

BMO Capital Markets Limited
2023
MIFIDPRU Disclosure

As at 31 October 2023

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Glossary

Abbreviation	Definition
ALCO	London Asset Liability Committee
BCBS	Basel Committee on Banking Supervision
BME	Bank of Montreal Europe plc
BMO	Bank of Montreal/BMO Financial Group
BMO CML	BMO Capital Markets Limited
CLCO	Chief Legal and Compliance Officer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 Capital
CFO	Chief Finance Officer, International
CRO	Chief Risk Officer, Europe
CRD	Capital Requirements Directive
EBA	European Banking Authority

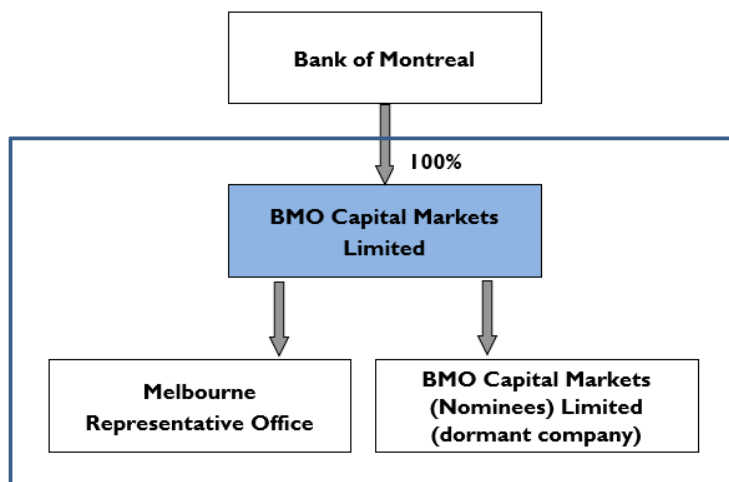
Abbreviation	Definition
EMEA	European, Middle East and Africa
ERPM	Enterprise Risk and Portfolio Management
FCA	Financial Conduct Authority
FOR	Fixed Overheads Requirement
FSB	Financial Stability Board
GGA	Global Governance Advisors
HR	Human Resources
IAAP	Initiative Assessment and Approval Process
ICARA	Internal capital adequacy and risk assessment
IFPR	Prudential sourcebook for Investment Firms
INED	Independent Non-Executive Director
KFR	K-Factor
KPI	Key Performance Indicator
K-ASA	Assets safeguarded and administered
K-AUM	Assets under management
K-COH	Client orders handled
K-CON	Concentration risk
K-CMG	Client margin given
K-CMH	Client money held
K-DTF	Daily trading flow
K-NPR	Net position risk
K-TCD	Trading counterparty default
LCC	London Conduct Committee
LMC	London Management Committee
LMRC	London Risk Management Committee
LOB	Line of Business
London Branch	Bank of Montreal, London Branch
LRMC	London Risk Management Committee
MIFIDPRU	Markets in Financial Instruments Directive Prudential
NED	Non-Executive Director
Non-SNI	Non-small and non-interconnected
OFAR	Overall Financial Adequacy Rule
PGC	Product Governance Committee
RAF	Risk Appetite Framework
RMA	Risk Materiality Assessment
SMF	Senior Management Function
SYSC	Senior Management Arrangements, Systems and Controls
TOCA	Technology, Operations and Corporate Areas
TP	Transitional Provision

1. Overview

Purpose of disclosure

The disclosure in this report has been prepared for BMO Capital Markets Limited ("BMOCL"). BMOCL is a UK incorporated Investment firm authorised and regulated by the Financial Conduct Authority ("FCA"). BMOCL is a wholly owned subsidiary of Bank of Montreal ("BMO").

Figure 1: BMOCL structure



BMOCL is classified as a non-small and non-interconnected ("non-SNI") investment firm. Therefore, BMOCL is subject to the prudential requirement of the Investment Firms Prudential Regime ("IFPR") held in the FCA Markets in Financial Instruments Directive Prudential sourcebook ("MIFIDPRU") for Markets in Financial Instruments Directive ("MIFID") investment firms.

MIFIDPRU disclosure provide market participants with both qualitative and quantitative information on the firm's risk governance, risk management processes, own funds, own funds requirements and remuneration policies.

BMOCL comprises four separate business units as detailed in the BMOCL financial statements under the strategic report section.

The disclosures have been reviewed by the BMOCL Board.

Frequency of disclosure

The disclosure is required to be published at least annually as at the accounting reference date i.e. 31 October and if appropriate, more frequently. The disclosures are published on the BMO Capital Markets website (<https://capitalmarkets.bmo.com/en/about-us/regulatory/>).

MIFIDPRU Transitional provision

For the year ended 31 October 2023 transitional provision 12 is no longer applicable and BMOCL will be required to disclose information in line with MIFIDPRU 8.2 and MIFIDPRU 8.7.

BMOCL is subject to the FCA's MIFIDPRU Remuneration Code is categorised as a non-SNI MIFIDPRU firm.

Policy of disclosure

BMOCL has adopted a formal policy to comply with the disclosure requirements set out in MIFIDPRU 8 and has policies for assessing the appropriateness of the disclosure including their verification and the frequency of which the disclosures are made.

The disclosure is prepared on a solo basis. The information provided in this document is not required to be subject to an external audit. These disclosures do not constitute any form of a financial statement and should not be relied upon in making any financial or investment decision.

