516
Unrealized gains (losses) on hedges of net foreign operations (5)	(139)	316	206	398	(145)
	382	(988)	(974)	(1,516)	371
Items that will not be reclassified to net income					
Gains (losses) on remeasurement of pension and other employee future benefit plans (6)	54	436	(189)	765	(244)
Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value (7)	22	3	(330)	(220)	(49)
Unrealized gains on fair value through OCI equity securities arising during the period (8)	7	-	-	7	-
	83	439	(519)	552	(293)
<b>Other Comprehensive Income (Loss), net of taxes</b>	<b>584</b>	<b>(1,222)</b>	<b>(1,324)</b>	<b>(1,678)</b>	<b>2,106</b>
<b>Total Comprehensive Income (Loss)</b>	<b>\$ 2,859</b>	<b>\$ 81</b>	<b>\$ (92)</b>	<b>\$ 3,917</b>	<b>\$ 5,619</b>

(1) Net of income tax (provision) recovery of \$(7) million, \$32 million, \$(47) million for the three months ended, and \$5 million, \$(147) million for the nine months ended, respectively.

(2) Net of income tax provision of \$2 million, \$6 million, \$6 million for the three months ended, and \$11 million, \$23 million for the nine months ended, respectively.

(3) Net of income tax (provision) recovery of \$(72) million, \$173 million, \$(27) million for the three months ended, and \$147 million, \$(600) million for the nine months ended, respectively.

(4) Net of income tax provision (recovery) of \$41 million, \$31 million, \$13 million for the three months ended, and \$100 million, \$(3) million for the nine months ended, respectively.

(5) Net of income tax (provision) recovery of \$50 million, \$(115) million, \$(74) million for the three months ended, and \$(145) million, \$53 million for the nine months ended, respectively.

(6) Net of income tax (provision) recovery of \$(26) million, \$(158) million, \$65 million for the three months ended, and \$(283) million, \$85 million for the nine months ended, respectively.

(7) Net of income tax (provision) recovery of \$(9) million, \$(1) million, \$120 million for the three months ended, and \$79 million, \$18 million for the nine months ended, respectively.

(8) Net of income tax (provision) recovery of \$(2) million, \$nil, \$nil for the three months ended, and \$(2) million, \$nil for the nine months ended, respectively.

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

# Consolidated Balance Sheet

(Unaudited) (Canadian \$ in millions)

	July 31, 2021		As at April 30, 2021		October 31, 2020
<b>Assets</b>					
<b>Cash and Cash Equivalents</b>	\$	<b>83,825</b>	\$	98,593	\$ 57,408
<b>Interest Bearing Deposits with Banks</b>		<b>8,793</b>		8,955	9,035
<b>Securities (Note 2)</b>					
Trading		<b>102,169</b>		90,566	97,834
Fair value through profit or loss		<b>14,239</b>		13,331	13,568
Fair value through other comprehensive income		<b>64,553</b>		61,172	73,407
Debt securities at amortized cost		<b>48,727</b>		46,744	48,466
Investments in associates and joint ventures		<b>1,088</b>		1,054	985
		<b>230,776</b>		212,867	234,260
<b>Securities Borrowed or Purchased Under Resale Agreements</b>		<b>104,738</b>		98,327	111,878
<b>Loans</b>					
Residential mortgages		<b>134,374</b>		130,529	127,024
Consumer instalment and other personal		<b>75,092</b>		71,918	70,148
Credit cards		<b>7,866</b>		7,488	7,889
Business and government		<b>241,108</b>		237,702	245,662
		<b>458,440</b>		447,637	450,723
Allowance for credit losses (Note 3)		<b>(2,824)</b>		(3,028)	(3,303)
		<b>455,616</b>		444,609	447,420
<b>Other Assets</b>					
Derivative instruments		<b>36,331</b>		37,998	36,815
Customers' liability under acceptances		<b>14,263</b>		11,952	13,493
Premises and equipment		<b>4,266</b>		4,298	4,183
Goodwill		<b>5,450</b>		5,375	6,535
Intangible assets		<b>2,298</b>		2,323	2,442
Current tax assets		<b>1,145</b>		1,141	1,260
Deferred tax assets		<b>1,209</b>		1,294	1,473
Other		<b>22,648</b>		22,107	23,059
		<b>87,610</b>		86,488	89,260
<b>Total Assets</b>	\$	<b>971,358</b>	\$	949,839	\$ 949,261
<b>Liabilities and Equity</b>					
<b>Deposits (Note 4)</b>	\$	<b>680,553</b>	\$	657,201	\$ 659,034
<b>Other Liabilities</b>					
Derivative instruments		<b>29,167</b>		33,218	30,375
Acceptances		<b>14,263</b>		11,952	13,493
Securities sold but not yet purchased		<b>28,497</b>		32,540	29,376
Securities lent or sold under repurchase agreements		<b>92,990</b>		87,703	88,658
Securitization and structured entities' liabilities		<b>23,927</b>		25,657	26,889
Current tax liabilities		<b>154</b>		193	126
Deferred tax liabilities		<b>188</b>		163	108
Other		<b>36,950</b>		38,554	36,193
		<b>226,136</b>		229,980	225,218
<b>Subordinated Debt (Note 4)</b>		<b>6,973</b>		7,144	8,416
<b>Equity</b>					
Preferred shares and other equity instruments (Note 5)		<b>5,848</b>		5,848	6,598
Common shares (Note 5)		<b>13,609</b>		13,536	13,430
Contributed surplus		<b>310</b>		313	302
Retained earnings		<b>34,089</b>		32,561	30,745
Accumulated other comprehensive income		<b>3,840</b>		3,256	5,518
<b>Total Equity</b>		<b>57,696</b>		55,514	56,593
<b>Total Liabilities and Equity</b>	\$	<b>971,358</b>	\$	949,839	\$ 949,261

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 Changes in Equity

(Unaudited) (Canadian \$ in millions)	For the three months ended		For the nine months ended	
	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
<b>Preferred Shares and Other Equity Instruments (Note 5)</b>				
Balance at beginning of period	\$ 5,848	\$ 5,348	\$ 6,598	\$ 5,348
Redeemed during the period	-	-	(750)	-
Balance at End of Period	5,848	5,348	5,848	5,348
<b>Common Shares (Note 5)</b>				
Balance at beginning of period	13,536	13,000	13,430	12,971
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	-	214	-	214
Issued under the Stock Option Plan	40	1	99	30
Treasury shares or repurchase of common shares for cancellation	33	(15)	80	(15)
Balance at End of Period	13,609	13,200	13,609	13,200
<b>Contributed Surplus</b>				
Balance at beginning of period	313	301	302	303
Stock option expense, net of options exercised	-	1	7	(1)
Net premium (discount) on sale of treasury shares	(3)	-	-	-
Other	-	-	1	-
Balance at End of Period	310	302	310	302
<b>Retained Earnings</b>				
Balance at beginning of period	32,561	29,426	30,745	28,725
Impact from adopting IFRS 16	-	-	-	(59)
Net income	2,275	1,232	5,595	3,513
Dividends on preferred shares and distributions payable on other equity instruments	(61)	(73)	(185)	(195)
Dividends on common shares	(686)	(682)	(2,058)	(2,038)
Equity issue expense and premium paid on redemption of preferred shares	-	-	(6)	-
Net discount on sale of treasury shares	-	(1)	(2)	(44)
Balance at End of Period	34,089	29,902	34,089	29,902
<b>Accumulated Other Comprehensive Income on Fair Value through OCI Securities, net of taxes</b>				
Balance at beginning of period	295	250	355	26
Unrealized gains (losses) on fair value through OCI debt securities arising during the period	22	141	(10)	421
Unrealized gains on fair value through OCI equity securities arising during the period	7	-	7	-
Reclassification to earnings of (gains) during the period	(5)	(18)	(33)	(74)
Balance at End of Period	319	373	319	373
<b>Accumulated Other Comprehensive Income on Cash Flow Hedges, net of taxes</b>				
Balance at beginning of period	1,206	2,148	1,979	513
Gains (losses) on derivatives designated as cash flow hedges arising during the period	218	83	(392)	1,673
Reclassification to earnings of (gains) losses on derivatives designated as cash flow hedges in the period	(116)	(37)	(279)	8
Balance at End of Period	1,308	2,194	1,308	2,194
<b>Accumulated Other Comprehensive Income on Translation of Net Foreign Operations, net of taxes</b>				
Balance at beginning of period	2,082	5,048	3,980	3,703
Unrealized gains (losses) on translation of net foreign operations	521	(1,180)	(1,914)	516
Unrealized gains (losses) on hedges of net foreign operations	(139)	206	398	(145)
Balance at End of Period	2,464	4,074	2,464	4,074
<b>Accumulated Other Comprehensive Income (Loss) on Pension and Other Employee Future Benefit Plans, net of taxes</b>				
Balance at beginning of period	73	(438)	(638)	(383)
Gains (losses) on remeasurement of pension and other employee future benefit plans	54	(189)	765	(244)
Balance at End of Period	127	(627)	127	(627)
<b>Accumulated Other Comprehensive (Loss) on Own Credit Risk on Financial Liabilities Designated at Fair Value, net of taxes</b>				
Balance at beginning of period	(400)	151	(158)	(130)
Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value	22	(330)	(220)	(49)
Balance at End of Period	(378)	(179)	(378)	(179)
<b>Total Accumulated Other Comprehensive Income</b>	<b>3,840</b>	<b>5,835</b>	<b>3,840</b>	<b>5,835</b>
<b>Total Equity</b>	<b>\$ 57,696</b>	<b>\$ 54,587</b>	<b>\$ 57,696</b>	<b>\$ 54,587</b>

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

# Consolidated Statement of Cash Flows

(Unaudited) (Canadian \$ in millions)

