

BMO Financial Group Reports Second Quarter 2019 Results

REPORT TO SHAREHOLDERS

Financial Results Highlights

Second Quarter 2019 Compared With Second Quarter 2018:

- Net income of \$1,497 million, up 20%; adjusted net income¹ of \$1,522 million, up 4%
- EPS² of \$2.26, up 22%; adjusted EPS^{1,2} of \$2.30, up 5%
- Net revenue³ of \$5,652 million, up 8%
- ROE of 13.6%, up from 12.6%; adjusted ROE¹ of 13.9% compared with 14.9%
- Provision for credit losses (PCL) of \$176 million compared with \$160 million in the prior year
- Common Equity Tier 1 Ratio of 11.3%
- Dividend increased \$0.03 from the prior quarter to \$1.03, up 7% from the prior year

Year-to-Date 2019 Compared With Year-to-Date 2018:

- Net income of \$3,007 million, up 35%; adjusted net income^{1,4,5} of \$3,060 million, up 6%
- EPS² of \$4.54, up 38%; adjusted EPS^{1,2} of \$4.62, up 7%
- Net revenue³ of \$11,243 million, up 7%
- ROE of 13.6%, up from 11.0%; adjusted ROE¹ of 13.9% compared with 14.4%
- Provision for credit losses of \$313 million compared with \$301 million in the prior year

Toronto, May 29, 2019 – For the second quarter ended April 30, 2019, BMO Financial Group recorded net income of \$1,497 million or \$2.26 per share on a reported basis, and net income of \$1,522 million or \$2.30 per share on an adjusted basis.

“BMO’s continued strong performance this quarter is highlighted by good momentum across our U.S. platform and in our North American Commercial Banking business, reflecting our differentiated approach to growing customer relationships. For the first half of the year, adjusted earnings per share are up 7% and our U.S. segment contributed 35% to BMO’s adjusted earnings,” said Darryl White, Chief Executive Officer, BMO Financial Group.

“This growth is supported by our strong capital position, a stable credit environment, and the continued resiliency of the Canadian and U.S. economies. We are taking disciplined actions to grow each of our businesses, including optimizing our teams and developing innovative solutions that enhance customer experience. These actions are deepening loyalty and trust and position the bank for long-term growth,” concluded Mr. White.

Return on equity (ROE) was 13.6%, up from 12.6% in the prior year, and adjusted ROE was 13.9% compared with 14.9%. Return on tangible common equity (ROTCE) was 16.4%, up from 15.6% in the prior year and adjusted ROTCE was 16.4% compared with 18.0% in the prior year.

Concurrent with the release of results, BMO announced a third quarter 2019 dividend of \$1.03 per common share, up \$0.03 or 3% from the preceding quarter and up \$0.07 per share or 7% from the prior year. The quarterly dividend of \$1.03 per common share is equivalent to an annual dividend of \$4.12 per common share.

(1) Results and measures in this document are presented on a GAAP basis. They are also presented on an adjusted basis that excludes the impact of certain items. Adjusted results and measures are non-GAAP and are detailed for all reported periods in the Non-GAAP Measures section, where such non-GAAP measures and their closest GAAP counterparts are disclosed.

(2) All Earnings per Share (EPS) measures in this document refer to diluted EPS, unless specified otherwise. EPS is calculated using net income after deducting total preferred share dividends.

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

(4) Reported net income in the first quarter of 2018 included a \$425 million (US\$339 million) charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*.

(5) Reported net income in the second quarter of 2018 included a \$192 million after-tax (\$260 million pre-tax) restructuring charge, primarily related to severance, as a result of an ongoing bank-wide initiative to simplify how we work, drive increased efficiency, and invest in technology to move our business forward. Restructuring cost is included in non-interest expense in Corporate Services.

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

Second Quarter Operating Segment Overview

Canadian P&C

Reported net income of \$615 million increased \$27 million or 5% and adjusted net income of \$615 million increased \$26 million or 5% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Results reflect good revenue growth, partially offset by higher expenses and higher provisions for credit losses.

During the quarter, we won two Celent 2019 Model Bank Awards. The Celent Model Bank Award for Payment Services Hub Implementation recognizes delivery of our new BMO Payment Hub, a technology platform that integrates multiple payment services in one central location, which will enable us to deliver new products more quickly and cost-effectively. The Celent Model Bank Award for Innovation Enablement recognizes our BMO InnoV8 program, which tests and develops ideas to transform a customer's financial journey and is the foundation for multiple award-winning digital banking solutions and patent applications. These awards are a testament to our commitment to creating and investing in services to better support our customers.

U.S. P&C

Reported net income of \$406 million increased \$58 million or 17% and adjusted net income of \$417 million increased \$58 million or 16% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets.

Reported net income of US\$306 million increased US\$35 million or 13% and adjusted net income of US\$314 million increased US\$35 million or 12% from the prior year, largely due to good revenue growth and lower provisions for credit losses, partially offset by higher expenses.

For the third consecutive year, BMO Harris Bank was recognized as a *Best Place to Work for LGBTQ Equality* on the 2019 Corporate Equality Index (CEI), a U.S. national benchmarking survey and report on corporate policies and practices related to LGBTQ workplace equality, administered by the Human Rights Campaign Foundation. The 2019 CEI evaluates LGBTQ-related policies and practices including non-discrimination workplace protections, domestic partner benefits, transgender-inclusive healthcare benefits, competency programs and engagement with the LGBTQ community.

BMO Wealth Management

Reported net income of \$305 million increased \$9 million or 3% and adjusted net income of \$315 million increased \$8 million or 3% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Traditional wealth reported net income of \$226 million and adjusted net income of \$236 million was relatively unchanged compared with the prior year as the impact of strong net interest income growth and improved equity markets were largely offset by targeted growth investments and lower performance fees in asset management. Insurance net income was \$79 million, an increase of \$10 million or 14%, primarily due to favourable market movements.

In the 2019 Brokerage Report Card, issued by *Investment Executive*, over 90% of BMO Nesbitt Burns advisors said they would recommend their firm.

BMO Capital Markets

Reported net income was \$249 million and adjusted net income was \$253 million compared with \$286 million on both a reported and an adjusted basis in the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets and acquisition integration costs. Strong performance in Investment and Corporate Banking and higher Trading Products revenue were largely offset by a severance expense and higher provisions for credit losses.

BMO Capital Markets received the Lead Manager Sustainability Bond Award from Environmental Finance for our role in the supranational, sub-sovereign and agency (SSA) space and our industry-defining sustainable bonds. We were also named World's Best Metals and Mining Investment Bank for the tenth consecutive year by *Global Finance*.

Corporate Services

Reported and adjusted net loss for the quarter was \$78 million compared with a reported net loss of \$272 million and an adjusted net loss of \$78 million in the prior year. Adjusted results in the prior year exclude a \$192 million after-tax restructuring charge and acquisition integration costs. Adjusted results were unchanged, with lower expenses, offset by lower recoveries of credit losses.

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

Capital

BMO's Common Equity Tier 1 (CET1) Ratio was 11.3% at April 30, 2019. The CET1 Ratio decreased from 11.4% at the end of the first quarter as retained earnings growth was more than offset by strong business growth and a small impact from other changes in CET1 Capital.

Provision for Credit Losses

Total provision for credit losses was \$176 million, an increase of \$16 million from the prior year. The provision for credit losses on impaired loans of \$150 million decreased \$22 million from \$172 million in the prior year, primarily due to lower provisions in our U.S. P&C business, largely resulting

from a recovery on a commercial loan. There was a provision for credit losses on performing loans of \$26 million in the current quarter compared with a recovery of credit losses of \$12 million in the prior year.

Caution

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

Regulatory Filings

Our continuous disclosure materials, including our interim filings, annual Management's Discussion and Analysis and audited consolidated financial statements, Annual Information Form and Notice of Annual Meeting of Shareholders and Proxy Circular, are available on our website at www.bmo.com/investorrelations, on the Canadian Securities Administrators' website at www.sedar.com, and on the EDGAR section of the U.S. Securities and Exchange Commission's website at www.sec.gov.

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

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) commentary is as at May 29, 2019. 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 April 30, 2019, included in this document, as well as the audited consolidated financial statements for the year ended October 31, 2018, and the MD&A for fiscal 2018, contained in our 2018 Annual Report.

BMO's 2018 Annual Report includes a comprehensive discussion of our businesses, strategies and objectives, and can be accessed on our website at www.bmo.com/investorrelations. Readers are also encouraged to visit the site to view other quarterly financial information.

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Bank of Montreal's management, under the supervision of the CEO and CFO, has evaluated the effectiveness, as at April 30, 2019, 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 April 30, 2019, which materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

Financial Highlights

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Summary Income Statement					
Net interest income (1)	3,135	3,172	2,666	6,307	5,541
Non-interest revenue (1)(2)	3,078	3,345	2,914	6,423	5,677
Revenue (2)	6,213	6,517	5,580	12,730	11,218
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	561	926	332	1,487	693
Revenue, net of CCPB	5,652	5,591	5,248	11,243	10,525
Provision for credit losses on impaired loans	150	127	172	277	346
Provision for (recovery of) credit losses on performing loans	26	10	(12)	36	(45)
Total provision for credit losses	176	137	160	313	301
Non-interest expense (2)	3,595	3,557	3,525	7,152	6,925
Provision for income taxes	384	387	317	771	1,080
Net income attributable to bank shareholders	1,497	1,510	1,246	3,007	2,219
Adjusted net income	1,522	1,538	1,463	3,060	2,885
Common Share Data (\$, except as noted)					
Earnings per share	2.26	2.28	1.86	4.54	3.29
Adjusted earnings per share	2.30	2.32	2.20	4.62	4.32
Earnings per share growth (%)	21.7	59.5	0.9	38.2	(18.9)
Adjusted earnings per share growth (%)	4.8	9.5	14.7	7.1	3.0
Dividends declared per share	1.00	1.00	0.93	2.00	1.86
Book value per share	69.99	67.37	61.66	69.99	61.66
Closing share price	105.82	96.18	97.51	105.82	97.51
Number of common shares outstanding (in millions)					
End of period	638.8	638.4	640.6	638.8	640.6
Average diluted	640.3	640.4	645.6	640.3	647.8
Total market value of common shares (\$ billions)	67.6	61.4	62.5	67.6	62.5
Dividend yield (%)	3.8	4.2	3.8	3.8	3.8
Dividend payout ratio (%)	44.1	43.8	49.9	43.9	56.4
Adjusted dividend payout ratio (%)	43.3	43.0	42.2	43.2	43.0
Financial Measures and Ratios (%)					
Return on equity	13.6	13.6	12.6	13.6	11.0
Adjusted return on equity	13.9	13.9	14.9	13.9	14.4
Return on tangible common equity	16.4	16.5	15.6	16.5	13.5
Adjusted return on tangible common equity	16.4	16.6	18.0	16.5	17.3
Net income growth	20.1	55.1	(0.1)	35.5	(18.7)
Adjusted net income growth	4.0	8.1	13.1	6.0	2.4
Revenue growth	11.3	15.6	(2.2)	13.5	1.4
Revenue growth, net of CCPB	7.7	6.0	5.0	6.8	1.6
Non-interest expense growth	2.0	4.6	8.4	3.3	4.9
Adjusted non-interest expense growth	10.2	4.5	1.4	7.3	1.9
Efficiency ratio, net of CCPB	63.6	63.6	67.2	63.6	65.8
Adjusted efficiency ratio, net of CCPB	63.0	63.0	61.6	63.0	62.7
Operating leverage, net of CCPB	5.7	1.4	(3.4)	3.5	(3.3)
Adjusted operating leverage, net of CCPB	(2.5)	1.5	3.6	(0.5)	(0.3)
Net interest margin on average earning assets	1.72	1.69	1.63	1.70	1.68
Effective tax rate	20.4	20.4	20.3	20.4	32.7
Adjusted effective tax rate	20.5	20.4	21.2	20.4	20.4
Total PCL-to-average net loans and acceptances (annualized)	0.16	0.13	0.17	0.15	0.16
PCL on impaired loans-to-average net loans and acceptances (annualized)	0.14	0.12	0.18	0.13	0.18
Balance Sheet (as at, \$ millions, except as noted)					
Assets	830,470	806,597	743,593	830,470	743,593
Gross loans and acceptances	436,654	420,761	386,933	436,654	386,933
Net loans and acceptances	434,944	419,133	385,286	434,944	385,286
Deposits	548,837	532,199	491,198	548,837	491,198
Common shareholders' equity	44,705	43,009	39,497	44,705	39,497
Cash and securities-to-total assets ratio (%)	28.2	29.3	28.1	28.2	28.1
Capital Ratios (%)					
CET1 Ratio	11.3	11.4	11.3	11.3	11.3
Tier 1 Capital Ratio	12.7	12.7	12.9	12.7	12.9
Total Capital Ratio	15.0	15.1	15.0	15.0	15.0
Leverage Ratio	4.2	4.2	4.2	4.2	4.2
Foreign Exchange Rates (\$)					
As at Canadian/U.S. dollar	1.3391	1.3131	1.2842	1.3391	1.2842
Average Canadian/U.S. dollar	1.3299	1.3351	1.2858	1.3326	1.2714

(1) Effective the first quarter of 2019, certain dividend income in our Trading Products business has been reclassified from non-interest revenue to net interest income. Results for prior periods and related ratios have been reclassified to conform with the current period's presentation.

(2) Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue. In addition, certain out-of-pocket expenses reimbursed to BMO from customers have been reclassified from a reduction in non-interest expense to non-interest revenue.

Certain comparative figures have been reclassified to conform with the current period's presentation and for changes in accounting policy (see Note 1 of the unaudited interim consolidated financial statements).

Adjusted results are non-GAAP amounts or non-GAAP measures. Please see 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 excludes the impact of certain items as set out in the table below. Results and measures that exclude the impact of Canadian/U.S. dollar exchange rate movements on our U.S. segment are non-GAAP measures (please see the Foreign Exchange section for a discussion of the effects of changes in exchange rates on our results). Management assesses performance on a reported basis and on an adjusted basis and considers both to be useful in assessing underlying ongoing business performance. 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 corresponding adjusted results. Adjusted results and measures are non-GAAP and as such do not have standardized meaning under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from, or as a substitute for, GAAP results.

Non-GAAP Measures

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Reported Results					
Revenue	6,213	6,517	5,580	12,730	11,218
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	(561)	(926)	(332)	(1,487)	(693)
Revenue, net of CCPB	5,652	5,591	5,248	11,243	10,525
Total provision for credit losses	(176)	(137)	(160)	(313)	(301)
Non-interest expense	(3,595)	(3,557)	(3,525)	(7,152)	(6,925)
Income before income taxes	1,881	1,897	1,563	3,778	3,299
Provision for income taxes	(384)	(387)	(317)	(771)	(1,080)
Net income	1,497	1,510	1,246	3,007	2,219
EPS (\$)	2.26	2.28	1.86	4.54	3.29
Adjusting Items (Pre-tax) (1)					
Acquisition integration costs (2)	(2)	(6)	(4)	(8)	(8)
Amortization of acquisition-related intangible assets (3)	(30)	(31)	(29)	(61)	(57)
Restructuring costs (4)	-	-	(260)	-	(260)
Adjusting items included in reported pre-tax income	(32)	(37)	(293)	(69)	(325)
Adjusting Items (After tax) (1)					
Acquisition integration costs (2)	(2)	(4)	(2)	(6)	(5)
Amortization of acquisition-related intangible assets (3)	(23)	(24)	(23)	(47)	(44)
Restructuring costs (4)	-	-	(192)	-	(192)
U.S. net deferred tax asset revaluation (5)	-	-	-	-	(425)
Adjusting items included in reported net income after tax	(25)	(28)	(217)	(53)	(666)
Impact on EPS (\$)	(0.04)	(0.04)	(0.34)	(0.08)	(1.03)
Adjusted Results					
Revenue	6,213	6,517	5,580	12,730	11,218
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	(561)	(926)	(332)	(1,487)	(693)
Revenue, net of CCPB	5,652	5,591	5,248	11,243	10,525
Total provision for credit losses	(176)	(137)	(160)	(313)	(301)
Non-interest expense	(3,563)	(3,520)	(3,232)	(7,083)	(6,600)
Income before income taxes	1,913	1,934	1,856	3,847	3,624
Provision for income taxes	(391)	(396)	(393)	(787)	(739)
Net income	1,522	1,538	1,463	3,060	2,885
EPS (\$)	2.30	2.32	2.20	4.62	4.32

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

(3) These expenses were charged to the non-interest expense of the operating groups. Before-tax and after-tax amounts for each operating group are provided on pages 13, 14, 16, 18 and 20.

(4) In Q2-2018, we recorded a restructuring charge, primarily related to severance, as a result of an ongoing bank-wide initiative to simplify how we work, drive increased efficiency and invest in technology to move our business forward. Restructuring costs are included in non-interest expense in Corporate Services.

(5) Charge related to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cut and Jobs Act*. For more information see the Critical Accounting Estimates – Income Taxes and Deferred Tax Assets section on page 119 of BMO's 2018 Annual Report.

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

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

Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements in this document may include, but are not limited to, statements with respect to our objectives and priorities for fiscal 2019 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, 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. We caution readers of this document not to place undue reliance on our forward-looking statements, as a number of factors – many of which are beyond our control and the effects of which can be difficult to predict – could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; the Canadian housing market; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal, or economic policy and tax legislation and interpretation; the level of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans and to complete and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; changes to our credit ratings; political conditions, including changes relating to or affecting economic or trade matters; global capital markets activities; the possible effects on our business of war or terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; information and cyber security, including the threat of hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please see the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social, and reputation risk, in the Enterprise-Wide Risk Management section which begin on page 78 of BMO's 2018 Annual Report, and the Risk Management section 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 2018 Annual Report under the heading "Economic Developments and Outlook", as updated by the Economic Review and Outlook section set forth in this document. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by governments, historical relationships between economic and financial variables, and the risks to the domestic and global economy. See the following Economic Review and Outlook section.

Economic Review and Outlook

Canada's economy has slowed in response to earlier increases in interest rates and policy measures undertaken to restrain the housing market and credit expansion. Real GDP is expected to increase 1.4% in 2019, down from 1.8% in 2018. This moderate pace will likely keep the unemployment rate stable at a four-decade low of 5.7%. The rate of household consumption growth is projected to moderate to 1.5% in 2019 from 2.1% last year, due to the slowest credit growth since 1983. After weakening last year, housing activity should stabilize in 2019, supported by the fastest growing population in nearly three decades and recent sturdy employment gains. The rate of business investment is projected to improve moderately after contracting in recent quarters, supported by tax incentives. Industry-wide consumer credit is anticipated to increase 3.7% this year, while residential mortgage credit should rise 3.2%. Industry-wide business loans are projected to increase 9.8% in 2019, slowing somewhat from the past three years. Despite support from a continued low-valued Canadian dollar, exports are likely to moderate in response to weaker global demand. Due to the sluggish economy and low inflation, the Bank of Canada is expected to keep its main policy rate steady at 1.75% this year. The economy faces risks related to oil prices and global trade policies, including delayed ratification of the North American trade deal (USMCA). Uncertainty related to the United Kingdom's exit from the European Union (Brexit) is unlikely to have a material adverse impact on the North American economy.

The U.S. economy has moderated in response to less supportive fiscal and monetary policies. Real GDP is expected to expand 2.5% in 2019, down from 2.9% in 2018. Still, the labour market remains healthy and the unemployment rate will likely decline to 3.5% by year-end, near the lowest level in more than half a century. Supported by higher incomes and low debt service costs, consumer spending is expected to increase 2.3% in 2019, encouraging industry-wide consumer credit growth of 3.2%. In response to recent declines in mortgage rates, housing market activity is expected to improve this year, supporting a 3.7% rise in residential mortgage demand. The rate of business investment is expected to slow to 3.7% in 2019 from almost 7% in 2018 due to diminished support from tax reforms and a slower global growth environment. This could result in more moderate industry-wide business credit growth of 7.5%. Continued low inflation should encourage the Federal Reserve to keep its main policy rate steady this year after nine increases since 2015. The main risks to the economic outlook relate to a possible increase in trade protectionism. The trade dispute between the United States and China recently escalated with both countries announcing an increase in tariffs. The U.S. administration is also threatening to impose new tariffs on all other imports from China and is contemplating duties on automobile shipments from Europe and Japan.

The rate of economic expansion in the U.S. Midwest region, which includes the six contiguous states within the BMO footprint, is expected to moderate to 1.7% in 2019 from 2.2% in 2018, in response to less supportive financial conditions, slower automotive production and weaker exports.

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

Foreign Exchange

The table below indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in the rates on our U.S. segment results. References in this document to the impact of the U.S. dollar do not include U.S. dollar-denominated amounts recorded outside of BMO's U.S. segment.

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 revenues, expenses and provisions for (recoveries of) credit losses 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 execute hedging transactions to mitigate the impact of foreign exchange rate movements on net income.

Please refer to the Enterprise-Wide Capital Management section on page 69 of the 2018 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.

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)	Q2-2019		YTD-2019
	vs. Q2-2018	vs. Q1-2019	vs YTD-2018
Canadian/U.S. dollar exchange rate (average)			
Current period	1.3299	1.3299	1.3326
Prior period	1.2858	1.3351	1.2714
Effects on U.S. segment reported results			
Increased net interest income	33	(5)	100
Increased non-interest revenue	28	(3)	69
Increased revenues	61	(8)	169
Increased provision for credit losses	(1)	-	(4)
Increased expenses	(44)	5	(121)
Increased income taxes (1)	(3)	1	(34)
Increased reported net income (1)	13	(2)	10
Impact on earnings per share (\$) (1)	0.02	-	0.01
Effects on U.S. segment adjusted results			
Increased net interest income	33	(5)	100
Increased non-interest revenue	28	(3)	69
Increased revenues	61	(8)	169
Increased provision for credit losses	(1)	-	(4)
Increased expenses	(41)	5	(117)
Increased income taxes	(4)	1	(10)
Increased adjusted net income	15	(2)	38
Impact on adjusted earnings per share (\$)	0.02	-	0.06

(1) Reported net income in the first quarter of 2018 included a \$425 million (US\$339 million) charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*. Results reflect the impact of foreign exchange revaluation of the tax charge.

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

Net Income

Q2 2019 vs. Q2 2018

Net income was \$1,497 million, an increase of \$251 million or 20% from the prior year. Adjusted net income was \$1,522 million and increased \$59 million or 4% from the prior year, or 3% excluding the impact of the stronger U.S. dollar. Adjusted net income excludes a \$192 million after-tax restructuring charge in the prior year and the amortization of acquisition-related intangible assets and acquisition integration costs in both periods. EPS of \$2.26 increased \$0.40 or 22% from the prior year. Adjusted EPS of \$2.30 increased \$0.10 or 5%, or 4% excluding the impact of the stronger U.S. dollar.

Adjusted results largely reflect good performance in our P&C businesses driven by revenue growth. In Wealth Management, insurance net income increased, while traditional wealth was relatively unchanged from the prior year, and BMO Capital Markets net income decreased. Corporate Services net loss was unchanged from the prior year.

Q2 2019 vs. Q1 2019

Net income decreased \$13 million from the prior quarter. Adjusted net income decreased \$16 million or 1%, and was unchanged excluding the impact of the weaker U.S. dollar. Adjusted net income excludes the amortization of acquisition-related intangible assets and acquisition integration costs in both periods. Reported and adjusted EPS decreased \$0.02.

Adjusted results reflect higher net income in Wealth Management, which was more than offset by lower net income in our P&C businesses, primarily due to the impact of three fewer days in the current quarter and higher provisions for credit losses. BMO Capital Markets net income decreased slightly and the Corporate Services net loss was largely unchanged from the prior quarter.

Q2 YTD 2019 vs. Q2 YTD 2018

Net income was \$3,007 million, an increase of \$788 million or 35% from a year ago. Adjusted net income was \$3,060 million, an increase of \$175 million or 6%, or 5% excluding the impact of the stronger U.S. dollar. Reported EPS was \$4.54 and increased \$1.25 or 38%, while adjusted EPS was \$4.62, an increase of \$0.30 or 7%. Adjusted net income excludes a charge related to a U.S. net deferred tax asset revaluation in the first quarter and the restructuring charge in the second quarter of the prior year, as well as the amortization of acquisition-related intangible assets and acquisition integration costs in both periods.

Net income increased in our P&C businesses, with particularly good performance in U.S. P&C. Net income in BMO Capital Markets decreased and Wealth Management net income decreased slightly. Corporate Services reported results increased due to the U.S. net deferred tax asset revaluation charge and restructuring charge in the prior year. Corporate Services adjusted results increased, primarily due to higher revenue excluding teb.

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

Revenue ⁽¹⁾⁽²⁾

Q2 2019 vs. Q2 2018

Revenue of \$6,213 million increased \$633 million or 11% from the prior year. On a basis that nets insurance claims, commissions and changes in policy benefit liabilities (CCPB) against insurance revenue (net revenue), revenue of \$5,652 million increased \$404 million or 8%, or 6% excluding the impact of the stronger U.S. dollar.

Revenue increased across all operating businesses with good performance in our P&C businesses and BMO Capital Markets.

Net interest income of \$3,135 million increased \$469 million or 18%, or \$435 million or 16% excluding the impact of the stronger U.S. dollar. Net interest income excluding trading of \$2,825 million increased \$228 million or 9%, or \$192 million or 7% excluding the impact of the stronger U.S. dollar, largely due to higher deposit revenue and loan volumes across all the operating groups.