The disclosures have been subject to review and verification in accordance with the internal BMO CML disclosure policy. The disclosures have been deemed adequate, both in terms of frequency and level of detail, to convey BMO CML's risk profile comprehensively to market participants.

2. Risk management objectives and policies

Summary

BMO CML operates a robust risk management framework to ensure risks are effectively identified, measured, monitored and managed. The framework is led by the Chief Risk Officer ("CRO"), with Senior Management Function ("SMF") 4 designation, who operates independently from the business and leads a team of specialist risk managers in executing risk oversight activities for the firm which includes:

- BMO CML's risk policy framework that ensures there is a consistent approach to managing risk, which is aligned to enterprise and regulatory requirements;
- A comprehensive risk identification and assessment process ensures material risks of harm posed by BMO CML are identified, monitored and managed on an on-going basis;
- The Risk Appetite Framework ("RAF") is used to define the level of risk exposure the BMO CML Board are willing to accept in the pursuit of the business strategy, measured against a comprehensive set of risk metrics and associated thresholds;
- The three lines of defence model is integral to the risk management framework, supporting the definition of roles and responsibilities and ensuring independent assessment of risk-taking activities;
- The risk management framework is supported by strong governance, incorporating a Board and committee structure mandated to oversee risks faced throughout BMO CML. Multiple escalation paths exist to ensure that heightened risk exposure is quickly communicated and addressed; and
- The impact of any new business, including specific impacts on risk profile, is managed through a formalised and centrally managed Initiative Assessment and Approval Process ("IAAP").

A detailed description of the risks posed by BMO CML and the processes for managing these risks is set out in the BMO CML Internal Capital Adequacy and Risk Assessment ("ICARA") document which is reviewed and updated at least annually by the Board. The following pages provide a summary of this document.

Own funds

BMO CML has a conservative approach to the holding of own funds and will, at all times, hold levels in excess of prudential regulatory requirements. A sufficient level of own funds is required for BMO CML to operate throughout the economic cycle including during a stress environment. Any significant or prolonged stress would impact BMO CML's own funds and is assessed and documented in the ICARA.

Own funds are monitored and managed daily within risk appetite thresholds set to allow early identification and management actions to be executed before levels fall close to regulatory minimum requirements or for any material impact to the business strategy to be realised.

Stress testing is used to explore the potential impacts of a range of severe but plausible scenarios, giving further assurance that BMO CML is holding adequate levels of own funds to withstand significant shocks.

Concentration risk

Concentration risk may arise from concentrations of exposure to single names, groups of connected counterparties, countries or sectors. It is primarily considered in the context of market and credit losses. BMO CML also considers whether other sources of concentration exist which may impact the business from a monetary or operational perspective.

Concentration risks are managed under the requirements of the BMO CML concentration risk policy. The policy has been defined in alignment with the IFPR and includes consideration of own funds for concentrated exposures under MIFIDPRU 5.

Material forms of concentration risk are monitored and reported daily against risk limits and risk appetite thresholds. Escalation procedures and management actions are defined to articulate how escalated risks will be addressed.

Liquidity and funding risk

The materiality of liquidity and funding risk is assessed as part of the annual Risk Materiality Assessment ("RMA"). BMO CML uses a risk inventory process consistent with the assessment conducted as part of the ICARA own funds and liquidity assessment.

BMO CML primarily manages its liquidity risk by financing its business activities, when required, through the use of an unsecured uncommitted loan facility from BMO.

For stress considerations, BMO CML maintains contingent liquid assets composed of cash deposits mostly held overnight with external credit institutions and other short dated high-quality fixed income liquid assets such as UK Government bonds held outright. These can be sold to cover any immediate or short-term cash obligations. BMO CML also has a USD \$150 million multi-currency unsecured committed loan facility with BMO.

The Asset Liability Committee ("ALCO") is mandated to review BMO CML's internal liquidity adequacy process, policies, frameworks and general items of importance with any findings reported to the BMO CML Board.

Risk management, as second line of defence, provide oversight of the liquidity and funding profile of BMO CML, with exposures monitored against desk and entity limits and risk appetite thresholds.

Material risks

As part of the ICARA process, a formal RMA is conducted each year to identify the material risks posed by BMO CML's business strategy and objectives. In line with the requirements of the IFPR this process focuses on the potential harms posed to the firm, the market and our clients.

The risks posed by BMO CML are primarily to the firm itself, be it caused by adverse market conditions, worsening credit conditions or conduct and operational events. BMO CML's interdependence on the BMO Financial Group also poses financial, reputational and funding risks.

BMO CML poses limited risk to the market given its size and market share, however a significant conduct or reputational event could have some knock-on impact to market integrity.

Given the size and type of clients BMO CML transact with, the primary risk of harm posed would be in the failure of BMO CML to deliver on its financial commitments, which could be caused by liquidity, funding or operational issues. Given the markets BMO CML operate in there is also the potential for conduct / financial crime events to cause negative outcomes for our clients who could become involved in regulatory or legal action.

Risk management

Monitoring and reporting activities cover all material financial and non-financial risk types and includes daily, monthly and quarterly reporting to management, relevant committees and the Board against approved limits and product lists. This ensures the early identification and escalation of any changes in risk profile which threaten the agreed risk appetite.

