

BMO Capital Markets Limited

2021

Pillar III Disclosure

For the year ended 31 October 2021

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1 Glossary

| | |
|---------------|---|
| ADR | American Depository Receipt |
| ALCO | London Asset Liability Committee |
| AT1 | Additional Tier 1 Capital |
| BCBS | Basel Committee on Banking Supervision |
| BEICF | Business Environment and Internal Control Factors |
| BME | Bank of Montreal Europe plc |
| BMO | Bank of Montreal/BMO Financial Group |
| BMOCML | BMO Capital Markets Limited |
| BMOCMHL | Bank of Montreal Capital Markets (Holdings) Limited |
| CAD | Corporate Audit Division |
| CLCO | Chief Legal and Compliance Officer |
| CCR | Counterparty credit risk |
| CCyB | Countercyclical Capital Buffer |
| CEO | Chief Executive Officer |
| CET1 | Common Equity Tier 1 Capital |
| CFO | Chief Finance Officer, International |
| CPB | Capital Planning Buffer |
| CQS | Credit Quality Step |
| CRO | Chief Risk Officer, Europe |
| CRD IV | Capital Requirements Directive |
| CRM | Credit Risk Mitigation |
| CRR | Capital Requirements Regulation (UK) |
| EBA | European Banking Authority |
| ECAI | External Credit Assessment Institutions |
| EMEA | European, Middle East and Asia |
| ERPM | Enterprise Risk and Portfolio Management |
| EU | European Union |
| FCA | Financial Conduct Authority |
| FSB | Financial Stability Board |
| FSCS | Financial Services Compensation Scheme |
| FX | Foreign Exchange |
| GPF | Global Prime Finance |
| GEP | Global Equity Product |
| GGA | Global Governance Advisors |
| GMSLA | Global Master Securities Lending Agreement |
| GWWR | General Wrong Way Risk |
| HR Committee | Human Resources Committee |
| I&CB | Investment & Corporate Banking |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFPRU | Prudential sourcebook for Investment Firms |
| ICG | Individual Capital Guidance |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| ILG | Individual Liquidity Guidance |
| LCC | London Conduct Committee |
| LMC | London Management Committee |
| LOB | Lines of Business |
| London Branch | Bank of Montreal, London Branch |
| LRMC | London Risk Management Committee |

| | |
|---------|--|
| MiFID | Markets in Financial Instruments Directive |
| ORD | Ordinary share |
| OTC | Over The Counter |
| PD | Probability of Default |
| PRR | Position Risk Requirement |
| RAS | Risk Appetite Statement |
| RWA | Risk Weighted Assets |
| SFT | Securities Financing Transaction |
| SLA | Service Level Agreement |
| SWWR | Specific Wrong Way Risk |
| SYSC | Senior Management Arrangements, Systems and Controls |
| T-Bills | United Kingdom Government Treasury Bills |
| TPCC | Traded Product Credit Committee |
| TREA | Total Risk Exposure Amount |
| TSA | Technical Service Agreement |
| VaR | Value at Risk |
| WWR | Wrong Way Risk |

2 Overview

2.1 Basis 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”).

BMOCL shall comply with the pillar 3 obligations laid down in Part 8 of the UK CRR under Basel III on a solo basis. Pillar 3 disclosures provide market participants with both qualitative and quantitative information on the firm’s risk governance, risk management processes, risk exposures and capital resources.

BMOCL has adopted a formal policy to comply with the disclosure requirements laid out in Part 8 of the UK CRR and has policies for assessing the appropriateness of the disclosures, including their verification and the frequency on which the disclosures are made.

The pillar 3 disclosures have been reviewed by the BMOCL Board.

2.2 Frequency of disclosure

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

2.3 Means of disclosure

The disclosures in this document are not externally audited and do not form part of the audited financial statements.

2.4 Verification

The pillar 3 disclosures have been prepared purely for explanation on the basis on which BMOCL has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. This document does not constitute a set of audited financial statements and must not be relied upon in making any judgement on BMOCL. The information contained in this document will not necessarily be consistent with the information contained in the audited financial statements as the regulatory approach may differ from accounting definitions.

2.5 CRR and Basel III background

These disclosures are prepared in accordance with Part 8 of the UK CRR under Basel III.

Prudential requirements under the Basel framework are categorised under three pillars as described below:

2.5.1 Pillar 1 – Industry minimum capital requirements

Risk Based requirements

The first pillar of the Basel framework focuses on the determination of minimum capital requirements applicable to all firms to support exposures to credit, counterparty credit, market and operational risks. Capital requirements may also be expressed as Risk Weighted Assets (“RWA”), being a notional amount 12.5 times the size of the capital requirement.

Risk based minimum capital requirements may be determined using a number of approaches. BMOCL applies the standardised approach for the calculation of capital requirements for credit, counterparty credit, market and operational risk.

The table in Appendix 1 lists the relevant approaches elected to calculate the capital requirements for each applicable risk.

Non-Risk based requirements

Under the Capital Requirements Directive (“CRD IV”), risk-based requirements are supplemented by a leverage ratio, under which firms are required to maintain tier 1 capital in excess of a minimum ratio to a gross measure of exposure. Exposures comprise of both on and off-balance sheet items (only on balance sheet items exist in BMO CML), calculated from the accounting balance sheet subject to a defined set of regulatory adjustments. Whereas risk-weighted capital ratios differentiate capital requirements according to estimates of the relative riskiness of different asset classes, a leverage ratio weighs all exposures equally. The leverage ratio is intended to limit the risk of excessive leverage across the financial sector and to reinforce risk-based requirements with a simple backstop measure.

Institutions will from this point in time be required to maintain capital in excess of the greater of the risk based and non-risk-based requirements. BMO CML’s current leverage ratio is provided in section 9 of the document.

2.5.2 Pillar 2 – Supervisory review process

The second pillar of the Basel framework is designed to assess the adequacy of a firm’s capital resources by considering all material risks to the firm’s business, including those not covered or adequately addressed by the first pillar, together with impact upon the capital position that is forecast to occur using stressed macroeconomic scenarios.

Firms are required to conduct an Internal Capital Adequacy Assessment Process (“ICAAP”) at least annually to review their capital resources in light of material risks identified, and the outcome of stress testing procedures performed. The internal assessment is subject to supervisory review and forms part of the FCA’s own assessment of risks to which the firms are exposed, their risk management and capital adequacy (the Supervisory Review and Evaluation Process).

The FCA sets minimum capital requirements by issuing firms with specific Individual Capital Guidance (“ICG”). When the FCA requires a firm to hold an ICG it will generally specify a percentage of pillar 1 total risk exposure amount (pillar 2A) that the firm should hold at all times in addition to pillar 1 requirements, in respect of risks not adequately covered in pillar 1. The FCA may also notify firms of an amount and quantity of capital that should be held as a Capital Planning Buffer (“CPB”), over and above the level of capital required by the ICG (pillar 2B). The CPB provides a buffer which may be utilised in times of stress to ensure that firms are able to maintain minimum capital requirements throughout the cycle. The firm is also required to calculate a countercyclical buffer and capital conservation buffer which forms part of the pillar 2B requirements.

2.5.3 Pillar 3 – Market discipline

The third pillar of the Basel framework requires public disclosures surrounding a firm’s risk governance, risk management practises, its approach to capital management, capital resources and pillar 1 capital requirements. These disclosures are intended to foster market discipline in relation to a firm’s risk management practises.

2.6 Pillar 3 table formats

The below tables are based on the European Banking Authority (“EBA”) guidelines on disclosure requirements EBA reference: EBA/GL/2016/11. BMO CML have included the applicable templates as per the guidelines.

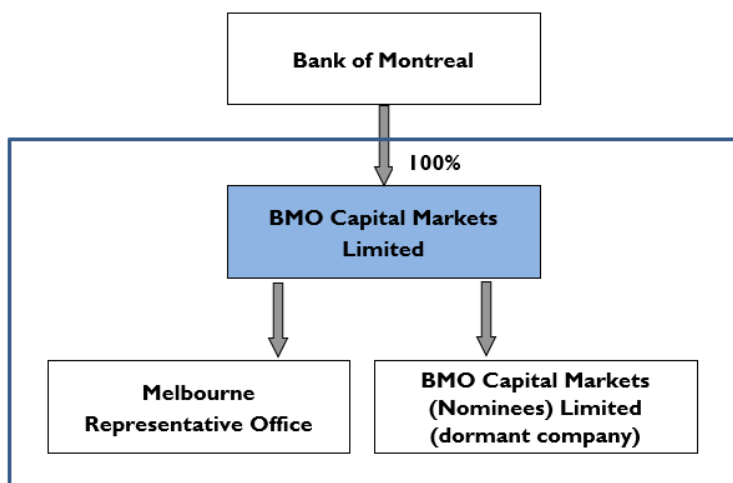
As per paragraph 17 of the above guidelines any rows/columns not applicable to BMOCL have been deleted without altering the numbering of the rows and columns in the original template.