Average earning assets of \$749.2 billion increased \$77.6 billion or 12%, or \$68.9 billion or 10% excluding the impact of the stronger U.S. dollar due to loan growth, higher securities and higher securities borrowed or purchased under resale agreements. BMO's overall net interest margin increased 9 basis points, primarily due to higher net interest income from trading activities and higher margin in Canadian P&C, partially offset by a higher volume of lower spread assets. On an excluding trading basis, net interest margin decreased 4 basis points, primarily due to the higher volume of lower spread assets, partially offset by higher margin in Canadian P&C.

Net non-interest revenue of \$2,517 million decreased \$65 million or 3%, or 4% excluding the impact of the stronger U.S. dollar due to lower trading revenue and, to a lesser degree, lower mutual fund revenue, partially offset by higher underwriting and advisory fees and higher lending and insurance revenue.

Gross insurance revenue increased \$250 million from the prior year, mainly due to decreases in long-term interest rates increasing the fair value of investments in the current year compared with increases in long-term interest rates decreasing the fair value of investments in the prior year and stronger equity markets in the current year, partially offset by lower annuity sales. Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets. The investments which support policy benefit liabilities comprise predominantly fixed income and some equity assets. These investments are recorded at fair value with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in CCPB, as discussed on page 9. 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.

Q2 2019 vs. Q1 2019

Revenue decreased \$304 million or 5% from the prior quarter and net revenue increased \$61 million or 1%. BMO Capital Markets revenue increased in both Trading Products and Investment and Corporate Banking, while Wealth Management was higher due to the impact of stronger global equity markets, partially offset by the impact of three fewer days in the quarter. Revenue decreased in our P&C businesses due to fewer days and in Corporate Services.

Net interest income decreased \$37 million or 1% from the prior quarter. On an excluding trading basis, net interest income decreased \$71 million or 2%, mainly due to fewer days, partially offset by higher loan revenue.

Average earning assets of \$749.2 billion increased \$5.1 billion or 1% due to loan growth, higher securities borrowed or purchased under resale agreements and higher securities, partially offset by lower cash resources. BMO's overall net interest margin increased 3 basis points, primarily due to higher income from trading activities. Excluding trading, net interest margin was unchanged.

Net non-interest revenue increased \$98 million or 4%, with increases in most non-interest revenue categories.

Gross insurance revenue decreased \$339 million from the prior quarter, mainly due to lower annuity sales, partially offset by stronger equity markets. The decrease in insurance revenue was largely offset by lower insurance claims, commissions and changes in policy benefit liabilities as discussed on page 9.

Q2 YTD 2019 vs. Q2 YTD 2018

Reported revenue increased \$1,512 million or 13% to \$12,730 million from the prior year. On a net basis, revenue of \$11,243 million increased \$718 million or 7%, or 5% excluding the impact of the stronger U.S. dollar.

Revenue increased in our P&C businesses and in BMO Capital Markets. Wealth Management revenue was relatively unchanged.

Net interest income of \$6,307 million increased \$766 million or 14%, or \$665 million or 12% excluding the impact of the stronger U.S. dollar. On an excluding trading basis, net interest income of \$5,721 million increased \$491 million or 9%, or \$392 million or 8% excluding the impact of the stronger U.S. dollar, largely due to higher deposit revenue and loan volumes across all the operating groups.

(1) Effective the first quarter of 2019, certain dividend income in our Trading Products business has been reclassified from non-interest revenue to net interest income. Results for prior periods and related ratios have been reclassified to conform to the current period's presentation.

(2) Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue. In addition, certain out-of-pocket expenses reimbursed to BMO from customers have been reclassified from a reduction in non-interest expense to non-interest revenue.

Average earning assets of \$746.7 billion increased \$83.0 billion or 13%, or \$71.2 billion or 11% excluding the impact of the stronger U.S. dollar due to loan growth, higher securities, higher securities borrowed or purchased under resale agreements and increased cash resources. BMO's overall net interest margin increased 2 basis points, primarily due to higher net interest income from trading activities and higher margin in Canadian P&C, partially offset by a higher volume of lower spread assets. Excluding trading, BMO's net interest margin decreased 6 basis points, primarily due to a higher volume of lower spread assets, partially offset by higher margin in Canadian P&C.

Net non-interest revenue of \$4,936 million decreased \$48 million or 1%, or 2% excluding the impact of the stronger U.S. dollar due to decreases in trading and mutual fund revenue, partially offset by higher lending, underwriting and advisory and card revenue.

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

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

Provision for Credit Losses

Q2 2019 vs. Q2 2018

Total provision for credit losses was \$176 million, an increase of \$16 million from the prior year. The provision for credit losses on impaired loans of \$150 million decreased \$22 million from \$172 million in the prior year, primarily due to lower provisions in our U.S. P&C business, largely resulting from a recovery on a commercial loan. There was a \$26 million provision for credit losses on performing loans in the current quarter compared with a recovery of credit losses of \$12 million in the prior year. The \$26 million provision for credit losses on performing loans was primarily due to portfolio growth, with smaller increases attributable to credit quality movements and changes in macroeconomic outlook.

Q2 2019 vs. Q1 2019

Total provision for credit losses increased \$39 million from the prior quarter. The provision for credit losses on impaired loans increased \$23 million to \$150 million, largely due to increases in Canadian P&C and BMO Capital Markets. There was a \$26 million provision for credit losses on performing loans in the current quarter compared with a \$10 million provision for credit losses on performing loans in the prior quarter.

Q2 YTD 2019 vs. Q2 YTD 2018

Total provision for credit losses was \$313 million, an increase of \$12 million from the prior year. The provision for credit losses on impaired loans decreased \$69 million due to lower provisions in the U.S. P&C business, primarily as a result of recoveries in the current year, partially offset by a provision in BMO Capital Markets compared with a net recovery in the prior year. There was a \$36 million provision for credit losses on performing loans in the current year compared with a recovery of \$45 million in the prior year.

Provision for Credit Losses by Operating Group

(Canadian \$ in millions)	Canadian P&C	U.S. P&C	Total P&C	Wealth Management	BMO Capital Markets	Corporate Services	Total Bank
Q2-2019							
Provision for (recovery of) credit losses on impaired loans	122	18	140	(1)	12	(1)	150
Provision for (recovery of) credit losses on performing loans	16	5	21	1	3	1	26
Total provision for (recovery of) credit losses	138	23	161	-	15	-	176
Q1-2019							
Provision for (recovery of) credit losses on impaired loans	114	15	129	2	1	(5)	127
Provision for (recovery of) credit losses on performing loans	6	(9)	(3)	-	14	(1)	10
Total provision for (recovery of) credit losses	120	6	126	2	15	(6)	137
Q2-2018							
Provision for (recovery of) credit losses on impaired loans	131	66	197	1	(16)	(10)	172
Provision for (recovery of) credit losses on performing loans	(3)	(12)	(15)	(1)	3	1	(12)
Total provision for (recovery of) credit losses	128	54	182	-	(13)	(9)	160
YTD-2019							
Provision for (recovery of) credit losses on impaired loans	236	33	269	1	13	(6)	277
Provision for (recovery of) credit losses on performing loans	22	(4)	18	1	17	-	36
Total provision for (recovery of) credit losses	258	29	287	2	30	(6)	313
YTD-2018							
Provision for (recovery of) credit losses on impaired loans	228	143	371	2	(17)	(10)	346
Provision for (recovery of) credit losses on performing loans	1	(42)	(41)	(3)	(1)	-	(45)
Total provision for (recovery of) credit losses	229	101	330	(1)	(18)	(10)	301

Provision for Credit Losses Performance Ratios

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Total PCL-to-average net loans and acceptances (annualized) (%)	0.16	0.13	0.17	0.15	0.16
PCL on impaired loans-to-average net loans and acceptances (annualized) (%)	0.14	0.12	0.18	0.13	0.18

Impaired Loans

Total gross impaired loans (GIL) were \$2,335 million at the end of the current quarter, up from \$2,152 million in the prior year with the largest increase in impaired loans in oil and gas, as well as wholesale trade. GIL increased \$316 million from \$2,019 million in the first quarter of 2019.

Factors contributing to the change in GIL are outlined in the table below. Loans classified as impaired during the quarter totalled \$741 million, up from \$467 million in the first quarter of 2019 and up from \$578 million in the prior year.

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

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
GIL, beginning of period	2,019	1,936	2,149	1,936	2,220
Classified as impaired during the period	741	467	578	1,208	1,113
Transferred to not impaired during the period	(127)	(125)	(193)	(252)	(369)
Net repayments	(212)	(137)	(271)	(349)	(515)
Amounts written-off	(112)	(119)	(161)	(231)	(284)
Recoveries of loans and advances previously written-off	-	-	-	-	-
Disposals of loans	-	-	(6)	-	(6)
Foreign exchange and other movements	26	(3)	56	23	(7)
GIL, end of period	2,335	2,019	2,152	2,335	2,152
GIL to gross loans and acceptances (%)	0.53	0.48	0.56	0.53	0.56

(1) GIL excludes purchased credit impaired loans.

Insurance Claims, Commissions and Changes in Policy Benefit Liabilities

Insurance claims, commissions and changes in policy benefit liabilities (CCPB) were \$561 million in the second quarter of 2019, an increase of \$229 million from \$332 million in the second quarter of 2018, due to the impact of decreases in long-term interest rates increasing the fair value of policy benefit liabilities in the current year compared with increases in long-term interest rates decreasing the fair value of policy benefit liabilities in the prior year and the impact of stronger equity markets in the current year, partially offset by the impact of lower annuity sales. CCPB decreased \$365 million from \$926 million in the first quarter of 2019, due to the impact of lower annuity sales in the current quarter, partially offset by the impact of stronger equity markets in the current quarter. The changes related to the fair value of policy benefit liabilities and annuity sales were largely offset in revenue.

Non-Interest Expense

Reported non-interest expense of \$3,595 million increased \$70 million or 2% from the prior year. Adjusted non-interest expense of \$3,563 million increased \$331 million or 10%, or 9% excluding the impact of the stronger U.S. dollar. BMO Capital Markets severance expense and KGS-Alpha acquisition accounted for approximately half of the year-over-year increase. The remainder of the increase was driven primarily by higher technology and employee-related costs in the current quarter. Adjusted non-interest expense excludes a restructuring charge in the second quarter of 2018, and acquisition integration costs and the amortization of acquisition-related intangible assets in both periods.

Reported non-interest expense increased \$38 million or 1% from the prior quarter. Adjusted non-interest expense increased \$43 million or 1% from the prior quarter, as lower stock-based compensation for employees eligible to retire that is expensed in the first quarter of each year and the impact of three fewer days in the current quarter were more than offset by severance expense, higher other expenses and technology costs. Adjusted non-interest expense excludes acquisition integration costs and the amortization of acquisition-related intangible assets in both periods.

Year-to-date reported non-interest expense increased \$227 million or 3% from the prior year and adjusted non-interest expense increased \$483 million or 7%, or 5% excluding the impact of the stronger U.S. dollar. The severance expense and impact of the acquisition accounted for approximately half of the year-to-date increase. The remainder of the increase was primarily driven by higher technology costs and employee-related costs in the current year. Adjusted non-interest expense excludes a restructuring charge in the second quarter of 2018, and acquisition integration costs and the amortization of acquisition-related intangible assets in both periods.

Reported operating leverage on a net revenue basis was positive 5.7% compared with negative 3.4% in the prior year. Adjusted operating leverage on a net revenue basis was negative 2.5% compared with positive 3.6%. The BMO Capital Markets severance had a negative 3.7% impact on adjusted operating leverage.

The reported efficiency ratio was 57.9% compared with 63.2% in the prior year and was 63.6% on a net revenue basis compared with 67.2% in the prior year. The adjusted efficiency ratio was 57.3% compared with 57.9% in the prior year and 63.0% on a net revenue basis compared with 61.6% 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 see the Non-GAAP Measures Section.

Income Taxes

The provision for income taxes was \$384 million, an increase of \$67 million from the second quarter of 2018 and a decrease of \$3 million from the first quarter of 2019. The effective tax rate for the quarter was 20.4% compared with 20.3% in the prior year and 20.4% in the first quarter of 2019.

The adjusted provision for income taxes was \$391 million, a decrease of \$2 million from the prior year and \$5 million from the first quarter of 2019. The adjusted effective tax rate was 20.5% in the current quarter compared with 21.2% in the prior year and 20.4% in the first quarter of 2019. The higher adjusted tax rate in the second quarter of 2018 relative to this quarter was due to lower tax-exempt income from securities.

On a taxable equivalent basis (teb), the reported effective tax rate for the quarter was 23.6% compared with 23.3% in the prior year and 23.1% in the first quarter of 2019. On a teb basis, the adjusted effective tax rate for the quarter was 23.6% compared with 23.7% in the prior year and 23.1% in the first quarter of 2019.

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

Capital Management

Second Quarter 2019 Regulatory Capital Review

BMO's Common Equity Tier 1 (CET1) Ratio was 11.3% at April 30, 2019.

The CET1 Ratio decreased from 11.4% at the end of the first quarter as retained earnings growth was more than offset by strong business growth and a small impact from other changes in CET1 Capital.

CET1 Capital was \$34.8 billion at April 30, 2019, up from \$33.7 billion at January 31, 2019, and \$32.7 billion at October 31, 2018, mainly due to higher retained earnings and the impact of foreign exchange movements on accumulated other comprehensive income, which were partially offset by higher net deductions.

Risk-Weighted Assets (RWA) were \$308.8 billion at April 30, 2019, up from \$297.0 billion at January 31, 2019, and \$289.2 billion at October 31, 2018, driven by strong business growth and the impact of foreign exchange movements.

The bank's Tier 1 and Total Capital Ratios were 12.7% and 15.0%, respectively, at April 30, 2019, compared with 12.7% and 15.1%, respectively, at January 31, 2019. The Tier 1 Capital Ratio was unchanged as the factors impacting the CET1 Ratio were largely offset by the preferred shares issuance. The Total Capital Ratio was lower mainly due to higher RWA, as discussed above. The Tier 1 and Total Capital Ratios were 12.9% and 15.2%, respectively, at October 31, 2018. The April 30, 2019, Tier 1 and Total Capital Ratios were lower compared with October 31, 2018, mainly due to higher RWA.

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 bank's capital ratios. BMO may manage the impact of foreign exchange movements on its capital ratios and did so during the second quarter. Any such activities could also impact our book value and return on equity.

BMO's Basel III Leverage Ratio was 4.2% at April 30, 2019, consistent with January 31, 2019, and October 31, 2018.

Regulatory Developments

In April 2019, the Office of the Superintendent of Financial Institutions (OSFI) released the final version of the Large Exposure Limits Guideline for implementation by Canadian Domestic Systemically Important Banks (D-SIBs) in the first quarter of fiscal 2020.

In January 2019, the Basel Committee on Banking Supervision (BCBS) issued final standards on the Minimum Capital Requirements for Market Risk (the Final Market Risk Framework) to address the outstanding design and calibration issues of the 2016 framework and provide further clarity to facilitate its implementation. The Final Market Risk Framework is expected to take effect on January 1, 2022, concurrent with the implementation of the final Basel III reforms published in December 2017. OSFI issued a discussion paper in July 2018 setting out its preliminary views on scope and timing of implementation of the final Basel III reforms in Canada. The requirements, which are expected to be implemented in the first quarter of fiscal 2022, have the potential to put upward pressure on the amount of capital we are required to hold. We continue to engage with OSFI as it works to finalize the approach to domestic implementation.

In December 2018, OSFI set the level of the Domestic Stability Buffer (DSB), applicable to D-SIBs, at 1.75%, up from 1.5%, effective April 30, 2019. The increase reflects OSFI's assessment of identified systemic vulnerabilities, including Canadian consumer indebtedness, asset imbalances in the Canadian market, and Canadian institutional indebtedness. The DSB, which is met with CET1 capital, can be set between 0% and 2.5% of total RWA.

In November 2018, OSFI implemented its revised Capital Adequacy Requirements (CAR) Guideline. The main revisions include the domestic implementation of the standardized approach for counterparty credit risk (SA-CCR) and the revised capital requirements for bank exposures to central counterparties, as well as a revised securitization framework. These changes resulted in a modest increase to the amount of capital we are required to hold. In November 2018, OSFI also implemented the revised Leverage Requirements Guideline to align with the changes for counterparty credit risk and the securitization framework in the revised CAR Guideline.

The Canadian Bail-In Regime, including OSFI's Total Loss Absorbing Capacity (TLAC) Guideline, came into effect on September 23, 2018. Under this regime, the bank is required to meet target TLAC requirements by November 1, 2021. The targets are currently set at a risk-based TLAC ratio of 23.25% RWA and a TLAC leverage ratio of 6.75%, which we expect to comfortably meet when effective. Since September 2018, BMO has issued over \$9 billion in TLAC-eligible funding, including a US\$1.75 billion inaugural bail-in debt transaction which closed on February 5, 2019.

In April 2019, the U.S. Federal Reserve Board issued for comment notices of proposed rulemaking on the tailoring of prudential standards for foreign banking organizations (FBOs) and revisions to resolution plan requirements for large domestic banks and FBOs. The FBO proposal establishes four categories of capital and liquidity requirements based on a firm's risk profile.

For a more detailed discussion of regulatory developments, see the Enterprise-Wide Capital Management section on pages 69 to 75, the Liquidity and Funding Risk section on pages 100 to 108 and the Legal and Regulatory Risk section on pages 112 to 114 of BMO's 2018 Annual Report.

Regulatory Capital

Regulatory capital requirements for BMO are determined in accordance with OSFI's CAR Guideline, which is based on the capital standards developed by the BCBS. For more information see the Enterprise-Wide Capital Management section on pages 69 to 75 of BMO's 2018 Annual Report.

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

(% of risk-weighted assets)	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 April 30, 2019
Common Equity Tier 1 Ratio	4.5%	3.5%	1.75%	9.75%	11.3%
Tier 1 Capital Ratio	6.0%	3.5%	1.75%	11.25%	12.7%
Total Capital Ratio	8.0%	3.5%	1.75%	13.25%	15.0%
Leverage Ratio	3.0%	na	na	3.0%	4.2%

- (1) The minimum 4.5% CET1 Ratio requirement is augmented by the 3.5% Total Pillar 1 Capital Buffers, which can absorb losses during periods of stress. The Pillar 1 Capital Buffers for BMO include a 2.5% Capital Conservation Buffer, a 1.0% Common Equity Surcharge for D-SIBs and a Countercyclical Buffer as prescribed by OSFI (not material for the second quarter of 2019). 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 1.75%. Breaches of the DSB will not result in a bank being subject to automatic constraints on capital distributions.

na – not applicable

Regulatory Capital Position

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q4-2018
Gross common equity (1)	44,705	43,009	41,387
Regulatory adjustments applied to common equity	(9,929)	(9,283)	(8,666)
Common Equity Tier 1 Capital (CET1)	34,776	33,726	32,721
Additional Tier 1 eligible capital (2)	4,690	4,340	4,790
Regulatory adjustments applied to Tier 1	(219)	(219)	(291)
Additional Tier 1 Capital (AT1)	4,471	4,121	4,499
Tier 1 Capital (T1 = CET1 + AT1)	39,247	37,847	37,220
Tier 2 eligible capital (3)	7,140	7,068	7,017
Regulatory adjustments applied to Tier 2	(79)	(126)	(121)
Tier 2 Capital (T2)	7,061	6,942	6,896
Total Capital (TC = T1 + T2)	46,308	44,789	44,116
Risk-weighted Assets and Leverage Ratio Exposures (4)(5)			
CET1 Capital Risk-Weighted Assets	308,844	296,987	289,237
Tier 1 Capital Risk-Weighted Assets	308,844	296,987	289,420
Total Capital Risk-Weighted Assets	308,844	296,987	289,604
Leverage Ratio Exposures	931,500	902,532	876,106
Capital Ratios (%)			
CET1 Ratio	11.3	11.4	11.3
Tier 1 Capital Ratio	12.7	12.7	12.9
Total Capital Ratio	15.0	15.1	15.2
Leverage Ratio	4.2	4.2	4.2

- (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 directly and indirectly issued qualifying Tier 2 instruments.
- (4) For institutions using advanced approaches for credit risk or operational risk, there is a capital floor as prescribed in OSFI's CAR Guideline. OSFI revised its capital floor approach effective Q2 2018, which included a shift from Basel I to the Basel II standardized approach and a reduction in the floor factor.
- (5) The Credit Valuation Adjustment (CVA) was fully phased in starting Q1-2019. The applicable scalars for CET1, Tier 1 Capital and Total Capital were 80%, 83% and 86%, respectively, in fiscal 2018.

Outstanding Shares and Securities Convertible into Common Shares

As at April 30, 2019	Number of shares or dollar amount (in millions)
Common shares	638.8
Class B Preferred shares	
Series 25	\$236
Series 26	\$54
Series 27	\$500
Series 29	\$400
Series 31	\$300
Series 33	\$200
Series 35	\$150
Series 36	\$600
Series 38	\$600
Series 40	\$500
Series 42	\$400
Series 44	\$400
Series 46	\$350
Medium-Term Notes (1)	
Series H - First Tranche	\$1,000
Series H - Second Tranche	\$1,000
Series I - First Tranche	\$1,250
Series I - Second Tranche	\$850
3.803% Subordinated Notes due 2032	US\$1,250
4.338% Subordinated Notes due 2028	US\$850
Stock options	
Vested	4.0
Non-vested	2.6

(1) Details on the Medium-Term Notes are outlined in Note 15 to the audited consolidated financial statements on page 181 of BMO's 2018 Annual Report.

Details on share capital are outlined in Note 7 to the unaudited interim consolidated financial statements and Note 16 to the audited annual consolidated financial statements on page 182 of BMO's 2018 Annual Report.

Other Capital Developments

As previously announced, subject to receiving Toronto Stock Exchange approval, we will establish a new normal course issuer bid (NCIB) that will permit us to purchase for cancellation up to 15 million common shares over a 12-month period, commencing on or about June 3, 2019. The NCIB is a regular part of BMO's capital management strategy. The timing and amount of purchases under the NCIB are subject to regulatory approvals and to management discretion, based on factors such as market conditions and capital levels. We will consult with OSFI before making purchases under the bid.

During the quarter, 357,233 common shares were issued through the exercise of stock options.

On May 15, 2019, BMO announced the conversion results of its Non-Cumulative 5-Year Rate Reset Class B Preferred Shares Series 27 (Preferred Shares Series 27). During the conversion period, which ran from April 25, 2019, to May 10, 2019, 412,564 Preferred Shares Series 27 were tendered for conversion into Non-Cumulative 5-Year Rate Reset Class B Preferred Shares Series 28 (Preferred Shares Series 28), which is less than the minimum 1,000,000 required to give effect to the conversion, as described in the Preferred Shares Series 27 prospectus supplement dated April 16, 2014. As a result, no Preferred Shares Series 28 will be issued and holders of Preferred Shares Series 27 will retain their shares. The dividend rate for the Preferred Shares Series 27 for the five year period commencing on May 25, 2019, and ending on May 24, 2024, will be 3.852%.

On April 17, 2019, we completed our domestic public offering of \$350 million Non-Cumulative 5-Year Rate Reset Class B Preferred Shares Series 46.

On December 31, 2018, BMO Capital Trust II redeemed all of its issued and outstanding BMO Tier 1 Notes - Series A at a redemption amount equal to \$1,000 for an aggregate redemption of \$450 million, plus accrued and unpaid interest to but excluding the redemption date.

Dividends

On May 29, 2019, BMO announced that the Board of Directors had declared a quarterly dividend on common shares of \$1.03 per share, up \$0.03 per share or 3% from the preceding quarter, and up \$0.07 per share or 7% from the prior year. The dividend is payable on August 27, 2019, to shareholders of record on August 1, 2019. Common shareholders may elect to have their cash dividends reinvested in common shares of BMO, in accordance with the Shareholder Dividend Reinvestment and Share Purchase Plan.

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

Caution

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

Review of Operating Groups' Performance

How BMO Reports Operating Group Results

The following sections review the financial results of each of our operating groups and operating segments for the second quarter of 2019.

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

The bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), effective November 1, 2018, and elected to retrospectively present prior periods as if IFRS 15 had always been applied. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue. In addition, when customers reimburse us for certain out-of-pocket expenses incurred on their behalf, we will record the reimbursement in revenue. Previously, these reimbursements were recorded as a reduction in the related expense.

Effective the first quarter of 2019, certain dividend income in our Trading Products business has been reclassified from non-interest revenue to net interest income. Results for prior periods and related ratios have been reclassified to conform to the current period's presentation.

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

Personal and Commercial Banking (P&C)

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Net interest income (teb)	2,442	2,492	2,274	4,934	4,557
Non-interest revenue (1)	795	800	761	1,595	1,552
Total revenue (teb) (1)	3,237	3,292	3,035	6,529	6,109
Provision for credit losses on impaired loans	140	129	197	269	371
Provision for (recovery of) credit losses on performing loans	21	(3)	(15)	18	(41)
Total provision for credit losses	161	126	182	287	330
Non-interest expense (1)	1,727	1,729	1,620	3,456	3,267
Income before income taxes	1,349	1,437	1,233	2,786	2,512
Provision for income taxes (teb)	328	346	297	674	620
Reported net income	1,021	1,091	936	2,112	1,892
Amortization of acquisition-related intangible assets (2)	11	11	12	22	23
Adjusted net income	1,032	1,102	948	2,134	1,915
Net income growth (%)	9.0	14.2	22.0	11.6	8.1
Adjusted net income growth (%)	8.9	14.0	21.5	11.5	7.9
Revenue growth (%)	6.6	7.1	7.0	6.9	3.7
Non-interest expense growth (%)	6.6	5.0	2.2	5.8	2.3
Adjusted non-interest expense growth (%)	6.7	5.1	2.3	5.9	2.5
Return on equity (%)	17.6	18.3	18.2	18.0	18.3
Adjusted return on equity (%)	17.8	18.5	18.4	18.2	18.5
Operating leverage (teb) (%)	-	2.1	4.8	1.1	1.4
Adjusted operating leverage (teb) (%)	(0.1)	2.0	4.7	1.0	1.2
Efficiency ratio (teb) (%)	53.4	52.5	53.3	52.9	53.5
Adjusted efficiency ratio (teb) (%)	52.9	52.1	52.8	52.5	53.0
Net interest margin on average earning assets (teb) (%)	2.96	2.99	2.97	2.97	2.96
Average earning assets	338,178	331,271	313,568	334,667	310,641
Average gross loans and acceptances	346,240	338,318	318,262	342,214	314,942
Average net loans and acceptances	344,666	336,756	316,712	340,646	313,479
Average deposits	276,391	272,960	248,013	274,647	245,223

(1) Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue.