Daily trading limits are cascaded from the risk appetite ensuring a direct link from risk appetite thresholds to business-as-usual activities. All new products follow an established product approval process which includes due diligence and sign off by all relevant functions and businesses in the first and second lines of defence.

Stress testing, including reverse stress testing, and scenario analysis is used to further understand potential vulnerabilities within the firm and to facilitate management actions as necessary. In recent years a number of scenarios have been implemented to explore potential impacts caused by factors such as the COVID pandemic, Ukraine crisis and ongoing geopolitical tensions.

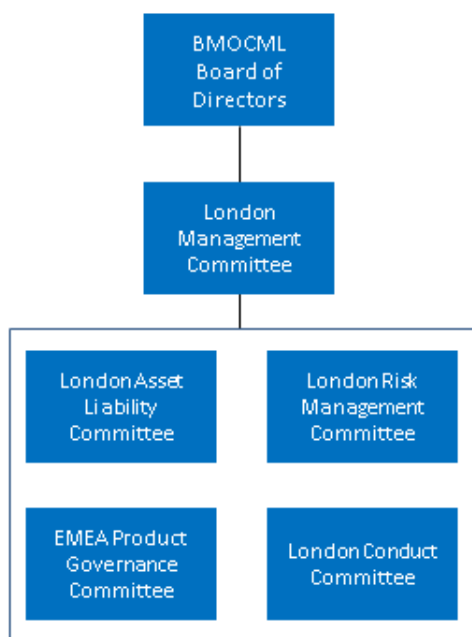
Risk governance

The BMO CML risk management framework is governed by BMO's Enterprise Risk and Portfolio Management ("ERPM") policies. Local policies may supplement these where they are required to meet UK and/or European regulation. All policies are reviewed annually and updated as required.

Governance structure

Risk is governed within the following Board and Committee structure:

Figure 2: BMOCLM committee structure



Board	
Board	Scope and responsibilities
BMOCLM Board	BMOCLM Board fulfils its responsibilities in relation to the identification and management of risk, the establishment of the risk appetite and adherence to internal risk management policies and procedures. To ensure adequate independent challenge and oversight, three Independent Non-Executive Director's ("INED") with financial services backgrounds have been appointed to the BMOCLM Board, one as Chair. The Board meets at least quarterly.
Committee	
Committee	Scope and responsibilities
London Management Committee ("LMC")	LMC is the senior collective management forum for the activities of Bank of Montreal, London. The LMC is responsible for overseeing the activities of the businesses and support functions in London and, in particular, the risks attributable to the conduct of business in London in accordance with best principles of corporate governance, risk practice, law, regulation and the established policies, procedures and strategies of BMO. The LMC meets monthly and is chaired by the Head of International and Chief Executive Officer ("CEO").
London Asset Liability Committee ("ALCO")	ALCO is a sub-committee of the LMC, and its mandate covers activities of BMOCLM across all categories of balance sheet development, liquidity and funding management, treasury, tax review, strategies and efficient capital allocation. It is mandated to provide appropriate financial oversight, especially for the balance sheet development and liquidity and funding management for BMO London activities, including ensuring that the financial procedures, liquidity management, policies and controls within BMO London are appropriate and effective. The ALCO meets monthly and is chaired by the Director of Finance.
London Risk Management Committee ("LRMC")	LRMC is a sub-committee of the LMC, and members include the senior administrative and risk executives of BMOCLM. The LRMC serves as a committee to review, inform, consult and challenge significant risk issues and action plans addressing current and emerging risks that arise in the course of executing the business strategy. The LRMC meets monthly and is chaired by the CRO.

Committee	
Committee	Scope and responsibilities
London Conduct Committee ("LCC")	LCC is a sub-committee of the LMC and provides oversight in relation to conduct issues in BMO CML. The LCC meets monthly, is chaired by the Chief Legal & Compliance Officer, International ("CLCO") and reports quarterly to the LMC.
EMEA Product Governance Committee ("PGC")	The European, Middle East and Africa ("EMEA") PGC is a sub-committee of the LMC. The EMEA Product Governance Committee is a MIFID II driven initiative where manufacturers and distributors of financial products must put a governance framework in place around the development and placement of products that put the client at the forefront. MIFID II has introduced product intervention powers for national competent authorities, European Securities and Markets Authority and the European Banking Authority ("EBA"). The PGC meets quarterly and reports into both the LMC and the Bank of Montreal Europe plc ("BME") Compliance Committee. The PGC is chaired by the Head of Global Markets EMEA.