3 Scope of application

BMOCML comprises five separate business units.

BMOCML fits into the corporate structure as follows:

Figure 1: BMOCML overview



There are no differences between the carrying values in the financial statement and the carrying value under regulatory consolidation.

Table 1 Differences between BMOCML’s accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

| | a | c | d | f | g |
|--|---|----------------------------------|--------------------------|----------------------------------|--|
| | Carrying values as reported in published financial statements & under scope of regulatory consolidation | Carrying values of items: | | | |
| | | Subject to credit risk framework | Subject to CCR framework | Subject to market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Assets - GBP 000 | | | | | |
| Cash and cash equivalents | 54,623 | 54,623 | 0 | 0 | 0 |
| Trading | 668,252 | 0 | 0 | 668,252 | 0 |
| Fair value through other comprehensive income | 62,617 | 62,617 | 0 | 0 | 0 |
| Securities borrowed or purchased under resale agreements | 249,404 | 249,404 | 0 | 0 | 0 |
| Due from banks and similar financial institutions | 495 | 495 | 0 | 0 | 0 |
| Derivative assets | 7 | 0 | 7 | 0 | 0 |
| Premises and equipment | 776 | 776 | 0 | 0 | 0 |
| Goodwill and other intangibles | 864 | 0 | 0 | 0 | 864 |
| Current tax assets | 1,882 | 1,882 | 0 | 0 | 0 |
| Deferred tax assets | 685 | 685 | 0 | 0 | 0 |
| Other assets | 187,577 | 187,577 | 0 | 0 | 0 |
| Total Assets | 1,227,182 | 558,059 | 7 | 668,252 | 864 |

| Liabilities - GBP 000 | | | | | |
|---|------------------|----------------|------------|----------------|---------------|
| Bank overdrafts | 1,055 | 0 | 0 | 0 | 1,055 |
| Securities sold but not yet purchased | 665,324 | 0 | 0 | 665,324 | 0 |
| Securities lent or sold under repurchase agreements | 127,802 | 127,802 | 0 | 0 | 0 |
| Derivative liabilities | 345 | 0 | 345 | 0 | 0 |
| Current tax liability | 1,293 | 0 | 0 | 0 | 1,293 |
| Due to banks and similar financial institutions | 76,619 | 0 | 0 | 0 | 76,619 |
| Other liabilities | 171,176 | 154,180 | 0 | 0 | 16,996 |
| | | | | | |
| Total Liabilities | 1,043,614 | 281,982 | 345 | 665,324 | 95,963 |

There are no current or foreseen material practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.

3.1 BMOCL's business lines

Details of the businesses in BMOCL can be found under the Strategic Report section of the BMOCL financial statements available at Companies House.

4 Risk management objectives and policies

BMOCML is committed to maintaining a strong risk and compliance structure to effectively manage the business while complying with risk and regulatory requirements.

4.1 Material risks

Material risks to which BMOCML is exposed are identified, managed, measured and reported in line with BMO Corporate Policies.

Pillar 1 risks are credit and counterparty credit, market and operational risk. The FCA has issued an ICG to BMOCML and BMOCML maintains capital that exceeds this requirement. The BMOCML ICAAP provides an assessment of risks not covered or fully covered through pillar 1 capital requirements, including the categories outlined below, together with BMOCML's own quantification of those risks. BMOCML ensures that it maintains capital which exceeds the internal assessment of risk exposures, to the extent that this assessment exceeds ICG requirements.

In 2022 BMOCML will be subject to the Investment Firm Prudential Regime and will adopt the Internal Capital and Risk Assessment ("ICARA") process which will focus on the identification and mitigation of risks of harm to the firm, the market and clients.

4.1.1 Credit and counterparty credit

Material credit risk to which BMOCML is exposed includes the following areas;

- UK Government Gilts;
- Counterparty credit risk on Securities Financing Transactions ("SFT")
- Short term money market deposits; and
- Intercompany receivable balances.

BMOCML controls counterparty credit risk by following an established credit approval process and the daily monitoring of net exposure to individual counterparties, requiring additional collateral where appropriate. Credit risk undertaken by BMOCML is subject to BMO's Corporate Policies and Corporate Standards and fits within the credit risk limit framework.

The largest credit exposure is to UK Government Gilts. Other material credit exposures relate to short term money market balances which are placed with either a fellow related entity or highly rated banks and these are not collateralised. BMOCML mitigates the risk of non-performance by banks by dealing only with those banks carrying an investment grade rating from Standard and Poor's and Moody's Investors Service.

BMOCML is subject to counterparty risk in relation to the Global Prime Finance ("GPF") business where the business borrows securities from counterparties and is required to sufficiently collateralise the trade with cash or other securities. All collateral pledged must meet BMO specified criteria on, for example, type, quality and tenor.

In turn, the GPF business lends the borrowed security to approved counterparties and receives collateral. The positions are marked to market daily, with collateral topped up where appropriate.

BMOCML is subject to counterparty risk in relation to fails from equity trades. Fails are reported daily and capital requirements attributable to counterparty risk are monitored daily by management.

4.1.2 Market risk

Market risk for BMOCML applies to the equity positions on the Global Equity Products ("GEP") desk and the foreign exchange ("FX") positions held.

- Equity Risk: BMO CML holds equity positions to facilitate customer demand due to its market making activities.
- ADR/Ord Spread Risk: The ADR/ORD desk runs a market making business that generates revenue by facilitating client demand to convert American Depositary Receipts (“ADR”) to Ordinary Shares (“ORD”) and vice-versa. The book is delta-one hedged meaning that the desk is market risk neutral with respect to general movements in equities, i.e. the primary P&L/Risk driver is the volatility in premium/discount.
- Corporate Action Solutions: The Corporate Actions Solutions desk engages in scrip dividend and rights trading which is a marked-to-market activity. The desk may additionally trade other corporate events.
- FX risk: arises largely from transactions denominated in currencies other than entity’s reporting currency resulting in a number of net balance sheet FX positions. No trading desk in BMO CML takes outright FX positions.

Market risk is subject to BMO CML policies and procedures as well as to BMO’s Corporate Policies and Corporate Standards. This includes the allocation of limit letters specifying primary and secondary limits for key risk metrics (e.g. Value at Risk (“VaR”), Stress) to which relevant books must adhere. Any breach of limits is dealt with in line with corporate policy and may lead to disciplinary action.

In accordance with the UK CRR all market risk exposures are measured, monitored, and classified as either trading book or banking book for regulatory capital calculation. The process to achieve this is described in the BMO CML Trading Book Policy which includes information on position valuation and the monitoring of stale positions. All trading desks operate against a ‘permitted holding period’ for trading book positions which is monitored regularly.

4.1.3 Funding & liquidity risk

Funding & liquidity risk is the risk that BMO CML is unable to meet its financial commitments in a timely manner as they fall due. BMO CML primarily manages its liquidity risk by financing its business activities when required through the use of an unsecured loan facility (US\$ 1.1 billion) with BMO.

For stress considerations, BMO CML maintains a liquidity buffer of approximately GBP 144 million composed of short dated government bonds held outright or reversed in with external counterparties on an overnight basis. These can be sold or the reverse repo closed to cover any immediate or short-term cash obligations. BMO CML also has a US\$ 150 million committed loan facility with BMO.

The Asset Liability Committee (“ALCO”) is mandated to review BMO CML’s Internal Liquidity Adequacy Assessment Process (“ILAAP”), policies, frameworks and general liquidity and funding items with any findings reported to the BMO CML Board.

4.1.4 Operational risk

The BMO Operational Risk Management Framework is implemented to ensure that operational risk is monitored, assessed and controlled on an ongoing basis. Regular assessment of the control framework is conducted in line with the three lines of defence model and any operational events are recorded, analysed and controls enhanced as required.

BMO has developed a BMO CML specific operational risk model to calculate pillar 2 capital.

The two main aims of this model are:

1. To provide a simple framework for users to understand and have confidence in the results; and

2. To provide a robust framework for the construction of operational risk event category data, providing a strong platform on which to build the capital requirements.