(2) Total P&C before tax amounts of \$14 million in Q2-2019, \$15 million in both Q1-2019 and Q2-2018; \$29 million for YTD-2019 and \$30 million for YTD-2018 are included in non-interest expense.

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

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 of \$1,021 million and adjusted net income of \$1,032 million both increased 9% from the prior year, or 8% and 7% respectively, excluding the impact of the stronger U.S. dollar. Adjusted net income excludes the amortization of acquisition-related intangible assets. These operating segments are reviewed separately in the sections that follow.

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

Canadian Personal and Commercial Banking (Canadian P&C)

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Net interest income	1,407	1,433	1,338	2,840	2,718
Non-interest revenue (1)	514	521	492	1,035	1,015
Total revenue (1)	1,921	1,954	1,830	3,875	3,733
Provision for credit losses on impaired loans	122	114	131	236	228
Provision for (recovery of) credit losses on performing loans	16	6	(3)	22	1
Total provision for credit losses	138	120	128	258	229
Non-interest expense (1)	952	961	909	1,913	1,847
Income before income taxes	831	873	793	1,704	1,657
Provision for income taxes	216	226	205	442	423
Reported net income	615	647	588	1,262	1,234
Amortization of acquisition-related intangible assets (2)	-	1	1	1	1
Adjusted net income	615	648	589	1,263	1,235
Personal revenue	1,211	1,220	1,187	2,431	2,435
Commercial revenue	710	734	643	1,444	1,298
Net income growth (%)	4.5	0.2	11.2	2.3	(2.8)
Revenue growth (%)	4.9	2.7	7.6	3.8	2.2
Non-interest expense growth (%)	4.7	2.5	4.8	3.6	5.6
Adjusted non-interest expense growth (%)	4.7	2.5	4.8	3.6	5.6
Return on equity (%)	26.8	27.6	29.3	27.2	30.2
Adjusted return on equity (%)	26.8	27.6	29.3	27.2	30.2
Operating leverage (%)	0.2	0.2	2.8	0.2	(3.4)
Adjusted operating leverage (%)	0.2	0.2	2.8	0.2	(3.4)
Efficiency ratio (%)	49.6	49.2	49.7	49.4	49.5
Net interest margin on average earning assets (%)	2.61	2.61	2.59	2.61	2.59
Average earning assets	220,624	217,917	211,840	219,248	211,345
Average gross loans and acceptances	234,853	230,682	222,153	232,733	221,155
Average net loans and acceptances	233,976	229,817	221,296	231,862	220,305
Average deposits	171,151	168,150	158,032	169,625	157,788

(1) Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied.

As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue.

(2) Before tax amounts of \$nil in Q2-2019, \$1 million in both Q1-2019 and Q2-2018; \$1 million for both YTD-2019 and YTD-2018 are included in non-interest expense.

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

Q2 2019 vs. Q2 2018

Canadian P&C reported net income of \$615 million increased \$27 million or 5% and adjusted net income of \$615 million increased \$26 million or 5% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Results reflect good revenue growth, partially offset by higher expenses and higher provisions for credit losses.

Revenue of \$1,921 million increased \$91 million or 5% from the prior year, primarily due to higher balances across most products, increased non-interest revenue and higher margins. Net interest margin of 2.61% was up 2 basis points due to the benefit of higher rates and a favourable product mix.

Personal revenue increased \$24 million or 2% due to higher balances across most products. Commercial revenue increased \$67 million or 10%, mainly due to higher balances across most products, increased non-interest revenue and higher margins.

Total provision for credit losses of \$138 million increased \$10 million from the prior year. The provision for credit losses on impaired loans decreased \$9 million to \$122 million, with lower consumer provisions, partially offset by marginally higher commercial provisions. There was a \$16 million provision for credit losses on performing loans in the current quarter compared with a \$3 million recovery of credit losses on performing loans in the prior year.

Non-interest expense of \$952 million increased \$43 million or 5% reflecting investment in the business, including technology and sales force investments.

Average gross loans and acceptances of \$234.9 billion increased \$12.7 billion or 6% from the prior year. Total personal lending balances (excluding retail cards) increased 1%, including 4% growth in proprietary mortgages and amortizing home equity line of credit (HELOC) loans. Commercial loan balances (excluding corporate cards) increased 15%. Average deposits of \$171.2 billion increased \$13.1 billion or 8%. Personal deposit balances increased 9% and commercial deposit balances increased 7%.

Q2 2019 vs. Q1 2019

Reported net income decreased \$32 million or 5% and adjusted net income decreased \$33 million or 5% from the prior quarter.

Revenue decreased \$33 million or 2%, primarily due to the impact of three fewer days in the current quarter and lower non-interest revenue, partially offset by higher margins and higher balances across most products. Net interest margin of 2.61% remained unchanged from the prior quarter.

Personal revenue decreased \$9 million or 1%, mainly due to fewer days, partially offset by higher margins and increased non-interest revenue. Commercial revenue decreased \$24 million or 3%, mainly due to fewer days and lower non-interest revenue, partially offset by higher balances across most products.

Total provision for credit losses increased \$18 million. The provision for credit losses on impaired loans increased \$8 million due to higher commercial and consumer provisions in the current quarter. There was a \$16 million provision for credit losses on performing loans in the current quarter compared with a \$6 million provision for credit losses on performing loans in the prior quarter.

Non-interest expense decreased \$9 million or 1%, primarily due to fewer days in the current quarter.

Average gross loans and acceptances increased \$4.2 billion or 2% and average deposits increased \$3.0 billion or 2%.

Q2 YTD 2019 vs. Q2 YTD 2018

Reported net income of \$1,262 million and adjusted net income of \$1,263 million both increased \$28 million or 2% year-to-date.

Revenue of \$3,875 million increased \$142 million or 4% from the prior year, primarily due to higher balances across most products and higher non-interest revenue, net of a gain related to the restructuring of Interac Corporation in the prior year. Net interest margin of 2.61% was up 2 basis points due to a favourable product mix and the benefit of higher rates.

Personal revenue was relatively unchanged from the prior year, largely due to the benefit of higher balances in most products offset by the gain in the prior year. Commercial revenue increased \$146 million or 11% due to higher balances across most products, increased non-interest revenue and higher margins.

Total provision for credit losses of \$258 million increased \$29 million. The provision for credit losses on impaired loans increased \$8 million to \$236 million, primarily due to higher commercial provisions. There was a \$22 million provision for credit losses on performing loans in the current year compared with a \$1 million provision for credit losses on performing loans in the prior year.

Non-interest expense of \$1,913 million increased \$66 million or 4% reflecting investment in the business, primarily in our technology and sales force, partially offset by a legal reserve in the prior year.

Average gross loans and acceptances increased \$11.6 billion or 5% and average deposits increased \$11.8 billion or 8%.

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)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Net interest income (teb)	779	793	729	1,572	1,447
Non-interest revenue (1)	211	209	210	420	423
Total revenue (teb) (1)	990	1,002	939	1,992	1,870
Provision for credit losses on impaired loans	13	12	51	25	113
Provision for (recovery of) credit losses on performing loans	4	(7)	(9)	(3)	(34)
Total provision for credit losses	17	5	42	22	79
Non-interest expense (1)	583	575	552	1,158	1,116
Income before income taxes	390	422	345	812	675
Provision for income taxes (teb)	84	90	74	174	157
Reported net income	306	332	271	638	518
Amortization of acquisition-related intangible assets (2)	8	8	8	16	17
Adjusted net income	314	340	279	654	535
Personal revenue	335	341	303	676	604
Commercial revenue	654	662	635	1,316	1,266
Net income growth (%)	12.7	34.3	52.2	23.0	43.8
Adjusted net income growth (%)	12.1	33.0	49.7	22.1	41.6
Revenue growth (%)	5.5	7.6	10.6	6.5	11.4
Non-interest expense growth (%)	5.4	2.1	3.3	3.7	3.3
Adjusted non-interest expense growth (%)	5.7	2.3	3.5	3.9	3.5
Return on equity (%)	11.6	12.3	11.1	11.9	10.5
Adjusted return on equity (%)	11.9	12.6	11.5	12.2	10.9
Operating leverage (teb) (%)	0.1	5.5	7.3	2.8	8.1
Adjusted operating leverage (teb) (%)	(0.2)	5.3	7.1	2.6	7.9
Efficiency ratio (teb) (%)	58.9	57.4	58.9	58.1	59.7
Adjusted efficiency ratio (teb) (%)	57.8	56.3	57.7	57.1	58.5
Net interest margin on average earning assets (teb) (%)	3.61	3.71	3.77	3.66	3.74
Average earning assets	88,389	84,901	79,118	86,616	78,093
Average gross loans and acceptances	83,750	80,617	74,747	82,158	73,760
Average net loans and acceptances	83,225	80,095	74,208	81,635	73,278
Average deposits	79,131	78,490	69,982	78,805	68,763

(Canadian \$ equivalent in millions)

Net interest income (teb)	1,035	1,059	936	2,094	1,839
Non-interest revenue (1)	281	279	269	560	537
Total revenue (teb) (1)	1,316	1,338	1,205	2,654	2,376
Provision for credit losses on impaired loans	18	15	66	33	143
Provision for (recovery of) credit losses on performing loans	5	(9)	(12)	(4)	(42)
Total provision for credit losses	23	6	54	29	101
Non-interest expense (1)	775	768	711	1,543	1,420
Income before income taxes	518	564	440	1,082	855
Provision for income taxes (teb)	112	120	92	232	197
Reported net income	406	444	348	850	658
Adjusted net income	417	454	359	871	680
Net income growth (%)	16.6	43.3	45.7	29.2	36.9
Adjusted net income growth (%)	16.0	41.9	43.3	28.2	34.8
Revenue growth (%)	9.1	14.3	6.0	11.7	6.1
Non-interest expense growth (%)	9.0	8.3	(1.0)	8.7	(1.6)
Adjusted non-interest expense growth (%)	9.3	8.5	(0.8)	8.9	(1.4)
Average earning assets	117,554	113,354	101,728	115,419	99,296
Average gross loans and acceptances	111,387	107,636	96,109	109,481	93,787
Average net loans and acceptances	110,690	106,939	95,416	108,784	93,174
Average deposits	105,240	104,810	89,981	105,022	87,435

(1) Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied.

As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue.

(2) Before tax amounts of US\$11 million in Q2-2019, US\$10 million in Q1-2019 and US\$11 million in Q2-2018; US\$21 million for YTD-2019 and US\$23 million for YTD-2018 are included in non-interest expense.

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

Q2 2019 vs. Q2 2018

U.S. P&C reported net income of \$406 million increased \$58 million or 17% and adjusted net income of \$417 million increased \$58 million or 16% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income of \$306 million increased \$35 million or 13% and adjusted net income of \$314 million increased \$35 million or 12% from the prior year, largely due to good revenue growth and lower provisions for credit losses, partially offset by higher expenses.

Revenue of \$990 million increased \$51 million or 5% from the prior year, mainly due to higher deposit revenue and increased loan volumes, net of loan spread compression. Net interest margin decreased 16 basis points largely due to loan spread compression.

Personal revenue increased \$32 million or 11% due to higher deposit revenue. Commercial revenue increased \$19 million or 3% due to increased loan volumes and higher deposit revenue, net of loan spread compression.

Total provision for credit losses of \$17 million decreased \$25 million from the prior year. The provision for credit losses on impaired loans decreased \$38 million to \$13 million, largely due to a recovery on a commercial loan, as well as lower consumer provisions. There was a \$4 million provision for credit losses on performing loans in the current quarter compared with a \$9 million recovery of credit losses on performing loans in the prior year.

Non-interest expense of \$583 million increased \$31 million or 5% and adjusted non-interest expense of \$572 million increased \$31 million or 6%, primarily due to higher employee-related expenses and technology investments, partially offset by lower Federal Deposit Insurance Corporation insurance expense.

Average gross loans and acceptances of \$83.7 billion increased \$9.0 billion or 12% from the prior year driven by commercial loan growth of 15% and increased personal loan volumes. Average deposits of \$79.1 billion increased \$9.1 billion or 13% from the prior year, with 14% growth in personal and 12% growth in commercial volumes.

Q2 2019 vs. Q1 2019

Reported net income decreased \$38 million or 9% and adjusted net income decreased \$37 million or 8% from the prior quarter. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income and adjusted net income both decreased \$26 million or 8%, primarily due to the impact of three fewer days in the current quarter and higher provisions for credit losses.

Revenue decreased \$12 million or 1%, reflecting fewer days in the quarter. Net interest margin decreased 10 basis points to 3.61%, due to the impact of loans growing faster than deposits, lower interest recoveries in the current quarter and loan spread compression.

Personal and commercial revenue decreased 2% and 1%, respectively, reflecting fewer days in the current quarter.

Total provision for credit losses increased \$12 million. The provision for credit losses on impaired loans increased \$1 million, as an increase in consumer provisions was largely offset by a decrease in commercial provisions in the current quarter. There was a \$4 million provision for credit losses on performing loans in the current quarter compared with a \$7 million recovery of credit losses on performing loans in the prior quarter.

Non-interest expense and adjusted non-interest expense both increased 1%.

Average gross loans and acceptances increased \$3.1 billion or 4% due to growth in commercial volumes. Average deposits increased \$0.6 billion or 1% due to growth in personal volumes, partially offset by lower commercial volumes.

Q2 YTD 2019 vs. Q2 YTD 2018

Reported net income of \$850 million increased 29% and adjusted net income of \$871 million increased 28% year-to-date. All amounts in the remainder of this section are on a U.S. dollar basis.

Reported net income of \$638 million increased \$120 million or 23% and adjusted net income of \$654 million increased \$119 million or 22%, primarily due to higher revenue and lower provisions for credit losses, partially offset by higher expenses.

Revenue of \$1,992 million increased \$122 million or 7%, mainly due to higher deposit revenue and loan volumes, net of loan spread compression. Net interest margin decreased 8 basis points to 3.66%, as the benefit of deposits growing faster than loans was more than offset by loan spread compression.

Personal revenue increased \$72 million or 12% due to higher deposit revenue. Commercial revenue increased \$50 million or 4% due to increased loan volumes and higher deposit revenue, net of loan spread compression.

Total provision for credit losses of \$22 million decreased \$57 million. The provision for credit losses on impaired loans decreased \$88 million, largely due to recoveries in the current year consumer and commercial provisions. There was a \$3 million recovery of credit losses on performing loans in the current year compared with a \$34 million recovery in the prior year.

Non-interest expense of \$1,158 million increased \$42 million or 4% and adjusted non-interest expense of \$1,137 million increased \$44 million or 4% due to higher employee-related expenses and technology investments, partially offset by lower Federal Deposit Insurance Corporation insurance expense.

Average gross loans and acceptances increased \$8.4 billion or 11% from the prior year to \$82.2 billion driven by commercial loan growth of 14% and higher personal loan volumes. Average deposits of \$78.8 billion increased \$10.0 billion or 15% from the prior year with 17% growth in commercial volumes and 13% growth in personal volumes.

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

BMO Wealth Management

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Net interest income	230	232	204	462	404
Non-interest revenue (1)	1,612	1,908	1,380	3,520	2,786
Total revenue (1)	1,842	2,140	1,584	3,982	3,190
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	561	926	332	1,487	693
Revenue, net of CCPB	1,281	1,214	1,252	2,495	2,497
Provision for credit losses on impaired loans	(1)	2	1	1	2
Provision for (recovery of) credit losses on performing loans	1	-	(1)	1	(3)
Total provision for (recovery of) credit losses	-	2	-	2	(1)
Non-interest expense (1)	882	895	862	1,777	1,757
Income before income taxes	399	317	390	716	741
Provision for income taxes	94	78	94	172	179
Reported net income	305	239	296	544	562
Amortization of acquisition-related intangible assets (2)	10	10	11	20	21
Adjusted net income	315	249	307	564	583
Traditional wealth businesses reported net income	226	174	227	400	411
Traditional wealth businesses adjusted net income	236	184	238	420	432
Insurance reported net income	79	65	69	144	151
Net income growth (%)	3.2	(10.4)	16.8	(3.2)	7.6
Adjusted net income growth (%)	2.8	(10.1)	11.7	(3.3)	4.3
Revenue growth (%)	16.3	33.3	(15.3)	24.8	3.2
Revenue growth, net of CCPB (%)	2.4	(2.5)	7.6	(0.1)	5.0
Non-interest expense growth (%)	2.4	-	4.6	1.2	4.5
Adjusted non-interest expense growth (%)	2.5	0.1	6.3	1.3	5.8
Return on equity (%)	19.8	15.3	20.4	17.5	19.3
Adjusted return on equity (%)	20.4	15.9	21.1	18.1	20.1
Operating leverage, net of CCPB (%)	-	(2.5)	3.0	(1.3)	0.5
Adjusted operating leverage, net of CCPB (%)	(0.1)	(2.6)	1.3	(1.4)	(0.8)
Reported efficiency ratio (%)	47.9	41.8	54.4	44.6	55.1
Reported efficiency ratio, net of CCPB (%)	68.8	73.8	68.8	71.2	70.4
Adjusted efficiency ratio (%)	47.2	41.3	53.6	44.0	54.3
Adjusted efficiency ratio, net of CCPB (%)	67.9	72.8	67.8	70.2	69.3
Assets under management	465,468	438,540	439,193	465,468	439,193
Assets under administration (3)	396,774	377,528	386,493	396,774	386,493
Average assets	40,402	38,744	35,246	39,559	34,755
Average gross loans and acceptances	23,039	22,296	19,784	22,660	19,417
Average net loans and acceptances	23,006	22,264	19,752	22,628	19,385
Average deposits	36,063	35,288	34,717	35,669	34,356

(1) Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied.

In addition, certain out-of-pocket expenses reimbursed to BMO from customers have been reclassified from a reduction in non-interest expense to non-interest revenue.

(2) Before tax amounts of \$12 million in Q2-2019, \$13 million in both Q1-2019 and Q2-2018; \$25 million for YTD-2019 and \$26 million for YTD-2018 are included in non-interest expense.

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

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

Q2 2019 vs. Q2 2018

BMO Wealth Management reported net income of \$305 million increased \$9 million or 3% and adjusted net income of \$315 million increased \$8 million or 3% from the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets. Traditional wealth reported net income of \$226 million and adjusted net income of \$236 million were relatively unchanged compared with the prior year as higher deposit and loan revenue and the impact of stronger equity markets were largely offset by higher expenses related to growth investments in the business and lower performance fees in asset management. Insurance net income was \$79 million, an increase of \$10 million or 14%, primarily due to a benefit from market movements in the current quarter relative to unfavourable movements in the prior year.

Revenue of \$1,842 million increased \$258 million or 16% from the prior year. Revenue, net of CCPB, was \$1,281 million, an increase of \$29 million or 2%. Revenue in traditional wealth was \$1,145 million, an increase of \$12 million or 1% compared with the prior year. Insurance revenue, net of CCPB, was \$136 million, an increase of \$17 million or 15% compared with the prior year, for the reasons noted above.

Reported non-interest expense of \$882 million increased \$20 million or 2% and adjusted non-interest expense of \$870 million increased \$21 million or 2% from the prior year, mainly due to higher investments in the business, partially offset by lower revenue-based costs.

Assets under management increased \$26.3 billion or 6% from the prior year to \$465.5 billion, primarily driven by stronger equity markets, growth in client assets and favourable foreign exchange. Assets under administration increased \$10.3 billion or 3% from the prior year to \$396.8 billion, primarily driven by favourable foreign exchange and the impact of stronger equity markets. Average gross loans and average deposits grew by 16% and 4%, respectively, as we continue to diversify our product mix.

Q2 2019 vs. Q1 2019

Reported net income increased \$66 million or 28% and adjusted net income increased \$66 million or 27% from the prior quarter. Traditional wealth reported net income increased \$52 million or 30% and adjusted net income increased \$52 million or 29%, primarily due to the impact of stronger global equity markets and stock-based compensation for employees eligible to retire that is expensed in the first quarter of each year, partially offset by three fewer days in the current quarter. Insurance net income increased of \$14 million or 22%, primarily due to the benefit from market movements in the current quarter relative to unfavourable movements in the prior quarter.

Revenue, net of CCPB, increased \$67 million or 6%. Revenue in traditional wealth increased \$43 million or 4% due to the impact of stronger global equity markets, partially offset by fewer days in the current quarter. Net insurance revenue increased \$24 million or 22%, largely due to the drivers noted above.

Reported non-interest expense decreased \$13 million or 1% and adjusted non-interest expense decreased \$12 million or 2%, primarily due to lower stock-based compensation for employees eligible to retire, partially offset by higher revenue-based costs.

Assets under management increased \$26.9 billion or 6% and assets under administration increased \$19.2 billion or 5%, mainly due to stronger equity markets, favourable foreign exchange and growth in new client assets. Average gross loans and average deposits grew by 3% and 2%, respectively.

Q2 YTD 2019 vs. Q2 YTD 2018

Reported net income was \$544 million compared with \$562 million in the prior year and adjusted net income was \$564 million compared with \$583 million. Traditional wealth reported net income was \$400 million, a decrease of \$11 million or 3%, and adjusted net income was \$420 million, a decrease of \$12 million or 3% from the prior year, as higher deposit and loan revenue was offset by higher expenses, weaker global equity markets on average and lower performance fees in asset management. Insurance net income was \$144 million compared with \$151 million in the prior year.

Revenue of \$3,982 million increased \$792 million or 25% from the prior year. Revenue, net of CCPB, was \$2,495 million, relatively unchanged compared with the prior year. Revenue in traditional wealth of \$2,247 million was relatively unchanged, for the reasons noted above. Insurance revenue, net of CCPB, was \$248 million compared with \$255 million in the prior year.

Non-interest expense of \$1,777 million increased \$20 million or 1% and adjusted non-interest expense of \$1,752 million increased \$21 million or 1%.

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)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Net interest income (teb) (1)	599	561	319	1,160	881
Non-interest revenue (1)(2)	630	571	723	1,201	1,245
Total revenue (teb) (1)(2)	1,229	1,132	1,042	2,361	2,126
Provision for (recovery of) credit losses on impaired loans	12	1	(16)	13	(17)
Provision for (recovery of) credit losses on performing loans	3	14	3	17	(1)
Total provision for (recovery of) credit losses	15	15	(13)	30	(18)
Non-interest expense (2)	887	792	671	1,679	1,393
Income before income taxes	327	325	384	652	751
Provision for income taxes (teb)	78	70	98	148	194
Reported net income	249	255	286	504	557
Acquisition integration costs (3)	2	4	-	6	-
Amortization of acquisition-related intangible assets (4)	2	3	-	5	-
Adjusted net income	253	262	286	515	557
Trading Products revenue	719	632	621	1,351	1,272
Investment and Corporate Banking revenue	510	500	421	1,010	854
Net income growth (%)	(12.8)	(5.9)	(7.9)	(9.4)	(17.9)
Adjusted net income growth (%)	(11.4)	(3.4)	(8.0)	(7.5)	(18.0)
Revenue growth (%)	18.0	4.4	(12.3)	11.1	(11.7)
Non-interest expense growth (%)	32.1	9.8	(2.4)	20.5	(1.4)
Adjusted non-interest expense growth (%)	31.3	8.6	(2.3)	19.5	(1.3)
Return on equity (%)	9.2	9.1	13.4	9.1	13.0
Adjusted return on equity (%)	9.4	9.3	13.4	9.3	13.0
Operating leverage (teb) (%)	(14.1)	(5.4)	(9.9)	(9.4)	(10.3)
Adjusted operating leverage (teb) (%)	(13.3)	(4.2)	(10.0)	(8.4)	(10.4)
Efficiency ratio (teb) (%)	72.1	70.0	64.4	71.1	65.5
Adjusted efficiency ratio (teb) (%)	71.7	69.2	64.4	70.5	65.5
Average assets	344,427	340,273	302,772	342,316	299,031
Average gross loans and acceptances	60,246	56,273	46,489	58,227	46,126
Average net loans and acceptances	60,168	56,209	46,419	58,156	46,057
Average deposits	137,974	152,715	137,266	145,467	135,380

(1) Effective the first quarter of 2019, certain dividend income in our Trading Products business has been reclassified from non-interest revenue to net interest income. Results for prior periods and related ratios have been reclassified to conform with the current period's presentation.

(2) Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied. As a result, certain out-of-pocket expenses reimbursed to BMO from customers have been reclassified from a reduction in non-interest expense to non-interest revenue.

(3) KGS-Alpha acquisition integration costs before tax amounts of \$2 million in Q2-2019, \$6 million in Q1-2019 and \$nil in Q2-2018; \$8 million for YTD-2019 and \$nil for YTD-2018 are included in non-interest expense.