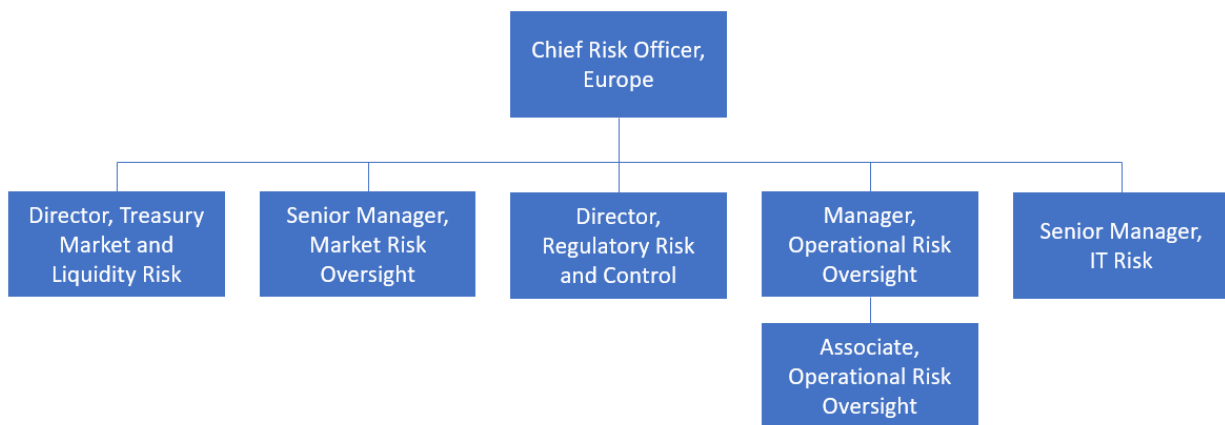
Risk management function

The CRO reports to the Chair of the Board and is the Chair of the LRMC. The CRO ensures:

- The integration of risk management practices, policies and standards with those set by BMO Enterprise;
- BMO CML adopts a prudent and disciplined approach to risk-taking through the execution of policies, modelling and vetting;
- The implementation and respect of the risk appetite defined by the Board; and
- Adequate review and input into the completion of the ICARA assessment for the Board.

The CRO is responsible for the daily traded credit & market risk adjudication and the oversight of all operational and liquidity risk. He is supported by a team of specialist risk managers who are independent of the businesses to which they monitor.

Figure 3: BMO CML risk management function



The Chief Finance Officer ("CFO") is directly accountable for BMO CML's capital management and regulatory reporting through to the Board.

Risk committee

BMO CML currently has an FCA waiver relating to MIFIDPRU 7.3.1R in reference to Systems and Controls Sourcebook ("SYSC") 4.3.A.1R. The MIFIDPRU TP 9 IFPRU waivers granted by the FCA prior to 1 January 2022 expired, however BMO CML were granted a new waiver. As a result, BMO CML is not required to have a Risk Committee.

3. Governance arrangements

Overview

BMO CML is compliant in accordance with SYSC 4.3A.1R.

The Board approves and oversees the implementation of:

- Strategic objectives: Through the review and approval of BMO CML’s strategy. This happens annually and on an ad hoc basis as required. It also receives quarterly Key Performance Indicator (“KPI”) updates from the CEO demonstrating how BMO CML is performing against its strategic objectives;
- Risk strategy: Through the review and approval of the RAF encompassing the risk appetite statement and dashboard. This happens annually and, on an ad hoc basis, with quarterly updates from the CRO; and
- Internal Governance: Through the review and approval of the key governance frameworks, policies and procedures.

The Board receives quarterly updates from the Director of Finance and the Treasurer. It also receives updates from Compliance, Risk, Corporate Audit functions and the external auditors providing assurance on the integrity of BMO CML’s accounting and financial reporting systems, including financial and operational controls and compliance with the regulatory system.

Through approval of policies and procedures that specify the agreed form of disclosure and communication and though delegated authority to the CEO and other senior managers.

Senior managers attend the Board meetings to report on their respective Line of Business (“LOB”) or function. The Board review and challenge their reports to satisfy themselves that the senior manager is acting in accordance with their responsibilities. Board materials include updates from Human Resources (“HR”) and control function heads providing additional assurance including on conduct related matters. The Chair also meets with the control function heads privately outside of the Boardroom setting.

The Board receives reports (management information) from the business and Technology, Operations and Corporate Areas (“TOCA”) on at least a quarterly basis.

Monitors and periodically assesses	Achieved by
(a) the adequacy and the implementation of the firm’s strategic objectives in the provision of investment services and/or activities and ancillary services.	Quarterly updates from the LOB heads and the CEO’s update on performance against strategic objectives
(b) the effectiveness of the firm’s governance arrangements.	Through regular updates from the TOCA functions assessing the effectiveness of governance operations across BMO CML and providing recommendations where enhancements are needed
(c) the adequacy of the policies relating to the provision of services to clients, and takes appropriate steps to address any deficiencies.	Regular review and approval of key policies

Directorships held by members of the management body

The directors of BMO CML hold the following in-scope non-BMO Group directorships as at 31 October 2023:

Figure 4: Number of in-scope non-BMO Group directorships

Director	Number of in-scope non-BMO Group directorships
Rebecca Fuller (Chair)	4
William Smith (CEO)	0
Scott Matthews (Exec)	0
Richard Couzens (Exec)	0
Kathie Child Villiers (INED)	2
Ian Henderson (INED)	0
James Vassak (Non-Executive Director, "NED")	0

It has been assumed that non-BMO Group directorships with non-commercial objectives are out of scope. We have therefore excluded directorships related to academy and school boards, banking associations and the chamber of commerce.

Modification or waiver

The FCA has granted BMO CML a waiver of SYSC 4.3A.6R(1)(a) or (b) in order to allow one member of the management body to hold additional directorships.

Diversity policy

The BMO CML Board believes that a board made up of highly qualified directors from diverse backgrounds who reflect the changing population demographics of the markets in which BMO CML operates, the talent available with the required expertise and BMO CML's evolving customer and employee base, promotes better corporate governance.