For the three months ended

For the nine months ended

	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
<b>Cash Flows from Operating Activities</b>				
Net Income	\$ 2,275	\$ 1,232	\$ 5,595	\$ 3,513
Adjustments to determine net cash flows provided by (used in) operating activities				
Provision on securities, other than trading	-	1	(1)	2
Net (gain) on securities, other than trading	(198)	(32)	(410)	(86)
Net (increase) in trading securities	(10,335)	(7,319)	(7,415)	(1,624)
Provision (recovery) for credit losses (Note 3)	(70)	1,054	146	2,521
Change in derivative instruments – (increase) decrease in derivative asset	2,648	5,863	1,779	(14,158)
– increase (decrease) in derivative liability	(5,367)	(6,918)	(1,683)	15,342
Amortization of premises and equipment	195	198	588	598
Amortization of other assets	32	48	110	152
Amortization of intangible assets	157	154	471	461
Write-down of goodwill	8	-	755	-
Net (increase) decrease in deferred income tax asset	91	(90)	212	132
Net increase (decrease) in deferred income tax liability	24	16	80	(1)
Net (increase) decrease in current income tax asset	53	90	(56)	(492)
Net increase (decrease) in current income tax liability	(43)	(19)	70	(9)
Change in accrued interest – decrease in interest receivable	67	242	267	319
– increase (decrease) in interest payable	(32)	14	(434)	(198)
Changes in other items and accruals, net	(2,233)	891	(549)	(5,623)
Net increase in deposits	17,752	19,630	45,947	85,368
Net (increase) decrease in loans	(8,222)	13,713	(19,737)	(20,574)
Net increase (decrease) in securities sold but not yet purchased	(4,243)	724	(159)	4,081
Net increase (decrease) in securities lent or sold under repurchase agreements	4,232	(3,645)	7,661	11,616
Net (increase) decrease in securities borrowed or purchased under resale agreements	(5,480)	(1,979)	2,972	(13,514)
Net increase (decrease) in securitization and structured entities' liabilities	(1,822)	(101)	(2,591)	191
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(10,511)</b>	<b>23,767</b>	<b>33,618</b>	<b>68,017</b>
<b>Cash Flows from Financing Activities</b>				
Net (decrease) in liabilities of subsidiaries	-	(5,326)	-	(8,113)
Proceeds from issuance of covered bonds	1,837	-	1,837	4,425
Redemption/buyback of covered bonds	(1,860)	(1,371)	(4,074)	(3,868)
Proceeds from issuance of subordinated debt (Note 4)	1,000	1,250	1,000	1,250
Repayment of subordinated debt (Note 4)	(1,250)	-	(2,250)	-
Redemption of preferred shares (Note 5)	-	-	(756)	-
Net proceeds from issuance of common shares and sale of treasury shares (Note 5)	71	(15)	172	(48)
Cash dividends and distributions paid	(755)	(516)	(2,234)	(1,974)
Repayment of lease liabilities	(82)	(82)	(244)	(250)
<b>Net Cash (Used in) Financing Activities</b>	<b>(1,039)</b>	<b>(6,060)</b>	<b>(6,549)</b>	<b>(8,578)</b>
<b>Cash Flows from Investing Activities</b>				
Net (increase) decrease in interest bearing deposits with banks	300	(950)	(265)	(280)
Purchases of securities, other than trading	(14,397)	(20,449)	(38,783)	(73,897)
Maturities of securities, other than trading	7,266	5,050	21,530	12,539
Proceeds from sales of securities, other than trading	2,998	5,223	19,417	30,556
Premises and equipment – net (purchases)	(124)	(74)	(327)	(273)
Purchased and developed software – net (purchases)	(118)	(125)	(358)	(490)
Acquisitions	-	-	-	(186)
Proceeds from divestitures (Note 12)	63	-	63	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(4,012)</b>	<b>(11,325)</b>	<b>1,277</b>	<b>(32,031)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	794	(1,385)	(1,929)	379
Net increase (decrease) in Cash and Cash Equivalents	(14,768)	4,997	26,417	27,787
Cash and Cash Equivalents at Beginning of Period	98,593	71,593	57,408	48,803
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 83,825</b>	<b>\$ 76,590</b>	<b>\$ 83,825</b>	<b>\$ 76,590</b>
<b>Supplemental Disclosure of Cash Flow Information</b>				
Net cash provided by operating activities includes:				
Interest paid in the period	\$ 1,373	\$ 1,974	\$ 4,679	\$ 7,905
Income taxes paid in the period	\$ 650	\$ 140	\$ 1,476	\$ 1,732
Interest received in the period	\$ 4,562	\$ 5,241	\$ 13,936	\$ 16,988
Dividends received in the period	\$ 415	\$ 466	\$ 1,255	\$ 1,289

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, 2021 (Unaudited)

## Note 1: Basis of Presentation

Bank of Montreal (the bank or BMO) 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 at 129 rue Saint Jacques, Montreal, Quebec. Our executive offices are at 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, 2020, with the exception of changes in accounting policy described 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, 2020. 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 24, 2021.

### Changes in Accounting Policy

#### *Interbank Offered Rate (IBOR) Reform*

Effective November 1, 2020, we early adopted the IASB's IBOR Phase 2 amendments to IFRS 9 *Financial Instruments* (IFRS 9), IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), IFRS 7 *Financial Instruments: Disclosures* (IFRS 7), IFRS 4 *Insurance Contracts* as well as IFRS 16 *Leases*. These amendments address issues that arise from implementation of IBOR reform, where IBORs will be replaced with alternative benchmark rates.

For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a direct consequence of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments also provide additional temporary relief from applying specific IAS 39 hedge accounting requirements to hedging relationships affected by IBOR reform. For example, there is an exception from the requirement to discontinue hedge accounting as a result of changes to hedge documentation required solely by IBOR reform.

As a result of the transition from IBORs to alternative reference rates (ARRs), certain benchmark rates may be subject to discontinuance, changes in methodology, increased volatility or decreased liquidity. The bank, both as a holder and an issuer of IBOR-based instruments, is exposed to increased financial, operational, legal and regulatory, and reputational risks as the rates transition. These risks arise principally from updating systems and processes to capture new ARR, amending contracts or existing fallback clauses for new ARR, managing the client transition to ARR and the resulting impact on economic risk management, as well as updating hedge designations as the new ARR emerge. In order to manage those risks, we have established an enterprise IBOR Transition Office (ITO) to coordinate and oversee the transition from IBORs to ARR, with a focus on managing and mitigating internal risks as well as managing our client relationships. The ITO, sponsored and supported by senior management, is responsible for running the enterprise-wide program, covering all of BMO's lines of business and corporate function areas. The ITO has a global mandate to ensure that we properly prepare for the discontinuation or unavailability of LIBOR and other IBORs. As part of its mandate, the ITO continues to address the bank's industry and regulatory engagement, client and financial contract changes, internal and external communications, technology and operations modifications, introduction of new products, migration of existing clients, program strategy, and governance and evaluate financial reporting impacts, including for hedge accounting. In addition, the ITO continues to monitor the development and usage of ARR across the industry, including the Alternative Reference Rate Committee's formal recommendation of the CME Group's forward-looking Secured Overnight Financing Rate (SOFR) Term Rates. As the market continues to develop we have begun to add ARR-based products to our suite of offerings.

We adhered to the International Swaps and Derivatives Association Fallbacks Protocol (ISDA Protocol), which took effect on January 25, 2021. The ISDA Protocol provides specific fallbacks depending on whether the relevant IBOR (for example, USD LIBOR or GBP LIBOR) has been permanently discontinued or is temporarily unavailable. It provides an efficient amendment mechanism for mutually adhering counterparties to incorporate these fallback provisions into legacy derivative contracts. Also, we continue to incorporate contractual fallback provisions in new IBOR based cash products in order to ensure there is an alternative benchmark rate at the time of the relevant IBOR cessation.

The table below presents quantitative information for financial instruments that referenced certain IBORs as at November 1, 2020, the date of adoption for Phase 2 relief, and were either due to mature after December 31, 2021 or demand facilities that will be subject to remediation to amend the benchmark interest rate. Our GBP LIBOR and other LIBOR exposures have not materially changed since November 1, 2020.

(Canadian \$ in millions)	November 1, 2020		
	USD LIBOR	GBP LIBOR	Other (1)
Non-derivative assets (2)	100,521	868	1,225
Non-derivative liabilities (2)	7,435	692	-
Derivative notional amounts (3)(4)	1,570,534	20,972	6,702
Authorized and committed loan commitments (5)(6)	68,449	194	23,633

(1) Includes CHF LIBOR, EONIA and JPY LIBOR.

(2) All amounts are presented based on contractual amounts outstanding with the exception of securities, in non-derivative assets, which are disclosed based on carrying value.

(3) Notionals represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our Consolidated Balance Sheet.

(4) Includes certain cross-currency swap positions where both the pay and receive leg currently reference an IBOR. For those derivatives, the table above includes the notional for both the pay and receive legs in the relevant columns aligning with the IBOR exposure.

(5) Excludes personal lines of credit and credit cards that are unconditionally cancellable at our discretion. 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.

(6) Other includes loan commitments where our customers have the option to draw from their facility in multiple currencies. Amounts drawn will be subject to prevailing interbank offered rates for the foreign currency, including those that are in scope of IBOR reform.

Financial instruments that reference rates in multi-rate jurisdictions, including the Canadian Dollar Offered Rate (CDOR), the EURO Interbank Offered Rate and Australian Bank Bill Swap Rate, are excluded from the table above. In the case of CDOR, financial instruments indexed to 6-month and 12-month CDOR tenors were discontinued on May 17, 2021, while other tenors of CDOR will continue as a benchmark rate. As at November 1, 2020, we did not hold any material positions in either of these CDOR tenors.

On March 5, 2021, the Financial Conduct Authority (FCA) confirmed that LIBOR settings will cease to be provided by any administrator immediately after December 31, 2021 for all sterling, euro, Swiss franc and Japanese yen settings as well as the 1-week and 2-month USD LIBOR settings. The remaining USD LIBOR settings will cease to be provided immediately after June 30, 2023. The announcement followed the completion of the ICE Benchmark Administration consultation regarding the process and timing for the orderly wind-down of LIBOR contracts. US prudential regulators have issued supervisory guidance that the extension of these certain USD LIBOR settings to June 30, 2023 applies only to legacy contracts; new issuances of LIBOR-based instruments must cease by December 31, 2021. The ITO has adjusted all impacted project plans to align with these extended timelines.

As a result of extending the cessation date of certain USD LIBOR settings, more contracts will expire prior to cessation and therefore the number and value of contracts that will be subject to remediation efforts has reduced. The following table presents the value of financial instruments impacted by the FCA extension as at April 30, 2021 as presented in our second quarter financial statements, that is, ones that reference USD LIBOR (with the exception of the 1 week and 2-month settings) and either mature after June 30, 2023 or are demand facilities with no maturity date.

(Canadian \$ in millions)	April 30, 2021
	USD LIBOR
Non-derivative assets (1)	75,455
Non-derivative liabilities (1)	2,933
Derivative notional amounts (2)	1,112,747
Authorized and committed loan commitments (3)(4)	45,794

(1) All amounts are presented based on contractual amounts outstanding with the exception of securities, in non-derivative assets, which are disclosed based on carrying value.

(2) Notionals represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our Consolidated Balance Sheet.

(3) Excludes personal lines of credit and credit cards that are unconditionally cancellable at our discretion. 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.

(4) Excludes \$8,746 million of loan commitments where the customer's option to draw in another currency impacted by IBOR reform is limited to USD. Any amounts drawn under the option will be subject to USD LIBOR, which will be impacted by the June 30, 2023 cessation date.

Changes in our exposures during the third quarter ended July 31, 2021, did not result in significant changes to the risks arising from transition since we previously disclosed our IBOR exposures. In the normal course of business, our exposures may continue to fluctuate with no significant impact expected to our IBOR conversion plans.

### Conceptual Framework

Effective November 1, 2020, we adopted the revised Conceptual Framework (Framework), which sets out the fundamental concepts for financial reporting to ensure consistency in standard-setting decisions and that similar transactions are treated in a similar way, so as to provide useful information to users of financial statements. The revised Framework had no impact on our accounting policies.

### Use of Estimates and Judgments

The preparation of the interim consolidated financial statements requires management to use estimates and assumptions that affect the carrying amounts of certain assets and liabilities, certain amounts reported in net income and other related disclosures.

The most significant assets and liabilities for which we must make estimates and judgments include the allowance for credit losses; financial instruments measured at fair value; pension and other employee future benefits; impairment of securities; income taxes and deferred tax assets; goodwill and intangible assets; insurance-related liabilities; provisions including legal proceedings and restructuring charges; leases; and transfer of financial assets and consolidation of structured entities. If actual results were to differ from the estimates, the impact would be recorded in future periods.

The extent to which the COVID-19 pandemic impacts BMO's business, results of operations, reputation, financial performance and condition, including the potential for credit, counterparty and mark-to-market losses, its credit ratings and regulatory capital and liquidity ratios, as well as impacts to its customers and competitors will depend on future developments. Such developments are highly uncertain and cannot be predicted, including the scope, severity and duration of the pandemic and actions taken by third parties, governments, and governmental and regulatory authorities, which could vary by country and region. By their very nature, the judgments and estimates we make for the purposes of preparing our financial statements relate to matters that are inherently uncertain. However, we have detailed policies and internal controls that are intended to ensure that these judgments and estimates are well controlled and independently reviewed, and that our policies are consistently applied from period to period. We believe that our estimates of the value of our assets and liabilities are appropriate as at July 31, 2021.

### Allowance for Credit Losses

As detailed further in Note 1 of our annual consolidated financial statements for the year ended October 31, 2020, the allowance for credit losses (ACL) consists of allowances on impaired loans, which represent estimated losses related to impaired loans in the portfolio provided for but not yet written off, and allowances on performing loans, which is our best estimate of impairment in the existing portfolio for loans that have not yet been individually identified as impaired.