The model utilises internal and external operational risk loss data to quantify capital at the 99.5% confidence level.

In addition to the monitoring of operational risk, BMOCML have implemented an Operational Resilience Framework to ensure that important business services are identified and monitored on an ongoing basis to minimise the risk of operational disruption to our clients.

4.1.5 Conduct risk

Conduct risk is defined in BMO in terms of misconduct being behaviour that falls short of legal, professional, internal conduct and ethical standards. Conduct risk is assessed on a regular basis to ensure the promotion of sound corporate governance and employee conduct. Bi-annual conduct risk assessments are held to identify key and emerging conduct risks and conduct risk metrics are reported to the London Management Committee ("LMC"), the London Conduct Committee and the Board

The key objectives are to:

- Put the achievement of fair client outcomes at the heart of our business model;
- Act with integrity and behave fairly and in accordance with legal and regulatory requirements when participating in the market; and
- Maintain a good reputation with all our stakeholders.

4.1.6 Strategic and business risk

Strategic risk is the potential for loss due to failure to properly respond due to inaction, ineffective strategies or poor implementation of strategies and includes elements of non-standard risks. Typically, business risk is the risk that volumes will decrease and margins shrink without compensating ability to offset the revenue decline with a reduction in costs.

Strategic and business risk is assessed through the design and execution of 1 year idiosyncratic and 3-year market-wide stress scenarios with pillar 2 capital allocated to reflect the potential losses derived from these.

4.1.7 Group and reputational risk

Group risk is the risk that the financial position of BMOCML may be adversely affected by its relationships (financial or non-financial) with other entities in the BMO group. These risks may occur through reputational contagion, financial contagion, concentrations and large exposures (particularly intra-group).

Group and reputational risk is assessed through the design and execution of a BMO specific stress scenario with pillar 2 capital allocated to reflect the potential loss derived from this.

4.1.8 Pension risk

BMO's defined benefit pension plan is closed to future accrual with effect from 31 August 2015.

In 2019 a buy-in transaction occurred which ensures that the liabilities in the plan are fully matched by the buy-in policy and as such, risks within the plan are virtually eliminated.

The risk of defaults on the payment of pension obligations is the risk that the provider of the buy-in policy becomes insolvent which, whilst being considered highly unlikely, is also mitigated by the

likelihood of the Financial Services Compensation Scheme (“FSCS”) stepping in and another insurance company picking up the obligations.

The risk that future assets are insufficient to meet future salary increases of members employed by BMO is within BMO’s control, in that it could either limit salary increases or break the link of the plan to such increases and treat employees as deferred members within the plan.

4.1.9 Stress and scenario testing

Stress testing is a key part of BMO’s risk management framework. It assists management and Board to understand risks, make informed business decisions and decide on the appropriate business strategy. Stress testing is also used as a tool to test the robustness of BMO’s capital and liquidity positions and to identify potential and emerging threats impacting the business model.

Stress tests are aligned to the Board approved risk appetite and are consistent with the annual ICAAP and ILAAP. Results are reported monthly to the London Risk Management Committee (“LRMC”) and quarterly to the Board.

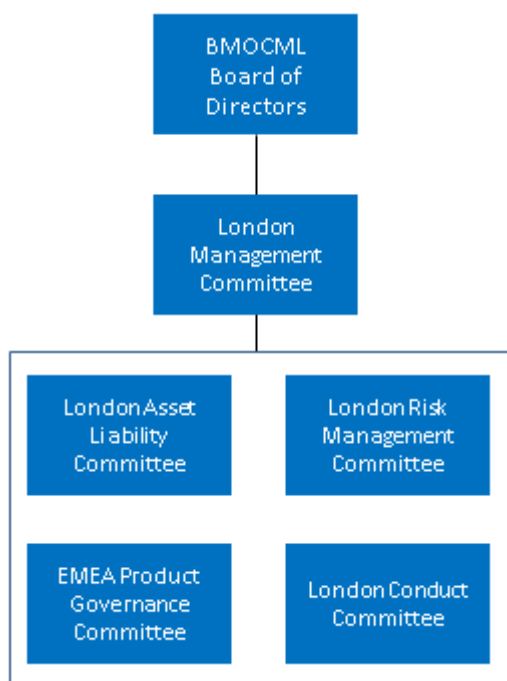
4.2 Risk governance

The BMO’s 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.

4.2.1 Governance structure

Risk is governed within the following Board and Committee structure:

Figure 2: Governance framework



The BMO’s 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 INEDs with financial services backgrounds have been appointed to the BMO’s Board, one as Chair. The Board meets at least quarterly.

The 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”).

The ALCO is a sub-committee of the London LMC and its mandate covers activities of BMOCML 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 Chief Finance Officer, International (“CFO”).

The LRMC is a sub-committee of the LMC and members include the senior administrative and risk executives of BMOCML.

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 Chief Risk Officer, Europe (“CRO”).

The London Conduct Committee (“LCC”) is a sub-committee of the LMC and provides oversight in relation to conduct issues in BMOCML. The LCC meets monthly, is chaired by the Chief Legal & Compliance Officer, International (“CLCO”) and reports quarterly to the LMC.

The EMEA Product Governance Committee (“PGC”) is a sub-committee of the LMC. The European Product Governance Committee is a Markets in Financial Instruments Directive (“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 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.

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

- The integration of risk management practices, policies and standards with those set by BMO Enterprise;
- BMOCML 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 ICAAP assessment for the Board and the Chair.

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: BMOCLM risk management function



The CFO is directly accountable for BMOCLM’s capital management and regulatory reporting through to the Board and the Chair.

4.3 Risk framework

4.3.1 Risk Appetite Statement (“RAS”)

The RAS is the articulation of the aggregate level and types of risk that the firm is willing to accept to achieve its business objectives. It includes qualitative statements as well as key risk metrics reported in a risk appetite dashboard. Risk appetite metrics are quantitative measures expressed relative to earnings, capital, liquidity or other relevant risk measures that are established as part of the RAS.

Risk tolerance thresholds are established for key risk metrics. The risk appetite dashboard provides an easily understood, consistent and efficient way of communicating, monitoring and tracking the risk profile against the approved RAS on an ongoing basis.

Establishing the RAS is an iterative and evolutionary process that requires integration with, and linkage to, the entities’ risk materiality identification, strategic planning, capital, liquidity and financial planning processes. The RAS is reviewed and approved annually by the Board at a minimum but is constantly reviewed and will be updated as required to reflect changes in the micro or macro environment.

A formal approach to governance and escalation is documented within the BMOCLM risk appetite framework.

4.3.2 Three lines of defence

BMOCLM’s risk management framework incorporates the three lines of defence operating model described below:

- The **first line** of defence is responsible for the risks in their business and has primary responsibility for risk measurement and management. This includes developing strategies to align with the BMO Group risk appetite.
- The **second line** of defence provides independent oversight, control, effective challenge and assessment of applicable risks to ensure that the risk profile is maintained within risk appetite. The second line of defence consists of the risk and compliance functions.
- The **third line** of defence is the Corporate Audit Division (“CAD”) who provide regular independent assessment of the effectiveness of risk management controls and governance.

4.3.3 Monitoring & reporting of risks

Risk identification, monitoring and reporting requirements are articulated within applicable corporate policies, corporate standards and operating procedures. This ensures risk transparency at multiple levels including individual, aggregate and collective risks. There is also reporting to multiple stakeholders including management and risk committees, in alignment with first and second line of defence requirements.

BMOCL's monitoring and reporting activities cover all material risk types and include the following:

- Daily risk reporting against approved limits and approved product lists;
- Daily reporting on large exposures within regulatory guidelines;
- Monthly reporting to the LRMC highlighting any material or emerging risk issues;
- Quarterly reports provided to the Board detailing key risk updates, emerging risks and trends and key risk metrics against Board approved thresholds;
- Risk and control assessments to assess the impact of the business environment and internal control effectiveness on risk profile; and
- A new product approval process which includes due diligence and sign off by all relevant functions and businesses in the first and second lines of defence.

4.3.4 Risk systems

BMOCL leverages BMO Group systems for the provision of risk metrics. All services provided by Group are managed via Service Level Agreements ("SLAs") which are monitored and assessed on an ongoing basis. Local technology, business continuity and information security functions exist to ensure the operational resilience of critical functions.