In reviewing the Board's composition, the Board will consider the benefits of having a broad range of views, experiences, skills, backgrounds and values represented on the Board. To support this, the Board will, when identifying candidates for appointment to the Board:

- Consider only candidates who are highly qualified based on their experience, functional expertise, and personal skills and other qualities of directors;
- Consider diversity criteria including gender, age, nationality, ethnicity, education and geographic background; and
- Where appropriate, in addition to its own search, engage qualified independent external advisors to conduct a search for candidates that meet the Board's skills and diversity criteria to help achieve its diversity aspirations.

All Board appointments are made on merit, judged against a set of objective criteria with regard to the requirement for diversity on the Board.

4. Own funds

In accordance with MIFIDPRU 8.4 table 1 shows the composition of regulatory own funds as at 31 October 2023 for BMOCL.

Table 1 OF1 Composition of regulatory own funds

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference numbers/ letters of the balance sheet in the audited financial statements
1	OWN FUNDS	190,191	N/A - sum of the below
2	TIER 1 CAPITAL	190,191	
3	COMMON EQUITY TIER 1 CAPITAL	190,191	
4	Fully paid up capital instruments	123,670	Note 23 - Share capital
5	Share premium	0	
6	Retained earnings	67,941	Retained earnings
7	Accumulated other comprehensive income	385	Accumulated other comprehensive income
8	Other reserves	0	
9	Adjustments to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-1,805	
19	CET1: Other capital elements, deductions and adjustments	-1,805	
20	ADDITIONAL TIER 1 CAPITAL	0	
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
25	TIER 2 CAPITAL	0	
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and adjustments	0	

Per MIFIDPRU 8.4 table 2 shows the reconciliation of regulatory own funds to balance sheet in the audited financial statements as at 31 October 2023 for BMOCLM.

Table 2 OF2 Reconciliation of regulatory own funds to balance sheet in the audited financial statements

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		a	b	c
		Balance sheet as in published/ audited financial statements	Under regulatory scope of consolidation	Cross- reference to template OF1
		As at period end 31/10/23	As at period end 31/10/23	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Cash and cash equivalents	91,392		
2	Securities: Trading	145,573		
3	Securities: Fair value through other comprehensive income	96,887		
4	Securities borrowed or purchased under resale agreements	91,040		
5	Due from banks and similar financial institutions	1,267		
6	Derivative assets	13		
7	Premises and equipment	744		
8	Goodwill and other intangibles	864		
9	Current tax assets	145		
10	Deferred tax assets	550		
11	Other assets	354,291		
	Total Assets	782,766		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Bank overdrafts	42		
2	Securities sold but not yet purchased	145,874		
3	Securities lent or sold under repurchase agreements	1,685		
4	Derivative liabilities	1		
5	Current tax liability	231		
6	Due to banks and similar financial institutions	89,356		
7	Other liabilities	353,581		
	Total Liabilities	590,770		
Shareholders' Equity				
1	Share capital	123,670		Item 4- in table 1 (OF1)
2	Retained earnings	67,941		Item 6- in table 1 (OF1)
3	Accumulated other comprehensive income	385		Item 7- in table 1 (OF1)
	Total Shareholders' equity	191,996		

Table 3 shows BMO CML Own funds: main features of own instrument as at 31 October 2022.

Table 3 Own funds: main features of own instruments

Capital instruments' main features template		Common Shares	Common Shares	Common Shares	Common Shares
1	Issuer	BMO Capital Markets Limited	BMO Capital Markets Limited	BMO Capital Markets Limited	BMO Capital Markets Limited
2	Governing law(s) of the instrument	English	English	English	English
Regulatory treatment					
3	Public or private placement	Private	Private	Private	Private
4	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	Solo	Solo	Solo
5	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1 as published in Regulation (UK) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (UK) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (UK) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (UK) No 575/2013 Article 28
6	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 16.000m	GBP 19.500m	GBP 74.625m	GBP 13.545m
7	Nominal amount of instrument	GBP 16.000m	GBP 19.500m	GBP 74.625m	GBP 13.545m
8	Issue price	GBP 1.25 per share	GBP 1.25 per share	GBP 1.25 per share	GBP 0.55139 per share
9	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Equity	Equity	Equity	Equity
11	Original date of issuance	2 June 2020	6 July 2018	11 December 2009	3 October 1994
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No	No
Coupons / dividends					
15	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
16	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
17	Existence of step up or other incentive to redeem	No	No	No	No
18	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
19	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
20	Non-compliant transitioned features	No	No	No	No

5. Own funds requirements

The below table is a breakdown of K-Factors and Fixed Overheads Requirement ("FOR") for BMOCL as at 31 October 2023 as set out in MIFIDPRU 4.

Table 4 KFR (K-Factor) and FOR

Item		Amount (GBP thousands)
K- Factor	∑ K-AUM, K-CMH AND K-ASA	0
	∑ K-DTF AND K-COH	466
	∑ K-NPR, K-CMG, K-TCD AND K-CON	2,225
Fixed Overheads Requirement ("FOR")		8,201

See glossary for definitions of the K-Factors.

ICARA process

As part the of the ICARA process BMOCL has assessed its own funds and liquidity requirements in line with MIFIDPRU 7.