The expected credit loss model requires the recognition of credit losses generally based on 12 months of expected losses for performing loans and the 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 bank's methodology for determining significant increase in credit risk is based on the change in probability of default between origination, and reporting date, assessed using probability weighted scenarios as well as certain other criteria, such as 30-day past due and watchlist status. The assessment of a significant increase in credit risk requires experienced credit judgment.

The judgments we apply in determining the ACL reflect the impact of uncertainties in the economic environment on credit conditions 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.

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

## Note 2: Securities

### Classification of Securities

The bank's fair value through profit or loss (FVTPL) securities of \$14,239 million (\$13,568 million as at October 31, 2020) are comprised of \$2,788 million mandatorily measured at fair value and \$11,451 million investment securities held by insurance subsidiaries designated at fair value (\$2,420 million and \$11,148 million, respectively, as at October 31, 2020).

Our fair value through other comprehensive income (FVOCI) securities totalling \$64,553 million (\$73,407 million as at October 31, 2020), are net of an allowance for credit losses of \$3 million (\$4 million as at October 31, 2020).

Amortized cost securities totalling \$48,727 million (\$48,466 million as at October 31, 2020), are net of an allowance for credit losses of \$1 million (\$1 million as at October 31, 2020).

### Unrealized Gains and Losses on FVOCI Securities

The following table summarizes the unrealized gains and losses:

(Canadian \$ in millions)	July 31, 2021				October 31, 2020			
	Cost/ Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost/ Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Issued or guaranteed by:								
Canadian federal government	14,503	124	17	14,610	22,240	211	1	22,450
Canadian provincial and municipal governments	2,630	45	1	2,674	4,628	119	-	4,747
U.S. federal government	20,183	590	77	20,696	16,881	844	31	17,694
U.S. states, municipalities and agencies	4,296	117	1	4,412	5,132	147	3	5,276
Other governments	6,520	88	11	6,597	7,222	168	9	7,381
National Housing Act (NHA) mortgage-backed securities (MBS)	1,287	13	1	1,299	1,583	46	-	1,629
U.S. agency MBS and collateralized mortgage obligations (CMO)	11,323	242	11	11,554	10,600	307	4	10,903
Corporate debt	2,561	43	6	2,598	3,153	91	10	3,234
Corporate equity	101	12	-	113	90	3	-	93
<b>Total</b>	<b>63,404</b>	<b>1,274</b>	<b>125</b>	<b>64,553</b>	<b>71,529</b>	<b>1,936</b>	<b>58</b>	<b>73,407</b>

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:

(Canadian \$ in millions)	For the three months ended		For the nine months ended	
	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
FVOCI - Debt	114	185	366	823
Amortized cost	101	144	309	455
<b>Total</b>	<b>215</b>	<b>329</b>	<b>675</b>	<b>1,278</b>

## Note 3: Loans and Allowance for Credit Losses

### Credit Risk Exposure

The following table sets out our credit risk exposure for all loans carried at amortized cost, FVOCI or FVTPL as at July 31, 2021 and October 31, 2020. Stage 1 represents those performing loans carried with up to 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, 2021				October 31, 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Loans: Residential mortgages</b>								
Exceptionally low	2	-	-	2	1	-	-	1
Very low	91,813	417	-	92,230	79,295	429	-	79,724
Low	22,578	2,605	-	25,183	24,490	2,481	-	26,971
Medium	11,544	3,475	-	15,019	11,560	6,461	-	18,021
High	112	303	-	415	172	446	-	618
Not rated	1,088	53	-	1,141	1,132	148	-	1,280
Impaired	-	-	384	384	-	-	409	409
Allowance for credit losses	51	37	13	101	51	75	16	142
Carrying amount	127,086	6,816	371	134,273	116,599	9,890	393	126,882
<b>Loans: Consumer instalment and other personal</b>								
Exceptionally low	1,468	28	-	1,496	1,550	31	-	1,581
Very low	29,735	28	-	29,763	26,645	37	-	26,682
Low	23,142	505	-	23,647	20,935	585	-	21,520
Medium	10,953	3,769	-	14,722	10,324	4,334	-	14,658
High	465	1,288	-	1,753	429	1,470	-	1,899
Not rated	3,363	49	-	3,412	3,372	96	-	3,468
Impaired	-	-	299	299	-	-	340	340
Allowance for credit losses	127	362	98	587	134	429	105	668
Carrying amount	68,999	5,305	201	74,505	63,121	6,124	235	69,480
<b>Loans: Credit cards (1)</b>								
Exceptionally low	2,468	-	-	2,468	2,252	-	-	2,252
Very low	412	1	-	413	1,106	15	-	1,121
Low	1,636	136	-	1,772	899	148	-	1,047
Medium	1,649	725	-	2,374	1,611	899	-	2,510
High	60	297	-	357	58	377	-	435
Not rated	482	-	-	482	524	-	-	524
Impaired	-	-	-	-	-	-	-	-
Allowance for credit losses	60	233	-	293	61	272	-	333
Carrying amount	6,647	926	-	7,573	6,389	1,167	-	7,556
<b>Loans: Business and government (2)</b>								
Acceptable								
Investment grade	146,024	1,515	-	147,539	129,100	3,242	-	132,342
Sub-investment grade	82,986	16,173	-	99,159	85,197	30,106	-	115,303
Watchlist	-	6,926	-	6,926	-	8,621	-	8,621
Impaired	-	-	1,747	1,747	-	-	2,889	2,889
Allowance for credit losses	584	832	427	1,843	510	1,044	606	2,160
Carrying amount	228,426	23,782	1,320	253,528	213,787	40,925	2,283	256,995
<b>Commitments and financial guarantee contracts</b>								
Acceptable								
Investment grade	148,061	1,024	-	149,085	138,141	1,628	-	139,769
Sub-investment grade	44,769	10,139	-	54,908	41,650	20,421	-	62,071
Watchlist	-	2,979	-	2,979	-	4,861	-	4,861
Impaired	-	-	792	792	-	-	1,261	1,261
Allowance for credit losses	209	191	24	424	211	288	12	511
Carrying amount (3)(4)	192,621	13,951	768	207,340	179,580	26,622	1,249	207,451

(1) Credit card loans are immediately written off when principal or interest payments are 180 days past due, and as a result are not reported as impaired in Stage 3.

(2) Includes customers' liability under acceptances.

(3) Represents the total contractual amounts of undrawn credit facilities and other off-balance sheet exposures, excluding personal lines of credit and credit cards that are unconditionally cancellable at our discretion.

(4) Certain commercial borrower commitments are conditional and may include recourse with other parties.

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

### Allowance for Credit Losses

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level we consider adequate to absorb credit-related losses on our loans and other credit instruments. The allowance for credit losses amounted to \$3,248 million at July 31, 2021 (\$3,814 million as at October 31, 2020) of which \$2,824 million (\$3,303 million as at October 31, 2020) was recorded in loans and \$424 million (\$511 million as at October 31, 2020) was recorded in other liabilities in our Consolidated Balance Sheet.

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

The following tables show the continuity in the loss allowance by product type for the three and nine months ended July 31, 2021 and July 31, 2020. Transfers represent the amount of expected credit loss (ECL) that moved between stages during the period, for example, moving from a 12-month (Stage 1) to lifetime (Stage 2) ECL measurement basis. Net remeasurements represent the ECL impact due to transfers between stages, and changes in economic forecasts and credit quality. Model changes includes new calculation models or methodologies.

(Canadian \$ in millions)

For the three months ended	July 31, 2021				July 31, 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Loans: Residential mortgages</b>								
Balance as at beginning of period	60	53	22	135	29	37	27	93
Transfer to Stage 1	14	(13)	(1)	-	8	(7)	(1)	-
Transfer to Stage 2	(1)	3	(2)	-	(1)	4	(3)	-
Transfer to Stage 3	-	(2)	2	-	-	(1)	1	-
Net remeasurement of loss allowance	(35)	-	3	(32)	27	30	10	67
Loan originations	15	-	-	15	4	-	-	4
Derecognitions and maturities	(2)	(3)	-	(5)	-	(2)	-	(2)
Model changes	-	-	-	-	(1)	(3)	-	(4)
Total Provision for Credit Losses (PCL) (1)	(9)	(15)	2	(22)	37	21	7	65
Write-offs (2)	-	-	(3)	(3)	-	-	(3)	(3)
Recoveries of previous write-offs	-	-	4	4	-	-	2	2
Foreign exchange and other	-	-	(3)	(3)	(1)	-	(6)	(7)
Balance as at end of period	51	38	22	111	65	58	27	150
<b>Loans: Consumer instalment and other personal</b>								
Balance as at beginning of period	141	401	101	643	116	407	125	648
Transfer to Stage 1	58	(56)	(2)	-	59	(57)	(2)	-
Transfer to Stage 2	(5)	16	(11)	-	(10)	21	(11)	-
Transfer to Stage 3	(3)	(24)	27	-	(1)	(27)	28	-
Net remeasurement of loss allowance	(64)	60	18	14	(50)	103	56	109
Loan originations	23	-	-	23	9	-	-	9
Derecognitions and maturities	(8)	(13)	-	(21)	(4)	(9)	-	(13)
Model changes	-	-	-	-	11	8	-	19
Total PCL (1)	1	(17)	32	16	14	39	71	124
Write-offs (2)	-	-	(55)	(55)	-	-	(81)	(81)
Recoveries of previous write-offs	-	-	24	24	-	-	22	22
Foreign exchange and other	-	2	(4)	(2)	(3)	(3)	(10)	(16)
Balance as at end of period	142	386	98	626	127	443	127	697
<b>Loans: Credit cards</b>								
Balance as at beginning of period	106	284	-	390	115	319	-	434
Transfer to Stage 1	42	(42)	-	-	50	(50)	-	-
Transfer to Stage 2	(6)	6	-	-	(9)	9	-	-
Transfer to Stage 3	-	(47)	47	-	-	(48)	48	-
Net remeasurement of loss allowance	(39)	84	2	47	(44)	105	20	81
Loan originations	11	-	-	11	5	-	-	5
Derecognitions and maturities	(3)	(7)	-	(10)	(1)	(7)	-	(8)
Model changes	-	-	-	-	(1)	(10)	-	(11)
Total PCL (1)	5	(6)	49	48	-	(1)	68	67
Write-offs (2)	-	-	(70)	(70)	-	-	(80)	(80)
Recoveries of previous write-offs	-	-	26	26	-	-	19	19
Foreign exchange and other	(1)	(1)	(5)	(7)	(3)	(1)	(7)	(11)
Balance as at end of period	110	277	-	387	112	317	-	429
<b>Loans: Business and government</b>								
Balance as at beginning of period	689	1,075	541	2,305	580	795	586	1,961
Transfer to Stage 1	114	(113)	(1)	-	45	(45)	-	-
Transfer to Stage 2	(23)	63	(40)	-	(65)	66	(1)	-
Transfer to Stage 3	-	(17)	17	-	(4)	(163)	167	-
Net remeasurement of loss allowance	(112)	13	12	(87)	145	510	134	789
Loan originations	87	-	-	87	53	-	-	53
Derecognitions and maturities	(36)	(72)	-	(108)	(21)	(36)	-	(57)
Model changes	-	-	-	-	(7)	(4)	-	(11)
Total PCL (1)	30	(126)	(12)	(108)	146	328	300	774
Write-offs (2)	-	-	(101)	(101)	-	-	(300)	(300)
Recoveries of previous write-offs	-	-	13	13	-	-	37	37
Foreign exchange and other	9	5	1	15	(5)	10	(46)	(41)
Balance as at end of period	728	954	442	2,124	721	1,133	577	2,431
Total as at end of period	1,031	1,655	562	3,248	1,025	1,951	731	3,707
Comprised of: Loans	822	1,464	538	2,824	813	1,719	719	3,251
Other credit instruments (3)	209	191	24	424	212	232	12	456

(1) Excludes PCL on other assets of \$(4) million for the three months ended July 31, 2021 (\$24 million for the three months ended July 31, 2020).