4.3.5 Roles & accountabilities

All employees, through their individual roles and accountabilities, contribute to maintaining an effective risk management framework and are required to be aware of and adhere to the relevant procedures and controls as set out in the BMO Risk Management Corporate Policy. Regular training is conducted to ensure BMO employees are aware of their responsibilities with regards to risk, compliance and conduct.

4.4 Declaration by the management body on the adequacy of risk management arrangements

The BMOCL Board believes that the risk management framework in place is adequate given the size and complexity of the business. The framework is well established, embedded and guided by a clearly articulated tolerance for the risk types faced, which itself is informed by a detailed, robust and regular assessment of material risks.

The Board remains comfortable that internal and external risks are suitably considered in the business strategy and are adequately mitigated through the comprehensive system of controls and senior management oversight that has been implemented.

4.5 Overall risk profile

The overall risk profile of BMOCL is captured through the key metrics contained in the risk appetite dashboard and is reviewed quarterly by Board. Red/Amber/Green thresholds are defined for each metric, in line with the risk appetite of the firm, to allow easy identification of elevated risk and for management actions to be implemented where required.

- BMO CML remains well capitalised. The ‘total capital ratio incorporating the ICG set by the FCA’, which provides a measurement of Common Equity Tier 1 Capital (“CET1”) in relation to total risk weighted assets, remains well above minimum risk appetite thresholds. The ‘economic capital under stress’ measure, representing CET1 capital in relation to the aggregated total risk position in times of stress, remains well above minimum risk appetite thresholds.
- BMO CML remains well-funded. The Individual Liquidity Guidance (“ILG”) ILG1 and ILG2 metrics, representing the minimum liquidity requirements as set by the FCA, remain comfortably above minimum requirements.
- BMO CML is exposed to market risk which is tightly managed through the controls defined above. BMO CML’s VaR measure, quantifying the loss that will not be exceeded based on a defined confidence level (99%) and a specific time period (1 day) and stress test measure, quantifying potential losses in extreme scenarios, both remain well within risk appetite thresholds.
- BMO CML is exposed to credit risk which is tightly managed through the controls defined above. The pillar 2 assessment of credit risk, represented through the holding of risk capital, remains well within risk appetite thresholds.
- Operational risk is measured using a Business Environment and Internal Control Factors (“BEICF”) score as well as operational risk-related significant losses. Both measures remain well with risk tolerance levels.

4.6 Selection policy for the members of the management body

4.6.1 Directorships held by members of the management body

The directors of BMO CML hold the following non-BMO Group directorships in addition to BMO CML directorship as at 31 October 2021:

Table 2 List of directors and the total number of directorships held

| Name | No. of non-BMO Group directorships |
|--------------|------------------------------------|
| Smith W K S | 2 |
| Matthews S J | 0 |
| Yeung R A | 1 |
| Couzens R | 0 |

4.6.2 The recruitment policy for the selection of members of management

Appropriate candidates are identified for senior management vacancies based on candidate’s skills and experience. The senior executive for each of the relevant business or support areas, together with stakeholders within the BMO Group, evaluate each candidate’s suitability for the role and make recommendations for approval to the board. The senior executives and the board assess the allocation and performance of all significant functions within BMO CML each year.

4.6.3 The policy on diversity with regard to selection of members of the management body

The wider BMO Capital Markets Diversity Council has established principals for diversity and inclusion in regard to the selection of members of management and these principals inform the process for all new hires within BMO Capital Markets.

5 Own funds

As at 31 October 2021 BMOCL's own funds consist solely of CET1, which comprised equity share capital, audited profit and loss and other reserves which has been externally verified by BMOCL's auditors. BMOCL has not at this time issued any tier 1 instruments or tier 2 capital instruments. Further details with regard to ordinary shares are provided in note 23 of the audited financial statement of BMOCL. The composition of the own funds of BMOCL can be seen below: -

Table 3 Reconciliation of BMOCL's own funds and the balance sheet

| | BMOCL |
|--|----------------|
| | GBP 000 |
| Ordinary shares | 123,670 |
| Retained Earnings | 59,902 |
| Accumulated other comprehensive income | (4) |
| Total Equity (all CET 1) | 183,568 |
| Deductions from CET 1 Capital: | |
| Additional value adjustment | (1,398) |
| Intangible assets | (864) |
| Total Own Funds | 181,306 |

All permanent share capital issued is non-redeemable and ranks pari passu in terms of rights to approved dividend distributions; voting rights with each share being entitled to one vote; and rights to participate in any distribution of capital on winding up of BMOCL.

The difference between total equity as disclosed in the audited financial statements and regulatory capital arises from the deduction of intangible assets and the additional value adjustment. The intangible asset deduction relates to goodwill as a result of the Paloma acquisitions. For more information on ordinary share capital see Appendix 3.

6 Capital requirements

BMOCLM has adopted the standardised approaches to credit, counterparty credit, market and operational risk for the year to calculate the pillar 1 minimum capital requirement. BMOCLM approach to assessing the adequacy of its internal capital to support current and future activities is set out in BMOCLM's capital management policy. Adherence to regulatory capital requirements is reported to the ALCO monthly.

6.1 Internal capital adequacy assessment process timelines

BMOCLM's ICAAP is an on-going assessment of the risk and capital position of BMOCLM. An understanding of BMOCLM's risk profile and capital needs facilitates the articulation of BMOCLM's risk appetite and tolerance and thereby informs BMOCLM's capital and business strategy. The intent of the ICAAP is to ensure and demonstrate that BMOCLM is adequately capitalised to support the strategic objective and material risks under business as usual and stressed conditions.

The guiding principles of BMOCLM's ICAAP are:

- Proportionality: It is proportionate to the risk level, complexity and scale of BMOCLM'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 BMOCLM has robust risk management systems and possesses sufficient internal capital 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 ICAAP processes, BMOCLM seeks to ensure that:

- All material risks faced by BMOCLM are identified and have sufficient risk management and controls around them;
- Regulatory capital and internal capital are adequate for the material risks faced by BMOCLM;
- All regulatory capital and internal capital demands are considered and compared to Available Capital, including under stress tests, when setting target capital ratios;
- BMOCLM has sufficient available capital and identified practical management actions to assist it in withstanding severe but plausible stresses;
- BMOCLM exceeds regulatory capital requirements and meet or exceeds target capital ratios; and
- The outputs of the ICAAP process feed back into the business strategy and capital planning.

The ICAAP is presented and approved by the board of BMOCLM on at least an annual basis.

6.2 Capital requirements: Overview of RWA's

Table 4 Overview of BMO's RWA

| | | RWA | | Minimum capital requirements |
|----|--|----------------|----------------|------------------------------|
| | | GBP 000 | GBP 000 | GBP 000 |
| | | 31/10/2021 | 31/10/2020 | 31/10/2021 |
| 1 | Credit risk (excluding CCR) | 76,906 | 39,115 | 6,152 |
| 2 | Of which the standardised approach | 76,906 | 39,115 | 6,152 |
| 6 | CCR | 0 | 7 | 0 |
| 7 | Of which mark to market | 0 | 7 | 0 |
| 12 | Of which CVA | 0 | 0 | 0 |
| 13 | Settlement risk | 4 | 0 | 0 |
| 19 | Market risk | 28,748 | 168,005 | 2,300 |
| 20 | Of which the standardised approach | 28,748 | 168,005 | 2,300 |
| 21 | Of which IMA | | | |
| 22 | Large exposures | | | |
| 23 | Operational risk | 124,106 | 128,822 | 9,928 |
| 25 | Of which standardised approach | 124,106 | 128,822 | 9,928 |
| 27 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 1,713 | 1,694 | 137 |
| 29 | Total | 231,477 | 337,643 | 18,517 |

6.3 Capital requirements: Credit risk

The standardised approach is applied by BMO's to determine the credit risk. It requires BMO's to use risk assessments prepared by External Credit Assessment Institutions ("ECAI") to determine the risk weightings applied to rated counterparties.

BMO's has nominated an EBA recognised ECAI for this purpose – Fitch, Moody's Investors Service and Standard & Poor's using whichever is the most conservative rating. Section 4.1 describes the material credit exposures in BMO's.

6.3.1 Credit risk: Banking book

BMO's largest single credit exposure is to UK Government Gilts. Other material credit exposures relate to short term money market balances which are placed with either a BMO entity or banks. These placements are not collateralised.

BMO's manages the risk of non-performance by banks by dealing only with those banks carrying an investment grade rating from Standard and Poor's and Moody's Investors Service.

There were no impaired or past due loans as at 31 October 2021.