BMOCL's ICARA is an on-going assessment of the material risk and harms. An understanding of BMOCL's risk profile along with its own funds and liquidity requirement facilitates the articulation of BMOCL's risk appetite and tolerance and thereby informs BMOCL's business strategy. The intent of the ICARA is to ensure and demonstrate that BMOCL has adequate own funds and liquid assets to support the strategic objective and material harms throughout the economic cycle including doing a stress and a wind-down.

The guiding principles of BMOCL's ICARA are:

- Proportionality: It is proportionate to the risk level, complexity and scale of BMOCL's activities;
- Forward-Looking: It considers not only the existing risks faced but also the potential risks and future business strategies;
- Ongoing exercise: It is not a static one-time process but rather a dynamic and continuous exercise to ensure that BMOCL has robust risk management systems and possesses sufficient own funds and liquid assets at all times; and
- Evolving nature: It is continuously monitored for its efficiency and need for improvement given changes in the risk profile and business plans.

As part of the ICARA process, BMOCL seeks to ensure that:

- All material harms faced by BMOCL are identified and have sufficient risk management and controls around them;
- BMOCL meets the Overall Financial Adequacy Rule ("OFAR") which requires BMOCL to hold own funds and liquid assets which are adequate, both as to their amount and their quality to ensure:
 - i. BMOCL is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
 - ii. BMOCL's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.
- Own fund and liquid asset requirements have been internally assessed against the MIFIDPRU 4 & 6 requirements with any additional own funds and liquid assets held if required. This is then compared to the available own funds and liquid assets to ensure BMOCL meets the OFAR;
- BMOCL exceeds regulatory own fund and liquid asset requirements at all times;
- The outputs of the ICARA process feed back into the business strategy;
- BMOCL has considered any potential recovery actions and options if there is a risk that it would breach the OFAR; and
- BMOCL identifies the step and resources required to ensure an orderly wind-down along with the own funds and liquid asset requirements.

The ICARA is presented and approved by the board of BMO CML at least annually.

BMO CML has assessed the level of own funds and liquid assets required to meet the OFAR and has concluded that it has sufficient own funds and liquid assets both in quantity and quality to meet its potential material harms and during an orderly wind-down.

6. Remuneration policy and practices

The below disclosure provides information regarding the remuneration policies and practices in accordance with the requirements of MIFIDPRU 8.1.1 of the FCA Handbook.

Remuneration policy and governance

The structure of remuneration governance for BMO CML is as outlined below.

Responsibility for the remuneration policy and governance rests with the BMO Group Board of Directors and this includes oversight responsibilities for BMO CML.

The BMO Group Human Resources Committee ("HR Committee"), which is comprised of independent directors, acts as the independent remuneration committee for the BMO Group globally.

HR Committee

The HR Committee supports the BMO Group Board in fulfilling its oversight responsibilities for the appointment, performance evaluation and compensation of the BMO Group Chief Executive Officer, as well as other Senior Executives; talent development, retention strategies and succession planning; philosophy and principles for compensation programs; design and application of material compensation plans, benefit plans for executives and retirement and bank sponsored savings programs; share ownership guidelines; and oversight of human resources strategies relating to diversity, equity and inclusion and health and well-being.

The HR Committee fully considers BMO's strategic priorities in setting compensation policy and it is mindful of its duties to shareholders and other stakeholders.

The HR Committee oversees BMO's compensation plans making sure they align pay with performance, operate within the Bank's risk appetite, helps BMO achieve its goals and are in the best interest of shareholders, while not encouraging excessive or inappropriate risk-taking.

The members of the HR Committee are Lorraine Mitchelmore (Chair), George Cope (Chairman of the Bank Board), Christine Edwards, Sophie Brochu, David Harquail and Eric La Flèche. All the directors are independent.

The HR Committee met eight times during 2023 and regularly in camera without management present. The HR Committee's mandate can be found within the HR Committee's charter at <https://www.bmo.com/corporate-governance/files/en/hrc-charter-en.pdf>.

External advisors

The HR Committee works with an independent advisor on compensation issues, Pay Governance LLC to help it carry out its mandate. Pay Governance is an independent and unaffiliated executive compensation advisory firm that works exclusively under the direction of the HR Committee and does not do any work for management. The Committee met with Pay Governance without management present.

The Bank also retained Global Governance Advisors ("GGA") to carry out periodic reviews of the Bank's material compensation plans to confirm the soundness of BMO's compensation policies and their alignment with regulatory requirements and guidelines. GGA's review included:

- i. Assessing compensation design;
- ii. Assessing plan changes against regulatory requirements; and
- iii. Performing stress testing and back-testing, pay out curve analysis, scenario analysis and an assessment of whether the plans encourage excessive risk-taking.

GGA reported that BMO continues to align with FSB principles and requirements from the Government of Canada's Office of the Superintendent of Financial Institutions, the U.S. Federal Reserve and the UK FCA, including the requirements of the MIFIDPRU Remuneration Code.

Enterprise Compensation Oversight Committee (“Enterprise COC”)

In addition to the external consultants, the HR Committee has a formal process for overseeing risks associated with the Bank’s compensation policies and practices. Key to risk oversight is the Enterprise COC, which is comprised of the BMO Group Chief Risk Officer, BMO Group Chief Financial Officer, BMO Group Chief Compliance Officer, BMO Group General Counsel and senior leaders from BMO Group Human Resources, along with the BMO Group Chief Auditor as an observer.