(4) Before tax amounts of \$4 million in Q2-2019, \$3 million in Q1-2019 and \$1 million in Q2-2018; \$7 million for YTD-2019 and \$1 million for YTD-2018 are included in non-interest expense.

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

Q2 2019 vs. Q2 2018

BMO Capital Markets reported net income was \$249 million and adjusted net income was \$253 million compared with \$286 million on both a reported and an adjusted basis in the prior year. Adjusted net income excludes the amortization of acquisition-related intangible assets and acquisition integration costs. Strong performance in Investment and Corporate Banking and higher Trading Products revenue were largely offset by a severance expense and higher provisions for credit losses.

Revenue of \$1,229 million increased \$187 million or 18%, or 17% excluding the impact of the stronger U.S. dollar. Investment and Corporate Banking revenue increased 21%, mainly due to the impact of loan growth and higher underwriting revenue. Trading Products revenue increased 16% with fair value adjustments contributing to the above-trend results in interest rate trading and lower equities trading. There was good client activity, particularly across interest rate and commodities trading, with softer equity trading activity.

Total provision for credit losses was \$15 million compared with a recovery of \$13 million in the prior year. The provision for credit losses on impaired loans was \$12 million in the current quarter compared with a \$16 million recovery on impaired loans in the prior year. There was a \$3 million provision for credit losses on performing loans in the current quarter, unchanged from the prior year.

Non-interest expense of \$887 million increased \$216 million or 32% and adjusted non-interest expense of \$881 million increased \$211 million or 31%, or 29% excluding the impact of the stronger U.S. dollar. Severance expense of \$90 million after-tax (\$120 million pre-tax) and the KGS-Alpha acquisition accounted for over three-quarters of the year-over-year increase. The remainder of the increase was due to higher employee-related and other expenses.

Q2 2019 vs. Q1 2019

Reported net income was \$249 million compared with \$255 million in the prior quarter and adjusted net income was \$253 million compared with \$262 million.

Revenue increased \$97 million or 9%. Investment and Corporate Banking revenue increased due to higher underwriting revenue, partially offset by lower advisory fees and the impact of three fewer days in the quarter. Trading Products revenue increased 14% with fair value adjustments contributing to the above-trend results in interest rate trading and lower equities trading. There was good client activity, particularly across interest rate trading, with softer equity trading activity.

Total provision for credit losses remained unchanged from the prior quarter. The provision for credit losses on impaired loans increased \$11 million in the current quarter. There was a \$3 million provision for credit losses on performing loans in the current quarter compared with a \$14 million provision for credit losses on performing loans in the prior quarter.

Non-interest expense increased \$95 million or 12% and adjusted non-interest expense increased \$98 million or 13%. The impact of the severance expense more than offset lower other expenses, including stock-based compensation for employees eligible to retire in the first quarter.

Q2 YTD 2019 vs. Q2 YTD 2018

Reported net income was \$504 million compared with \$557 million in the prior year and adjusted net income was \$515 million compared with \$557 million in the prior year. Results in the current year reflect higher revenue in Investment and Corporate Banking and Trading Products, offset by higher expenses and higher provisions for credit losses.

Revenue of \$2,361 million increased \$235 million or 11%, or 9% excluding the impact of the stronger U.S. dollar. Investment and Corporate Banking revenue increased 18%, with higher corporate banking-related revenue and higher underwriting and advisory fees. Trading Products benefitted from higher interest rate and commodities trading revenue, partially offset by lower equities trading revenue, reflecting the impact of fair value adjustments and client activity.

Total provision for credit losses was \$30 million compared with a \$18 million recovery of credit losses in the prior year. The provision for credit losses on impaired loans was \$13 million compared with a \$17 million recovery on impaired loans in the prior year. There was a \$17 million provision for credit losses on performing loans in the current year compared with a \$1 million recovery of performing loans in the prior year.

Non-interest expense of \$1,679 million increased \$286 million or 21% and adjusted non-interest expense of \$1,664 million increased \$272 million or 20%, or 17% excluding the impact of the stronger U.S. dollar. Severance expense and the KGS-Alpha acquisition accounted for approximately three-quarters of the year-to-date increase. The remainder of the increase was due to higher employee-related and other expenses.

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

Corporate Services

(Canadian \$ in millions, except as noted)

	Q2-2019	Q1-2019	Q2-2018	YTD-2019	YTD-2018
Net interest income before group teb offset	(58)	(46)	(70)	(104)	(117)
Group teb offset	(78)	(67)	(61)	(145)	(184)
Net interest income (teb)	(136)	(113)	(131)	(249)	(301)
Non-interest revenue	41	66	50	107	94
Total revenue (teb)	(95)	(47)	(81)	(142)	(207)
Provision for (recovery of) credit losses on impaired loans	(1)	(5)	(10)	(6)	(10)
Provision for (recovery of) credit losses on performing loans	1	(1)	1	-	-
Total provision for (recovery of) credit losses	-	(6)	(9)	(6)	(10)
Non-interest expense	99	141	372	240	508
Income (loss) before income taxes	(194)	(182)	(444)	(376)	(705)
Provision for (recovery of) income taxes (teb)	(116)	(107)	(172)	(223)	87
Reported net income (loss)	(78)	(75)	(272)	(153)	(792)
Acquisition integration costs (1)	-	-	2	-	5
Restructuring costs (2)	-	-	192	-	192
U.S. net deferred tax asset revaluation (3)	-	-	-	-	425
Adjusted net loss	(78)	(75)	(78)	(153)	(170)

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

(2) In Q2-2018, we recorded a restructuring charge of \$260 million pre-tax, primarily related to severance, as a result of an ongoing bank-wide initiative to simplify how we work, drive increased efficiency and invest in technology to move our business forward. Restructuring costs are included in non-interest expense.

(3) Charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*. See the Critical Accounting Estimates – Income Taxes and Deferred Tax Assets section on page 119 of BMO's 2018 Annual Report.

Adjusted results in this table are non-GAAP amounts or non-GAAP measures. Please see 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, procurement, data and analytics, and innovation. T&O manages, maintains and provides governance of information technology, cyber security and operations services.

The costs of these Corporate Units and T&O services are largely transferred to the three operating groups (Personal and Commercial Banking, 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, residual unallocated expenses and certain acquisition integration costs and restructuring costs in prior periods. Results include a charge due to the revaluation of our U.S. net deferred tax asset in the first quarter of 2018 and a restructuring charge in the second quarter of 2018.

Q2 2019 vs. Q2 2018

Corporate Services reported and adjusted net loss for the quarter was \$78 million compared with a reported net loss of \$272 million and an adjusted net loss of \$78 million in the prior year. Adjusted results in the prior year exclude the \$192 million after-tax restructuring charge and acquisition integration costs. Adjusted results were unchanged, with lower expenses offset by lower recoveries of credit losses. Reported results increased due to the restructuring charge in the prior year.

Q2 2019 vs. Q1 2019

Reported and adjusted net loss for the quarter was \$78 million compared with a net loss of \$75 million in the prior quarter. Results were relatively unchanged, with lower expenses offset by lower revenue excluding teb.

Q2 YTD 2019 vs. Q2 YTD 2018

Reported and adjusted net loss for the year-to-date was \$153 million compared with a reported net loss of \$792 million and an adjusted net loss of \$170 million in the prior year. Adjusted results in the prior year exclude the \$425 million charge due to the revaluation of our U.S. net deferred tax asset, the restructuring charge and acquisition integration costs. Adjusted results increased, primarily due to higher revenue excluding teb. Reported results increased mainly due to the revaluation and restructuring charge 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)	Q2-2019	Q1-2019	Q4-2018	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017
Revenue (1)	6,213	6,517	5,893	5,794	5,580	5,638	5,614	5,424
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	561	926	390	269	332	361	573	253
Revenue, net of CCPB (1)	5,652	5,591	5,503	5,525	5,248	5,277	5,041	5,171
Provision for credit losses on impaired loans (2)	150	127	177	177	172	174	na	na
Provision for (recovery of) credit losses on performing loans (2)	26	10	(2)	9	(12)	(33)	na	na
Total provision for credit losses (2)	176	137	175	186	160	141	202	126
Non-interest expense (1)	3,595	3,557	3,193	3,359	3,525	3,400	3,339	3,252
Income before income taxes	1,881	1,897	2,135	1,980	1,563	1,736	1,500	1,793
Provision for income taxes	384	387	438	443	317	763	276	408
Reported net income (see below)	1,497	1,510	1,697	1,537	1,246	973	1,224	1,385
Acquisition integration costs (3)	2	4	13	7	2	3	15	13
Amortization of acquisition-related intangible assets (4)	23	24	24	22	23	21	26	28
Restructuring costs (5)	-	-	-	-	192	-	41	-
Decrease in the collective allowance for credit losses (6)	-	-	-	-	-	-	-	(54)
U.S. net deferred tax asset revaluation (7)	-	-	-	-	-	425	-	-
Benefit from the remeasurement of an employee benefit liability (8)	-	-	(203)	-	-	-	-	-
Adjusted net income (see below)	1,522	1,538	1,531	1,566	1,463	1,422	1,306	1,372
Basic earnings per share (\$)	2.27	2.28	2.58	2.32	1.87	1.43	1.81	2.05
Diluted earnings per share (\$)	2.26	2.28	2.58	2.31	1.86	1.43	1.81	2.04
Adjusted diluted earnings per share (\$)	2.30	2.32	2.32	2.36	2.20	2.12	1.94	2.02

- Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue. In addition, certain out-of-pocket expenses reimbursed to BMO from customers have been reclassified from a reduction in non-interest expense to non-interest revenue.
- Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS 9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. Prior periods have not been restated. Changes in the provision for credit losses on performing loans under this methodology will not be considered an adjusting item. The provision for credit losses in periods prior to the first quarter of 2018 is comprised of both specific and collective provisions. Refer to the Changes in Accounting Policies in 2018 section on page 121 of BMO's 2018 Annual Report for further details.
- Acquisition integration costs before tax are included in non-interest expense.
- Amortization of acquisition-related intangible assets before tax is charged to the non-interest expense of the operating groups.
- Restructuring charges recorded in Q2-2018 of \$260 million pre-tax and in Q4-2017 of \$59 million pre-tax. Restructuring costs are included in non-interest expense in Corporate Services.
- In Q3-2017 the adjustment to the collective allowance for credit losses before-tax amount of \$76 million was excluded from the Corporate Services adjusted provision for (recovery of) credit losses.
- Charge due to the revaluation of our U.S. net deferred tax asset as a result of the enactment of the U.S. *Tax Cuts and Jobs Act*. For more information on the impact, see the Provision for Income Taxes section on page 42 of BMO's 2018 Annual Report.
- Q4-2018 included a benefit of \$203 million after-tax (\$277 million pre-tax) from the remeasurement of an employee benefit liability as a result of an amendment to our other employee future benefits plan for certain employees that was announced in the fourth quarter of 2018. This amount has been included in Corporate Services in non-interest expense.

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

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

na – not applicable

BMO's quarterly earnings trends were reviewed in detail on pages 62 and 63 of BMO's 2018 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 third quarter of fiscal 2017 through the second quarter of fiscal 2019.

Earnings Trends

BMO's results and performance measures have generally trended upwards over time and have been relatively unchanged over the past three quarters. Reported results were impacted by a benefit from the remeasurement of an employee future benefit liability in the fourth quarter of 2018, a charge related to a revaluation of our U.S. net deferred tax asset in the first quarter of 2018, restructuring charges in the second quarter of 2018 and the fourth quarter of 2017, and a decrease in the collective allowance in the third quarter of 2017. Both our reported and adjusted results were impacted by elevated reinsurance claims in Wealth Management in the fourth quarters of 2018 and 2017.

Canadian P&C delivered positive year-over-year net income growth in seven of the past eight quarters, largely reflecting revenue growth driven by higher balances and increases in non-interest revenue. U.S. P&C has delivered positive revenue growth in seven of the past eight quarters, reflecting steadily growing loans and deposits, improved deposit revenue led by higher interest rates, good expense management, and the benefit of U.S. tax reform. Traditional Wealth Management results have generally shown an upward trend and have experienced variability due to market conditions. Quarterly insurance results are subject to variability, primarily resulting from the impact of interest rates, equity markets and reinsurance claims. BMO Capital Markets results in the first half of 2019 were impacted by softer market conditions in the first quarter and severance expense in the second quarter. Performance in 2018 reflects improved momentum in the second half of the year, as a result of higher levels of client activity in underwriting and advisory fees, while the second half of 2017 saw good results notwithstanding the impact of tax law changes on certain clients in our equities business. Corporate Services results can vary from quarter to quarter, in large part due to the inclusion of adjusting items, which are largely recorded in Corporate Services.

Effective the first quarter of 2019, the bank adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) and elected to retrospectively present prior periods as if IFRS 15 had always been applied. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue. In addition, when customers reimburse us for certain out-of-pocket expenses incurred on their behalf, we will record the reimbursement in revenue. Previously, these reimbursements were recorded as a reduction in the related expense.

Effective the first quarter of 2018, the bank prospectively adopted IFRS 9, *Financial Instruments* (IFRS9). Under IFRS 9, we refer to the provision for credit losses on impaired loans and the provision for credit losses on performing loans. The provision for credit losses on impaired loans under IFRS 9 is

consistent with the specific provision under IAS 39 in prior years. The provision for credit losses on performing loans replaces the collective provision for credit losses under IAS 39. Prior periods have not been restated. Refer to Note 4 on page 157 of the consolidated financial statements in BMO's 2018 Annual Report for an explanation of the provision for credit losses. As a result of the forward-looking nature of IFRS 9, we anticipate there will be increased variability in the bank's provision for credit losses on performing loans.

BMO's provision for credit losses (PCL) measured as a percentage of net loans and acceptances has varied between a range of 12 basis points to 22 basis points since the third quarter of 2017.

The effective income tax rate has varied, as it depends on legislative changes, changes in tax policy, including their interpretation by taxing authorities and the courts, earnings mix, including the relative proportion of earnings attributable to the different jurisdictions in which we operate, and the amount of tax-exempt income from securities.

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

Caution

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

Balance Sheet

Total assets of \$830.5 billion as at April 30, 2019, increased \$56.4 billion from October 31, 2018. The stronger U.S. dollar at quarter-end increased assets by \$5.8 billion, excluding the impact on derivative financial assets.

The following discussion excludes the impact of changes in the U.S. dollar. Net loans increased \$26.7 billion, largely driven by an increase of \$23.5 billion in business and government loans due to loan growth in our P&C businesses and BMO Capital Markets. Securities borrowed or purchased under resale agreements increased \$24.7 billion driven by higher client activity in BMO Capital Markets. Securities increased \$8.6 billion, mainly reflecting higher balances in BMO Capital Markets and treasury activities. Customers' liability under acceptances increased \$3.1 billion driven by Canadian commercial growth and higher balances in BMO Capital Markets. Cash and cash equivalents and interest bearing deposits with banks decreased \$7.7 billion, mainly due to lower balances held with central banks. All other assets, excluding derivative financial assets, increased \$0.8 billion.

Liabilities increased \$52.7 billion from October 31, 2018. The stronger U.S. dollar increased liabilities by \$5.7 billion, excluding the impact on derivative financial liabilities.

The following discussion excludes the impact of changes in the U.S. dollar. Deposits increased \$23.5 billion due to growth in customer deposits across the operating groups and treasury funding activities. Deposits by individuals increased \$11.8 billion, business and government deposits increased \$9.7 billion and deposits by banks increased \$2.0 billion. Securities lent or sold under repurchase agreements increased \$19.6 billion and securities sold but not yet purchased increased \$3.1 billion, due to higher client activity in BMO Capital Markets. Customers' liability under acceptances increased \$3.1 billion for the reasons noted above. All other liabilities, excluding derivative financial liabilities, increased \$0.6 billion.

Derivative financial assets decreased \$5.6 billion and derivative financial liabilities decreased \$2.9 billion, including the impact of changes in the U.S. dollar. The decline in derivative assets was driven by a decrease in the fair value of foreign exchange, equity, commodity and interest rate contracts. The decline in derivative liabilities was driven by a decrease in the fair value of interest rate, foreign exchange, and commodity contracts, partially offset by an increase in the fair value of equity contracts.

Total equity increased \$3.7 billion from October 31, 2018. Accumulated other comprehensive income increased \$1.8 billion, primarily due to the impact of lower interest rates on cash flow hedges and the impact of the stronger U.S. dollar on the translation of net foreign operations. Retained earnings increased \$1.6 billion as a result of net income earned in the current year, partially offset by dividends and common shares repurchased for cancellation. Preferred shares increased \$0.4 billion due to a new issuance in the current quarter.

Contractual obligations by year of maturity are outlined on page 32 of this Report to Shareholders.

Transactions with Related Parties

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

The bank's policies and procedures for related party transactions did not materially change from October 31, 2018, as described in Note 27 to the audited consolidated financial statements on page 206 of BMO's 2018 Annual Report.

Off-Balance Sheet Arrangements

BMO enters into a number of off-balance sheet arrangements in the normal course of operations. The most significant of these are credit instruments, structured entities and guarantees, which are described on page 77 of BMO's 2018 Annual Report. We consolidate all of our structured entities, except for our Canadian customer securitization vehicles, structured finance vehicles, certain capital and funding vehicles and various BMO managed and non-managed investment funds. There have been no changes of substance during the quarter ended April 30, 2019.

Accounting Policies and Critical Accounting Estimates

Significant accounting policies are described in our 2018 Annual Report and in the notes to our audited consolidated financial statements for the year ended October 31, 2018, 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 117 to 121 and 148 to 153 in BMO's 2018 Annual Report.

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 our best estimate of impairment in the existing portfolio for loans that have not yet been individually identified as impaired. For additional information, refer to pages 117 to 118 and Note 4 of our annual consolidated financial statements for the year ended October 31, 2018, on pages 157 to 164 of BMO's 2018 Annual Report.

In establishing our allowance for performing loans, we attach probability weightings to three economic scenarios, which are representative of our view of forecast economic 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. The base and adverse scenarios are also described below and are currently assigned the highest probability weights. The allowance for performing loans is sensitive to changes in economic forecasts, to the probability-weight assigned to each forecast scenario, to portfolio growth and to the credit quality of the portfolio.

As at April 30, 2019, our base case economic forecast depicts a Canadian economy that grows by a moderate 1.6% on average over the forecast period, keeping the unemployment rate fairly steady at 5.7% in 2020. The U.S. economy grows moderately faster than in Canada, averaging 1.9% over the forecast period, supported by healthier consumer spending. In comparison to the fourth quarter of 2018, there was little change in the GDP or unemployment forecast with higher allowances due to other macro components including weaker forecasted financial market-related variables, given the uncertain environment and scenario weighting changes.

The \$36 million provision on performing loans for the six months ended April 30, 2019, includes increases driven by portfolio growth, weaker forecasted financial market conditions and reduced benign scenario weight, which were partially offset by the impact of improved credit quality in the portfolio.

The adverse case economic forecast depicts a typical recession in Canada and the U.S. occurring in the first year of our forecast horizon, with the economy contracting approximately 3% over five quarters and the unemployment rate rising more than 3 percentage points to 9.4% in Canada and 7.0% in the U.S. This is followed initially by a slow recovery, then more moderate growth towards the end of the projection period. Actual results in a recession will differ as our portfolio will change through time, due to migration, growth, risk mitigation actions and other factors. In addition, our allowance will reflect the three economic scenarios used in assessing the allowance with often unequal weightings attached to adverse and benign scenarios and the weightings changing through time.

The revised scenarios had only a minimal impact on our assessment of the allowance for performing loans under a 100% base case and 100% adverse case scenario as at April 30, 2019, compared with October 31, 2018.

Our provision for credit losses was \$313 million for the six months ended April 30, 2019, compared with \$301 million for the six months ended April 30, 2018. The provision for credit losses for the six months ended April 30, 2019, is comprised of \$277 million of provisions for credit losses on impaired loans and \$36 million on performing loans, compared with provisions of credit losses on impaired loans of \$346 million and a recovery of \$45 million for performing loans for the six months ended April 30, 2018. The provision for credit losses was \$176 million for the three months ended April 30, 2019, compared with \$160 million for the three months ended April 30, 2018. The provision for credit losses for the three months ended April 30, 2019 is comprised of \$150 million of provisions for credit losses on impaired loans and \$26 million on performing loans compared with provisions for credit losses of \$172 million on impaired loans and a recovery of \$12 million for performing loans for the three month period ended April 30, 2018. Our total allowance on performing and impaired loans at April 30, 2019, was \$1,962 million compared with \$1,870 million as at October 31, 2018.

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

Changes in Accounting Policies

Effective November 1, 2018, we adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), which addresses revenue recognition principles, and provides a robust framework for recognizing and measuring revenue arising from contracts with customers. We elected to retrospectively present prior periods as if IFRS had always been applied. IFRS 15 also introduces new disclosure requirements related to the recognition of IFRS 15 revenues by operating segment. Note 1 to the unaudited interim consolidated financial statements provides details on the impact of the new standard.

Future Changes in Accounting Policies

BMO monitors the potential changes proposed by the International Accounting Standards Board (IASB), and analyzes the effect that changes in the standards may have on BMO's financial reporting and accounting policies. New standards and amendments to existing standards, which are effective for the bank in the future, can be found on page 121 and in Note 1 to the audited annual consolidated financial statements on pages 152 to 153 of BMO's 2018 Annual Report, and in Note 1 to the unaudited interim consolidated financial statements on page 41.

Select Financial Instruments

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

We follow a practice of reporting on significant changes in select financial instruments since year end, if any, in our interim MD&A. There have been no changes of substance from the disclosure on page 76 in our 2018 Annual Report.

Other Regulatory Developments

On December 22, 2017, the U.S. *Tax Cuts and Jobs Act* (the Act) was signed into law in the United States. The U.S. Department of Treasury has released proposed regulations pertaining to the Act's interpretation, most recently, in December 2018. We will continue to monitor future tax regulations and further changes or guidance on these proposed regulations.

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

For a comprehensive discussion of regulatory developments, see the Enterprise-Wide Capital Management section starting on page 69, the Risks That May Affect Future Results section starting on page 79, the Liquidity and Funding Risk section starting on page 100, and the Legal and Regulatory Risk section starting on page 112 of BMO's 2018 Annual Report.

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

Risk Management

Our risk management policies and processes to measure, monitor and control credit and counterparty, market, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social and reputation risk have not changed significantly from those outlined in the Enterprise-Wide Risk Management section on pages 78 to 116 of BMO's 2018 Annual Report.

BMO's top and emerging risks and other factors that may affect future results are described on pages 79 to 81 of BMO's 2018 Annual Report, and have not changed significantly. With the potential hard Brexit deadline having been extended to October 31, 2019, BMO continues to closely monitor the UK-EU negotiations. BMO has received the necessary regulatory authorisation in the EU to operate in compliance with existing regulations, which will ensure BMO's continued support of its European clients and counterparties, without disruption.

Market Risk

BMO's market risk management practices and key measures are outlined on pages 95 to 99 of BMO's 2018 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

(Canadian \$ in millions)	As at April 30, 2019				As at October 31, 2018				Main risk factors for non-traded risk balances
	Consolidate Balance Sheet	Subject to market risk		Not subject to market risk	Consolidated Balance Sheet	Subject to market risk		Not subject to market risk	
		Traded risk (1)	Non-traded risk (2)			Traded risk (1)	Non-traded risk (2)		
Assets Subject to Market Risk									
Cash and cash equivalents	35,839	-	35,839	-	42,142	-	42,142	-	Interest rate
Interest bearing deposits with banks	7,518	244	7,274	-	8,305	250	8,055	-	Interest rate
Securities	191,226	100,911	90,315	-	180,935	99,561	81,374	-	Interest rate, credit spread, equity
Securities borrowed or purchased under resale agreements	110,405	-	110,405	-	85,051	-	85,051	-	Interest rate
Loans (net of allowance for credit losses)	413,242	-	413,242	-	383,991	-	383,991	-	Interest rate, foreign exchange
Derivative instruments	20,627	18,552	2,075	-	26,204	24,401	1,803	-	Interest rate, foreign exchange
Customer's liabilities under acceptances	21,702	-	21,702	-	18,585	-	18,585	-	Interest rate
Other assets	29,911	-	15,075	14,836	28,862	-	13,856	15,006	Interest rate
Total Assets	830,470	119,707	695,927	14,836	774,075	124,212	634,857	15,006	
Liabilities Subject to Market Risk									
Deposits	548,837	16,142	532,695	-	520,928	14,186	506,742	-	Interest rate, foreign exchange
Derivative instruments	21,549	19,148	2,401	-	24,411	21,380	3,031	-	Interest rate, foreign exchange
Acceptances	21,702	-	21,702	-	18,585	-	18,585	-	Interest rate
Securities sold but not yet purchased	32,023	32,023	-	-	28,804	28,804	-	-	
Securities lent or sold under repurchase agreements	87,039	-	87,039	-	66,684	-	66,684	-	Interest rate
Other liabilities	62,972	-	62,857	115	62,160	-	62,037	123	Interest rate
Subordinated debt	6,953	-	6,953	-	6,782	-	6,782	-	Interest rate
Total Liabilities	781,075	67,313	713,647	115	728,354	64,370	663,861	123	

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

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

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

Trading and Underwriting Market Risk

Average Total Trading Value at Risk (VaR) decreased \$2.4 million from the prior quarter given changes in equity and interest rate exposure, along with higher diversification effects. Average Total Trading Stressed VaR (SVaR) decreased \$16.0 million from the prior quarter, driven by the factors noted above.

The Average Total Trading VaR and SVaR both increased from the prior year, mostly from additional client facilitation exposures, including the impact of the KGS-Alpha acquisition.