6.3.2 Credit risk: Recognising the effects of Credit Risk Mitigation ("CRM")

The GEP business is the main contributor to credit risk pillar 1 capital. It seeks to reduce counterparty risks through:

- Counterparty credit limits set in line with the BMO Corporate and Commercial Lending Manual. These limits, once approved, are replacement risk credit limits and are monitored daily in BMO's credit monitoring systems. A systematic process is followed for trade violations;
- The majority of counterparties are investment grade banks and broker-dealers. BMOCLM uses master netting agreements for all GEP counterparties;
- Counterparty credit risk for the securities lending business is pro-actively monitored through real time monitoring and includes the use of intra-day email alerts when pre-pay/non-delivery versus payment settlement limits have been breached; and
- Management actions are taken promptly in response to adverse market conditions or rating actions and counterparties are reviewed on a regular basis, credit trends, credit spreads and market intelligence are under close review day to day as are annual, semi-annual and quarterly interim results and loss announcements as they emerge.

In order to recognise credit risk mitigation, BMOCLM ensures that there is no material positive correlation between the counterparty and the value of the collateral. Clearly documented collateral management policies and procedures are in place to define what collateral is acceptable, including their liquidity. Adherence to these policies is formally monitored and governed. This includes the monitoring and reporting of potential concentrations of collateral exposure.

The GEP business borrows securities from counterparties and is required to collateralise the trade with cash or other securities. In turn the GEP business lends the borrowed security to approved counterparties and receives collateral. The securities are marked to market daily, with additional collateral borrowed or lent where appropriate. The GEP business could suffer a credit loss if the counterparty defaults and the realised value of collateral held are insufficient. BMOCLM typically receives government securities and equities as collateral on SFT's.

Collateral is monitored intra-day by the operations team and reviewed to ensure continuing effectiveness. The business typically adheres to industry conventions with regards to collateral in accordance with Global Master Securities Lending Agreement ("GMSLA"). Policies are in place to manage collateral and valuation with daily monitoring by the operations team intraday.

BMOCLM is unrated, if there was a downgrade in BMO's ratings then the margin required to be posted by BMOCLM may increase.

To calculate the credit risk the net position (as calculated per Article 220 of the UK CRR) of the exposure is adjusted for security and foreign exchange volatility as prescribed by the requirements in tables 1 to 4 of Article 224 of the UK CRR. The exposure is then risk weighted dependent on the credit quality of the counterparty, the own funds requirement is determined by multiplying the risk weighted amount by 8%.

As at 31 October, BMOCLM's counterparty risk capital requirement was GBP 4.9million.

The table below sets out the collateral received on assets purchased under reverse repurchase agreements and securities borrowed and obligations related to assets sold under repurchase agreements and securities loaned:

Table 5 BMO CML's collateral given & received, volatility adjustments and net exposures for SFTs

| Exposure class | Securities borrowed or purchased under resale agreements | | Securities lent or sold under repurchase agreements | | Regulatory volatility adjustments | Net exposure after volatility adjustments |
|---|--|--------------------------|---|-----------------------|-----------------------------------|---|
| | GBP 000 | GBP 000 | GBP 000 | GBP 000 | | |
| | Non-Cash Collateral Received | Cash Collateral Received | Non-Cash Collateral Given | Cash Collateral Given | | |
| Central governments or central banks | (90,683) | 0 | 93,103 | 0 | 24,644 | 27,065 |
| Regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector entities | (1,250) | 0 | 1,353 | 0 | 355 | 458 |
| Institutions | (1,257,163) | (127,802) | 1,230,462 | 162,346 | 154,595 | 162,957 |
| Corporates | (91,383) | 0 | 4,624 | 87,058 | 2,991 | 3,291 |
| Total | (1,440,479) | (127,802) | 1,329,542 | 249,404 | 182,585 | 193,771 |

6.3.3 Credit risk exposures

Total and average credit risk as at 31 October 2021 in BMO CML is broken down as follows: -

Table 6 BMO CML's total and average credit risk exposures

| | | a | b |
|-----------|---|--|--|
| | | Net value of exposures at the end of the period GBP 000 | Average net exposures over the period GBP 000 |
| 16 | Central governments or central banks | 92,268 | 68,298 |
| 17 | Regional governments or local authorities | 0 | 66 |
| 18 | Public sector entities | 459 | 218 |
| 21 | Institutions | 229,270 | 270,549 |
| 22 | Corporates | 4,026 | 4,313 |
| 34 | Other exposures | 1,247 | 1,268 |
| 35 | Total standardised approach | 327,270 | 344,712 |
| 36 | Total | 327,270 | 344,712 |

The geographical distribution of the exposures of BMOCLM can be seen below: -

Table 7 BMOCLM's geographical distribution of credit risk exposures

| | a | b | c | d | e | f | g | h | i | j | k | l | m |
|--------------------------------------|--------------------|------------|------------|--------------|--------------|---------------|---------------|----------------|---------------|--------------|---------------|------------|----------------|
| | Net value | | | | | | | | | | | | |
| | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 |
| | Abu Dhabi Emirates | Australia | Belgium | Canada | Switzerland | Germany | France | Great Britain | Saudi Arabia | Sweden | USA | Other | Total |
| Central governments or central banks | 0 | 13 | 0 | 0 | 0 | 0 | 0 | 65,190 | 27,065 | 0 | 0 | 0 | 92,268 |
| Public sector entities | 459 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 459 |
| Institutions | 0 | 241 | 266 | 5,592 | 5 | 14,589 | 12,664 | 118,470 | 0 | 6,016 | 71,194 | 233 | 229,270 |
| Corporates | 0 | 0 | 0 | 731 | 2,757 | 0 | 0 | 91 | 0 | 0 | 447 | 0 | 4,026 |
| Other exposures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,247 | 0 | 0 | 0 | 0 | 1,247 |
| Total standardised approach | 459 | 254 | 266 | 6,323 | 2,762 | 14,589 | 12,664 | 184,998 | 27,065 | 6,016 | 71,641 | 233 | 327,270 |
| Total | 459 | 254 | 266 | 6,323 | 2,762 | 14,589 | 12,664 | 184,998 | 27,065 | 6,016 | 71,641 | 233 | 327,270 |

The credit risk exposures by industry and counterparty type

Table 8 BMOCL's credit risk exposures split by industry

| | b | k | o | s | u |
|---|----------------------|------------------------------------|---|----------------|----------------|
| | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 |
| | Mining and quarrying | Financial and insurance activities | Public administration and defence; compulsory social security | Other services | Total |
| Central governments or central banks | 0 | 27,065 | 65,203 | 0 | 92,268 |
| Regional governments or local authorities | 0 | 0 | 0 | 0 | 0 |
| Public sector entities | 0 | 459 | 0 | 0 | 459 |
| Institutions | 0 | 229,270 | 0 | 0 | 229,270 |
| Corporates | 731 | 3,295 | 0 | 0 | 4,026 |
| Other exposures | 0 | 776 | 0 | 471 | 1,247 |
| Total standardised approach | 731 | 260,865 | 65,203 | 471 | 327,270 |
| Total | 731 | 260,865 | 65,203 | 471 | 327,270 |

The maturity by exposure class of BMOCL can be seen below: -

Table 9 BMOCL's exposures by residual maturity

| | a | b | c | d | e | f |
|--|--------------------|----------------|---------------------|-----------|--------------------|----------------|
| | Net exposure value | | | | | |
| | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 | GBP 000 |
| | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| 7 Central governments or central banks | 0 | 91,583 | 685 | 0 | 0 | 92,268 |
| 9 Public sector entities | 0 | 459 | 0 | 0 | 0 | 459 |
| 12 Institutions | 53,568 | 175,702 | 0 | 0 | 0 | 229,270 |
| 13 Corporates | 0 | 4,026 | 0 | 0 | 0 | 4,026 |
| 22 Other exposures | 0 | 471 | 0 | 0 | 776 | 1,247 |
| 23 Total standardised approach | 53,568 | 272,241 | 685 | 0 | 776 | 327,270 |
| 24 Total | 53,568 | 272,241 | 685 | 0 | 776 | 327,270 |

The credit risk exposures by risk weighting

Table 10 BMOCL's exposures by risk weighting

| | Exposure classes | Risk Weight | | | | | Total |
|----|--------------------------------------|---------------|----------------|--------------|---------------|------------|----------------|
| | | 0% | 20% | 50% | 100% | 250% | |
| 1 | Central governments or central banks | 64,518 | 0 | 0 | 27,065 | 685 | 92,268 |
| 3 | Public sector entities | 0 | 459 | 0 | 0 | 0 | 459 |
| 6 | Institutions | 0 | 229,269 | 1 | 0 | 0 | 229,270 |
| 7 | Corporates | 0 | 0 | 2,757 | 1,269 | 0 | 4,026 |
| 16 | Other items | 0 | 0 | 0 | 1,247 | 0 | 1,247 |
| 17 | Total | 64,518 | 229,728 | 2,758 | 29,581 | 685 | 327,270 |

6.4 Capital requirement: Counterparty credit risk

Counterparty risk is the risk that the counterparty to a transaction within the trading book could default before the final settlement of the transaction's cash flows.