(2) Generally, we continue to seek recovery on amounts that were written off during the year, unless the loan is sold, we no longer have the right to collect or we have exhausted all reasonable efforts to collect.

(3) Other credit instruments, including off-balance sheet items, are recorded in other liabilities in our Consolidated Balance Sheet.

(Canadian \$ in millions)

For the nine months ended	July 31, 2021				July 31, 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Loans: Residential mortgages</b>								
Balance as at beginning of period	51	75	26	152	15	33	38	86
Transfer to Stage 1	48	(39)	(9)	-	19	(17)	(2)	-
Transfer to Stage 2	(3)	20	(17)	-	(2)	7	(5)	-
Transfer to Stage 3	-	(11)	11	-	-	(4)	4	-
Net remeasurement of loss allowance	(68)	5	29	(34)	29	47	17	93
Loan originations	28	-	-	28	8	-	-	8
Derecognitions and maturities	(5)	(10)	-	(15)	(1)	(4)	-	(5)
Model changes	-	-	-	-	(3)	(5)	-	(8)
Total PCL (1)	-	(35)	14	(21)	50	24	14	88
Write-offs (2)	-	-	(9)	(9)	-	-	(9)	(9)
Recoveries of previous write-offs	-	-	8	8	-	-	6	6
Foreign exchange and other	-	(2)	(17)	(19)	-	1	(22)	(21)
Balance as at end of period	51	38	22	111	65	58	27	150
<b>Loans: Consumer instalment and other personal</b>								
Balance as at beginning of period	148	454	105	707	89	333	136	558
Transfer to Stage 1	175	(168)	(7)	-	138	(131)	(7)	-
Transfer to Stage 2	(21)	50	(29)	-	(20)	66	(46)	-
Transfer to Stage 3	(6)	(76)	82	-	(3)	(79)	82	-
Net remeasurement of loss allowance	(197)	169	77	49	(112)	247	162	297
Loan originations	66	-	-	66	32	-	-	32
Derecognitions and maturities	(21)	(37)	-	(58)	(12)	(27)	-	(39)
Model changes	-	-	-	-	16	33	-	49
Total PCL (1)	(4)	(62)	123	57	39	109	191	339
Write-offs (2)	-	-	(184)	(184)	-	-	(248)	(248)
Recoveries of previous write-offs	-	-	70	70	-	-	64	64
Foreign exchange and other	(2)	(6)	(16)	(24)	(1)	1	(16)	(16)
Balance as at end of period	142	386	98	626	127	443	127	697
<b>Loans: Credit cards</b>								
Balance as at beginning of period	110	321	-	431	80	225	-	305
Transfer to Stage 1	141	(141)	-	-	107	(107)	-	-
Transfer to Stage 2	(21)	21	-	-	(25)	25	-	-
Transfer to Stage 3	(1)	(134)	135	-	(1)	(129)	130	-
Net remeasurement of loss allowance	(139)	234	22	117	(57)	332	68	343
Loan originations	28	-	-	28	13	-	-	13
Derecognitions and maturities	(6)	(22)	-	(28)	(3)	(19)	-	(22)
Model changes	-	-	-	-	(1)	(10)	-	(11)
Total PCL (1)	2	(42)	157	117	33	92	198	323
Write-offs (2)	-	-	(212)	(212)	-	-	(257)	(257)
Recoveries of previous write-offs	-	-	73	73	-	-	66	66
Foreign exchange and other	(2)	(2)	(18)	(22)	(1)	-	(7)	(8)
Balance as at end of period	110	277	-	387	112	317	-	429
<b>Loans: Business and government</b>								
Balance as at beginning of period	658	1,258	608	2,524	338	496	311	1,145
Transfer to Stage 1	385	(380)	(5)	-	109	(102)	(7)	-
Transfer to Stage 2	(86)	138	(52)	-	(118)	121	(3)	-
Transfer to Stage 3	(2)	(83)	85	-	(6)	(226)	232	-
Net remeasurement of loss allowance	(327)	268	119	60	321	883	558	1,762
Loan originations	232	-	-	232	153	-	-	153
Derecognitions and maturities	(102)	(165)	-	(267)	(63)	(86)	-	(149)
Model changes	(5)	(19)	-	(24)	(30)	8	-	(22)
Total PCL (1)	95	(241)	147	1	366	598	780	1,744
Write-offs (2)	-	-	(285)	(285)	-	-	(516)	(516)
Recoveries of previous write-offs	-	-	40	40	-	-	60	60
Foreign exchange and other	(25)	(63)	(68)	(156)	17	39	(58)	(2)
Balance as at end of period	728	954	442	2,124	721	1,133	577	2,431
Total as at end of period	1,031	1,655	562	3,248	1,025	1,951	731	3,707
Comprised of: Loans	822	1,464	538	2,824	813	1,719	719	3,251
Other credit instruments (3)	209	191	24	424	212	232	12	456

(1) Excludes PCL on other assets of \$(8) million for the nine months ended July 31, 2021 (\$27 million for the nine months ended July 31, 2020).

(2) Generally, we continue to seek recovery on amounts that were written off during the year, unless the loan is sold, we no longer have the right to collect or we have exhausted all reasonable efforts to collect.

(3) Other credit instruments, including off-balance sheet items, are recorded in other liabilities in our Consolidated Balance Sheet.

Loans and allowance for credit losses by geographic region as at July 31, 2021 and October 31, 2020 are as follows:

(Canadian \$ in millions)	July 31, 2021				October 31, 2020			
	Gross amount	Allowance for credit losses on impaired loans (2)	Allowance for credit losses on performing loans (3)	Net amount	Gross amount	Allowance for credit losses on impaired loans (2)	Allowance for credit losses on performing loans (3)	Net amount
By geographic region (1):								
Canada	293,558	352	1,269	291,937	276,975	303	1,323	275,349
United States	156,332	186	996	155,150	161,725	410	1,225	160,090
Other countries	8,550	-	21	8,529	12,023	14	28	11,981
<b>Total</b>	<b>458,440</b>	<b>538</b>	<b>2,286</b>	<b>455,616</b>	<b>450,723</b>	<b>727</b>	<b>2,576</b>	<b>447,420</b>

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

(2) Excludes allowance for credit losses on impaired loans of \$24 million for other credit instruments, which is included in other liabilities (\$12 million as at October 31, 2020).

(3) Excludes allowance for credit losses on performing loans of \$400 million for other credit instruments, which is included in other liabilities (\$499 million as at October 31, 2020).

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

Impaired (Stage 3) loans, including the related allowances, as at July 31, 2021 and October 31, 2020 are as follows:

(Canadian \$ in millions)	July 31, 2021			October 31, 2020		
	Gross impaired amount (3)	Allowance for credit losses on impaired loans (4)	Net impaired amount (3)	Gross impaired amount (3)	Allowance for credit losses on impaired loans (4)	Net impaired amount (3)
Residential mortgages	384	13	371	409	16	393
Consumer instalment and other personal	299	98	201	340	105	235
Business and government (1)	1,747	427	1,320	2,889	606	2,283
<b>Total</b>	<b>2,430</b>	<b>538</b>	<b>1,892</b>	<b>3,638</b>	<b>727</b>	<b>2,911</b>
By geographic region (2):						
Canada	1,207	352	855	1,343	303	1,040
United States	1,223	186	1,037	2,211	410	1,801
Other countries	-	-	-	84	14	70
<b>Total</b>	<b>2,430</b>	<b>538</b>	<b>1,892</b>	<b>3,638</b>	<b>727</b>	<b>2,911</b>

(1) Includes customers' liability under acceptances.

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

(3) Gross impaired loans and net impaired loans exclude purchased credit impaired loans.

(4) Excludes allowance for credit losses on impaired loans of \$24 million for other credit instruments, which is included in other liabilities (\$12 million as at October 31, 2020).

## Loans Past Due Not Impaired

Loans that are past due but not classified as impaired are loans where our customers have failed to make payments when contractually due but for which we expect the full amount of principal and interest payments to be collected, or loans which are held at fair value. The following table presents loans that are past due but not classified as impaired as at July 31, 2021 and October 31, 2020. Loans less than 30 days past due are excluded as they are not generally representative of the borrower's ability to meet their payment obligations.

(Canadian \$ in millions)	July 31, 2021			October 31, 2020		
	30 to 89 days	90 days or more	Total	30 to 89 days	90 days or more	Total
Residential mortgages	341	16	357	543	43	586
Credit card, consumer instalment and other personal	317	64	381	345	65	410
Business and government	219	32	251	330	22	352
<b>Total</b>	<b>877</b>	<b>112</b>	<b>989</b>	<b>1,218</b>	<b>130</b>	<b>1,348</b>

Fully secured loans with amounts past due between 90 and 180 days that we have not classified as impaired totalled \$42 million and \$53 million as at July 31, 2021 and October 31, 2020, respectively.

## ECL Sensitivity and Key Economic Variables

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

The allowance for performing loans is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario. Forecasts are developed internally by our Economics group, considering external data and our view of future economic conditions. We apply experienced credit judgment to reflect factors not captured in the ECL models, as we deem necessary. We have applied experienced credit judgment to reflect the impact of the extraordinary and highly uncertain environment on credit conditions and the economy as a result of the COVID-19 pandemic.

As at July 31, 2021, our base case scenario depicts a stronger economic forecast in both Canada and the U.S. In Canada, annual real GDP growth averages 7.3% over the next 12 months and 3.9% over the following 12 months. The U.S. economy follows a similar trajectory, but with a higher level of growth compared to Canada, given a larger policy stimulus and an initially faster vaccine rollout. Our base case economic forecast as at October 31, 2020 depicted moderate economic growth in both Canada and the U.S. over the near-term projection period. If we assumed a 100% base case economic forecast and included the impact of loan migration by restaging, with other assumptions held constant, including the application of experienced credit judgment, the allowance on performing loans would be approximately \$1,850 million as at July 31, 2021 (\$2,375 million as at October 31, 2020), compared to the reported allowance for performing loans of \$2,686 million (\$3,075 million as at October 31, 2020).

As at July 31, 2021, the adverse case economic scenario depicts de minimis annual average real GDP growth in both Canada and the U.S. over the next 12 months, with both contracting at a rate of 1.1% in the following 12 months as shown in the table below. The adverse case scenario assumes a sustained and large increase in COVID-19 infections, accompanied by renewed restrictions on a broad range of activities leading to a decline in consumer and business confidence. The adverse case as at October 31, 2020 depicted a less severe economic contraction in Canada and the United States compared with the adverse case as at July 31, 2021 as real GDP in Canada and the U.S. contracted about 3% over several quarters instead of 5%. However, due to the different time periods, the yearly growth rates of real GDP were weaker as at October 31, 2020 compared to July 31, 2021. If we assumed a 100% adverse economic forecast and included the impact of loan migration by restaging, with other assumptions held constant, including the application of experienced credit judgment, the allowance on performing loans would be approximately \$4,225 million as at July 31, 2021 (\$4,875 million as at October 31, 2020), compared to the reported allowance for performing loans of \$2,686 million (\$3,075 million as at October 31, 2020).

When we measure changes in economic performance in our forecasts, we use real GDP as the basis, which acts as the key driver for movements in many of the other economic and market variables used, including VIX equity volatility index, corporate BBB credit spreads, unemployment rates, housing price indices and consumer credit. Many of the variables have a high degree of interdependency and as such, there is no one single factor to which loan impairment allowances as a whole are sensitive. The following table shows certain key economic variables used to estimate the allowance on performing loans during the forecast period. This table is typically provided on an annual basis; however, given the continued level of uncertainty in the forward-looking information due to the impact of COVID-19, the disclosures have been provided as an update to the information in Note 4 of our annual consolidated financial statements for the year ended October 31, 2020. The values shown represent the national annual average levels or growth rates for the next 12 months and subsequent 12 months following each reporting period for all scenarios. While the values disclosed below are national variables, we use regional variables in our underlying models where appropriate.