The Enterprise COC met five times throughout 2023 and is actively involved in reviewing variable pay design and the annual compensation decision-making process, including plans applicable to the employees of BMO CML. The Enterprise COC supports the HR Committee by:

- Identifying the criteria for roles that can have a material impact on the Bank’s risk profile;
- Providing additional oversight and scrutiny of the design and funding of BMO’s material compensation plans;
- Assessing risk and other control function inputs when recommending variable pay funding;
- Making recommendations for discretionary adjustments to variable pay awards as appropriate; and
- Reviewing international regulatory requirements. No individual is involved in decisions relating to their own compensation.

There are also management oversight committees in the US and UK to govern the variable pay design and compensation decision-making processes in these jurisdictions.

London Branch Compensation Oversight Committee (“LBCOC”)

The LBCOC is a sub-committee of the Enterprise COC comprised of UK control function heads. The LBCOC undertakes annual reviews of the implementation of BMO CML’s compensation policies to ensure that they comply with the UK FCA Remuneration Code.

The LBCOC can propose adjustments to either current year incentive funding or request malus or clawback sanctions to be applied to historically awarded, deferred remuneration. The implementation of adjustments to remuneration would be facilitated by the Enterprise COC and the HR Committee.

Link between pay and performance

The BMO Financial Group approach to compensation is based on a “pay for performance” philosophy. The practices are designed to effectively balance the core compensation principles:

- **Link compensation to BMO Financial Group performance:** Remuneration design and implementation, as implemented by the Company, aligns with BMO’s strategic priorities and Purpose and links to both BMO Financial Group and operating group performance;
- **Attract and retain talent:** Compensation helps attract and retain talented people and motivates them to excel to achieve objectives;
- **Align with prudent risk-taking:** Compensation structures do not encourage excessive risk-taking and reward appropriate use of capital. Senior management and material risk taking employees’ variable pay can be clawed back or forfeited and a significant portion is deferred; and
- **Encourage a long-term view to increase shareholder value:** A significant portion of variable pay for senior management and material risk taking employees is allocated to mid and long-term incentives, which are equity-based and deferred.

The alignment of compensation with risk is an important consideration in compensation plans. For this reason, mechanisms in compensation design are included to ensure risk is appropriately considered before incentive pools are finalised.

These mechanisms include:

- Using risk performance metrics when determining funding for variable compensation;
- Establishing the incentive pool based on our performance against strategic objectives and annual financial goals which reflect provisions for credit, market liquidity and other risks;
- Depending on role and function, a significant portion of variable compensation is equity-based and there may be share ownership requirements; and
- Having leadership, management bodies and professionals in human resources, risk, compliance, and finance review variable incentive pools throughout the year and before finalising.

Direct compensation is a combination of fixed pay elements and performance-related pay elements (short-term, mid-term and long-term incentives). The performance-related pay is designed to reward the achievement of the Bank, line of business and individual performance targets, while managing risk.

The HR Committee conducts a year-end review of the individual performance and variable pay of the senior executives and control function leaders, and the total variable pay for other top earners across the bank. This includes an assessment of any risk, compliance, conduct, audit and financial factors when determining whether to exercise its discretion to modify individual variable pay awards. The committee also reviews mid and long-term incentives before they vest and pay out and considers whether forfeitures are appropriate.

Finally, the BMO Group Board carries out a risk review at the end of the year (risk profiles of the enterprise and operating groups) to identify if each operating group's risk profile is consistent with the Bank's risk appetite statement and the BMO Group Board's risk expectations before it approves final incentive awards for the BMO Group CEO.

Approach to determining Material Risk Takers ("MRT")

BMO CML has established an identification framework to identify categories of staff whose professional activities have a material impact on the risk profile of the firm, in line with the IFPR Remuneration Rules as set out by the FCA. Identified staff are designated as MRT in the UK.

The qualitative criteria identify staff within the management body, senior management and other staff with key functions or managerial responsibilities over other identified staff within the firm whose impact on the risk profile is material. Other criteria are based on the authority of staff to commit to credit risk exposures and market risk transactions.

MRT

BMO CML MRT are eligible to participate in the BMO Group Capital Markets incentive-based compensation plan which has two components: 1) upfront compensation, and 2) deferred compensation. Both components are equally split in cash and share-linked awards in cases where individual proportionality does not apply.

A minimum portion of 40% to 60% of an employee's incentive award is deferred over a period between four to seven years. Share-linked awards are subject to an additional 12-month retention period upon vesting. The minimum deferral level is based on the employee's total incentive compensation and/or accountability level. Share-linked awards are designed to promote a greater alignment of interest between employees and shareholders of the Bank.

The incentive plan funding is based on BMO Group Capital Markets financial and non-financial performance including risk management considerations. Individual award allocations are based on achieving business and individual performance goals that are designed to reinforce the Bank and operating group's strategic priorities and values, qualitative measures used to assess how results were achieved, and adherence to risk management, compliance requirements and to the BMO Code of Conduct.

BMO CML MRT are subject to a bonus cap, whereby variable compensation cannot exceed 200% of fixed compensation.

All of BMO CML's MRT will be informed of the implication of their status and will receive a written communication in relation to their obligations.