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

(Pre-tax Canadian \$ equivalent in millions)	For the quarter ended April 30, 2019				January 31, 2019	April 30, 2018	YTD-2019	YTD-2018
	Quarter-end	Average	High	Low	Average	Average	Average	Average
Commodity VaR	1.3	1.5	2.1	1.1	1.5	0.5	1.5	0.5
Equity VaR	5.8	5.2	12.6	2.8	5.4	5.2	5.3	4.4
Foreign exchange VaR	0.4	0.5	1.3	0.3	0.7	0.6	0.6	0.7
Interest rate VaR	6.7	6.4	8.9	5.4	6.9	6.0	6.6	5.6
Credit VaR	6.5	6.1	7.6	4.8	6.1	1.9	6.1	1.9
Diversification	(10.6)	(10.7)	nm	nm	(9.2)	(6.7)	(9.9)	(6.5)
Total Trading VaR	10.1	9.0	14.3	6.8	11.4	7.5	10.2	6.6
Total Trading SVaR	26.9	32.3	39.1	26.9	48.3	23.1	40.6	23.1

(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.

nm - not meaningful

Structural (Non-Trading) Market Risk

Structural economic value sensitivity to both rising and falling interest rates remained largely unchanged relative to January 31, 2019.

Structural earnings benefit to rising interest rates and earnings exposure to falling interest rates decreased modestly relative to January 31, 2019, as less net assets are scheduled to reprice over the next 12 months as at April 30, 2019.

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

(Pre-tax Canadian \$ equivalent in millions)	Economic value sensitivity			Earnings sensitivity over the next 12 months		
	April 30, 2019	January 31, 2019	April 30, 2018	April 30, 2019	January 31, 2019	April 30, 2018
100 basis point increase	(995.3)	(925.5)	(1,144.3)	58.4	76.8	107.8
100 basis point decrease	131.2	111.0	585.7	(130.2)	(152.8)	(332.4)

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

(2) 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 at April 30, 2019, would result in an increase in earnings before tax of \$36 million (\$32 million at January 31, 2019; \$37 million at October 31, 2018). A 100 basis point decrease in interest rates at April 30, 2019, would result in a decrease in earnings before tax of \$36 million (\$35 million at January 31, 2019; \$37 million at October 31, 2018). A 10% decrease in equity market values at April 30, 2019, would result in a decrease in earnings before tax of \$53 million (\$49 million at January 31, 2019; \$44 million at October 31, 2018). A 10% increase in equity market values at April 30, 2019, would result in an increase in earnings before tax of \$52 million (\$47 million at January 31, 2019; \$42 million at October 31, 2018). The impact to earnings from insurance market risk 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 our policy benefit liabilities is reflected in Other Liabilities on the Consolidated Balance Sheet. Insurance market risk impacts are not reflected in the table above.

Liquidity and Funding Risk

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

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

In the ordinary course of business, BMO may encumber a portion of cash and securities holdings as collateral in support of trading activities and our participation in clearing and payment systems in Canada and abroad. In addition, BMO may receive liquid assets as collateral and may re-pledge these assets in exchange for cash or as collateral in support of trading activities. Net unencumbered liquid assets, defined as on-balance sheet assets, such as BMO-owned cash and securities and securities borrowed or purchased under resale agreements, plus other off-balance sheet eligible collateral received, less collateral encumbered, totalled \$238.0 billion at April 30, 2019, compared with \$236.0 billion at January 31, 2019. The increase in unencumbered liquid assets was due to higher security balances. Net unencumbered liquid assets are primarily held at the parent bank level, at BMO Harris Bank, our U.S. bank entity, and in our broker/dealer operations. In addition to liquid assets, BMO has access to the Bank of Canada's lending assistance programs, the Federal Reserve Bank discount window in the United States and European Central Bank standby liquidity facilities. We do not rely on central bank facilities as a source of available liquidity when assessing the strength of BMO's liquidity position.

In addition to cash and securities holdings, BMO may also pledge other assets, including mortgages and loans, to raise long-term secured funding. The Asset Encumbrance table on page 29 provides a summary of total encumbered and unencumbered assets.

Liquid Assets

	As at April 30, 2019					As at January 31, 2019
	Carrying value/on balance sheet assets (1)	Other cash & securities received	Total gross assets (2)	Encumbered assets	Net unencumbered assets (3)	Net unencumbered assets (3)
(Canadian \$ in millions)						
Cash and cash equivalents	35,839	-	35,839	1,827	34,012	38,475
Deposits with other banks	7,518	-	7,518	-	7,518	7,609
Securities and securities borrowed or purchased under resale agreements						
Sovereigns / Central banks / Multilateral development banks	168,702	24,911	193,613	114,659	78,954	85,856
NHA mortgage-backed securities and U.S. agency mortgage-backed securities and collateralized mortgage obligations	36,944	461	37,405	15,745	21,660	20,874
Corporate & other debt	24,343	13,735	38,078	6,237	31,841	30,271
Corporate equity	71,642	27,038	98,680	58,849	39,831	28,884
Total securities and securities borrowed or purchased under resale agreements	301,631	66,145	367,776	195,490	172,286	165,885
NHA mortgage-backed securities (reported as loans at amortized cost) (4)	26,456	-	26,456	2,316	24,140	24,011
Total liquid assets	371,444	66,145	437,589	199,633	237,956	235,980
Other eligible assets at central banks (not included above) (5)	65,331	-	65,331	669	64,662	67,171
Total liquid assets and other sources	436,775	66,145	502,920	200,302	302,618	303,151

(1) The carrying values outlined in this table are consistent with the carrying values reported in BMO's balance sheet as at April 30, 2019.

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

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

(4) Under IFRS, National Housing Authority (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.

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

Asset Encumbrance

(Canadian \$ in millions)

As at April 30, 2019

	Total gross assets (1)	Encumbered (2)		Net unencumbered	
		Pledged as collateral	Other encumbered	Other unencumbered (3)	Available as collateral (4)
Cash and deposits with other banks	43,357	-	1,827	-	41,530
Securities (5)	394,232	162,948	34,858	11,894	184,532
Loans	386,786	71,251	669	250,204	64,662
Other assets					
Derivative instruments	20,627	-	-	20,627	-
Customers' liability under acceptances	21,702	-	-	21,702	-
Premises and equipment	1,983	-	-	1,983	-
Goodwill	6,500	-	-	6,500	-
Intangible assets	2,331	-	-	2,331	-
Current tax assets	1,309	-	-	1,309	-
Deferred tax assets	1,765	-	-	1,765	-
Other assets	16,023	3,576	-	12,447	-
Total other assets	72,240	3,576	-	68,664	-
Total assets	896,615	237,775	37,354	330,762	290,724

(Canadian \$ in millions)

As at January 31, 2019

	Total gross assets (1)	Encumbered (2)		Net unencumbered	
		Pledged as collateral	Other encumbered	Other unencumbered (3)	Available as collateral (4)
Cash and deposits with other banks	48,079	-	1,995	-	46,084
Securities (5)	383,434	160,801	32,737	11,418	178,478
Loans	371,664	69,385	662	234,446	67,171
Other assets					
Derivative instruments	21,633	-	-	21,633	-
Customers' liability under acceptances	21,529	-	-	21,529	-
Premises and equipment	1,971	-	-	1,971	-
Goodwill	6,388	-	-	6,388	-
Intangible assets	2,285	-	-	2,285	-
Current tax assets	1,469	-	-	1,469	-
Deferred tax assets	1,813	-	-	1,813	-
Other assets	14,651	2,663	-	11,988	-
Total other assets	71,739	2,663	-	69,076	-
Total assets	874,916	232,849	35,394	314,940	291,733

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

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

(3) Other unencumbered assets include select liquid asset holdings that management believes are not readily available to support BMO's liquidity requirements. These include cash and securities of \$11.9 billion as at April 30, 2019, which include securities held at BMO's insurance subsidiary, significant equity investments, and certain investments held at our merchant banking business. Other unencumbered assets also include mortgages and loans that may be securitized to access secured funding.

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

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

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

BMO's Liquidity Coverage Ratio (LCR) is summarized in the following table. The average daily LCR for the quarter ended April 30, 2019, is 132%.

The LCR is calculated on a daily basis as the ratio of the stock of High-Quality Liquid Assets (HQLA) to total net stressed cash outflows over the next 30 calendar days. The average LCR ratio is down from 138% last quarter, due to a decrease in HQLA. While banks are required to maintain an LCR greater than 100% in normal conditions, banks are also expected to be able to utilize HQLA in a period of stress, which may result in an LCR of less than 100% during that period. BMO's HQLA are primarily comprised of cash, highly-rated debt issued or backed by governments, highly-rated covered bonds and non-financial corporate debt and non-financial equities that are part of a major stock index. Net cash flows include outflows from deposits, secured and unsecured wholesale funding, commitments and potential collateral requirements offset by permitted inflows from loans, securities lending and trading activities and other non-HQLA debt maturing over a 30-day horizon. OSFI-prescribed weights are applied to cash flows and HQLA to arrive at the weighted values and the LCR. The LCR is only one measure of a bank's liquidity position and does not fully capture all of the bank's liquid assets or the funding alternatives that may be available in a period of stress. BMO's total liquid assets are shown in the Liquid Assets table on page 28.

Additional information on Liquidity and Funding Risk governance can be found on page 100 of BMO's 2018 Annual Report.

Liquidity Coverage Ratio

(Canadian \$ in billions, except as noted)

High-Quality Liquid Assets

Total high-quality liquid assets (HQLA)

Cash Outflows

Retail deposits and deposits from small business customers, of which:

Stable deposits

Less stable deposits

Unsecured wholesale funding, of which:

Operational deposits (all counterparties) and deposits in networks of cooperative banks

Non-operational deposits (all counterparties)

Unsecured debt

Secured wholesale funding

Additional requirements, of which:

Outflows related to derivatives exposures and other collateral requirements

Outflows related to loss of funding on debt products

Credit and liquidity facilities

Other contractual funding obligations

Other contingent funding obligations

Total cash outflows

Cash Inflows

Secured lending (e.g. reverse repos)

Inflows from fully performing exposures

Other cash inflows

Total cash inflows

	For the quarter ended April 30, 2019	
	Total unweighted value (average) (1)(2)	Total weighted value (average) (2)(3)
Total HQLA	*	155.1
Total net cash outflows		117.4
Liquidity Coverage Ratio (%) (2)		132
For the quarter ended January 31, 2019		
Total HQLA		161.8
Total net cash outflows		117.4
Liquidity Coverage Ratio (%)		138

* 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 61 business days in the second quarter of 2019.

(3) Weighted values are calculated after the application of the weights prescribed under the OSFI Liquidity Adequacy Requirements (LAR) Guideline for HQLA and cash inflows and outflows.

(4) Adjusted values are calculated based on total weighted values after applicable caps as defined by the LAR Guideline.

Funding Strategy

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

BMO maintains a large and stable base of customer deposits that, in combination with our strong capital base, is a source of strength. It supports the maintenance of a sound liquidity position and reduces our reliance on wholesale funding. Customer deposits totalled \$351.3 billion at April 30, 2019, up from \$341.7 billion at January 31, 2019, due to strong deposit growth. BMO also receives non-marketable deposits from corporate and institutional customers in support of certain trading activities. These deposits totalled \$34.7 billion as at April 30, 2019.

Total wholesale funding outstanding, largely consisting of negotiable marketable securities, was \$204.0 billion at April 30, 2019, with \$62.8 billion sourced as secured funding and \$141.2 billion as unsecured funding. Wholesale funding outstanding increased from \$196.0 billion at January 31, 2019, primarily due to net wholesale funding issuance. The mix and maturities of BMO's wholesale term funding are outlined in the following table. Additional information on deposit maturities can be found on page 32. BMO maintains a sizeable portfolio of unencumbered liquid assets, totalling \$238.0 billion as at April 30, 2019, that can be monetized to meet potential funding requirements, as described on page 28.

In April 2018, the Government of Canada published the final regulations on Canada's Bank Recapitalization (Bail-In) Regime, which 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 TLAC ratio requirements by November 1, 2021. We do not expect a material impact to our funding plan as a result of Canada's Bail-In Regime and TLAC requirements. For more information on Canada's Bail-In Regime and TLAC requirements, please see Regulatory Developments under Capital Management on page 10.

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

BMO's wholesale funding plan seeks to ensure sufficient funding capacity is available to execute business strategies. The funding plan considers expected maturities, as well as asset and liability growth projected for our businesses in our forecasting and planning process, and assesses funding

needs in relation to the funding sources available. The funding plan is reviewed annually by the Balance Sheet and Capital Management Committee and Risk Management Committee and approved by the Risk Review Committee, and is regularly updated to reflect actual results and incorporate updated forecast information.

Wholesale Funding Maturities ⁽¹⁾

(Canadian \$ in millions)	As at April 30, 2019								As at January 31, 2019
	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	6,913	254	30	104	7,301	-	10	7,311	5,650
Certificates of deposit and commercial paper	10,380	17,667	10,826	20,643	59,516	459	-	59,975	63,524
Bearer deposit notes	96	60	338	-	494	-	-	494	589
Asset-backed commercial paper (ABCP)	1,200	1,195	1,457	-	3,852	-	-	3,852	4,891
Senior unsecured medium-term notes	402	3,132	1,373	2,493	7,400	17,472	37,533	62,405	55,073
Senior unsecured structured notes ⁽²⁾	-	-	-	7	7	12	3,908	3,927	3,707
Covered bonds and securitizations									
Mortgage and HELOC securitizations	-	527	603	1,904	3,034	2,262	13,491	18,787	17,817
Covered bonds	1,503	-	-	2,254	3,757	5,905	15,518	25,180	25,066
Other asset-backed securitizations ⁽³⁾	-	-	32	1,183	1,215	465	5,245	6,925	6,223
Subordinated debt	-	-	-	-	-	-	7,100	7,100	6,962
Other ⁽⁴⁾	-	5,055	-	-	5,055	-	2,946	8,001	6,533
Total	20,494	27,890	14,659	28,588	91,631	26,575	85,751	203,957	196,035
Of which:									
Secured	2,703	6,777	2,092	5,341	16,913	8,632	37,200	62,745	60,530
Unsecured	17,791	21,113	12,567	23,247	74,718	17,943	48,551	141,212	135,505
Total ⁽⁵⁾	20,494	27,890	14,659	28,588	91,631	26,575	85,751	203,957	196,035

(1) Wholesale unsecured funding primarily includes funding raised through the issuance of marketable, negotiable instruments. Wholesale funding excludes repo transactions and bankers' acceptances, which are disclosed in the contractual maturity table on page 32, and also excludes ABCP issued by certain ABCP conduits that is not consolidated for financial reporting purposes.

(2) Primarily issued to institutional investors.

(3) Includes credit card and auto securitizations.

(4) Refers to FHLB advances.

(5) Total wholesale funding consists of Canadian-dollar-denominated funding of \$50.4 billion and U.S.-dollar and other foreign-denominated funding of \$153.6 billion as at April 30, 2019.

Regulatory Developments

The Net Stable Funding Ratio (NSFR) is a regulatory liquidity metric that assesses the stability of a bank's funding profile in relation to the liquidity value of a bank's assets. OSFI finalised the domestic implementation of the NSFR in the second quarter. Canadian Domestic Systemically Important Banks are required to maintain a minimum NSFR of 100% beginning January 1, 2020, and to publicly disclose the NSFR beginning with the quarter ended January 31, 2021. Additionally in April 2019, OSFI finalised revisions to the Liquidity Coverage Ratio (LCR) and other liquidity metrics under the Liquidity Adequacy Requirements (LAR) Guideline with an implementation date of January 1, 2020. We do not expect a material impact to the LCR as a result of these changes.

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 capital markets at competitive pricing levels. Should our credit ratings experience a downgrade, our cost of funding would likely increase and our access to funding and capital through capital markets could be reduced. A material downgrade of our ratings could also have other consequences, including those set out in Note 8 starting on page 167 of BMO's 2018 Annual Report.

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

As at April 30, 2019

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	Stable
S&P	A-1	A-	A+	BBB+	Stable
Fitch	F1+	AA-	AA-	A+	Stable
DBRS	R-1 (high)	AA (low)	AA	A (low)	Stable

(1) Subject to conversion under the Bank Recapitalization (Bail-In) Regime. Defined as "Junior Senior Unsecured" by Moody's, "Bail-In Eligible Senior Debt" by S&P, "Senior Unsecured" by Fitch, and "Bail-Inable Senior Debt" by DBRS.

(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. Defined as "Senior Unsecured" by Moody's and S&P, and "Senior Preferred" by Fitch, and "Legacy Senior" by DBRS.

We are required to deliver collateral to certain counterparties in the event of a downgrade to our current credit rating. The incremental collateral required is based on mark-to-market exposure, collateral valuations, and collateral threshold arrangements, as applicable. As at April 30, 2019, we would be required to provide additional collateral to counterparties totalling \$75 million, \$355 million and \$499 million under a one-notch, two-notch and three-notch downgrade, respectively.

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

The tables below show the remaining contractual maturity of on-balance sheet assets and liabilities and off-balance sheet commitments.

The contractual maturity of financial assets and liabilities is an input to, but is not necessarily consistent with, the expected maturity of assets and liabilities that is used in the management of liquidity and funding risk. We forecast asset and liability cash flows, both under normal market conditions and under a number of stress scenarios, to manage liquidity and funding risk. Stress scenarios include assumptions for loan repayments, deposit withdrawals, and credit commitment and liquidity facility drawdowns by counterparty and product type. Stress scenarios also consider the time horizon 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.

(Canadian \$ in millions)

	April 30, 2019									
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
On-Balance Sheet Financial Instruments										
Assets										
Cash and Cash Equivalents	34,881	-	-	-	-	-	-	-	958	35,839
Interest Bearing Deposits with Banks	3,971	1,677	503	792	575	-	-	-	-	7,518
Securities	4,051	4,160	3,253	4,086	3,466	14,479	42,731	60,472	54,528	191,226
Securities Borrowed or Purchased under Resale Agreements	83,683	22,145	3,478	511	588	-	-	-	-	110,405
Loans										
Residential mortgages	2,909	3,799	4,613	3,885	5,772	24,935	63,832	11,033	-	120,778
Consumer instalment and other personal	767	779	805	834	1,153	5,681	20,195	10,643	23,597	64,454
Credit cards	-	-	-	-	-	-	-	-	8,467	8,467
Business and government	14,562	9,191	8,615	5,487	5,926	22,103	85,249	17,691	52,429	221,253
Allowance for credit losses	-	-	-	-	-	-	-	-	(1,710)	(1,710)
Total Loans, net of allowance	18,238	13,769	14,033	10,206	12,851	52,719	169,276	39,367	82,783	413,242
Other Assets										
Derivative instruments	1,298	1,065	653	1,726	612	2,796	4,534	7,943	-	20,627
Customers' liability under acceptances	18,380	3,160	156	6	-	-	-	-	-	21,702
Other	1,758	637	274	34	10	6	14	4,848	22,330	29,911
Total Other Assets	21,436	4,862	1,083	1,766	622	2,802	4,548	12,791	22,330	72,240
Total Assets	166,260	46,613	22,350	17,361	18,102	70,000	216,555	112,630	160,599	830,470

(Canadian \$ in millions)

	April 30, 2019									
	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
Liabilities and Equity										
Deposits (1)										
Banks	19,160	5,727	752	310	289	-	-	-	4,061	30,299
Business and government	30,046	22,872	16,209	20,293	13,265	26,176	50,933	12,494	132,475	324,763
Individuals	2,392	6,098	9,611	12,008	12,371	15,153	14,882	2,454	118,806	193,775
Total Deposits	51,598	34,697	26,572	32,611	25,925	41,329	65,815	14,948	255,342	548,837
Other Liabilities										
Derivative instruments	1,456	1,317	935	2,052	925	2,899	6,190	5,775	-	21,549
Acceptances	18,380	3,160	156	6	-	-	-	-	-	21,702
Securities sold but not yet purchased	32,023	-	-	-	-	-	-	-	-	32,023
Securities lent or sold under repurchase agreements	81,656	4,624	199	293	267	-	-	-	-	87,039
Securitization and structured entities' liabilities	-	599	628	1,585	1,326	3,601	14,556	3,326	-	25,621
Other	9,489	5,530	56	133	127	724	3,243	2,069	15,980	37,351
Total Other Liabilities	143,004	15,230	1,974	4,069	2,645	7,224	23,989	11,170	15,980	225,285
Subordinated Debt	-	-	-	-	-	-	-	6,953	-	6,953
Total Equity	-	-	-	-	-	-	-	-	49,395	49,395
Total Liabilities and Equity	194,602	49,927	28,546	36,680	28,570	48,553	89,804	33,071	320,717	830,470

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

(Canadian \$ in millions)

	April 30, 2019									
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
Off-Balance Sheet Commitments										
Commitments to extend credit (1)	2,996	8,584	8,163	5,443	9,939	19,665	94,615	3,253	-	152,658
Backstop liquidity facilities	-	-	-	-	-	5,539	-	-	-	5,539
Operating leases	36	72	107	101	95	367	846	1,943	-	3,567
Securities lending	4,649	-	-	-	-	-	-	-	-	4,649
Purchase obligations	52	99	152	148	144	339	173	73	-	1,180

(1) A large majority of these commitments expire without being drawn upon. As a result, the total contractual amounts may not be representative of the funding likely to be required for these commitments.

(Canadian \$ in millions)

October 31, 2018

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
On-Balance Sheet Financial Instruments										
Assets										
Cash and Cash Equivalents	41,162	-	-	-	-	-	-	-	980	42,142
Interest Bearing Deposits with Banks	4,964	1,717	1,037	457	112	18	-	-	-	8,305
Securities	4,522	4,283	5,049	7,749	4,943	11,854	32,480	56,004	54,051	180,935
Securities Borrowed or Purchased under Resale Agreements	67,804	12,732	2,490	1,781	191	53	-	-	-	85,051
Loans										
Residential mortgages	1,782	1,848	4,343	6,306	4,769	24,522	64,636	11,414	-	119,620
Consumer instalment and other personal	607	440	1,026	1,143	943	5,414	19,910	9,812	23,930	63,225
Credit cards	-	-	-	-	-	-	-	-	8,329	8,329
Business and government	13,088	5,921	7,126	6,779	6,218	19,543	75,099	12,247	48,435	194,456
Allowance for credit losses	-	-	-	-	-	-	-	-	(1,639)	(1,639)
Total Loans, net of allowance	15,477	8,209	12,495	14,228	11,930	49,479	159,645	33,473	79,055	383,991
Other Assets										
Derivative instruments	2,040	3,385	1,645	1,012	807	3,407	6,074	7,834	-	26,204
Customers' liability under acceptances	16,529	1,988	65	3	-	-	-	-	-	18,585
Other	1,740	506	189	26	6	17	20	4,824	21,534	28,862
Total Other Assets	20,309	5,879	1,899	1,041	813	3,424	6,094	12,658	21,534	73,651
Total Assets	154,238	32,820	22,970	25,256	17,989	64,828	198,219	102,135	155,620	774,075

(Canadian \$ in millions)

October 31, 2018

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
Liabilities and Equity										
Deposits (1)										
Banks	16,966	6,032	1,200	227	106	-	-	-	3,376	27,907
Business and government	23,524	32,231	22,713	15,893	8,629	22,418	48,684	11,809	126,276	312,177
Individuals	2,582	6,455	7,953	7,619	10,536	11,736	16,327	2,582	115,054	180,844
Total Deposits	43,072	44,718	31,866	23,739	19,271	34,154	65,011	14,391	244,706	520,928
Other Liabilities										
Derivative instruments	1,499	2,456	1,616	913	639	3,831	6,335	7,122	-	24,411
Acceptances	16,529	1,988	65	3	-	-	-	-	-	18,585
Securities sold but not yet purchased	28,804	-	-	-	-	-	-	-	-	28,804
Securities lent or sold under repurchase agreements	63,496	2,249	8	931	-	-	-	-	-	66,684
Securitization and structured entities' liabilities	1,044	1,084	475	512	588	4,912	13,398	3,038	-	25,051
Other	8,548	5,568	44	34	184	789	4,455	1,905	15,582	37,109
Total Other Liabilities	119,920	13,345	2,208	2,393	1,411	9,532	24,188	12,065	15,582	200,644
Subordinated Debt	-	-	-	-	-	-	-	6,782	-	6,782
Total Equity	-	-	-	-	-	-	-	-	45,721	45,721
Total Liabilities and Equity	162,992	58,063	34,074	26,132	20,682	43,686	89,199	33,238	306,009	774,075

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

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

(Canadian \$ in millions)

October 31, 2018

	0 to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No maturity	Total
Off-Balance Sheet Commitments										
Commitments to extend credit (1)	1,472	3,610	6,892	9,620	11,345	21,056	84,295	3,144	-	141,434
Backstop liquidity facilities	-	-	-	-	-	-	5,627	-	-	5,627
Operating leases	34	70	99	101	100	358	770	1,210	-	2,742
Securities lending	4,939	-	-	-	-	-	-	-	-	4,939
Purchase obligations	56	388	153	155	158	615	186	82	-	1,793

(1) A large majority of these commitments expire without being drawn upon. As a result, the total contractual amounts may not be representative of the funding likely to be required for these commitments.

European Exposures

BMO's European exposures were disclosed and discussed on pages 93 and 94 of BMO's 2018 Annual Report. Our exposure to European countries, as at April 30, 2019, is set out in the tables that follow. Our net portfolio exposures are summarized in the below tables for funded lending, securities (inclusive of credit default swaps (CDS) activity), repo-style transactions and derivatives.