All figures are average annual values	As at July 31, 2021						As at October 31, 2020					
	Benign scenario		Base scenario		Adverse scenario		Benign scenario		Base scenario		Adverse scenario	
	First 12 months	Second 12 months	First 12 months	Second 12 months	First 12 months	Second 12 months	First 12 months	Second 12 months	First 12 months	Second 12 months	First 12 months	Second 12 months
Real GDP growth rates (1)												
Canada	9.6%	5.5%	7.3%	3.9%	0.7%	(1.1)%	3.7%	6.4%	1.8%	4.2%	(4.4)%	(1.1)%
United States	10.9%	4.6%	8.7%	3.3%	0.1%	(1.1)%	1.6%	6.0%	(0.4)%	4.0%	(5.1)%	(1.2)%
Corporate BBB 10-year spread												
Canada	1.5%	1.9%	1.9%	2.2%	3.6%	4.4%	1.8%	1.9%	2.2%	2.2%	3.6%	4.5%
United States	1.0%	1.2%	1.3%	1.6%	4.2%	4.5%	1.7%	1.7%	2.0%	2.0%	3.9%	4.1%
Unemployment rates												
Canada	5.9%	4.8%	7.1%	5.8%	11.2%	13.1%	7.4%	6.1%	8.9%	7.5%	12.7%	13.9%
United States	4.3%	3.2%	4.9%	3.7%	9.1%	11.6%	6.4%	4.8%	8.0%	6.0%	11.5%	12.8%
Housing Price Index (1)												
Canada (2)	24.0%	10.9%	20.9%	6.0%	(8.6)%	(18.0)%	10.3%	7.7%	7.2%	2.8%	(1.2)%	(8.7)%
United States (3)	13.8%	7.0%	11.5%	4.5%	(7.4)%	(15.5)%	4.6%	4.5%	2.4%	2.1%	(2.4)%	(6.2)%

(1) Real gross domestic product and housing price index are year-over-year growth rates.

(2) In Canada, we use the HPI Benchmark Composite.

(3) In the United States, we use the National Case-Shiller House Price Index.

The ECL approach requires the recognition of credit losses generally based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses for performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Under our current probability-weighted scenarios and based on the current risk profile of our loan exposures, if all our performing loans were in Stage 1, our allowance for performing loans would be approximately \$1,925 million (\$2,300 million as at October 31, 2020), compared with the reported allowance for performing loans of \$2,686 million (\$3,075 million as at October 31, 2020).

## Note 4: Deposits and Subordinated Debt

### Deposits

(Canadian \$ in millions)	Payable on demand				Payable after notice		Payable on a fixed date (4)(5)		Total	
	Interest bearing		Non-interest bearing		July 31, 2021	October 31, 2020	July 31, 2021	October 31, 2020	July 31, 2021	October 31, 2020
	<b>July 31, 2021</b>	October 31, 2020	<b>July 31, 2021</b>	October 31, 2020	<b>July 31, 2021</b>	October 31, 2020	<b>July 31, 2021</b>	October 31, 2020	<b>July 31, 2021</b>	October 31, 2020
Deposits by:										
Banks (1)	<b>5,830</b>	3,594	<b>1,998</b>	2,460	<b>769</b>	1,231	<b>20,630</b>	31,540	<b>29,227</b>	38,825
Business and government	<b>50,810</b>	44,111	<b>50,659</b>	44,258	<b>144,468</b>	124,813	<b>188,817</b>	187,497	<b>434,754</b>	400,679
Individuals	<b>4,934</b>	4,661	<b>35,927</b>	30,369	<b>117,314</b>	111,905	<b>58,397</b>	72,595	<b>216,572</b>	219,530
Total (2) (3)	<b>61,574</b>	52,366	<b>88,584</b>	77,087	<b>262,551</b>	237,949	<b>267,844</b>	291,632	<b>680,553</b>	659,034
Booked in:										
Canada	<b>52,667</b>	41,855	<b>79,560</b>	67,873	<b>126,999</b>	112,543	<b>163,465</b>	185,655	<b>422,691</b>	407,926
United States	<b>8,594</b>	8,818	<b>8,959</b>	9,170	<b>134,231</b>	124,129	<b>75,851</b>	78,175	<b>227,635</b>	220,292
Other countries	<b>313</b>	1,693	<b>65</b>	44	<b>1,321</b>	1,277	<b>28,528</b>	27,802	<b>30,227</b>	30,816
Total	<b>61,574</b>	52,366	<b>88,584</b>	77,087	<b>262,551</b>	237,949	<b>267,844</b>	291,632	<b>680,553</b>	659,034

(1) Includes regulated and central banks.

(2) Includes structured notes and metals deposits designated at FVTPL (Note 6).

(3) Included in deposits as at July 31, 2021 and October 31, 2020 are \$340,368 million and \$322,951 million, respectively, of deposits denominated in U.S. dollars, and \$28,815 million and \$32,254 million, respectively, of deposits denominated in other foreign currencies.

(4) Includes \$31,727 million of senior unsecured debt as at July 31, 2021 subject to the Bank Recapitalization (Bail-In) regime (\$25,651 million as at October 31, 2020). The Bail-In regime provides certain statutory powers to the Canada Deposit Insurance Corporation, including the ability to convert specified eligible shares and liabilities into common shares if the bank becomes non-viable.

(5) Deposits totalling \$21,108 million as at July 31, 2021 (\$27,353 million as at October 31, 2020) can be early redeemed (either fully or partially) by customers without penalty. As we do not expect a significant amount to be redeemed before maturity, we have classified them as payable on a fixed date.

The following table presents deposits payable on a fixed date and greater than one hundred thousand dollars:

(Canadian \$ in millions)	Canada	United States	Other	Total
<b>As at July 31, 2021</b>	<b>140,159</b>	<b>71,589</b>	<b>28,526</b>	<b>240,274</b>
As at October 31, 2020	158,475	72,186	27,799	258,460

The following table presents the maturity schedule for deposits payable on a fixed date and greater than one hundred thousand dollars, which are booked in Canada:

(Canadian \$ in millions)	Less than 3 months	3 to 6 months	6 to 12 months	Over 12 months	Total
<b>As at July 31, 2021</b>	<b>22,423</b>	<b>13,274</b>	<b>23,840</b>	<b>80,622</b>	<b>140,159</b>
As at October 31, 2020	18,081	29,679	28,109	82,606	158,475

### Subordinated Debt

On July 22, 2021, we issued \$1,000 million of 1.928% non-viability contingent capital (NVCC) subordinated notes under our Canadian Medium-Term Note Program. The Series K Medium-Term Notes are due July 22, 2031. The notes reset to a floating rate on July 22, 2026.

On June 1, 2021, we redeemed all of our \$1,250 million 3.32% Series I Medium-Term Notes First Tranche (NVCC), at a redemption price of 100 percent of the principal amount plus unpaid accrued interest to, but excluding, the redemption date.

On December 8, 2020, we redeemed all of our outstanding \$1,000 million, Series H Medium-Term Notes Second Tranche (NVCC), at a redemption price of 100 percent of the principal amount plus unpaid accrued interest to, but excluding, the redemption date.

## Note 5: Equity

### Preferred and Common Shares Outstanding and Other Equity Instruments <sup>(1)</sup>

(Canadian \$ in millions, except as noted)	July 31, 2021		October 31, 2020		Convertible into...
	Number of shares	Amount	Number of shares	Amount	
<b>Preferred Shares - Classified as Equity</b>					
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	Not convertible (8)
Class B - Series 36	-	-	600,000	600	Class B - Series 37 (8)
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)
Class B - Series 44	16,000,000	400	16,000,000	400	Class B - Series 45 (2)(3)
Class B - Series 46	14,000,000	350	14,000,000	350	Class B - Series 47 (2)(3)
<b>Preferred Shares - Classified as Equity</b>		<b>3,940</b>		<b>4,690</b>	
<b>Other Equity Instruments</b>					
4.8% Additional Tier 1 Capital Notes (AT1 Notes)		658		658	Common shares (3)
4.3% Limited Recourse Capital Notes, Series 1 (LRCNs)		1,250		1,250	Common shares (3)(4)
<b>Other Equity Instruments</b>		<b>1,908</b>		<b>1,908</b>	
<b>Preferred Shares and Other Equity Instruments</b>		<b>5,848</b>		<b>6,598</b>	
<b>Common Shares (5) (6) (7)</b>	<b>648,094,938</b>	<b>13,609</b>	<b>645,889,396</b>	<b>13,430</b>	

(1) For additional information refer to Notes 16 and 20 of our annual consolidated financial statements for the year ended October 31, 2020.

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

(3) The instruments issued include a NVCC provision, which is necessary for the preferred shares, AT1 Notes and by virtue of the recourse to Preferred Shares Series 48, the LRCNs (see (4) below) to qualify as regulatory capital under Basel III. As such, they 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. In such an event, each preferred share, including Preferred Shares Series 48, and AT1 Note is convertible into common shares pursuant to an automatic conversion formula and a conversion price based on the greater of: (i) a floor price of \$5.00 and (ii) the current market price of our common shares based on the volume weighted average trading price of our common shares on the TSX. The number of common shares issued is determined by dividing the value of the preferred share or other equity instrument, including declared and unpaid dividends, by the conversion price and then applying the multiplier.

(4) Non-deferrable interest is payable semi-annually on the LRCNs at the bank's discretion. Non-payment of interest will result in a recourse event, with the noteholders' sole remedy being the holders' proportionate share of trust assets comprised of our NVCC Preferred Shares Series 48, which are eliminated on consolidation. In such an event, the delivery of the trust assets will represent the full and complete extinguishment of our obligations under the LRCNs. In circumstances under which NVCC, including the Preferred Shares Series 48, would be converted into common shares of the bank, the LRCNs would be redeemed and the noteholders' sole remedy would be their proportionate share of trust assets, then comprised of common shares of the bank received by the trust on conversion of the Preferred Share Series 48.

(5) The stock options issued under the Stock Option Plan are convertible into 6,077,912 common shares as at July 31, 2021 (6,446,110 common shares as at October 31, 2020).

(6) During the three and nine months ended July 31, 2021, we did not issue common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan and we issued 503,580 and 1,330,160 common shares, respectively, under the Stock Option Plan.

(7) Common shares are net of 222,652 treasury shares as at July 31, 2021 (652,730 treasury shares as at October 31, 2020).

(8) Series 35 and Series 36 were redeemed and final dividends were paid on November 25, 2020.

### **Other Equity Instruments**

The bank's US\$500 million (CAD \$658 million) 4.8% Additional Tier 1 Capital Notes (AT1 Notes) and \$1,250 million 4.3% Limited Recourse Capital Notes Series 1 (LRCNs) are classified as equity and form part of our additional Tier 1 non-viability contingent capital. Both the AT1 Notes and LRCNs are compound financial instruments that have both equity and liability features. On the date of issuance, we assigned an insignificant value to the liability components of both instruments and, as a result, the full amount of proceeds has been classified as equity. Semi-annual distributions on the AT1 Notes and LRCNs are recognized as a reduction in equity when payable. The AT1 Notes and LRCNs are subordinate to the claims of the depositors and certain other creditors in right of payment.

### **Preferred Shares**

On July 16, 2021, we announced our intention to redeem all of our 9,425,607 outstanding Non-Cumulative 5 Year Rate Reset Class B Preferred Shares, Series 25 for an aggregate total of approximately \$236 million and all of our 2,174,393 outstanding Non-Cumulative Floating Rate Class B Preferred Shares, Series 26 for an aggregate total of approximately \$54 million on August 25, 2021.

On November 25, 2020, we redeemed all of our 6 million issued and outstanding Non-Cumulative Perpetual Class B Preferred Shares, Series 35 (NVCC) for an aggregate total of \$156 million and all of our 600,000 issued and outstanding Non-Cumulative 5-Year Rate Reset Class B Preferred Shares, Series 36 (NVCC) for an aggregate total of \$600 million.