Control and Corporate Functions MRT

Compensation for MRT in control and corporate functions is tied to BMO's overall performance and performance against individual goals.

These employees do not report into the businesses they support, nor does the success or final performance of business areas they support or monitor directly impact the assessment of their performance or compensation. This independence mitigates risk and encourages these employees to maintain their focus on BMO's overall success.

MRT in control functions are eligible to participate in the incentive-based compensation plan which has two components: 1) upfront compensation, and 2) deferred compensation. Both components are equally split in cash and share-linked awards in cases where individual proportionality does not apply.

A minimum portion of 40% to 60% of an employee's incentive award is deferred over a period of four to seven years. Share-linked awards are subject to an additional 12-month retention period upon vesting. The minimum deferral level is based on the employee's total incentive compensation and/or accountability level. Share-linked awards are designed to promote a greater alignment of interest between employees and shareholders of BMO.

Funding of the upfront compensation incentive pool is based on BMO Group performance against strategic objectives and annual financial goals. Funding also considers a risk review. Individual award allocations are based on achieving individual performance goals that are designed to reinforce BMO and operating group's strategic priorities and values, qualitative measures used to assess how results were achieved, and adherence to risk management, compliance requirements and to the BMO Code of Conduct.

BMO CML Control Functions MRT are subject to a bonus cap, whereby variable compensation cannot exceed 200% of fixed compensation.

Performance adjustments – clawback and forfeitures

Clawback and forfeiture policies have been adopted in BMO's compensation programs to help mitigate current and future risks.

For all BMO Capital Markets and Control and Corporate Function mid- and long-term incentive plan participants, the HR Committee may, in its sole discretion, reduce or forfeit unvested deferred incentive awards depending on the severity of a risk event's impact to BMO, operating group or line of business financial performance or reputation, and individual accountability.

For all Executives, MRT and BMO Capital Markets employees at the Managing Director level and above, the HR Committee further maintains the discretion to seek recoupment of awards paid over a period of three years preceding the date upon which the HR Committee makes its determination that an event of financial restatement, or misconduct or negligence in the management of risk which contributed, or could have contributed, to significant financial or reputational harm to BMO, has occurred. As of 2023, if there is a restatement, a clawback will be applied to senior officers as per the requirements of U.S. Securities Exchange Act and the NYSE listing standards. The HR Committee evaluates risk events (such as, audit findings, credit losses, financial losses and key indicators of operational, market compliance, poor conduct behaviours and reputational risk) when determining whether to use its discretion to reduce or recoup pay-outs from the awarded compensation.

The HR Committee may also, in their sole discretion, reduce or eliminate year-end variable compensation if such a reduction or elimination is necessary to achieve or maintain minimum regulatory own fund requirements or own funds levels which satisfy important market or regulatory expectations.

Guaranteed remuneration and severance pay

The BMO Financial Group also has established policies on the use of guaranteed bonuses and severance payments. Guaranteed bonuses are only offered during the recruitment process in exceptional circumstances.

Severance payments are determined in accordance with local frameworks and reflect performance achieved over time and must not reward failure or misconduct.

Remuneration tables for MRT

The following tables show the remuneration awards made in respect of the 2023 performance year.

Table 5 Remuneration awarded in respect of the 2023 performance year

£000s	Senior Management	Other MRT	Other Staff
Number of individuals	8	31	92
Total fixed remuneration	428	5,671	9,532
Total variable remuneration	297	3,925	3,073
of which awarded in upfront cash	62	1,190	n/a
of which awarded in upfront non-cash	62	1,035	n/a
of which awarded in deferred cash	86	850	n/a
of which awarded in deferred non-cash	86	850	n/a
Total remuneration	725	9,596	12,605

Table 6 Deferred remuneration awarded to MRT in respect of prior performance years

£000s	Senior Management	Other MRT
Due to vest in the 2023 performance year	317	4,084
Of which will be paid	151	2,311
Of which will be withheld due to performance adjustment	0	0
Due to vest in subsequent performance years	539	2,640

Table 7 Guaranteed variable remuneration and severance payments awarded to MRT during the performance year

£000s	Senior Management	Other MRT
Guaranteed variable remuneration awards in 2023		
Number of beneficiaries	-	-
Amount	-	-
Severance payments paid out in 2023 ²		
Number of beneficiaries	-	-
Amount	-	-
Highest individual severance payment	-	101

Table 8 Proportionality - exemption provision to MRT

£000s	Senior Management	Other MRT
Total number of material risk takers who benefit from an exemption ¹	-	3
Total remuneration of those material risk takers who benefit from an exception	-	338
Of which fixed remuneration	-	300
Of which variable remuneration	-	37

1. With respect to the 2023 performance year, the Company used the individual exemption set out in SYSC 19G.5.9R for three MRTs because those MRTs earned an annual variable remuneration that did not exceed £167,000 and did not represent more than one-third of the individual's total annual remuneration.

MRTs who satisfy the individual exemption conditions in SYSC 19G.5.9R have the provisions of SYSC 19G.5.9R(2) disappplied.

2. With respect to severance payments paid out in 2023, the Company has used the exemption set out in MIFIDPRU 8.6.8R(7) to preserve the confidential nature of individual's remuneration.

7. Investment policy

BMOCML has not hold any relevant positions for MIFIDPRU 8.7 purposes in the financial year 1st November 2022 to 31st October 2023.