European Exposure by Country and Counterparty ⁽¹⁾

(Canadian \$ in millions)

As at April 30, 2019		Securities (3)(4)				Repo-style transactions and derivatives (5)(6)				Total Net Exposure
Country	Funded lending (2)	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	
GIIPS										
Greece	-	-	-	-	-	-	-	-	-	-
Ireland (7)	211	-	28	-	28	-	175	-	175	414
Italy	16	-	-	-	-	-	-	-	-	16
Portugal	-	-	-	-	-	-	-	-	-	-
Spain	167	-	3	-	3	2	-	1	3	173
Total – GIIPS	394	-	31	-	31	2	175	1	178	603
Eurozone (excluding GIIPS)										
France	256	7	-	177	184	90	33	-	123	563
Germany	377	719	62	797	1,578	57	4	6	67	2,022
Netherlands	333	495	28	-	523	4	52	-	56	912
Other (8)	204	-	4	221	225	3	4	5	12	441
Total – Eurozone (excluding GIIPS)	1,170	1,221	94	1,195	2,510	154	93	11	258	3,938
Rest of Europe										
Norway	428	343	1	-	344	-	4	1	5	777
Sweden	8	242	1	325	568	1	-	-	1	577
United Kingdom	1,261	-	556	4,832	5,388	150	127	20	297	6,946
Other (8)	138	148	-	-	148	22	26	-	48	334
Total – Rest of Europe	1,835	733	558	5,157	6,448	173	157	21	351	8,634
Total – All of Europe (9)	3,399	1,954	683	6,352	8,989	329	425	33	787	13,175

As at January 31, 2019		Securities (3)				Repo-style transactions and derivatives (5)(6)				Total Net Exposure
Country	Funded lending (2)	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	
Total – GIIPS	339	-	3	-	3	3	189	-	192	534
Total – Eurozone (excluding GIIPS)	1,176	847	40	6,733	7,620	86	105	1	192	8,988
Total – Rest of Europe	1,653	824	561	6,835	8,220	140	186	70	396	10,269
Total – All of Europe (9)	3,168	1,671	604	13,568	15,843	229	480	71	780	19,791

Refer to footnotes in the following table.

European Lending Exposure by Country and Counterparty ⁽¹⁾

(Canadian \$ in millions) Country	Funded lending as at April 30, 2019			Lending (2)		As at January 31, 2019	
	Bank	Corporate	Sovereign	As at April 30, 2019		Commitments	Funded
				Commitments	Funded		
GIIPS							
Greece	-	-	-	-	-	-	-
Ireland (7)	2	209	-	231	211	175	163
Italy	16	-	-	16	16	14	14
Portugal	-	-	-	-	-	-	-
Spain	140	27	-	213	167	210	162
Total – GIIPS	158	236	-	460	394	399	339
Eurozone (excluding GIIPS)							
France	186	70	-	391	256	292	245
Germany	233	144	-	540	377	424	375
Netherlands	102	231	-	441	333	445	338
Other (8)	74	130	-	397	204	292	218
Total – Eurozone (excluding GIIPS)	595	575	-	1,769	1,170	1,453	1,176
Rest of Europe							
Norway	37	391	-	858	428	-	-
Sweden	8	-	-	139	8	841	360
United Kingdom	8	1,253	-	3,439	1,261	2,053	1,108
Other (8)	14	124	-	381	138	474	185
Total – Rest of Europe	67	1,768	-	4,817	1,835	3,368	1,653
Total – All of Europe (9)	820	2,579	-	7,046	3,399	5,220	3,168

(1) BMO has the following indirect exposures to Europe as at April 30, 2019:

- Collateral of €4.0 billion to support trading activity in securities (€1.6 billion from GIIPS) and €67 million of cash collateral held.
- Guarantees of \$9.2 billion (\$265 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 \$183 million, with no net single-name* CDS exposure to GIIPS countries as at April 30, 2019 (*includes a net position of \$131 million (bought protection) on a CDS Index, of which 15% is comprised of GIIPS domiciled entities).

(5) Repo-style transactions are primarily with bank counterparties for which BMO holds collateral (\$38 billion for Europe as at April 30, 2019).

(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 \$56 million as at April 30, 2019.

(8) Other Eurozone exposure includes 5 countries with less than \$300 million net exposure. Other European exposure is distributed across 3 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 see the Caution Regarding Forward-Looking Statements.

Consolidated Statement of Income

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

	For the three months ended			For the six months ended	
	April 30, 2019	January 31, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Interest, Dividend and Fee Income					
Loans	\$ 4,814	\$ 4,795	\$ 3,838	\$ 9,609	\$ 7,543
Securities (Note 2)	1,405	1,314	962	2,719	1,890
Deposits with banks	183	222	152	405	274
	6,402	6,331	4,952	12,733	9,707
Interest Expense					
Deposits	2,110	2,079	1,372	4,189	2,573
Subordinated debt	69	70	57	139	110
Other liabilities	1,088	1,010	857	2,098	1,483
	3,267	3,159	2,286	6,426	4,166
Net Interest Income	3,135	3,172	2,666	6,307	5,541
Non-Interest Revenue (Note 1)					
Securities commissions and fees	254	248	249	502	510
Deposit and payment service charges	290	291	277	581	553
Trading revenues	111	93	258	204	346
Lending fees	277	277	236	554	483
Card fees	116	105	112	221	200
Investment management and custodial fees	426	428	437	854	861
Mutual fund revenues	356	347	376	703	742
Underwriting and advisory fees	261	244	214	505	435
Securities gains, other than trading	42	49	38	91	105
Foreign exchange gains, other than trading	51	38	63	89	99
Insurance revenue	710	1,049	460	1,759	967
Investments in associates and joint ventures	52	29	41	81	85
Other	132	147	153	279	291
	3,078	3,345	2,914	6,423	5,677
Total Revenue	6,213	6,517	5,580	12,730	11,218
Provision for Credit Losses (Note 3)	176	137	160	313	301
Insurance Claims, Commissions and Changes in Policy Benefit Liabilities	561	926	332	1,487	693
Non-Interest Expense (Note 1)					
Employee compensation	2,010	2,072	2,012	4,082	3,975
Premises and equipment	767	728	672	1,495	1,336
Amortization of intangible assets	138	133	129	271	252
Travel and business development	143	126	130	269	243
Communications	78	74	75	152	142
Professional fees	141	121	143	262	268
Other	318	303	364	621	709
	3,595	3,557	3,525	7,152	6,925
Income Before Provision for Income Taxes	1,881	1,897	1,563	3,778	3,299
Provision for income taxes (Note 12)	384	387	317	771	1,080
Net Income attributable to Bank shareholders	\$ 1,497	\$ 1,510	\$ 1,246	\$ 3,007	\$ 2,219
Earnings Per Share (Canadian \$) (Note 11)					
Basic	\$ 2.27	\$ 2.28	\$ 1.87	\$ 4.55	\$ 3.30
Diluted	2.26	2.28	1.86	4.54	3.29
Dividends per common share	1.00	1.00	0.93	2.00	1.86

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 and for changes in accounting policy (Note 1).

Consolidated Statement of Comprehensive Income

(Unaudited) (Canadian \$ in millions)

	For the three months ended			For the six months ended	
	April 30, 2019	January 31, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Net Income	\$ 1,497	\$ 1,510	\$ 1,246	\$ 3,007	\$ 2,219
Other Comprehensive Income (Loss), net of taxes					
Items that may subsequently be reclassified to net income					
Net change in unrealized gains (losses) on fair value through OCI securities					
Unrealized gains (losses) on fair value through OCI debt securities arising during the period (1)	46	187	(105)	233	(218)
Reclassification to earnings of (gains) in the period (2)	(15)	(14)	(23)	(29)	(36)
	31	173	(128)	204	(254)
Net change in unrealized gains (losses) on cash flow hedges					
Gains (losses) on derivatives designated as cash flow hedges arising during the period (3)	433	757	(106)	1,190	(701)
Reclassification to earnings of losses on derivatives designated as cash flow hedges in the period (4)	49	37	84	86	115
	482	794	(22)	1,276	(586)
Net gains (losses) on translation of net foreign operations					
Unrealized gains (losses) on translation of net foreign operations	556	(25)	1,059	531	(31)
Unrealized gains (losses) on hedges of net foreign operations (5)	(103)	13	(181)	(90)	(50)
	453	(12)	878	441	(81)
Items that will not be reclassified to net income					
Gains (losses) on remeasurement of pension and other employee future benefit plans (6)	(2)	(148)	27	(150)	99
Gains (losses) on remeasurement of own credit risk on financial liabilities designed at fair value (7)	(98)	79	42	(19)	(32)
	(100)	(69)	69	(169)	67
Other Comprehensive Income (Loss), net of taxes	866	886	797	1,752	(854)
Total Comprehensive Income attributable to Bank shareholders	\$ 2,363	\$ 2,396	\$ 2,043	\$ 4,759	\$ 1,365

(1) Net of income tax (provision) recovery of \$(17) million, \$(61) million, \$30 million for the three months ended, and \$(78) million, \$54 million for the six months ended, respectively.

(2) Net of income tax provision of \$5 million, \$5 million, \$8 million for the three months ended, and \$10 million, \$12 million for the six months ended, respectively.

(3) Net of income tax (provision) recovery of \$(156) million, \$(274) million, \$39 million for the three months ended, and \$(430) million, \$240 million for the six months ended, respectively.

(4) Net of income tax (recovery) of \$(18) million, \$(13) million, \$(30) million for the three months ended, and \$(31) million, \$(41) million for the six months ended, respectively.

(5) Net of income tax (provision) recovery of \$38 million, \$(5) million, \$65 million for the three months ended, and \$33 million, \$18 million for the six months ended, respectively.

(6) Net of income tax (provision) recovery of \$1 million, \$54 million, \$(10) million for the three months ended, and \$55 million, \$(60) million for the six months ended, respectively.

(7) Net of income tax (provision) recovery of \$36 million, \$(29) million, \$(15) million for the three months ended, and \$7 million, \$11 million for the six months ended, respectively.

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

Consolidated Balance Sheet

(Unaudited) (Canadian \$ in millions)

	As at		
	April 30, 2019	January 31, 2019	October 31, 2018
Assets			
Cash and Cash Equivalents	\$ 35,839	\$ 40,470	\$ 42,142
Interest Bearing Deposits with Banks	7,518	7,609	8,305
Securities (Note 2)			
Trading	100,991	101,486	99,697
Fair value through profit or loss	12,904	12,280	11,611
Fair value through other comprehensive income	68,668	66,696	62,440
Debt securities at amortized cost	7,881	7,272	6,485
Other	782	742	702
	191,226	188,476	180,935
Securities Borrowed or Purchased Under Resale Agreements	110,405	100,699	85,051
Loans			
Residential mortgages	120,778	120,039	119,620
Consumer instalment and other personal	64,454	63,241	63,225
Credit cards	8,467	8,187	8,329
Business and government	221,253	207,765	194,456
	414,952	399,232	385,630
Allowance for credit losses (Note 3)	(1,710)	(1,628)	(1,639)
	413,242	397,604	383,991
Other Assets			
Derivative instruments	20,627	21,633	26,204
Customers' liability under acceptances	21,702	21,529	18,585
Premises and equipment	1,983	1,971	1,986
Goodwill	6,500	6,388	6,373
Intangible assets	2,331	2,285	2,272
Current tax assets	1,309	1,469	1,515
Deferred tax assets	1,765	1,813	2,039
Other	16,023	14,651	14,677
	72,240	71,739	73,651
Total Assets	\$ 830,470	\$ 806,597	\$ 774,075
Liabilities and Equity			
Deposits (Note 6)	\$ 548,837	\$ 532,199	\$ 520,928
Other Liabilities			
Derivative instruments	21,549	23,188	24,411
Acceptances	21,702	21,529	18,585
Securities sold but not yet purchased	32,023	30,407	28,804
Securities lent or sold under repurchase agreements	87,039	87,783	66,684
Securitization and structured entities' liabilities	25,621	23,969	25,051
Current tax liabilities	42	84	50
Deferred tax liabilities	73	73	74
Other	37,236	33,196	36,985
	225,285	220,229	200,644
Subordinated Debt (Note 6)	6,953	6,820	6,782
Equity			
Preferred shares (Note 7)	4,690	4,340	4,340
Common shares (Note 7)	12,939	12,914	12,929
Contributed surplus	307	308	300
Retained earnings	27,405	26,599	25,850
Accumulated other comprehensive income	4,054	3,188	2,302
Total Equity	49,395	47,349	45,721
Total Liabilities and Equity	\$ 830,470	\$ 806,597	\$ 774,075

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 and for changes in accounting policy (Note 1).

Consolidated Statement of Changes in Equity

(Unaudited) (Canadian \$ in millions)

	For the three months ended		For the six months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Preferred Shares (Note 7)				
Balance at beginning of period	\$ 4,340	\$ 4,240	\$ 4,340	\$ 4,240
Issued during the period	350	-	350	-
Balance at End of Period	4,690	4,240	4,690	4,240
Common Shares (Note 7)				
Balance at beginning of period	12,914	13,020	12,929	13,032
Issued under the Stock Option Plan	25	7	30	55
Repurchased for cancellation	-	(101)	(20)	(161)
Balance at End of Period	12,939	12,926	12,939	12,926
Contributed Surplus				
Balance at beginning of period	308	306	300	307
Stock option expense, net of options exercised	-	(3)	4	(9)
Other	(1)	1	3	6
Balance at End of Period	307	304	307	304
Retained Earnings				
Balance at beginning of period	26,599	23,893	25,850	23,700
Impact from adopting IFRS 9	-	-	-	99
Net income attributable to Bank shareholders	1,497	1,246	3,007	2,219
Dividends – Preferred shares	(48)	(46)	(100)	(91)
– Common shares	(639)	(596)	(1,278)	(1,196)
Share issue expense	(4)	-	(4)	-
Common shares repurchased for cancellation (Note 7)	-	(387)	(70)	(621)
Balance at End of Period	27,405	24,110	27,405	24,110
Accumulated Other Comprehensive (Loss) on Fair Value through OCI Securities, net of taxes				
Balance at beginning of period	(142)	(125)	(315)	56
Impact from adopting IFRS 9	-	-	-	(55)
Unrealized gains (losses) on fair value through OCI debt securities arising during the period	46	(105)	233	(218)
Reclassification to earnings of (gains) in the period	(15)	(23)	(29)	(36)
Balance at End of Period	(111)	(253)	(111)	(253)
Accumulated Other Comprehensive Income (Loss) on Cash Flow Hedges, net of taxes				
Balance at beginning of period	(280)	(746)	(1,074)	(182)
Gains (losses) on derivatives designated as cash flow hedges arising during the period	433	(106)	1,190	(701)
Reclassification to earnings of losses on derivatives designated as cash flow hedges in the period	49	84	86	115
Balance at End of Period	202	(768)	202	(768)
Accumulated Other Comprehensive Income on Translation of Net Foreign Operations, net of taxes				
Balance at beginning of period	3,715	2,506	3,727	3,465
Unrealized gains (losses) on translation of net foreign operations	556	1,059	531	(31)
Unrealized (losses) on hedges of net foreign operations	(103)	(181)	(90)	(50)
Balance at End of Period	4,168	3,384	4,168	3,384
Accumulated Other Comprehensive Income on Pension and Other Employee Future Benefit Plans, net of taxes				
Balance at beginning of period	21	(20)	169	(92)
Gains (losses) on remeasurement of pension and other employee future benefit plans	(2)	27	(150)	99
Balance at End of Period	19	7	19	7
Accumulated Other Comprehensive (Loss) on Own Credit Risk on Financial Liabilities Designated at Fair Value, net of taxes				
Balance at beginning of period	(126)	(255)	(205)	(181)
Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value	(98)	42	(19)	(32)
Balance at End of Period	(224)	(213)	(224)	(213)
Total Accumulated Other Comprehensive Income	4,054	2,157	4,054	2,157
Total Shareholders' Equity	\$ 49,395	\$ 43,737	\$ 49,395	\$ 43,737

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 and for changes in accounting policy (Note 1).

Consolidated Statement of Cash Flows

(Unaudited) (Canadian \$ in millions)

	For the three months ended		For the six months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Cash Flows from Operating Activities				
Net Income	\$ 1,497	\$ 1,246	\$ 3,007	\$ 2,219
Adjustments to determine net cash flows provided by (used in) operating activities				
Provision on securities, other than trading	1	1	1	2
Net (gain) on securities, other than trading	(43)	(39)	(92)	(107)
Net (increase) decrease in trading securities	1,532	6,505	(476)	1,796
Provision for credit losses (Note 3)	176	160	313	301
Change in derivative instruments – decrease in derivative asset	190	7,688	6,326	4,591
– (decrease) in derivative liability	(1,308)	(8,901)	(3,727)	(4,833)
Amortization of premises and equipment	111	98	216	195
Amortization of other assets	54	58	107	117
Amortization of intangible assets	138	129	271	252
Net decrease in deferred income tax asset	68	77	302	683
Net (decrease) in deferred income tax liability	(1)	(23)	(3)	(50)
Net (increase) decrease in current income tax asset	206	53	246	(711)
Net (decrease) in current income tax liability	(47)	(10)	(11)	(86)
Change in accrued interest – (increase) in interest receivable	(91)	(137)	(197)	(151)
– increase in interest payable	121	168	172	135
Changes in other items and accruals, net	1,473	2,997	(298)	(19)
Net increase in deposits	11,490	2,344	23,898	9,458
Net (increase) in loans	(12,526)	(6,835)	(26,902)	(11,185)
Net increase (decrease) in securities sold but not yet purchased	1,391	(1,300)	3,015	308
Net increase (decrease) in securities lent or sold under repurchase agreements	(2,073)	4,360	19,789	23,653
Net (increase) in securities borrowed or purchased under resale agreements	(8,462)	(9,396)	(24,614)	(19,724)
Net increase (decrease) in securitization and structured entities' liabilities	1,535	(131)	465	492
Net Cash Provided by (Used in) Operating Activities	(4,568)	(888)	1,808	7,336
Cash Flows from Financing Activities				
Net increase (decrease) in liabilities of subsidiaries	1,344	15	(1,348)	827
Proceeds from issuance of covered bonds	-	2,706	1,878	2,706
Redemption of covered bonds	-	-	(2,254)	(567)
Proceeds from issuance of subordinated debt (Note 6)	-	-	-	1,566
Repayment of subordinated debt (Note 6)	-	(900)	-	(900)
Proceeds from issuance of preferred shares (Note 7)	350	-	350	-
Share issue expense	(4)	-	(4)	-
Proceeds from issuance of common shares (Note 7)	22	7	26	55
Common shares repurchased for cancellation (Note 7)	-	(488)	(90)	(782)
Cash dividends paid	(691)	(645)	(1,348)	(1,276)
Net Cash Provided by (Used in) Financing Activities	1,021	695	(2,790)	1,629
Cash Flows from Investing Activities				
Net (increase) decrease in interest bearing deposits with banks	236	(615)	912	(1,105)
Purchases of securities, other than trading	(10,795)	(13,442)	(26,265)	(21,837)
Maturities of securities, other than trading	3,554	2,239	7,789	5,549
Proceeds from sales of securities, other than trading	5,763	5,831	12,323	11,897
Premises and equipment – net (purchases)	(95)	(54)	(186)	(119)
Purchased and developed software – net (purchases)	(159)	(135)	(304)	(267)
Net Cash (Used in) Investing Activities	(1,496)	(6,176)	(5,731)	(5,882)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	412	1,132	410	240
Net increase (decrease) in Cash and Cash Equivalents	(4,631)	(5,237)	(6,303)	3,323
Cash and Cash Equivalents at Beginning of Period	40,470	41,159	42,142	32,599
Cash and Cash Equivalents at End of Period	\$ 35,839	\$ 35,922	\$ 35,839	\$ 35,922
Supplemental Disclosure of Cash Flow Information				
Net cash provided by operating activities includes:				
Interest paid in the period	\$ 3,133	\$ 1,885	\$ 6,243	\$ 3,752
Income taxes paid in the period	\$ 309	\$ 208	\$ 713	\$ 1,077
Interest received in the period	\$ 5,819	\$ 4,340	\$ 11,617	\$ 8,674
Dividends received in the period	\$ 440	\$ 426	\$ 843	\$ 846

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 and for changes in accounting policy (Note 1).

Notes to Consolidated Financial Statements

April 30, 2019 (Unaudited)

Note 1: Basis of Presentation

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

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") using the same accounting policies as disclosed in our annual consolidated financial statements for the year ended October 31, 2018, with the exception of the adoption of IFRS 15 *Revenue from Contracts with Customers* discussed below. These condensed interim consolidated financial statements should be read in conjunction with the notes to our annual consolidated financial statements for the year ended October 31, 2018 as set out on pages 148 to 209 of our 2018 Annual Report. We also comply with interpretations of International Financial Reporting Standards ("IFRS") by our regulator, the Office of the Superintendent of Financial Institutions of Canada ("OSFI"). These interim consolidated financial statements were authorized for issue by the Board of Directors on May 29, 2019.

Changes in Accounting Policy

Effective November 1, 2018, we adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). We elected to retrospectively present prior periods as if IFRS 15 had always been applied. Under the new standard, the primary impact is the reclassification of amounts within the Consolidated Statement of Income. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non-interest expense are presented as a reduction in non-interest revenue. In addition, when customers reimburse us for certain out-of-pocket expenses incurred on their behalf, we will record the reimbursement in non-interest revenue. Previously, these reimbursements were recorded as a reduction in the related expense. There is also minimal impact to net income resulting from the fact that IFRS 15 does not require discounting of loyalty reward liabilities and we will amortize costs to obtain card customers, which were previously expensed as incurred.

The following table summarizes the impacts of applying IFRS 15 on our prior period Consolidated Statement of Income:

(Canadian \$ in millions)	For the three months ended April 30, 2018	For the six months ended April 30, 2018
Increase (decrease) in		
Non-Interest Revenue		
Securities commissions and fees	(2)	(3)
Deposit and payment service charges	(2)	(5)
Card fees	(37)	(77)
Investment management and custodial fees	2	3
Underwriting and advisory fees	1	3
Other	1	2
	(37)	(77)
Non-Interest Expense		
Employee compensation	1	1
Travel and business development	(43)	(87)
Professional fees	2	4
Other	3	4
	(37)	(78)
Provision for income taxes	-	1
Net Income	-	-

Future Changes in IFRS

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which provides guidance whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding asset on the balance sheet for most leases. There are minimal changes to lessor accounting. IFRS 16 is effective for our fiscal year beginning November 1, 2019.

We have substantially completed our lease assessment and are upgrading our lease administration system. In addition, we are developing future processes and internal controls to enable the application of IFRS 16 in 2019.

The main impact for the Bank will be recording real estate leases on the balance sheet. Currently, most of our real estate leases are classified as operating leases, whereby we record lease expense over the term of the lease with no asset or liability recorded on the balance sheet other than any related leasehold improvements. Under IFRS 16, we will recognize a right-of-use asset and a lease liability on the balance sheet.

When we adopt IFRS 16, we will recognize the cumulative effect of any changes in opening retained earnings with no changes to prior years.

Note 2: Securities

Classification of Securities

The bank's fair value through profit or loss ("FVTPL") securities of \$12,904 million (\$11,611 million as at October 31, 2018) are comprised of \$2,897 million mandatorily measured at fair value and \$10,007 million designated at fair value (\$2,828 million and \$8,783 million, respectively, as at October 31, 2018).

Our fair value through other comprehensive income ("FVOCI") securities totalling \$68,668 million (\$62,440 million as at October 31, 2018), are net of allowance for credit losses of \$3 million (\$2 million as at October 31, 2018).

Amortized cost securities totalling \$7,881 million (\$6,485 million as at October 31, 2018), are net of allowance for credit losses of \$1 million (\$1 million as at October 31, 2018).

Unrealized Gains and Losses on FVOCI Securities

The following table summarizes the unrealized gains and losses:

(Canadian \$ in millions)	April 30, 2019				October 31, 2018			
	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	12,882	56	10	12,928	12,884	1	80	12,805
Canadian provincial and municipal governments	7,517	91	2	7,606	6,896	8	42	6,862
U.S. federal government	17,337	229	97	17,469	17,403	4	584	16,823
U.S. states, municipalities and agencies	4,038	41	10	4,069	3,694	16	55	3,655
Other governments	6,307	78	3	6,382	4,818	2	30	4,790
National Housing Act (NHA) mortgage-backed securities (MBS)	2,365	21	1	2,385	2,382	6	18	2,370
U.S. agency MBS and collateralized mortgage obligations (CMO)	12,994	29	212	12,811	11,811	2	496	11,317
Corporate debt	4,898	55	4	4,949	3,783	6	33	3,756
Corporate equity	69	-	-	69	62	-	-	62
Total	68,407	600	339	68,668	63,733	45	1,338	62,440

Unrealized gains (losses) are disclosed before the impact of any accounting hedges.

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 six months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
FVOCI - Debt	407	246	799	472
Amortized cost	48	43	88	92
Total	455	289	887	564

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 or FVTPL. Stage 1 represents those performing loans carried with a 12 month expected credit loss, Stage 2 represents those performing loans carried with a lifetime expected credit loss, and Stage 3 represents those loans with a lifetime credit loss that are credit impaired.