### **Normal Course Issuer Bid**

Our previous normal course issuer bid (NCIB) expired on June 2, 2020. Our plan, subject to approval of OSFI and the Toronto Stock Exchange, was to establish a new NCIB over a 12-month period, commencing on or about June 3, 2020. The renewal process was put on hold in light of OSFI's announcement on March 13, 2020 that all share buybacks by federally regulated financial institutions should be halted for the time being, and we did not renew our NCIB. We expect to proceed with the new NCIB following an announcement from OSFI that the restriction is no longer in effect.

### **Shareholder Dividend Reinvestment and Share Purchase Plan**

Until further notice, common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan are purchased on the open market without a discount.

## Note 6: Fair Value of Financial Instruments

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

Set out in the following table 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, 2020 for further discussion on the determination of fair value.

(Canadian \$ in millions)	July 31, 2021		October 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
<b>Securities (1)</b>				
Amortized cost	48,727	49,105	48,466	49,009
<b>Loans (1)</b>				
Residential mortgages	134,273	134,914	126,882	128,815
Consumer instalment and other personal	74,505	74,945	69,480	70,192
Credit cards	7,573	7,573	7,556	7,556
Business and government (2)	232,459	233,753	238,239	239,929
	448,810	451,185	442,157	446,492
<b>Deposits (3)</b>	658,175	659,636	640,961	643,156
<b>Securitization and structured entities' liabilities (4)</b>	23,298	23,709	26,889	27,506
<b>Subordinated debt</b>	6,973	7,275	8,416	8,727

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) Carrying value is net of allowances for credit losses.

(2) Excludes \$6,738 million of loans classified as FVTPL and \$140 million of loans classified as FVOCI as at July 31, 2021, respectively (\$5,306 million and \$51 million, respectively, as at October 31, 2020).

(3) Excludes \$22,085 million of structured note liabilities (\$18,073 million as at October 31, 2020) and \$293 million of metals deposits (\$nil as at October 31, 2020) designated at FVTPL.

(4) Excludes \$629 million of securitization and structured entities' liabilities classified at FVTPL (\$nil as at October 31, 2020).

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

### 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 debt 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 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 observable market inputs to the extent possible.

Our Level 2 trading and FVOCI securities are primarily valued using discounted cash flow models with observable spreads or broker quotes and other 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 models without observable market information as inputs (Level 3) in the valuation of securities, business and government loans classified as FVTPL and FVOCI, other assets, fair value liabilities, derivative assets and derivative liabilities is presented in the following tables:

	July 31, 2021				October 31, 2020			
	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	Total	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	Total
<b>Trading Securities</b>								
Issued or guaranteed by:								
Canadian federal government	5,031	1,264	-	6,295	6,529	4,371	-	10,900
Canadian provincial and municipal governments	3,368	2,863	-	6,231	1,868	6,467	-	8,335
U.S. federal government	5,581	2,581	-	8,162	5,702	2,716	-	8,418
U.S. states, municipalities and agencies	30	264	-	294	16	487	-	503
Other governments	1,152	404	-	1,556	1,021	1,495	-	2,516
NHA MBS, U.S. agency MBS and CMO	-	13,282	794	14,076	7	11,487	803	12,297
Corporate debt	2,711	6,747	2	9,460	3,767	7,274	-	11,041
Trading loans	-	194	-	194	-	67	-	67
Corporate equity	55,901	-	-	55,901	43,757	-	-	43,757
	<b>73,774</b>	<b>27,599</b>	<b>796</b>	<b>102,169</b>	<b>62,667</b>	<b>34,364</b>	<b>803</b>	<b>97,834</b>
<b>FVTPL Securities</b>								
Issued or guaranteed by:								
Canadian federal government	781	221	-	1,002	452	149	-	601
Canadian provincial and municipal governments	469	885	-	1,354	180	1,249	-	1,429
U.S. federal government	1	48	-	49	-	44	-	44
Other governments	-	93	-	93	-	94	-	94
NHA MBS, U.S. agency MBS and CMO	-	11	-	11	-	3	-	3
Corporate debt	141	7,611	-	7,752	70	7,827	-	7,897
Corporate equity	1,690	12	2,276	3,978	1,587	10	1,903	3,500
	<b>3,082</b>	<b>8,881</b>	<b>2,276</b>	<b>14,239</b>	<b>2,289</b>	<b>9,376</b>	<b>1,903</b>	<b>13,568</b>
<b>FVOCI Securities</b>								
Issued or guaranteed by:								
Canadian federal government	13,627	983	-	14,610	20,765	1,685	-	22,450
Canadian provincial and municipal governments	1,655	1,019	-	2,674	2,604	2,143	-	4,747
U.S. federal government	17,166	3,529	-	20,695	14,852	2,842	-	17,694
U.S. states, municipalities and agencies	93	4,318	1	4,412	8	5,267	1	5,276
Other governments	3,126	3,471	-	6,597	3,643	3,738	-	7,381
NHA MBS, U.S. agency MBS and CMO	-	12,853	-	12,853	-	12,532	-	12,532
Corporate debt	654	1,945	-	2,599	792	2,442	-	3,234
Corporate equity	-	-	113	113	-	-	93	93
	<b>36,321</b>	<b>28,118</b>	<b>114</b>	<b>64,553</b>	<b>42,664</b>	<b>30,649</b>	<b>94</b>	<b>73,407</b>
<b>Business and government loans</b>	-	<b>4,573</b>	<b>2,305</b>	<b>6,878</b>	-	<b>3,412</b>	<b>1,945</b>	<b>5,357</b>
<b>Other Assets (1)</b>	<b>3,274</b>	<b>85</b>	-	<b>3,359</b>	<b>5,328</b>	<b>117</b>	-	<b>5,445</b>
<b>Fair Value Liabilities</b>								
Securities sold but not yet purchased	21,383	7,114	-	28,497	19,740	9,636	-	29,376
Structured note liabilities (2)	-	22,085	-	22,085	-	18,073	-	18,073
Other liabilities (3)	-	2,087	13	2,100	-	1,285	-	1,285
	<b>21,383</b>	<b>31,286</b>	<b>13</b>	<b>52,682</b>	<b>19,740</b>	<b>28,994</b>	-	<b>48,734</b>
<b>Derivative Assets</b>								
Interest rate contracts	12	10,213	-	10,225	13	14,916	-	14,929
Foreign exchange contracts	3	15,667	-	15,670	1	10,825	-	10,826
Commodity contracts	352	5,582	-	5,934	123	2,465	-	2,588
Equity contracts	965	3,534	-	4,499	750	7,711	-	8,461
Credit default swaps	-	3	-	3	-	11	-	11
	<b>1,332</b>	<b>34,999</b>	-	<b>36,331</b>	<b>887</b>	<b>35,928</b>	-	<b>36,815</b>
<b>Derivative Liabilities</b>								
Interest rate contracts	6	7,761	-	7,767	22	10,871	-	10,893
Foreign exchange contracts	11	11,998	-	12,009	3	10,609	-	10,612
Commodity contracts	638	1,042	-	1,680	350	1,983	-	2,333
Equity contracts	565	7,140	-	7,705	456	6,067	-	6,523
Credit default swaps	-	2	4	6	-	10	4	14
	<b>1,220</b>	<b>27,943</b>	<b>4</b>	<b>29,167</b>	<b>831</b>	<b>29,540</b>	<b>4</b>	<b>30,375</b>

(1) Other assets include precious metals and certain receivables measured at fair value included in other assets, other, in our Consolidated Balance Sheet.

(2) These structured note liabilities included in deposits have been designated at FVTPL.

(3) Other liabilities include investment contract liabilities in our insurance business, certain payables and metals deposits that have been designated at FVTPL, as well as certain securitization and structured entities' liabilities measured at FVTPL.

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

## Quantitative Information about Level 3 Fair Value Measurements

The table below presents the fair values of our significant Level 3 financial instruments that are measured at fair value on a recurring basis, the valuation techniques used to determine their fair values and the value ranges of significant unobservable inputs used in the valuations. We have not applied any other reasonably possible alternative assumptions to the significant Level 3 categories of private equity investments, as the net asset values are provided by the investment or fund managers.

As at July 31, 2021 (Canadian \$ in millions, except as noted)	Reporting line in fair value hierarchy table	Fair value of assets	Valuation techniques	Significant unobservable inputs	Range of input values (1)	
					Low	High
Private equity (2)	Corporate equity	<b>2,276</b>	Net Asset Value EV/EBITDA	Net Asset Value Multiple	na 6	na 16
Loans (3)	Business and government loans	<b>2,305</b>	Discounted cash flows	Discount margin	<b>50bps</b>	<b>144bps</b>
NHA MBS and U.S. agency MBS and CMO	NHA MBS and U.S. agency MBS and CMO	<b>794</b>	Discounted cash flows Market Comparable	Prepayment rate Comparability Adjustment (4)	<b>4%</b> <b>(4.64)</b>	<b>38%</b> <b>4.53</b>

(1) The low and high input values represent the highest and lowest actual level of inputs used to value a group of financial instruments in a particular product category. These input ranges do not reflect the level of input uncertainty, but are affected by the specific underlying instruments within each product category. The input ranges will therefore vary from period to period based on the characteristics of the underlying instruments held at each balance sheet date.

(2) Included in private equity is \$457 million of Federal Reserve Bank and U.S. Federal Home Loan Bank shares that we carry at cost as at July 31, 2021 (\$487 million as at October 31, 2020), which approximates fair value, and are held to meet regulatory requirements.

(3) The impact of assuming a 10 basis point increase or decrease in discount margin for business and government loans is \$4 million as at July 31, 2021 (\$3 million as at October 31, 2020).

(4) Range of input values represents price per security adjustment.

na - not applicable

## 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. Transfers from Level 1 to Level 2 were due to reduced observability of the inputs used to value the securities. Transfers from Level 2 to Level 1 were due to increased availability of quoted prices in active markets.

The following table presents significant transfers between Level 1 and Level 2 for the three and nine months ended July 31, 2021 and July 31, 2020.

(Canadian \$ in millions)		July 31, 2021		July 31, 2020	
For the three months ended		Level 1 to Level 2	Level 2 to Level 1	Level 1 to Level 2	Level 2 to Level 1
Trading Securities		<b>639</b>	<b>1,473</b>	994	2,682
FVTPL Securities		<b>153</b>	<b>403</b>	19	241
FVOCI Securities		<b>1,016</b>	<b>1,917</b>	1,768	4,294
Securities sold but not yet purchased		<b>197</b>	<b>648</b>	681	2,067

(Canadian \$ in millions)		July 31, 2021		July 31, 2020	
For the nine months ended		Level 1 to Level 2	Level 2 to Level 1	Level 1 to Level 2	Level 2 to Level 1
Trading Securities		<b>4,067</b>	<b>11,009</b>	5,761	3,952
FVTPL Securities		<b>361</b>	<b>804</b>	518	302
FVOCI Securities		<b>6,856</b>	<b>10,890</b>	9,032	7,012
Securities sold but not yet purchased		<b>1,198</b>	<b>5,905</b>	4,432	2,982

## Changes in Level 3 Fair Value Measurements

The tables below present a reconciliation of all changes in Level 3 financial instruments for the three and nine months ended July 31, 2021 and July 31, 2020, including realized and unrealized gains (losses) included in earnings and other comprehensive income as well as transfers into and out of Level 3. Transfers from Level 2 into Level 3 were due to an increase in unobservable market inputs used in pricing the securities. Transfers out of Level 3 into Level 2 were due to an increase in observable market inputs used in pricing the securities.