As at 31 October 2021 BMOCL did not have any counterparty credit risk on Over The Counter ("OTC") derivatives to which it applies the mark to market method.

6.4.1 Wrong Way Risk ("WWR")

WWR is a replacement risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Thus, WWR occurs when the market rate factors underlying the BMOCL's exposure to the counterparty, result in an increased exposure to the counterparty while at the same time the counterparty's Probability of Default ("PD") is increasing.

Specific Wrong Way Risk ("SWWR") arises where the counterparty and the market risk factors underlying BMOCL's exposure display a high correlation. Transactions where there is a high degree of correlation between the counterparty and the underlying security, especially relevant to financing trades, is discouraged.

General Wrong Way Risk ("GWWR") arises where the credit quality of the counterparty may for non-specific reasons be correlated with a macroeconomic factor which also affects the value of the underlying transaction.

GWWR and SWWR are monitored at an aggregate level and include other BMO Group entities.

GWWR

- Counterparty Credit Risk ("CCR") exposures are calculated and reported on an intra-day basis taking into account changes in the portfolio and market parameters.
- Fixed income SFT's exposures are calculated accounting for the relationship between counterparties and the underlying reference entities within their portfolios which incorporates GWWR into the exposure calculation.
- A report for equity SFT identifying instances where counterparties and underlying reference entities belong to the same industry is reported to senior management at the Traded Product Credit Committee ("TPCC") meetings on a quarterly basis.

SWWR

- SWWR is captured as 100% exposure, independent of collateral received.
- SWWR exposures are monitored on a daily basis and reported weekly.
- SFT risk reports are regularly produced and a bi-weekly meeting is convened between members of credit risk, corporate banking, market risk and the line of business (“LOB”) to review SWWR/GWWR exposures by industry and region.

6.5 Capital requirement: Market risk

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

BMOCML is subject to currency risk due to a material portion of the revenue generated in BMOCML being either in US Dollars, Canadian Dollars or Euros, whereas the balance sheet is denominated in GBP. The risk is mitigated by constantly monitoring currency exposures and ensuring that revenues generated in currencies other than GBP are sold off on a regular basis or hedged via FX forwards.

BMOCML is primarily exposed to market risk as a result of its GEP business line.

BMOCML’s capital resource requirements as at 31 October 2021 in respect of market risk is made up of the following:

Table 11 BMOCML’s market risk under the standardised approach

| | | a | b |
|---|------------------------------------|---------------|----------------------|
| | | GBP 000 | GBP 000 |
| | | RWAs | Capital requirements |
| | Outright products | | |
| 2 | Equity risk (general and specific) | 28,748 | 2,300 |
| 3 | Foreign exchange risk | 0 | 0 |
| 9 | Total | 28,748 | 2,300 |

6.6 Capital requirement: Operational risk

Per the UK CRR Chapter 3 Article 317, BMOCML adopts the standardised approach for calculating the operational risk capital requirement. This requires management to divide its business activities into business lines as set out in Article 317 and apply a percentage to the average operating income over a three-year period of the business line in line with Article 317 Table 2 in order to calculate the operational risk capital charge.

Management have divided BMOCML’s activities into the following business lines:

- (1) GEP – for FCA capital requirements reporting this business line is classified as ‘Trading and Sales’ in which attracts an 18% weighting;
- (2) Investment and Corporate Banking (“I&CB”) – for FCA capital requirements reporting this business line is classified as ‘Corporate Finance’ in which attracts an 18% weighting;
- (3) Equity Research - for FCA capital requirements reporting this business line is classified as ‘Trading and Sales’ which attracts an 18% weighting;

In terms of calculating the capital resource requirement of BMOCLM, operational risk forms the most significant portion of the requirement.

BMOCLM has a policy for the mapping of each business unit to table 2 of UK CRR article 317 which is reviewed annually or more frequently if required.

BMOCLM's methodology also requires an assessment as to whether the operational risk calculated under the above approach is adequate as detailed in section 4.1.4.

6.7 Capital requirement: Concentration risk

Credit concentration risk represents the potential for a significant increase in loss volatility if material adverse trends or events occur affecting a specific segment, connection or counterparty. Concentration risk is divided into the trading and non-trading books. BMOCLM's concentration risk requirement will continue to be captured via the large exposure requirement. Large exposures are defined in Article 392 of the UK CRR as total exposure to a counterparty, connected counterparties or a group of connected clients whether in the firm's non-trading book or trading book or both, which in aggregate equals or exceeds 10% of the firm's eligible capital.

The limits set out in Article 395(1) of the UK CRR with regards to concentration risk is that a firm must ensure that the total amount of its exposures to a counterparty or group of connected clients does not exceed 25% of its capital resources after taking into consideration the effects of eligible credit risk mitigation in accordance with Articles 399 to 403 of the UK CRR.

BMOCLM's capital resources as at 31 October 2021 is GBP 181.3 million hence any exposure over GBP 18.1 million is a large exposure. The 25% limit referred to above is GBP 45.3 million.

Within Article 395(1) of the UK CRR there is an institutional exemption whereby in summary where an external counterparty is an institution (which is defined as a credit institution or an investment firm under Article 4(3) of the UK CRR) and the total amount of the firm's exposure to the same counterparty may exceed 25% of the firm's capital resources so long as the total amount of such exposures does not exceed the lower of EUR 150 million and 100% of the firm's capital resources. Hence the exposure to a counterparty (or connected counterparty) must not exceed the EUR 150 million.

Management have noted that within the GPF business which is in the trading book, there are on occasion exposures to clients or groups of connected clients, which will exceed the limits laid out in Article 395(1) of the UK CRR. As the excess arises entirely on the trading book, BMOCLM will set aside additional capital for this excess in accordance with Articles 397 (Table 1) of the UK CRR. The excess is measured after taking into account the exposures in the non-trading book.

Funded credit protection that complies with the eligibility requirements and other minimum requirements set out in Part 3, Title 2 Chapter 4 (Credit Risk Mitigation) of the UK CRR is permitted to be recognised for the purposes of calculating a firm's exposure. Hence for the GPF business the large exposure is taken as the net position in each group of securities adjusted for security and foreign exchange volatility. This amount is subject to the institutional limit noted above. These exposures are monitored on a daily basis.

BMOCLM's capital resource requirement as at 31 October 2021 in respect of concentration risk is Nil; however, during the European earnings season BMOCLM held an additional amount of pillar 1 capital for concentration risk.

6.8 Interest rate risk in non-trading book

It is not BMOCLM's intention to take outright interest rate risk in the non-trading books. The only balances subject to interest rate variability in the non-trading book are the holdings of UK Government Gilts, the money

market placements which are placed on a rolling 1 to 3 months basis and the money market intergroup borrowing on a rolling 15-day basis.

As the majority of BMO CML's remaining liabilities are non-interest-bearing interest rate risk has been assessed as 'not material'. Any changes in the LOB's strategies, notably around 3-month securities lending activities, are monitored to ensure they do not give rise to material interest rate risk.

As part of BMO CML's regulatory obligations an evaluation of its exposure to the interest rate risk arising from its non-trading activities is assessed by applying a +/- 200 basis point shock. The results of this evaluation are assessed and reported quarterly and documented in the ICAAP.

7 Capital buffers

7.1 Capital conservation buffer

The capital conservation buffer is designed to ensure that institutions build up capital buffers outside of times of stress that can fully absorb losses if required. The requirement is 2.5% of Total Risk Exposure Amount (“TREA”).

As at 31 October 2021, the capital conservation buffer as set by the FCA was 2.5% of TREA and therefore the requirement was GBP 5.8 million for BMOCLM.

7.2 Countercyclical Capital Buffers (“CCyB”)

The CCyB is designed to ensure that financial institutions hold additional institution-specific countercyclical buffers based on regulatory determined buffer rates. Additional capital is held to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

Each institution’s specific countercyclical buffer rate is a weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located.