(Canadian \$ in millions)

(Canadian \$ in millions)	April 30, 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Exceptionally low	-	-	-	-
Very low	75,639	140	-	75,779
Low	19,579	2,634	-	22,213
Medium	12,090	4,802	-	16,892
High	143	545	-	688
Not rated	4,550	230	-	4,780
Impaired	-	-	426	426
Allowance for credit losses	16	35	19	70
Carrying amount	111,985	8,316	407	120,708
Loans: Consumer instalment and other personal				
Exceptionally low	20,711	21	-	20,732
Very low	15,043	146	-	15,189
Low	9,851	319	-	10,170
Medium	9,757	4,024	-	13,781
High	396	1,426	-	1,822
Not rated	2,116	135	-	2,251
Impaired	-	-	509	509
Allowance for credit losses	79	310	127	516
Carrying amount	57,795	5,761	382	63,938
Loans: Credit cards				
Exceptionally low	2,386	1	-	2,387
Very low	1,129	16	-	1,145
Low	883	176	-	1,059
Medium	1,829	871	-	2,700
High	137	448	-	585
Not rated	590	1	-	591
Impaired	-	-	-	-
Allowance for credit losses	40	200	-	240
Carrying amount	6,914	1,313	-	8,227
Loans: Business and government (1)				
Acceptable				
Investment grade	128,949	843	-	129,792
Sub-investment grade	98,430	8,479	-	106,909
Watchlist	-	4,854	-	4,854
Impaired	-	-	1,400	1,400
Allowance for credit losses	255	370	259	884
Carrying amount	227,124	13,806	1,141	242,071
Commitments and financial guarantee contracts				
Acceptable				
Investment grade	128,763	345	-	129,108
Sub-investment grade	45,189	4,318	-	49,507
Watchlist	-	2,283	-	2,283
Impaired	-	-	319	319
Allowance for credit losses	125	100	27	252
Carrying amount	173,827	6,846	292	180,965

(1) Includes customers' liability under acceptances.

	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Exceptionally low	-	-	-	-
Very low	76,314	125	-	76,439
Low	18,975	2,479	-	21,454
Medium	12,621	3,765	-	16,386
High	90	445	-	535
Not rated	4,250	181	-	4,431
Impaired	-	-	375	375
Allowance for credit losses	20	37	19	76
Carrying amount	112,230	6,958	356	119,544
Loans: Consumer instalment and other personal				
Exceptionally low	20,236	20	-	20,256
Very low	13,364	222	-	13,586
Low	12,581	364	-	12,945
Medium	7,707	4,153	-	11,860
High	357	1,427	-	1,784
Not rated	2,105	168	-	2,273
Impaired	-	-	521	521
Allowance for credit losses	83	312	143	538
Carrying amount	56,267	6,042	378	62,687
Loans: Credit cards				
Exceptionally low	2,403	4	-	2,407
Very low	1,140	11	-	1,151
Low	943	107	-	1,050
Medium	1,742	874	-	2,616
High	108	428	-	536
Not rated	568	1	-	569
Impaired	-	-	-	-
Allowance for credit losses	39	191	-	230
Carrying amount	6,865	1,234	-	8,099
Loans: Business and government (1)				
Acceptable				
Investment grade	109,774	2,148	-	111,922
Sub-investment grade	88,348	7,308	-	95,656
Watchlist	-	4,423	-	4,423
Impaired	-	-	1,040	1,040
Allowance for credit losses	232	355	208	795
Carrying amount	197,890	13,524	832	212,246
Commitments and financial guarantee contracts				
Acceptable				
Investment grade	116,108	1,722	-	117,830
Sub-investment grade	44,895	3,426	-	48,321
Watchlist	-	1,650	-	1,650
Impaired	-	-	242	242
Allowance for credit losses	108	96	27	231
Carrying amount	160,895	6,702	215	167,812

(1) Includes customers' liability under acceptances.

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

Allowance for Credit Losses ("ACL")

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 \$1,962 million at April 30, 2019 (\$1,870 million at October 31, 2018) of which \$1,710 million (\$1,639 million at October 31, 2018) was recorded in loans and \$252 million (\$231 million at October 31, 2018) was recorded in other liabilities in our Consolidated Balance Sheet.

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

The following table shows the continuity in the loss allowance by each product type for the three months ended April 30, 2019:

(Canadian \$ in millions)

For the three months ended	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Balance as at January 31, 2019	21	39	45	105
Transfer to Stage 1	7	(6)	(1)	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	-	(2)	2	-
Net remeasurement of loss allowance	(12)	6	2	(4)
Loan originations	1	-	-	1
Derecognitions and maturities	-	(1)	-	(1)
Total Provision for Credit Losses ("PCL") (1)	(5)	(2)	3	(4)
Write-offs	-	-	(3)	(3)
Recoveries of previous write-offs	-	-	2	2
Foreign exchange and other	-	-	(3)	(3)
Balance as at April 30, 2019	16	37	44	97
Loans: Consumer instalment and other personal				
Balance as at January 31, 2019	90	326	135	551
Transfer to Stage 1	42	(39)	(3)	-
Transfer to Stage 2	(5)	20	(15)	-
Transfer to Stage 3	(1)	(26)	27	-
Net remeasurement of loss allowance	(47)	49	37	39
Loan originations	10	-	-	10
Derecognitions and maturities	(4)	(7)	-	(11)
Total PCL (1)	(5)	(3)	46	38
Write-offs	-	-	(69)	(69)
Recoveries of previous write-offs	-	-	18	18
Foreign exchange and other	1	1	(2)	-
Balance as at April 30, 2019	86	324	128	538
Loans: Credit cards				
Balance as at January 31, 2019	75	215	-	290
Transfer to Stage 1	24	(24)	-	-
Transfer to Stage 2	(6)	6	-	-
Transfer to Stage 3	-	(39)	39	-
Net remeasurement of loss allowance	(20)	79	21	80
Loan originations	5	-	-	5
Derecognitions and maturities	(1)	(5)	-	(6)
Total PCL (1)	2	17	60	79
Write-offs	-	-	(83)	(83)
Recoveries of previous write-offs	-	-	23	23
Foreign exchange and other	-	(1)	-	(1)
Balance as at April 30, 2019	77	231	-	308
Loans: Business and government				
Balance as at January 31, 2019	335	389	217	941
Transfer to Stage 1	39	(37)	(2)	-
Transfer to Stage 2	(8)	13	(5)	-
Transfer to Stage 3	-	(14)	14	-
Net remeasurement of loss allowance	(62)	80	34	52
Loan originations	50	-	-	50
Derecognitions and maturities	(24)	(15)	-	(39)
Total PCL (1)	(5)	27	41	63
Write-offs	-	-	(40)	(40)
Recoveries of previous write-offs	-	-	50	50
Foreign exchange and other	6	7	(8)	5
Balance as at April 30, 2019	336	423	260	1,019
Total as at April 30, 2019	515	1,015	432	1,962
Comprised of: Loans	390	915	405	1,710
Other credit instruments (2)	125	100	27	252

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

(2) Recorded in other liabilities on the Consolidated Balance Sheet.

The following table shows the continuity in the loss allowance by each product type for the six months ended April 30, 2019:

(Canadian \$ in millions)

For the six months ended	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Balance as at October 31, 2018	20	38	44	102
Transfer to Stage 1	14	(13)	(1)	-
Transfer to Stage 2	(1)	3	(2)	-
Transfer to Stage 3	-	(4)	4	-
Net remeasurement of loss allowance	(20)	15	7	2
Loan originations	3	-	-	3
Derecognitions and maturities	-	(2)	-	(2)
Total PCL (1)	(4)	(1)	8	3
Write-offs	-	-	(7)	(7)
Recoveries of previous write-offs	-	-	5	5
Foreign exchange and other	-	-	(6)	(6)
Balance as at April 30, 2019	16	37	44	97
Loans: Consumer instalment and other personal				
Balance as at October 31, 2018	90	326	144	560
Transfer to Stage 1	87	(80)	(7)	-
Transfer to Stage 2	(9)	44	(35)	-
Transfer to Stage 3	(3)	(52)	55	-
Net remeasurement of loss allowance	(94)	102	60	68
Loan originations	23	-	-	23
Derecognitions and maturities	(8)	(17)	-	(25)
Total PCL (1)	(4)	(3)	73	66
Write-offs	-	-	(153)	(153)
Recoveries of previous write-offs	-	-	72	72
Foreign exchange and other	-	1	(8)	(7)
Balance as at April 30, 2019	86	324	128	538
Loans: Credit cards				
Balance as at October 31, 2018	74	219	-	293
Transfer to Stage 1	50	(50)	-	-
Transfer to Stage 2	(11)	11	-	-
Transfer to Stage 3	-	(79)	79	-
Net remeasurement of loss allowance	(44)	142	34	132
Loan originations	10	-	-	10
Derecognitions and maturities	(2)	(12)	-	(14)
Total PCL (1)	3	12	113	128
Write-offs	-	-	(159)	(159)
Recoveries of previous write-offs	-	-	46	46
Foreign exchange and other	-	-	-	-
Balance as at April 30, 2019	77	231	-	308
Loans: Business and government				
Balance as at October 31, 2018	298	408	209	915
Transfer to Stage 1	108	(105)	(3)	-
Transfer to Stage 2	(25)	36	(11)	-
Transfer to Stage 3	-	(27)	27	-
Net remeasurement of loss allowance	(118)	139	70	91
Loan originations	110	-	-	110
Derecognitions and maturities	(47)	(35)	-	(82)
Total PCL (1)	28	8	83	119
Write-offs	-	-	(71)	(71)
Recoveries of previous write-offs	-	-	59	59
Foreign exchange and other	10	7	(20)	(3)
Balance as at April 30, 2019	336	423	260	1,019
Total as at April 30, 2019	515	1,015	432	1,962
Comprised of: Loans	390	915	405	1,710
Other credit instruments (2)	125	100	27	252

(1) Excludes provision for credit losses on other assets of \$(3) million.

(2) Recorded in other liabilities on the Consolidated Balance Sheet.

The following table shows the continuity in the loss allowance by each product type for the three months ended April 30, 2018:

(Canadian \$ in millions)

For the three months ended	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Balance as at January 31, 2018	26	27	47	100
Transfer to Stage 1	9	(8)	(1)	-
Transfer to Stage 2	-	2	(2)	-
Transfer to Stage 3	-	(3)	3	-
Net remeasurement of loss allowance	(18)	14	1	(3)
Loan originations	1	-	-	1
Derecognitions and maturities	-	(1)	-	(1)
Total PCL (1)	(8)	4	1	(3)
Write-offs	-	-	(3)	(3)
Recoveries of previous write-offs	-	-	2	2
Foreign exchange and other	1	-	(1)	-
Balance as at April 30, 2018	19	31	46	96
Loans: Consumer instalment and other personal				
Balance as at January 31, 2018	79	317	129	525
Transfer to Stage 1	59	(55)	(4)	-
Transfer to Stage 2	(8)	30	(22)	-
Transfer to Stage 3	(1)	(51)	52	-
Net remeasurement of loss allowance	(49)	95	51	97
Loan originations	9	-	-	9
Derecognitions and maturities	(4)	(12)	-	(16)
Total PCL (1)	6	7	77	90
Write-offs	-	-	(78)	(78)
Recoveries of previous write-offs	-	-	22	22
Foreign exchange and other	1	4	(3)	2
Balance as at April 30, 2018	86	328	147	561
Loans: Credit cards				
Balance as at January 31, 2018	76	255	-	331
Transfer to Stage 1	56	(56)	-	-
Transfer to Stage 2	(13)	13	-	-
Transfer to Stage 3	(1)	(52)	53	-
Net remeasurement of loss allowance	(49)	100	1	52
Loan originations	6	-	-	6
Derecognitions and maturities	-	(14)	-	(14)
Total PCL (1)	(1)	(9)	54	44
Write-offs	-	-	(81)	(81)
Recoveries of previous write-offs	-	-	27	27
Foreign exchange and other	2	-	-	2
Balance as at April 30, 2018	77	246	-	323
Loans: Business and government				
Balance as at January 31, 2018	282	371	239	892
Transfer to Stage 1	18	(18)	-	-
Transfer to Stage 2	(3)	4	(1)	-
Transfer to Stage 3	-	(9)	9	-
Net remeasurement of loss allowance	(33)	30	32	29
Loan originations	33	-	-	33
Derecognitions and maturities	(15)	(22)	-	(37)
Total PCL (1)	-	(15)	40	25
Write-offs	-	-	(80)	(80)
Recoveries of previous write-offs	-	-	23	23
Foreign exchange and other	9	12	11	32
Balance as at April 30, 2018	291	368	233	892
Total as at April 30, 2018	473	973	426	1,872
Comprised of: Loans	383	866	398	1,647
Other credit instruments (2)	90	107	28	225

(1) Excludes provision for credit losses on other assets of \$4 million.

(2) Recorded in other liabilities on the Consolidated Balance Sheet.

The following table shows the continuity in the loss allowance by each product type for the six months ended April 30, 2018:

(Canadian \$ in millions)

For the six months ended	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Balance as at November 1, 2017	16	34	49	99
Transfer to Stage 1	18	(17)	(1)	-
Transfer to Stage 2	(1)	4	(3)	-
Transfer to Stage 3	-	(6)	6	-
Net remeasurement of loss allowance	(19)	20	5	6
Loan originations	6	-	-	6
Derecognitions and maturities	(1)	(3)	-	(4)
Total PCL (1)	3	(2)	7	8
Write-offs	-	-	(10)	(10)
Recoveries of previous write-offs	-	-	4	4
Foreign exchange and other	-	(1)	(4)	(5)
Balance as at April 30, 2018	19	31	46	96
Loans: Consumer instalment and other personal				
Balance as at November 1, 2017	76	357	137	570
Transfer to Stage 1	127	(119)	(8)	-
Transfer to Stage 2	(14)	62	(48)	-
Transfer to Stage 3	(2)	(103)	105	-
Net remeasurement of loss allowance	(111)	154	74	117
Loan originations	18	-	-	18
Derecognitions and maturities	(9)	(23)	-	(32)
Total PCL (1)	9	(29)	123	103
Write-offs	-	-	(144)	(144)
Recoveries of previous write-offs	-	-	39	39
Foreign exchange and other	1	-	(8)	(7)
Balance as at April 30, 2018	86	328	147	561
Loans: Credit cards				
Balance as at November 1, 2017	83	254	-	337
Transfer to Stage 1	116	(116)	-	-
Transfer to Stage 2	(26)	26	-	-
Transfer to Stage 3	(1)	(101)	102	-
Net remeasurement of loss allowance	(105)	207	11	113
Loan originations	11	-	-	11
Derecognitions and maturities	(1)	(24)	-	(25)
Total PCL (1)	(6)	(8)	113	99
Write-offs	-	-	(163)	(163)
Recoveries of previous write-offs	-	-	50	50
Foreign exchange and other	-	-	-	-
Balance as at April 30, 2018	77	246	-	323
Loans: Business and government				
Balance as at November 1, 2017	268	410	234	912
Transfer to Stage 1	51	(50)	(1)	-
Transfer to Stage 2	(13)	23	(10)	-
Transfer to Stage 3	-	(28)	28	-
Net remeasurement of loss allowance	(45)	54	86	95
Loan originations	66	-	-	66
Derecognitions and maturities	(34)	(40)	-	(74)
Total PCL (1)	25	(41)	103	87
Write-offs	-	-	(130)	(130)
Recoveries of previous write-offs	-	-	31	31
Foreign exchange and other	(2)	(1)	(5)	(8)
Balance as at April 30, 2018	291	368	233	892
Total as at April 30, 2018	473	973	426	1,872
Comprised of: Loans	383	866	398	1,647
Other credit instruments (2)	90	107	28	225

(1) Excludes provision for credit losses on other assets of \$4 million.

(2) Recorded in other liabilities on the Consolidated Balance Sheet.

Loans and allowance for credit losses by geographic region are as follows:

(Canadian \$ in millions)

	April 30, 2019				October 31, 2018			
	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	254,015	186	715	253,114	244,837	189	689	243,959
United States	150,385	219	581	149,585	131,247	181	574	130,492
Other countries	10,552	-	9	10,543	9,546	-	6	9,540
Total	414,952	405	1,305	413,242	385,630	370	1,269	383,991

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

(2) Excludes allowance for credit losses on impaired loans of \$27 million for other credit instruments, which is included in other liabilities (\$27 million as at October 31, 2018).

(3) Excludes allowance for credit losses on performing loans of \$225 million for other credit instruments, which is included in other liabilities (\$204 million as at October 31, 2018).

Renegotiated Loans

The carrying value of our renegotiated loans was \$1,183 million as at April 30, 2019 (\$1,129 million as at October 31, 2018), with \$557 million classified as performing as at April 30, 2019 (\$541 million as at October 31, 2018). Renegotiated loans of \$3 million and \$8 million, respectively, were written off in the three and six months ended April 30, 2019 (\$26 million and \$33 million, respectively, for the three and six months ended April 30, 2018).

Note 4: Transfer of Assets

Loan Securitization

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

During the three and six months ended April 30, 2019, we sold \$1,024 million and \$2,864 million, respectively, of loans to these programs (\$3,419 million and \$4,418 million, respectively, for the three and six months ended April 30, 2018).

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

(Canadian \$ in millions)	April 30, 2019		October 31, 2018	
	Carrying amount of assets (1)	Carrying amount of associated liabilities	Carrying amount of assets (1)	Carrying amount of associated liabilities
Residential mortgages	6,072		5,569	
Other related assets (2)	11,096		11,640	
Total (3)	17,168	16,694	17,209	16,925

(1) Carrying amount of loans is net of allowance for credit losses.

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

(3) The fair values of assets and associated liabilities are \$17,126 million and \$16,869 million, respectively, as at April 30, 2019 (\$17,105 million and \$16,763 million, respectively, as at October 31, 2018).

During the three and six months ended April 30, 2019, we sold and derecognized \$72 million and \$181 million, respectively, of mortgage loans purchased or originated in the U.S. (\$201 million and \$430 million, respectively, for the three and six months ended April 30, 2018). We retain the mortgage servicing rights for these loans, which represent our continuing involvement. As at April 30, 2019, the carrying value of the mortgage servicing rights was \$49 million (\$52 million as at October 31, 2018).

Note 5: Acquisitions

KGS-Alpha Capital Markets ("KGS")

On September 1, 2018, we completed the acquisition of the business of KGS, a U.S. fixed income broker-dealer specializing in U.S. mortgage and asset-backed securities in the institutional investor market, for cash consideration of US\$304 million (CAD\$397 million). During the three months ended January 31, 2019, the purchase price decreased to US\$303 million (CAD\$396 million) due to a post-closing adjustment based upon working capital. The acquisition was accounted for as a business combination, and the acquired business and corresponding goodwill are included in our Capital Markets reporting segment.

As part of this acquisition, we acquired intangible assets of \$49 million and goodwill of \$54 million. The intangible assets are being amortized over three to fourteen years on an accelerated basis. Goodwill of \$32 million related to this acquisition is deductible for tax purposes.

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

(Canadian \$ in millions)		KGS
Securities - trading		5,193
Securities borrowed or purchased under resale agreements		5,669
Goodwill and intangible assets		103
Other Assets		583
Total assets		11,548
Securities lent or sold under repurchase agreements		9,563
Securities sold but not yet purchased		1,431
Other liabilities		158
Purchase price		396

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

Note 6: 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							
	April 30, 2019	October 31, 2018	April 30, 2019	October 31, 2018	April 30, 2019	October 31, 2018	April 30, 2019	October 31, 2018	April 30, 2019	October 31, 2018
Deposits by:										
Banks (1)	1,459	1,450	1,567	1,400	1,035	526	26,238	24,531	30,299	27,907
Business and government	25,026	25,266	33,357	33,984	74,092	67,026	192,288	185,901	324,763	312,177
Individuals	3,451	3,476	22,237	21,345	93,118	90,233	74,969	65,790	193,775	180,844
Total (2) (3)	29,936	30,192	57,161	56,729	168,245	157,785	293,495	276,222	548,837	520,928
Booked in:										
Canada	23,941	21,735	47,957	47,231	86,146	82,091	177,142	160,069	335,186	311,126
United States	5,001	7,395	9,187	9,477	80,767	74,476	81,021	86,805	175,976	178,153
Other countries	994	1,062	17	21	1,332	1,218	35,332	29,348	37,675	31,649
Total	29,936	30,192	57,161	56,729	168,245	157,785	293,495	276,222	548,837	520,928

(1) Includes regulated and central banks.

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

(3) As at April 30, 2019 and October 31, 2018, total deposits payable on a fixed date included \$31,767 million and \$29,673 million, respectively, of federal funds purchased and commercial paper issued and other deposit liabilities. Included in deposits as at April 30, 2019 and October 31, 2018 are \$268,320 million and \$259,747 million, respectively, of deposits denominated in U.S. dollars, and \$39,956 million and \$37,427 million, respectively, of deposits denominated in other foreign currencies.

(4) Includes \$261,028 million of deposits, each greater than one hundred thousand dollars, of which \$162,543 million were booked in Canada, \$63,161 million were booked in the United States and \$35,324 million were booked in other countries (\$246,685 million, \$145,574 million, \$71,770 million and \$29,341 million, respectively, as at October 31, 2018). Of the \$162,543 million of deposits booked in Canada, \$71,007 million mature in less than three months, \$3,162 million mature in three to six months, \$15,103 million mature in six to twelve months and \$73,271 million mature after twelve months (\$145,574 million, \$55,190 million, \$3,836 million, \$12,909 million and \$73,639 million, respectively, as at October 31, 2018).

(5) Includes \$9,164 million of senior unsecured debt as at April 30, 2019 subject to the Bank Recapitalization (Bail-In) regime (\$37 million as at October 31, 2018). 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.

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

Subordinated Debt

During the three and six months ended April 30, 2019, we did not issue or redeem any subordinated debt.

Note 7: Equity

Preferred and Common Shares Outstanding (1)

(Canadian \$ in millions, except as noted)	April 30, 2019		October 31, 2018		
	Number of shares	Amount	Number of shares	Amount	Convertible into...
Preferred Shares - Classified as Equity					
Class B – Series 25	9,425,607	236	9,425,607	236	Class B - Series 26 (2)
Class B – Series 26	2,174,393	54	2,174,393	54	Class B - Series 25 (2)
Class B – Series 27	20,000,000	500	20,000,000	500	Class B - Series 28 (2)(3)
Class B – Series 29	16,000,000	400	16,000,000	400	Class B - Series 30 (2)(3)
Class B – Series 31	12,000,000	300	12,000,000	300	Class B - Series 32 (2)(3)
Class B – Series 33	8,000,000	200	8,000,000	200	Class B - Series 34 (2)(3)
Class B – Series 35	6,000,000	150	6,000,000	150	Not convertible (3)
Class B – Series 36	600,000	600	600,000	600	Class B - Series 37 (2)(3)
Class B – Series 38	24,000,000	600	24,000,000	600	Class B - Series 39 (2)(3)
Class B – Series 40	20,000,000	500	20,000,000	500	Class B - Series 41 (2)(3)
Class B – Series 42	16,000,000	400	16,000,000	400	Class B - Series 43 (2)(3)
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	-	-	Class B - Series 47 (2)(3)
		4,690		4,340	
Common Shares (4) (5)	638,760,869	12,939	639,329,625	12,929	
Share Capital		17,629		17,269	

(1) For additional information refer to Notes 16 and 20 of our annual consolidated financial statements for the year ended October 31, 2018 on pages 182 and 192 of our 2018 Annual Report.

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

(3) The shares issued include a non-viability contingent capital provision, which is necessary for the shares to qualify as regulatory capital under Basel III. As such, the shares are convertible into a variable number of our common shares if OSFI announces that the bank is, or is about to become, non-viable or if a federal or provincial government in Canada publicly announces that the bank has accepted or agreed to accept a capital injection, or equivalent support, to avoid non-viability. In such an event, each preferred share 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 share value of the preferred share issuance (including declared and unpaid dividends on such preferred share issuance) by the conversion price and then times the multiplier.

(4) The stock options issued under the Stock Option Plan are convertible into 6,593,167 common shares as at April 30, 2019 (6,095,201 common shares as at October 31, 2018).

(5) During the three and six months ended April 30, 2019, we did not issue any common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan; we issued 357,233 and 431,244 common shares, respectively, under the Stock Option Plan.

Preferred Shares

On April 17, 2019, we issued 14 million Non-Cumulative 5-Year Rate Reset Class B Preferred Shares Series 46 (Non-Viability Contingent Capital (NVCC)), at a price of \$25 per share, for gross proceeds of \$350 million. For the initial five year period to the earliest redemption date of May 25, 2024, the shares pay quarterly cash dividends, if declared, at a rate of 5.1% per annum. The dividend rate will reset on the earliest redemption date and every fifth year thereafter at a rate equal to the 5-year Government of Canada bond yield plus a premium of 3.51%. Holders have the option to convert their shares into an equal number of Non-Cumulative Floating Rate Class B Preferred Shares Series 47 (Preferred Shares Series 47), subject to certain conditions, on the earliest redemption date and every fifth year thereafter. Holders of the Preferred Shares Series 47 will be entitled to receive non-cumulative preferential floating rate quarterly dividends, as and when declared, equal to the 3-month Government of Canada Treasury Bill yield plus 3.51%.

During the three and six months ended April 30, 2019, we did not redeem any preferred shares.

On March 29, 2019, we announced that we did not intend to exercise our right to redeem the currently outstanding Non-Cumulative 5-Year Rate Reset Class B Preferred Shares Series 27 (Preferred Shares Series 27) on May 25, 2019. As a result, subject to certain conditions, the holders of Preferred Shares Series 27 had the right, at their option, by May 10, 2019, to convert any or all of their Preferred Shares Series 27 on a one-for-one basis into Non-Cumulative Floating Rate Class B Preferred Shares Series 28 (Preferred Shares Series 28). During the conversion period, which ran from April 25, 2019 to May 10, 2019, 412,564 Preferred Shares Series 27 were tendered for conversion into Preferred Shares Series 28, which is less than the minimum 1,000,000 required to give effect to the conversion, as described in the Preferred Shares Series 27 prospectus supplement dated April 16, 2014. As a result, no Preferred Shares Series 28 will be issued and holders of Preferred Shares Series 27 will retain their shares. The dividend rate for the Preferred Shares Series 27 for the five year period commencing on May 25, 2019, and ending on May 24, 2024, will be 3.852%.