For the three months ended July 31, 2021 (Canadian \$ in millions)	Change in fair value							Transfers into Level 3	Transfers out of Level 3	Fair Value as at July 31, 2021	Change in unrealized gains (losses) recorded in income for instruments still held (3)
	Balance April 30, 2021	Included in earnings	Included in other comprehensive income (1)	Issuances/Purchases	Sales (2)	Maturities/Settlement					
<b>Trading Securities</b>											
NHA MBS and U.S. agency MBS and CMO	702	(78)	11	441	(255)	-	35	(62)	794	5	
Corporate debt	3	-	-	-	(1)	-	-	-	2	-	
<b>Total trading securities</b>	<b>705</b>	<b>(78)</b>	<b>11</b>	<b>441</b>	<b>(256)</b>	<b>-</b>	<b>35</b>	<b>(62)</b>	<b>796</b>	<b>5</b>	
<b>FVTPL Securities</b>											
Corporate equity	2,048	158	20	175	(106)	-	-	(19)	2,276	149	
<b>Total FVTPL securities</b>	<b>2,048</b>	<b>158</b>	<b>20</b>	<b>175</b>	<b>(106)</b>	<b>-</b>	<b>-</b>	<b>(19)</b>	<b>2,276</b>	<b>149</b>	
<b>FVOCI Securities</b>											
Issued or guaranteed by:											
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na	
Corporate equity	100	-	9	4	-	-	-	-	113	na	
<b>Total FVOCI securities</b>	<b>101</b>	<b>-</b>	<b>9</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114</b>	<b>na</b>	
<b>Business and government loans</b>	<b>2,841</b>	<b>-</b>	<b>45</b>	<b>113</b>	<b>-</b>	<b>(694)</b>	<b>-</b>	<b>-</b>	<b>2,305</b>	<b>-</b>	
<b>Other Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>-</b>	<b>13</b>	<b>-</b>	
<b>Derivative Liabilities</b>											
Credit default swaps	4	-	-	-	-	-	-	-	4	-	
<b>Total derivative liabilities</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	

For the nine months ended July 31, 2021 (Canadian \$ in millions)	Change in fair value							Transfers into Level 3	Transfers out of Level 3	Fair Value as at July 31, 2021	Change in unrealized gains (losses) recorded in income for instruments still held (3)
	Balance October 31, 2020	Included in earnings	Included in other comprehensive income (1)	Issuances/Purchases	Sales (2)	Maturities/Settlement					
<b>Trading Securities</b>											
NHA MBS and U.S. agency MBS and CMO	803	(172)	(50)	1,206	(938)	-	106	(161)	794	24	
Corporate debt	-	-	-	3	(1)	-	-	-	2	-	
<b>Total trading securities</b>	<b>803</b>	<b>(172)</b>	<b>(50)</b>	<b>1,209</b>	<b>(939)</b>	<b>-</b>	<b>106</b>	<b>(161)</b>	<b>796</b>	<b>24</b>	
<b>FVTPL Securities</b>											
Corporate equity	1,903	217	(81)	453	(193)	(4)	-	(19)	2,276	262	
<b>Total FVTPL</b>	<b>1,903</b>	<b>217</b>	<b>(81)</b>	<b>453</b>	<b>(193)</b>	<b>(4)</b>	<b>-</b>	<b>(19)</b>	<b>2,276</b>	<b>262</b>	
<b>FVOCI Securities</b>											
Issued or guaranteed by:											
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na	
Corporate equity	93	-	9	11	-	-	-	-	113	na	
<b>Total FVOCI securities</b>	<b>94</b>	<b>-</b>	<b>9</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114</b>	<b>na</b>	
<b>Business and government loans</b>	<b>1,945</b>	<b>-</b>	<b>(150)</b>	<b>1,812</b>	<b>-</b>	<b>(1,302)</b>	<b>-</b>	<b>-</b>	<b>2,305</b>	<b>-</b>	
<b>Other Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>-</b>	<b>13</b>	<b>-</b>	
<b>Derivative Liabilities</b>											
Credit default swaps	4	-	-	-	-	-	-	-	4	-	
<b>Total derivative liabilities</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	

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

(2) Includes proceeds received on securities sold but not yet purchased.

(3) Changes in unrealized gains (losses) on Trading and FVTPL securities still held on July 31, 2021 are included in earnings for the period.

Unrealized gains (losses) recognized on Level 3 financial instruments may be offset by (losses) gains on economic hedge contracts.

na - not applicable

For the three months ended July 31, 2020 (Canadian \$ in millions)	Change in fair value								Fair Value as as at July 31, 2020	Change in unrealized gains (losses) recorded in income for instruments still held (3)
	Balance April 30, 2020	Included in earnings	Included in other comprehensive income (1)	Issuances/ Purchases	Sales (2)	Maturities/ Settlement	Transfers into Level 3	Transfers out of Level 3		
<b>Trading Securities</b>										
NHA MBS and U.S. agency MBS and CMO	487	(115)	(18)	362	(151)	-	41	(22)	584	(74)
Corporate debt	48	10	(2)	-	(56)	-	-	-	-	-
<b>Total trading securities</b>	<b>535</b>	<b>(105)</b>	<b>(20)</b>	<b>362</b>	<b>(207)</b>	<b>-</b>	<b>41</b>	<b>(22)</b>	<b>584</b>	<b>(74)</b>
<b>FVTPL Securities</b>										
Corporate equity	2,062	(23)	(57)	58	(233)	-	-	-	1,807	2
<b>Total FVTPL</b>	<b>2,062</b>	<b>(23)</b>	<b>(57)</b>	<b>58</b>	<b>(233)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,807</b>	<b>2</b>
<b>FVOCI Securities</b>										
Issued or guaranteed by:										
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na
Corporate equity	83	-	-	4	-	-	-	-	87	na
<b>Total FVOCI securities</b>	<b>84</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>88</b>	<b>na</b>
<b>Business and government loans</b>	<b>2,028</b>	<b>-</b>	<b>95</b>	<b>765</b>	<b>-</b>	<b>(685)</b>	<b>-</b>	<b>-</b>	<b>2,203</b>	<b>-</b>
<b>Other Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivative Liabilities</b>										
Credit default swaps	4	-	-	-	-	-	-	(1)	3	-
<b>Total derivative liabilities</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>3</b>	<b>-</b>

For the nine months ended July 31, 2020 (Canadian \$ in millions)	Change in fair value								Fair Value as as at July 31, 2020	Change in unrealized gains (losses) recorded in income for instruments still held (3)
	Balance October 31, 2019	Included in earnings	Included in other comprehensive income (1)	Issuances/ Purchases	Sales (2)	Maturities/ Settlement	Transfers into Level 3	Transfers out of Level 3		
<b>Trading Securities</b>										
NHA MBS and U.S. agency MBS and CMO	538	(245)	12	811	(540)	-	202	(194)	584	(158)
Corporate debt	7	10	(2)	50	(68)	-	3	-	-	(1)
<b>Total trading securities</b>	<b>545</b>	<b>(235)</b>	<b>10</b>	<b>861</b>	<b>(608)</b>	<b>-</b>	<b>205</b>	<b>(194)</b>	<b>584</b>	<b>(159)</b>
<b>FVTPL Securities</b>										
Corporate equity	1,984	(27)	23	244	(418)	-	1	-	1,807	7
<b>Total FVTPL</b>	<b>1,984</b>	<b>(27)</b>	<b>23</b>	<b>244</b>	<b>(418)</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1,807</b>	<b>7</b>
<b>FVOCI Securities</b>										
Issued or guaranteed by:										
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na
Corporate equity	81	-	-	6	-	-	-	-	87	na
<b>Total FVOCI securities</b>	<b>82</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>88</b>	<b>na</b>
<b>Business and government loans</b>	<b>1,736</b>	<b>(3)</b>	<b>183</b>	<b>1,705</b>	<b>-</b>	<b>(1,418)</b>	<b>-</b>	<b>-</b>	<b>2,203</b>	<b>-</b>
<b>Other Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivative Liabilities</b>										
Credit default swaps	1	-	-	-	-	-	3	(1)	3	-
<b>Total derivative liabilities</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>(1)</b>	<b>3</b>	<b>-</b>

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

(2) Includes proceeds received on securities sold but not yet purchased.

(3) Changes in unrealized gains (losses) on Trading and FVTPL securities still held on July 31, 2020 are included in earnings for the period.

Unrealized gains (losses) recognized on Level 3 financial instruments may be offset by (losses) gains on economic hedge contracts.

na - not applicable

## Note 7: 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; underpins our operating groups' business strategies; supports depositor, investor and regulator confidence, while building long-term shareholder value; and is consistent with our target credit ratings.

As at July 31, 2021, we met OSFI's target capital ratio requirements, which include a 2.5% Capital Conservation Buffer, a 1.0% Common Equity Surcharge for Domestic Systemically Important Banks (D-SIBs), a Countercyclical Buffer and a 1.0% Domestic Stability Buffer (DSB) applicable to D-SIBs. As announced by OSFI in June 2021, the DSB will be set at 2.5% effective October 31, 2021. Our capital position as at July 31, 2021 is further detailed in the Capital Management section of our interim Management's Discussion and Analysis.

### Regulatory Capital Measures, Risk-Weighted Assets and Leverage Exposures

(Canadian \$ in millions, except as noted)	July 31, 2021	October 31, 2020
Common Equity Tier 1 (CET1) Capital	43,349	40,077
Tier 1 Capital	48,826	45,840
Total Capital	56,203	54,661
Risk-Weighted Assets	322,529	336,607
Leverage Exposures	969,824	953,640
CET 1 Capital Ratio	13.4%	11.9%
Tier 1 Capital Ratio	15.1%	13.6%
Total Capital Ratio	17.4%	16.2%
Leverage Ratio	5.0%	4.8%

## Note 8: Employee Compensation

### Stock Options

We did not grant any stock options during the three months ended July 31, 2021 and 2020. During the nine months ended July 31, 2021, we granted a total of 984,943 stock options (976,087 stock options during the nine months ended July 31, 2020). The weighted-average fair value of options granted during the nine months ended July 31, 2021 was \$10.75 per option (\$9.46 per option for the nine months ended July 31, 2020).

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, 2021	July 31, 2020
Expected dividend yield	4.9%	4.3%
Expected share price volatility	20.6% - 20.7%	15.4%
Risk-free rate of return	1.0%	1.9% - 2.0%
Expected period until exercise (in years)	6.5 - 7.0	6.5 - 7.0
Exercise price (\$)	97.14	101.47

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	
	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
For the three months ended				
Current service cost	67	62	2	2
Net interest expense on net defined benefit (asset) liability	2	1	8	8
Administrative expenses	1	1	-	-
Benefits expense	70	64	10	10
Canada and Quebec pension plan expense	24	22	-	-
Defined contribution expense	33	37	-	-
Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	127	123	10	10

(Canadian \$ in millions)	Pension benefit plans		Other employee future benefit plans	
	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
For the nine months ended				
Current service cost	201	187	6	8
Net interest expense on net defined benefit (asset) liability	6	1	23	24
Administrative expenses	3	3	-	-
Benefits expense	210	191	29	32
Canada and Quebec pension plan expense	76	75	-	-
Defined contribution expense	126	135	-	-
Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	412	401	29	32

## Note 9: Earnings Per Share

Basic earnings per share is calculated by dividing net income, after deducting dividends payable on preferred shares and distributions payable on other equity instruments, 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 Common Share

(Canadian \$ in millions, except as noted)	For the three months ended		For the nine months ended	
	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
Net income	2,275	1,232	5,595	3,513
Dividends on preferred shares and distributions payable on other equity instruments	(61)	(73)	(185)	(195)
Net income available to common shareholders	2,214	1,159	5,410	3,318
Weighted-average number of common shares outstanding (in thousands)	647,178	641,300	646,808	640,129
Basic earnings per common share (Canadian \$)	3.42	1.81	8.36	5.18

### Diluted Earnings Per Common Share

Net income available to common shareholders adjusted for impact of dilutive instruments	2,214	1,159	5,410	3,318
Weighted-average number of common shares outstanding (in thousands)	647,178	641,300	646,808	640,129
Effect of dilutive instruments				
Stock options potentially exercisable (1)	6,213	2,400	6,585	3,473
Common shares potentially repurchased	(4,394)	(2,046)	(5,229)	(2,721)
Weighted-average number of diluted common shares outstanding (in thousands)	648,997	641,654	648,164	640,881
Diluted earnings per common share (Canadian \$)	3.41	1.81	8.35	5.18

(1) In computing diluted earnings per share, we did not exclude any stock options outstanding for the three and nine months ended July 31, 2021 as the average share price for the period exceeded the exercise price. For the three and nine months ended July 31, 2020, we excluded average stock options outstanding of 4,238,334 and 3,124,912 with a weighted-average exercise price of \$94.30 and \$99.72, respectively, as the average share price for the period did not exceed the exercise price.