The CCyB rates for each jurisdiction are issued by the Bank of England. The below tables detail the geographic distribution split of countercyclical buffer requirements.

Table 12 BMOCLM’s geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

| | General credit exposures | Own funds requirements | | Own funds requirement weights | Countercyclical capital buffer rate % |
|------------------------------|--------------------------|--------------------------|------------|-------------------------------|---------------------------------------|
| | GBP 000 | GBP 000 | GBP 000 | | |
| | Exposure value for SA | General credit exposures | Total | | |
| Great Britain | 1,339 | 107 | 107 | 0.34 | 0.00% |
| United States | 447 | 36 | 36 | 0.12 | 0.00% |
| Other countries with no rate | 3,487 | 169 | 169 | 0.54 | |
| Total | 5,273 | 312 | 312 | 1.00 | |

Table 13 BMOCLM’s institution-specific countercyclical capital buffer

| | Amount of institution-specific countercyclical capital buffer |
|---|---|
| Total risk exposure amount GBP 000 | 231,477 |
| Institution-specific countercyclical capital buffer rate % | 0.00% |
| Institution-specific countercyclical capital buffer requirement GBP 000 | 0 |

8 Use of external credit assessment institutions

The standardised approach is applied by BMOCML to determine the credit risk. It requires BMOCML to use risk assessments prepared by ECAs to determine the risk weightings applied to rated counterparties.

ECAs are used by BMOCML as part of the determination of risk weightings for the following classes of exposure:

- Institutions;
- Public sector entities;
- Governments; and
- Corporate's.

BMOCML has nominated an EBA recognised ECAs for this purpose. The nominated ECAs are Fitch, Moody's Investors Service and Standard & Poor's. The most conservative rating is used.

Table 14 BMOCML's total exposures split by credit quality assessment step ("CQS")

| | Total Exposure | CQS 1 | CQS 2 | CQS 3 | Unrated |
|--|----------------|----------------|----------------|---------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| 1 Central governments or central banks | 92,268 | 65,203 | 0 | 0 | 27,065 |
| 2 Public sector entities | 459 | 381 | 0 | 0 | 78 |
| 4 Institutions | 229,270 | 89,310 | 103,513 | 14,688 | 21,758 |
| 5 Corporates | 4,026 | 0 | 2,757 | 0 | 1,269 |
| 7 Other items | 1,247 | 0 | 0 | 0 | 1,247 |
| 8 Total | 327,270 | 154,894 | 106,270 | 14,688 | 51,417 |

9 Leverage

The leverage ratio is calculated by totalling the adjusted capital measure of BMOCLM divided by BMOCLM's total exposure and is expressed as a percentage. The total exposure is the sum of the exposure values of all assets and off-balance sheet items not deducted from capital. Since BMOCLM has a large proportion of its balance sheet in SFTs, it can substitute the cash element that is on the balance sheet by the value calculated in accordance with Article 429(9) of the UK CRR and the add on for counterparty credit risk. The main contributor of leverage within BMOCLM is the long securities in the GEP desk. The leverage is controlled by assigning a gross limit to the securities held by GEP desk. This ensures that the leverage is maintained above the Basel III minimum of 3%. The disclosure of the leverage under Article 451(2) of the UK CRR can be seen below:

Table 15 BMOCLM's summary reconciliation of accounting assets and leverage ratio exposures

| | | Applicable Amount |
|---|---|-------------------|
| | | BMOCLM |
| | | GBP 000 |
| 1 | Total assets as per published financial statements | 1,227,182 |
| 4 | Adjustments for derivative financial instruments | (7) |
| 5 | Adjustment for securities financing transactions (SFTs) | (249,404) |
| 7 | Other adjustments | (2,261) |
| 8 | Leverage ratio total exposure measure | 975,510 |

Table 16 BMOCLM's leverage ratio

| | | UK CRR leverage ratio exposures |
|----|--|---------------------------------|
| | | BMOCLM |
| | | GBP 000 |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 977,771 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (2,261) |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) | 975,510 |
| | Derivative exposures | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 0 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 0 |
| 11 | Total derivatives exposures | 0 |
| | SFT exposures | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 248,734 |
| 14 | Counterparty credit risk exposure for SFT assets | 34,400 |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15a) | 283,134 |
| | Capital and total exposure measure | |
| 20 | Tier 1 capital | 181,306 |
| 21 | Leverage ratio total exposure measure | 1,258,644 |
| | Leverage ratio | |
| 22 | Leverage ratio | 14.40% |

Table 17 BMOCL's split-up of on balance sheet exposures

| | | UK CRR leverage ratio exposures |
|-------|---|------------------------------------|
| | | BMOCL |
| | | GBP 000 |
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 977,771 |
| EU-2 | Trading book exposures | 904,958 |
| EU-3 | Banking book exposures, of which: | 72,813 |
| EU-5 | Exposures treated as sovereigns | 65,203 |
| EU-7 | Institutions | 0 |
| EU-10 | Corporate | 669 |
| EU-12 | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 6,941 |

10 Asset encumbrance

An asset is considered encumbered if it has been pledged or it is subject to any form of arrangement to secure collateralise or credit enhance any on balance sheet or off-balance sheet transaction from which it cannot be freely withdrawn.

Encumbered and unencumbered assets as at 31 October 2021 are based on the requirement in Part 8 of the UK CRR and in the related guidelines issued by the EBA.

Table 18 BMOCL's encumbered and unencumbered assets

| | | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|-----|-------------------------------------|--------------------------------------|---------------------------------|--|-----------------------------------|
| | | GBP 000 | GBP 000 | GBP 000 | GBP 000 |
| | | 010 | 040 | 060 | 090 |
| 010 | Assets of the reporting institution | 916,987 | | 255,077 | |
| 030 | Equity instruments | 668,253 | 668,253 | 0 | 0 |
| 040 | Debt securities | 0 | 0 | 62,617 | 62,617 |
| 120 | Other assets | 248,734 | | 192,460 | |

Table 19 BMOCL's collateral received

| | | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|-----|--|--|---|
| | | GBP 000 | GBP 000 |
| | | 010 | 040 |
| 130 | Collateral received by the reporting institution | 661,290 | 113,865 |
| 150 | Equity instruments | 478,807 | 25,782 |
| 160 | Debt securities | 182,483 | 88,083 |

Table 20 BMOCL's encumbered assets/collateral received and associated liabilities

| | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|-----|---|---|---|
| | | GBP 000 | GBP 000 |
| | | 010 | 030 |
| 010 | Carrying amount of selected financial liabilities | 1,578,277 | 1,578,277 |

BMO CML provides SFT's and collateralised borrowing as part of its GPF business. Another form of encumbrance is pledging securities with clearing house members to facilitate trading activities and meet initial margin requirements. Assets on the balance sheet are considered encumbered when they have been used or pledged or used to secure or collateralise a transaction that impacts their transferability.

11 Remuneration disclosures

11.1 Decision making process for remuneration policy

The Human Resources Committee (“HR Committee”), on behalf of the BMO Group board of Directors, is responsible for assisting the Board in fulfilling its oversight responsibilities for the appointment, performance evaluation and compensation of the CEO, 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’s oversight responsibilities include BMO CML.

The HR Committee met seven times during 2021. The HR Committee’s mandate is contained in the HR Committee’s charter at <http://www.bmo.com/home/about/banking/corporate-governance/board-committees/human-resources>.

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

11.1.1 External Consultants

The HR Committee works with an outside advisor to help it carry out its mandate.

The HR Committee has retained Pay Governance LLC as its advisor on compensation issues. 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 Bank also retained Global Governance Advisors (“GGA”) to complete an extensive, periodic independent review of BMO’s material compensation plans, which includes the Executive Compensation, BMO Capital Markets and Global Asset Management incentive plans, to ensure the soundness of the Bank’s compensation policies and decision-making processes. GGA’s review included:

- i. Assessing compensation design;
- ii. Assessing plan changes against the Financial Stability Board’s (“FSB”) Principles and the UK Financial Conduct Authority Remuneration Code and the applicable regulatory requirements; and
- iii. Performing stress testing and back-testing, pay out curve analysis, extensive scenario analysis, and volatility analysis of the Bank’s corporate and business unit results.