Common Shares

During the three months ended April 30, 2019, we did not purchase for cancellation any common shares under the normal course issuer bid ("NCIB") which expires on May 31, 2019. During the six months ended April 30, 2019, 1 million common shares were purchased for cancellation under this program.

As previously announced, subject to receiving Toronto Stock Exchange approval, we will establish a new NCIB that will permit us to purchase for cancellation up to 15 million common shares over a 12-month period commencing on or about June 3, 2019. The NCIB is a regular part of BMO's capital management strategy. The timing and amount of purchases under the NCIB are subject to regulatory approvals and to management discretion, based on factors such as market conditions and capital levels. We will consult with OSFI before making purchases under the NCIB.

Capital Trust Securities

On December 31, 2018, BMO Capital Trust II redeemed all of its issued and outstanding BMO Tier 1 Notes - Series A at a redemption amount equal to \$1,000 for an aggregate redemption of \$450 million, plus accrued and unpaid interest to but excluding the redemption date.

Note 8: Fair Value of Financial Instruments

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

Set out in the following 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, 2018 on pages 184 to 190 for further discussion on the determination of fair value.

(Canadian \$ in millions)	April 30, 2019		October 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Securities				
Amortized cost	7,881	7,855	6,485	6,288
Loans (1)				
Residential mortgages	120,708	120,590	119,544	118,609
Consumer instalment and other personal	63,938	64,109	62,687	62,618
Credit cards	8,227	8,227	8,099	8,099
Business and government (2)	217,578	218,195	192,225	191,989
	410,451	411,121	382,555	381,315
Deposits (3)	532,695	533,352	506,742	506,581
Securitization and structured entities' liabilities	25,621	25,757	25,051	24,838
Subordinated debt	6,953	7,168	6,782	6,834

This table excludes financial instruments with a carrying value approximating fair value, including 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 of loans is net of allowance.

(2) Excludes \$2,816 million of loans classified as FVTPL as at April 30, 2019 (\$1,450 million as at October 31, 2018).

(3) Excludes \$16,142 million of structured note liabilities designated at fair value through profit or loss and accounted for at fair value (\$14,186 million as at October 31, 2018).

Financial Instruments Designated at Fair Value

Most of our structured note liabilities included in deposits have been designated at fair value through profit or loss which aligns the accounting result with the way the portfolio is managed. The fair value and notional amount due at contractual maturity of these structured notes as at April 30, 2019 were \$16,142 million and \$15,701 million, respectively (\$14,186 million and \$14,548 million, respectively, as at October 31, 2018). The change in fair value of these structured notes was recorded as a decrease of \$365 million and a decrease of \$765 million in non-interest revenue, trading revenue and a decrease of \$121 million and a decrease of \$14 million recorded in other comprehensive income related to changes in our credit spread, respectively, for the three and six months ended April 30, 2019 (an increase of \$197 million and a decrease of \$72 million recorded in non-interest revenue, trading revenue, and an increase of \$49 million and a decrease of \$41 million recorded in other comprehensive income related to changes in our own credit spread, respectively, for the three and six months ended April 30, 2018). The impact of economic hedges used to manage the exposure is also recorded in non-interest revenue, trading revenue. The impact of changes in our credit spread is measured based on movements in our credit spread quarter over quarter.

The cumulative change in fair value related to changes in our own credit spread that has been recognized since the notes were designated at fair value to April 30, 2019 was an unrealized loss of \$345 million, of this an unrealized loss of \$269 million was recorded in other comprehensive income, with an unrealized loss of \$76 million recorded through the Consolidated Statement of Income prior to the adoption of IFRS 9 own credit provision in 2015.

We designate certain securities held by our insurance subsidiaries that support our insurance liabilities at fair value through profit or loss since the actuarial calculation of insurance liabilities is based on the fair value of the investments supporting them. This designation aligns the accounting result with the way the portfolio is managed on a fair value basis. The change in fair value of the assets is recorded in non-interest revenue, insurance revenue and the change in fair value of the liabilities is recorded in insurance claims, commissions and changes in policy benefit liabilities. The fair value of these investments as at April 30, 2019 of \$10,007 million (\$8,783 million as at October 31, 2018) is recorded in securities in our Consolidated Balance Sheet. The impact of recording these investments at fair value through profit or loss was an increase of \$337 million and \$593 million in non-interest revenue, insurance revenue, respectively, for the three and six months ended April 30, 2019 (a decrease of \$124 million and \$134 million, respectively, for the three and six months ended April 30, 2018).

We designate the obligation related to certain investment contracts in our insurance business at fair value through profit or loss, which eliminates a measurement inconsistency that would otherwise arise from measuring the investment contract liabilities and offsetting changes in the fair value of the investments supporting them on a different basis. The fair value of these investment contract liabilities as at April 30, 2019 of \$952 million (\$800 million as at October 31, 2018) is recorded in other liabilities in our Consolidated Balance Sheet. The change in fair value of these investment contract liabilities resulted in an increase of \$24 million and an increase of \$61 million in insurance claims, commissions, and changes in policy benefit liabilities, respectively, for the three and six months ended April 30, 2019 (an increase of \$1 million and a decrease of \$13 million, respectively, for the three and six months ended April 30, 2018). For the three and six months ended April 30, 2019, a decrease of \$13 million and a decrease of \$12 million, respectively, was recorded in other comprehensive income related to changes in our own credit spread (an increase of \$8 million and a decrease of \$2 million, respectively, for the three and six months ended April 30, 2018). Changes in the fair value of investments backing these investment contract liabilities are recorded in non-interest revenue, insurance revenue. The impact of changes in our credit spread is measured based on movements in our credit spread quarter over quarter.

Fair Value Hierarchy

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

Valuation Techniques and Significant Inputs

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

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

The extent of our use of actively quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities, loans, fair value liabilities, derivative assets and derivative liabilities was as follows:

(Canadian \$ in millions)

April 30, 2019

	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	Total
Trading Securities				
Issued or guaranteed by:				
Canadian federal government	8,176	1,665	-	9,841
Canadian provincial and municipal governments	3,998	4,815	-	8,813
U.S. federal government	11,516	823	-	12,339
U.S. states, municipalities and agencies	47	626	-	673
Other governments	1,231	648	-	1,879
NHA MBS, U.S. agency MBS and CMO	35	9,384	215	9,634
Corporate debt	2,022	5,601	7	7,630
Loans	-	263	-	263
Corporate equity	49,918	1	-	49,919
	76,943	23,826	222	100,991
FVTPL Securities				
Issued or guaranteed by:				
Canadian federal government	434	91	-	525
Canadian provincial and municipal governments	285	797	-	1,082
U.S. federal government	1	70	-	71
Other governments	-	31	-	31
NHA MBS, U.S. agency MBS and CMO	-	6	-	6
Corporate debt	79	7,616	-	7,695
Corporate equity	1,522	65	1,907	3,494
	2,321	8,676	1,907	12,904
FVOCI Securities				
Issued or guaranteed by:				
Canadian federal government	10,692	2,236	-	12,928
Canadian provincial and municipal governments	4,744	2,862	-	7,606
U.S. federal government	15,302	2,167	-	17,469
U.S. states, municipalities and agencies	-	4,068	1	4,069
Other governments	2,544	3,838	-	6,382
NHA MBS, U.S. agency MBS and CMO	-	15,196	-	15,196
Corporate debt	1,126	3,823	-	4,949
Corporate equity	-	-	69	69
	34,408	34,190	70	68,668
Business and government Loans				
	-	644	2,172	2,816
Fair Value Liabilities				
Securities sold but not yet purchased	27,930	4,093	-	32,023
Structured note liabilities and other note liabilities	-	16,142	-	16,142
Investment contract liabilities	-	952	-	952
	27,930	21,187	-	49,117
Derivative Assets				
Interest rate contracts	7	8,725	-	8,732
Foreign exchange contracts	5	9,506	-	9,511
Commodity contracts	113	1,261	-	1,374
Equity contracts	178	781	-	959
Credit default swaps	-	51	-	51
	303	20,324	-	20,627
Derivative Liabilities				
Interest rate contracts	13	6,728	-	6,741
Foreign exchange contracts	3	10,568	-	10,571
Commodity contracts	182	1,030	-	1,212
Equity contracts	98	2,826	-	2,924
Credit default swaps	-	101	-	101
	296	21,253	-	21,549

	Valued using quoted market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	Total
Trading Securities				
Issued or guaranteed by:				
Canadian federal government	9,107	1,213	-	10,320
Canadian provincial and municipal governments	4,013	4,689	-	8,702
U.S. federal government	9,465	52	-	9,517
U.S. states, municipalities and agencies	78	1,138	-	1,216
Other governments	1,210	201	-	1,411
NHA MBS, U.S. agency MBS and CMO	60	8,869	255	9,184
Corporate debt	2,973	6,218	7	9,198
Loans	-	199	-	199
Corporate equity	49,946	4	-	49,950
	76,852	22,583	262	99,697
FVTPL Securities				
Issued or guaranteed by:				
Canadian federal government	328	103	-	431
Canadian provincial and municipal governments	219	727	-	946
U.S. federal government	69	-	-	69
NHA MBS, U.S. agency MBS and CMO	-	7	-	7
Corporate debt	178	6,643	-	6,821
Corporate equity	1,378	134	1,825	3,337
	2,172	7,614	1,825	11,611
FVOCI Securities				
Issued or guaranteed by:				
Canadian federal government	11,978	827	-	12,805
Canadian provincial and municipal governments	3,315	3,547	-	6,862
U.S. federal government	16,823	-	-	16,823
U.S. states, municipalities and agencies	14	3,640	1	3,655
Other governments	3,143	1,647	-	4,790
NHA MBS, U.S. agency MBS and CMO	-	13,687	-	13,687
Corporate debt	1,959	1,797	-	3,756
Corporate equity	-	-	62	62
	37,232	25,145	63	62,440
Business and government Loans	-	-	1,450	1,450
Fair Value Liabilities				
Securities sold but not yet purchased	26,336	2,468	-	28,804
Structured note liabilities and other note liabilities	-	14,186	-	14,186
Investment contract liabilities	-	800	-	800
	26,336	17,454	-	43,790
Derivative Assets				
Interest rate contracts	18	8,959	-	8,977
Foreign exchange contracts	16	12,983	-	12,999
Commodity contracts	166	1,894	-	2,060
Equity contracts	286	1,872	-	2,158
Credit default swaps	-	10	-	10
	486	25,718	-	26,204
Derivative Liabilities				
Interest rate contracts	14	8,620	-	8,634
Foreign exchange contracts	2	11,852	-	11,854
Commodity contracts	295	1,161	-	1,456
Equity contracts	246	2,183	1	2,430
Credit default swaps	-	36	1	37
	557	23,852	2	24,411

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

Significant Transfers

Our policy is to record transfers of assets and liabilities between fair value hierarchy levels at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Transfers between the various fair value hierarchy levels reflect changes in the availability of quoted market prices or observable market inputs that result from changes in market conditions. The following is a discussion of the significant transfers between Level 1, Level 2 and Level 3 balances for the three and six months ended April 30, 2019. As at April 30, 2019, we refined our judgement of whether quoted prices for fixed income securities were obtained from markets that are active or not in the determination of whether a security should be Level 1 or Level 2, with the result that certain securities are shown as a transfer to Level 2 in the quarter.

During the three and six months ended April 30, 2019, \$1,954 million and \$3,658 million, respectively, of trading securities, \$141 million and \$464 million, respectively, of FVTPL securities, and \$7,282 million and \$7,889 million, respectively, of FVOCI securities were transferred from Level 1 to Level 2 due to our refined approach and reduced observability of the inputs used to value these securities. During the three and six months ended April 30, 2019, \$2,700 million and \$3,359 million, respectively, of trading securities, \$248 million and \$352 million, respectively, of FVTPL securities and \$464 million and \$1,575 million, respectively, of FVOCI securities were transferred from Level 2 to Level 1 due to increased availability of quoted prices in active markets.

During the three and six months ended April 30, 2019, \$26 million and \$45 million, respectively, of trading securities were transferred from Level 2 to Level 3 due to changes in the market observability of inputs used in pricing these securities, \$18 million and \$35 million, respectively, were transferred from Level 3 to Level 2 due to the availability of observable price inputs used to value these securities.

Changes in Level 3 Fair Value Measurements

The table below presents a reconciliation of all changes in Level 3 financial instruments during the three and six months ended April 30, 2019, including realized and unrealized gains (losses) included in earnings and other comprehensive income.

	Change in fair value									Change in unrealized gains (losses) recorded in income for instruments still held
(Canadian \$ in millions)	Balance January 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	Fair Value as at April 30, 2019	
For the three months ended April 30, 2019										
Trading Securities										
NHA MBS and U.S. agency MBS and CMO	231	(2)	5	87	(114)	-	26	(18)	215	(6)
Corporate debt	6	-	-	6	(5)	-	-	-	7	-
Total trading securities	237	(2)	5	93	(119)	-	26	(18)	222	(6)
FVTPL Securities										
Corporate equity	1,786	(4)	27	124	(26)	-	-	-	1,907	4
Total FVTPL securities	1,786	(4)	27	124	(26)	-	-	-	1,907	4
FVOCI Securities										
Issued or guaranteed by:										
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na
Corporate equity	64	-	-	5	-	-	-	-	69	na
Total FVOCI securities	65	-	-	5	-	-	-	-	70	na
Business and government Loans	2,429	-	48	97	-	(402)	-	-	2,172	-
Fair Value Liabilities										
Securities sold but not yet purchased	7	-	-	(7)	-	-	-	-	-	-
Total fair value liabilities	7	-	-	(7)	-	-	-	-	-	-
Derivative Liabilities										
Equity contracts	-	-	-	-	-	-	-	-	-	-
Credit default swaps	1	-	-	-	-	-	-	(1)	-	-
Total derivative liabilities	1	-	-	-	-	-	-	(1)	-	-

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

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

na – Not applicable

	Change in fair value									Change in unrealized gains (losses) recorded in income for instruments still held	
(Canadian \$ in millions)	Balance October 31, 2018	Included in earnings	Included in other comprehensive income (1)	Issuances/ Purchases	Sales (2)	Maturities/ Settlement	Transfers into Level 3	Transfers out of Level 3	Fair Value as at April 30, 2019		
For the six months ended April 30, 2019											
Trading Securities											
NHA MBS and U.S. agency MBS and CMO	255	(7)	4	183	(230)	-	45	(35)	215	(7)	
Corporate debt	7	-	-	6	(6)	-	-	-	7	-	
Total trading securities	262	(7)	4	189	(236)	-	45	(35)	222	(7)	
FVTPL Securities											
Corporate equity	1,825	10	23	247	(198)	-	-	-	1,907	20	
Total FVTPL	1,825	10	23	247	(198)	-	-	-	1,907	20	
FVOCI Securities											
Issued or guaranteed by:											
U.S. states, municipalities and agencies	1	-	-	-	-	-	-	-	1	na	
Corporate equity	62	-	-	7	-	-	-	-	69	na	
Total FVOCI securities	63	-	-	7	-	-	-	-	70	na	
Business and government Loans	1,450	7	44	1,214	-	(543)	-	-	2,172	-	
Fair Value Liabilities											
Securities sold but not yet purchased	-	-	-	(7)	7	-	-	-	-	-	
Total fair value liabilities	-	-	-	(7)	7	-	-	-	-	-	
Derivative Liabilities											
Equity contracts	1	-	-	-	-	-	-	(1)	-	-	
Credit default swaps	1	-	-	-	-	-	-	(1)	-	-	
Total derivative liabilities	2	-	-	-	-	-	-	(2)	-	-	

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

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

na – Not applicable

Note 9: Capital Management

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

As at April 30, 2019, 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 1.75% Domestic Stability Buffer (DSB) applicable to D-SIBs. Our capital position as at April 30, 2019 is detailed in the Capital Management section of Management's Discussion and Analysis of the Second Quarter 2019 Report to Shareholders.

Note 10: Employee Compensation

Stock Options

We did not grant any stock options during the three months ended April 30, 2019 and 2018. During the six months ended April 30, 2019, we granted a total of 931,047 stock options (705,398 stock options during the six months ended April 30, 2018). The weighted-average fair value of options granted during the six months ended April 30, 2019 was \$10.23 per option (\$11.30 per option for the six months ended April 30, 2018).

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 six months ended	April 30, 2019	April 30, 2018
Expected dividend yield	5.7%	4.1%
Expected share price volatility	20.0% - 20.1%	17.0% - 17.3%
Risk-free rate of return	2.5%	2.1%
Expected period until exercise (in years)	6.5 - 7.0	6.5 - 7.0
Exercise price (\$)	89.90	100.63

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

Pension and Other Employee Future Benefit Expenses

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

(Canadian \$ in millions)

	Pension benefit plans		Other employee future benefit plans	
For the three months ended	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Current service cost	48	53	3	8
Net interest (income) expense on net defined benefit (asset) liability	(4)	(2)	9	11
Administrative expenses	1	1	-	-
Benefits expense	45	52	12	19
Canada and Quebec pension plan expense	26	24	-	-
Defined contribution expense	36	31	-	-
Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	107	107	12	19

(Canadian \$ in millions)

	Pension benefit plans		Other employee future benefit plans	
For the six months ended	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Current service cost	96	105	5	15
Net interest (income) expense on net defined benefit (asset) liability	(9)	(4)	19	23
Past service income	(5)	-	-	-
Administrative expenses	2	2	-	-
Benefits expense	84	103	24	38
Canada and Quebec pension plan expense	47	44	-	-
Defined contribution expense	90	90	-	-
Total pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	221	237	24	38

Note 11: Earnings Per Share

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

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

The following tables present our basic and diluted earnings per share:

Basic Earnings Per Share

(Canadian \$ in millions, except as noted)	For the three months ended		For the six months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Net income attributable to bank shareholders	1,497	1,246	3,007	2,219
Dividends on preferred shares	(48)	(46)	(100)	(91)
Net income available to common shareholders	1,449	1,200	2,907	2,128
Weighted-average number of common shares outstanding (in thousands)	638,574	643,734	638,753	645,735
Basic earnings per share (Canadian \$)	2.27	1.87	4.55	3.30

Diluted Earnings Per Share

Net income available to common shareholders adjusted for impact of dilutive instruments	1,449	1,200	2,907	2,128
Weighted-average number of common shares outstanding (in thousands)	638,574	643,734	638,753	645,735
Effect of dilutive instruments				
Stock options potentially exercisable (1)	6,037	5,497	5,356	5,711
Common shares potentially repurchased	(4,351)	(3,604)	(3,787)	(3,671)
Weighted-average number of diluted common shares outstanding (in thousands)	640,260	645,627	640,322	647,775
Diluted earnings per share (Canadian \$)	2.26	1.86	4.54	3.29

(1) In computing diluted earnings per share we excluded average stock options outstanding of 687,059 and 1,343,031 with a weighted-average exercise price of \$104.14 and \$101.82, respectively, for the three and six months ended April 30, 2019 (1,683,632 and 1,584,274 with a weighted-average exercise price of \$119.63 and \$120.68, respectively, for the three and six months ended April 30, 2018) as the average share price for the period did not exceed the exercise price.

Note 12: Income Taxes

During the quarter ended April 30, 2019, Canada Revenue Agency (CRA) proposed to reassess us for additional taxes and interest in an amount of approximately \$250 million in respect of certain 2014 Canadian corporate dividends. In prior fiscal years, we were reassessed by the CRA for additional income taxes and interest of approximately \$361 million for certain 2011-2013 Canadian corporate dividends. In its reassessments, the CRA denied dividend deductions on the basis that the dividends were received as part of a "dividend rental arrangement." The tax rules raised by the CRA in the reassessments 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 in 2015 and subsequent years. We remain of the view that our tax filing positions were appropriate and intend to challenge any reassessment.

Note 13: Operating Segmentation

Operating Groups

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

For additional information refer to Note 25 of the consolidated financial statements for the year ended October 31, 2018 on pages 203 to 205 of the Annual Report.

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

(Canadian \$ in millions)

	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
For the three months ended April 30, 2019						
Net interest income	1,407	1,035	230	599	(136)	3,135
Non-interest revenue	514	281	1,612	630	41	3,078
Total Revenue	1,921	1,316	1,842	1,229	(95)	6,213
Provision for (recovery of) credit losses on impaired loans	122	18	(1)	12	(1)	150
Provision for credit losses on performing loans	16	5	1	3	1	26
Total Provision for credit losses	138	23	-	15	-	176
Insurance claims, commissions and changes in policy benefit liabilities	-	-	561	-	-	561
Amortization	84	117	64	38	-	303
Non-interest expense	868	658	818	849	99	3,292
Income (loss) before taxes	831	518	399	327	(194)	1,881
Provision for (recovery of) income taxes	216	112	94	78	(116)	384
Net Income	615	406	305	249	(78)	1,497
Average Assets	235,680	124,725	40,402	344,427	75,742	820,976

	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
For the three months ended April 30, 2018						
Net interest income	1,338	936	204	319	(131)	2,666
Non-interest revenue	492	269	1,380	723	50	2,914
Total Revenue	1,830	1,205	1,584	1,042	(81)	5,580
Provision for (recovery of) credit losses on impaired loans	131	66	1	(16)	(10)	172
Provision for (recovery of) credit losses on performing loans	(3)	(12)	(1)	3	1	(12)
Provision for (recovery of) credit losses	128	54	-	(13)	(9)	160
Insurance claims, commissions and changes in policy benefit liabilities	-	-	332	-	-	332
Amortization	79	115	60	31	-	285
Non-interest expense	830	596	802	640	372	3,240
Income (loss) before taxes	793	440	390	384	(444)	1,563
Provision for (recovery of) income taxes	205	92	94	98	(172)	317
Net Income	588	348	296	286	(272)	1,246
Average Assets	223,182	108,624	35,246	302,772	73,814	743,638

(Canadian \$ in millions)

	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
For the six months ended April 30, 2019						
Net interest income	2,840	2,094	462	1,160	(249)	6,307
Non-interest revenue	1,035	560	3,520	1,201	107	6,423
Total Revenue	3,875	2,654	3,982	2,361	(142)	12,730
Provision for (recovery of) credit losses on impaired loans	236	33	1	13	(6)	277
Provision for (recovery of) credit losses on performing loans	22	(4)	1	17	-	36
Total provision for (recovery of) credit losses	258	29	2	30	(6)	313
Insurance claims, commissions and changes in policy benefit liabilities	-	-	1,487	-	-	1,487
Amortization	163	229	131	71	-	594
Non-interest expense	1,750	1,314	1,646	1,608	240	6,558
Income (loss) before taxes	1,704	1,082	716	652	(376)	3,778
Provision for (recovery of) income taxes	442	232	172	148	(223)	771
Net Income	1,262	850	544	504	(153)	3,007
Average Assets	233,583	122,346	39,559	342,316	82,781	820,585

	Canadian P&C	U.S. P&C	Wealth Management	BMO CM	Corporate Services (1)	Total
For the six months ended April 30, 2018						
Net interest income	2,718	1,839	404	881	(301)	5,541
Non-interest revenue	1,015	537	2,786	1,245	94	5,677
Total Revenue	3,733	2,376	3,190	2,126	(207)	11,218
Provision for (recovery of) credit losses on impaired loans	228	143	2	(17)	(10)	346
Provision for (recovery of) credit losses on performing loans	1	(42)	(3)	(1)	-	(45)
Provision for (recovery of) credit losses	229	101	(1)	(18)	(10)	301
Insurance claims, commissions and changes in policy benefit liabilities	-	-	693	-	-	693
Amortization	160	227	117	60	-	564
Non-interest expense	1,687	1,193	1,640	1,333	508	6,361
Income (loss) before taxes	1,657	855	741	751	(705)	3,299
Provision for income taxes	423	197	179	194	87	1,080
Net Income	1,234	658	562	557	(792)	2,219
Average Assets	222,402	106,383	34,755	299,031	72,846	735,417

(1) Corporate Services includes Technology and Operations.

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

Certain comparative figures have been reclassified to conform with the current period's presentation and for changes in accounting policy (Note 1).

INVESTOR AND MEDIA PRESENTATION

Investor Presentation Materials

Interested parties are invited to visit our website at www.bmo.com/investorrelations to review our 2018 annual MD&A and audited annual consolidated financial statements, quarterly presentation materials and supplementary financial information package.

Quarterly Conference Call and Webcast Presentations

Interested parties are also invited to listen to our quarterly conference call on Wednesday, May 29, 2019, at 8:00 a.m. (ET). The call may be accessed by telephone at 416-641-2144 (from within Toronto) or 1-888-789-9572 (toll-free outside Toronto), entering Passcode: 3792150#. A replay of the conference call can be accessed until Monday, August 26, 2019, by calling 905-694-9451 (from within Toronto) or 1-800-408-3053 (toll-free outside Toronto) and entering Passcode: 9055681#.

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

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Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan)

Average market price as defined under the Plan

February 2019: \$98.92

March 2019: \$100.76

April 2019: \$105.72

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

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E-mail: service@computershare.com

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

Bank of Montreal

Shareholder Services

Corporate Secretary's Department

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

Our 2018 Annual MD&A, audited annual consolidated financial statements and annual report on Form 40-F (filed with the U.S. Securities and Exchange Commission) are available online at www.bmo.com/investorrelations and at www.sedar.com. Printed copies of the bank's complete 2018 audited financial statements are available free of charge upon request at 416-867-6785 or corp.secretary@bmo.com.

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