## Note 10: Income Taxes

Canadian Taxing Authorities have reassessed us for additional income tax and interest in an amount of approximately \$1,210 million, to date, in respect of certain 2011-2016 Canadian corporate dividends. Those reassessments denied certain dividend deductions on the basis that the dividends were received as part of a "dividend rental arrangement". The tax rules raised by the Canadian Taxing Authorities were prospectively addressed in the 2015 and 2018 Canadian Federal Budgets. In the future, we expect to be reassessed for significant income tax for similar activities. We remain of the view that our tax filing positions were appropriate and intend to challenge all reassessments. However, if such challenges are unsuccessful, the additional expense would negatively impact our net income.

## Note 11: 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)), BMO Wealth Management (BMO WM) and BMO Capital Markets (BMO CM), along with a Corporate Services unit.

For additional information refer to Note 25 of our annual consolidated financial statements for the year ended October 31, 2020.

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

(Canadian \$ in millions)

For the three months ended July 31, 2021	Canadian P&C	U.S. P&C	BMO WM	BMO CM	Corporate Services (1)	Total
Net interest income (2)	1,660	1,048	247	696	(130)	3,521
Non-interest revenue	581	304	2,179	888	89	4,041
Total Revenue	2,241	1,352	2,426	1,584	(41)	7,562
Provision for (recovery of) credit losses on impaired loans	101	(9)	-	(19)	(2)	71
Recovery of credit losses on performing loans	(7)	(53)	(2)	(75)	(4)	(141)
Total provision for (recovery of) credit losses	94	(62)	(2)	(94)	(6)	(70)
Insurance claims, commissions and changes in policy benefit liabilities	-	-	984	-	-	984
Depreciation and amortization	131	119	66	68	-	384
Other non-interest expense	915	570	847	850	118	3,300
Income (loss) before taxes	1,101	725	531	760	(153)	2,964
Provision for (recovery of) income taxes	286	172	130	202	(101)	689
Reported net income (loss)	815	553	401	558	(52)	2,275
Average Assets	265,639	125,840	48,053	367,900	162,811	970,243

For the three months ended July 31, 2020	Canadian P&C	U.S. P&C	BMO WM	BMO CM	Corporate Services (1)	Total
Net interest income (2)	1,509	1,107	229	952	(262)	3,535
Non-interest revenue	453	292	2,255	576	78	3,654
Total Revenue	1,962	1,399	2,484	1,528	(184)	7,189
Provision for credit losses on impaired loans	257	109	1	79	-	446
Provision for credit losses on performing loans	313	223	7	58	7	608
Total provision for credit losses	570	332	8	137	7	1,054
Insurance claims, commissions and changes in policy benefit liabilities	-	-	1,189	-	-	1,189
Depreciation and amortization	126	137	73	64	-	400
Other non-interest expense	835	615	764	761	69	3,044
Income (loss) before taxes	431	315	450	566	(260)	1,502
Provision for (recovery of) income taxes	112	52	109	140	(143)	270
Reported net income (loss)	319	263	341	426	(117)	1,232
Average Assets	252,028	140,615	46,308	379,131	159,682	977,764

(Canadian \$ in millions)

For the nine months ended July 31, 2021	Canadian P&C	U.S. P&C	BMO WM	BMO CM	Corporate Services (1)	Total
Net interest income (2)	4,849	3,194	723	2,242	(454)	10,554
Non-interest revenue	1,633	935	4,795	2,454	242	10,059
Total Revenue	6,482	4,129	5,518	4,696	(212)	20,613
Provision for (recovery of) credit losses on impaired loans	404	17	3	20	(3)	441
Recovery of credit losses on performing loans	(22)	(133)	(10)	(126)	(4)	(295)
Total provision for (recovery of) credit losses	382	(116)	(7)	(106)	(7)	146
Insurance claims, commissions and changes in policy benefit liabilities	-	-	1,302	-	-	1,302
Depreciation and amortization	390	365	213	201	-	1,169
Non-interest expense	2,582	1,689	2,547	2,432	1,287	10,537
Income (loss) before taxes	3,128	2,191	1,463	2,169	(1,492)	7,459
Provision for (recovery of) income taxes	812	514	358	565	(385)	1,864
Reported net income (loss)	2,316	1,677	1,105	1,604	(1,107)	5,595
Average Assets	259,813	128,722	47,761	371,046	166,462	973,804

For the nine months ended July 31, 2020	Canadian P&C	U.S. P&C	BMO WM	BMO CM	Corporate Services (1)	Total
Net interest income (2)	4,561	3,287	672	2,503	(582)	10,441
Non-interest revenue	1,443	912	4,727	1,445	232	8,759
Total Revenue	6,004	4,199	5,399	3,948	(350)	19,200
Provision for credit losses on impaired loans	607	365	4	205	2	1,183
Provision for credit losses on performing loans	612	315	13	390	8	1,338
Total provision for credit losses	1,219	680	17	595	10	2,521
Insurance claims, commissions and changes in policy benefit liabilities	-	-	1,708	-	-	1,708
Depreciation and amortization	385	427	220	179	-	1,211
Non-interest expense	2,539	1,903	2,417	2,256	303	9,418
Income (loss) before taxes	1,861	1,189	1,037	918	(663)	4,342
Provision for (recovery of) income taxes	481	236	261	210	(359)	829
Reported net income (loss)	1,380	953	776	708	(304)	3,513
Average Assets	251,325	139,196	45,234	370,363	129,399	935,517

(1) Corporate Services includes Technology and Operations.

(2) Operating groups report on a taxable equivalent basis (teb). Revenue and the provision for income taxes are increased on tax-exempt securities to an equivalent before-tax basis to facilitate comparisons of income between taxable and tax-exempt sources. 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 12: Divestitures

On April 30, 2021, we completed the sale of our Private Banking business in Hong Kong and Singapore, part of our BMO WM operating segment, to J. Safra Sarasin Group. The business sold is not considered material to the bank.

On April 12, 2021, we entered into an agreement with Ameriprise Financial Inc. (Ameriprise) to sell BMO's EMEA asset management business, part of our BMO WM operating segment, for £615 million (CAD\$1,066 million) in an all-cash transaction. Separately, in the U.S. the transaction includes the opportunity for certain BMO asset management clients to move to Ameriprise, subject to client consent. This transaction is expected to close in the fourth quarter of calendar 2021, subject to regulatory approvals and customary closing conditions. As this transaction met the accounting requirements of assets held-for-sale, whereby the assets and liabilities are measured at lower of fair value, less costs to sell, and carrying value at each reporting period end until disposal, we recognized a write-down of goodwill related to these businesses of \$747 million in the second quarter of 2021. In the current quarter, we recognized an additional write-down of goodwill of \$8 million based on updated assumptions. The write-down is included in non-interest expense, other, in our Consolidated Statement of Income and was reported in the Corporate Services segment. This ultimate impact is subject to closing adjustments, including fair values and foreign exchange rates prevailing at the date of closing.

On July 27, 2021, we entered into an agreement to sell Taplin, Canida & Habacht, LLC, part of our U.S. asset management business to Loop Capital. The transaction is expected to close in the first quarter of fiscal 2022, subject to customary closing conditions. The business sold is not considered material to the bank.

## Note 13: Legal Proceedings

BMO and its subsidiaries are named as defendants or are otherwise involved in a substantial number of legal proceedings. BMO Harris Bank N.A. (BMO Harris), as successor to M&I Marshall and Ilsley Bank (M&I), has been named as the defendant in a lawsuit filed in the U.S. Bankruptcy Court for the District of Minnesota (Bankruptcy Court) in connection with a Ponzi scheme carried out by Thomas J. Petters and certain affiliated individuals and entities (collectively, Petters) between 1994 and 2008. The lawsuit, brought by a Trustee in bankruptcy proceedings for certain Petters entities, alleges that, between 1999 and 2008, M&I (and a predecessor bank) facilitated the Ponzi scheme operated by Petters. BMO denies these allegations and continues to defend itself vigorously. The Trustee seeks US\$1.9 billion in compensatory damages, plus prejudgment interest, punitive damages, and attorneys' fees. The Bankruptcy Court: (i) denied BMO Harris's motion for summary judgment; (ii) granted the Trustee's motion for sanctions based on the alleged spoliation of evidence; and (iii) transferred the case to the U.S. District Court for the District of Minnesota (District Court) for trial. BMO Harris filed an objection to the spoliation sanctions, which is still pending before the District Court. BMO Harris anticipates that the trial in this case may take place in the first half of 2022. While it is inherently difficult to predict the ultimate outcome of this or other proceedings, BMO does not expect the outcome of any of these proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or the results of operation of the bank.

## INVESTOR AND MEDIA PRESENTATION

### Investor Presentation Materials

Interested parties are invited to visit BMO's website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations) to review the 2020 Annual MD&A and audited annual consolidated financial statements, quarterly presentation materials and supplementary financial and regulatory information package.

### Quarterly Conference Call and Webcast Presentations

Interested parties are also invited to listen to our quarterly conference call on Tuesday, August 24, 2021, at 8.15 a.m. (ET). The call may be accessed by telephone at 416-406-0743 (from within Toronto) or 1-800-898-3989 (toll-free outside Toronto), entering Passcode: 1365804#. A replay of the conference call can be accessed until September 21, 2021, by calling 905-694-9451 (from within Toronto) or 1-800-408-3053 (toll-free outside Toronto) and entering Passcode: 9195676#.

A live webcast of the call can be accessed on our website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations). A replay can also be accessed on the website.

### Media Relations Contacts

Paul Gammal, Toronto, [paul.gammal@bmo.com](mailto:paul.gammal@bmo.com), 416-867-6543

### Investor Relations Contacts

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Bill Anderson, Director, Investor Relations, [bill2.anderson@bmo.com](mailto:bill2.anderson@bmo.com), 416-867-7834

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#### Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan)

Average market price as defined under the Plan

May 2021: \$123.83

June 2021: \$127.28

July 2021: \$125.28

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

Computershare Trust Company of Canada

100 University Avenue, 8<sup>th</sup> Floor

Toronto, Ontario M5J 2Y1

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

Telephone: (514) 982-7800 (international)

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

Fax: (416) 263-9394 (international)

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

#### For other shareholder information, please contact

Bank of Montreal

Shareholder Services

Corporate Secretary's Department

One First Canadian Place, 21<sup>st</sup> Floor

Toronto, Ontario M5X 1A1

Telephone: (416) 867-6785

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E-mail: [corp.secretary@bmo.com](mailto: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, 10<sup>th</sup> Floor

Toronto, Ontario M5X 1A1

**To review financial results and regulatory filings and disclosures online, please visit BMO's website at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations).**

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BMO's 2020 Annual MD&A, audited consolidated financial statements, annual information form and annual report on Form 40-F (filed with the U.S. Securities and Exchange Commission) are available online at [www.bmo.com/investorrelations](http://www.bmo.com/investorrelations) and at [www.sedar.com](http://www.sedar.com). Printed copies of the bank's complete 2020 audited consolidated financial statements are available free of charge upon request at 416-867-6785 or [corp.secretary@bmo.com](mailto:corp.secretary@bmo.com).

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### Annual Meeting 2022

The next Annual Meeting of Shareholders will be held on Wednesday, April 13, 2022, in Toronto, Ontario.

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