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 Financial Conduct Authority. 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 Compensation Oversight Committee, which is comprised of the Bank’s Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer, General Counsel and senior leaders from Human Resources, along with the Bank’s Chief Auditor as an observer. The Compensation Oversight Committee met five times throughout 2021. At a minimum it will meet before every relevant meeting of the HR Committee, and it is actively involved in the annual compensation decision-making process and providing advice to the HR Committee on material compensation plans including plans applicable to the employees of BMO CML. No individual is involved in decisions relating to his or her own compensation. There are also management

oversight committees in the U.S. and UK to govern the variable pay design and compensation decision-making process in these jurisdictions.

11.1.2 Role of the relevant stakeholders

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

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

The London Branch Executive Committee, which is the senior collective management committee for BMO Financial Group in the UK, acting under the authority of the boards of Directors of BMO and BMO CML, undertakes annual reviews of the implementation of their compensation policies to ensure that they comply with the FCA UK Remuneration Code.

11.1.3 Code staff criteria

BMO CML incorporates the EBA regulatory technical standards on its identification framework to identify categories of staff whose professional activities have a material impact on the risk profile of the firm under Article 94(2) of Directive 2013/36/EU. Identified staff are designated as Code Staff in the UK.

The identification criteria are a combination of qualitative and quantitative criteria. 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.

In addition, a set of quantitative criteria are used, which are based on compensation ranges. Employees whose compensation falls within a certain range may also be identified as Code Staff.

11.2 Design and structure of compensation and link to performance for code staff

The BMO 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 Group performance: Remuneration design and implementation, as implemented by the Company, aligns with BMO's strategic priorities and Purpose and links to both BMO 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 structure does not encourage excessive risk-taking and rewards 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;
- Encourage a long-term view to increase shareholder value: 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 Bank, business and individual performance targets while managing risk.

BMO Code Staff are eligible to participate in the BMO Capital Markets incentive-based compensation plan which has two components: 1) upfront compensation, and 2) deferred compensation, where individual proportionality does not apply, both components are equally split in cash and share-linked awards. A minimum portion of 40% or 60% of an employee's incentive award is deferred over a period of between three to seven years. The minimum deferral level is based on the employee's total incentive compensation. 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 actual BMO Capital Markets business performance including risk management considerations. The pool also includes a modifier for BMO Capital Markets Return on Equity and Total Bank performance. 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 Code Staff are subject to the CRD IV bonus cap, whereby variable compensation cannot exceed 200% of fixed compensation.

Control Functions

Compensation for Code Staff in control functions is tied to overall Bank performance and performance against individual goals.

These employees do not report into the business 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 the Bank's overall success.

Code Staff in control functions are eligible to participate in the incentive-based compensation plan which has two components: 1) upfront compensation, and 2) deferred compensation, where individual proportionality does not apply, both components are equally split in cash and share-linked awards. A minimum portion of 40% or 60% of an employee's incentive award is deferred over a period of at between three and seven years. Share-linked awards are designed to promote a greater alignment of interest between employees and shareholders of the Bank.

Funding of the upfront compensation incentive pool is based on BMO's performance against strategic objectives and annual financial goals. Funding also takes into account a risk review. Individual award allocations are based on achieving 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 Control Functions Code Staff are subject to the CRD IV bonus cap, whereby variable compensation cannot exceed 200% of fixed compensation.

Claw back and forfeitures

Claw back and forfeiture policies have been adopted in the Bank's compensation programs to help mitigate current and future risks.

For all BMO Capital Markets and Control 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 Bank, operating group or line of business financial performance or reputation, and individual accountability. For all Executives, Code Staff 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 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 the bank, has occurred. 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.

11.3 Remuneration tables for code staff

The following tables show the remuneration awards made in respect of the 2021 performance year. The disclosures are made in accordance with Article 450 of the UK CRR, the Basel Committee on Banking Supervision ("BCBS") pillar 3 disclosure requirements standard and the EBA Guidelines on sound remuneration policies to the extent applicable to the 2021 performance year.

Table 21 BMO CML remuneration awards in 2021

| Remuneration for the financial year ² & ³ | BMO CML | |
|---|-------------------|------------------|
| | Senior management | Other Code Staff |
| Number of individuals | 7 | 31 |
| Fixed remuneration (EUR 000) | 525 | 5,608 |
| Variable remuneration (EUR 000) | 464 | 5,140 |
| Total remuneration (EUR 000) | 989 | 10,748 |

² "Senior management" mean members of the BMO CML Board (executive Directors and non-executive Directors) in accordance with Article 3(9) of CRD IV. "Other Code Staff" includes all other identified Code staff in business areas, internal control functions and corporate functions.

³ The table is prepared in Euros in accordance with Article 450 of the Capital Requirements Regulation. Data has been converted into Euros using the rates published by the European Commission for financial programming and budget for December of the reported year.

12 Appendix 1: Regulatory capital calculation methods

| Risk Type | Approach or Treatment |
|--|---|
| Market Risk | Market Risk calculations are undertaken according to the standardised approach. This provides a method for calculating position risk requirement (“PRR”) for all categories of market risk in the trading book in accordance with Part 3, Title 4 of the UK CRR. Market risk categories include interest rate risk, equity position risk, and foreign exchange risk. |
| Specific Interest Rate Market Risk | Specific interest rate risk is calculated based on Articles 334 to 338 of the UK CRR for products to which there is a risk of loss for reasons other than a general move in interest rates. |
| General Interest Rate Market Risk | General interest rate calculations are based on the maturity method set out in Article 339 of the UK CRR. |
| Foreign Exchange Position Risk | Net open position risk by currency is calculated in accordance with the provisions set out in Part 3, Title 4 and Chapter 3 of the UK CRR. |
| Equity Position Risk | Equity risk PRR is calculated in accordance with Part 3, Title, Chapter 2, and Section 3 of the UK CRR. Specific risk is calculated in line with Article 342 and general market risk is calculated in line with Article 343 of the UK CRR. |
| Credit Risk Capital Component | BMO CML has adopted the standardised approach to credit risk in accordance with Part 3, Title 2 of the UK CRR. |
| Intra Group Exposures | In the absence of intra group waivers, exposures to BMO group entities are treated in the same manner as exposures to the third parties. |
| Counterparty Risk Capital Component | For products that generate counterparty risk within the group which are mainly SFT’s, the exposure amounts are calculated per Part 3, Title 2, and Chapter 4 of the UK CRR. Calculation of the capital requirements are then derived by applying a risk weight depending on the counterparty and other criteria as set out in Part 3, Title 2, Chapter 2, and Section 2 of the UK CRR. Settlement risk capital requirements for unsettled transactions are derived directly based on Part 3, Title 5 of the UK CRR. |
| Operational Risk | BMO CML has adopted the Standardised approach to calculate its operational risk capital requirements per Part 3, Title 3 and Chapter 3 of the UK CRR. |
| Concentration Risk Component | BMO CML monitors and calculates the concentration risk capital component of the credit risk capital requirements in line with Part 4 of the UK CRR. |

13 Appendix 2 own funds disclosure

Table 22 BMO CML own funds disclosure

| | BMO CML |
|---|----------------|
| | GBP 000 |
| Common Equity Tier 1 capital: instruments and reserves | |
| Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus | 123,670 |
| Retained earnings | 59,902 |
| Accumulated other comprehensive income (and other reserves) | (4) |
| Common Equity Tier 1 capital before regulatory adjustments | 183,568 |
| Common Equity Tier 1 capital: regulatory adjustments | |
| Prudential valuation adjustments | (1,398) |
| Goodwill (net of related tax liability) | (864) |
| Total regulatory adjustments to Common equity Tier 1 | (2,262) |
| Common Equity Tier 1 capital (CET1) | 181,306 |
| Additional Tier 1 capital: instruments | |
| Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | 0 |
| Additional Tier 1 capital (AT1) | 0 |
| Tier 1 capital (T1 = CET1 + AT1) | 181,306 |
| Tier 2 capital: instruments and provisions | |
| Directly issued qualifying Tier 2 instruments plus related stock surplus | 0 |
| Tier 2 capital (T2) | 0 |
| Total capital (TC = T1 + T2) | 181,306 |
| Total risk weighted assets | 231,477 |
| Capital ratios and buffers | |
| Common Equity Tier 1 (as a percentage of risk weighted assets) | 78.33% |
| Tier 1 (as a percentage of risk weighted assets) | 78.33% |
| Total capital (as a percentage of risk weighted assets) | 78.33% |
| Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets) | 7.00% |
| of which: capital conservation buffer requirement | 2.50% |
| of which: bank specific countercyclical buffer requirement | 0.00% |
| Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) | 63.13% |
| Amounts below the thresholds for deduction (before risk weighting) | |
| Deferred tax assets arising from temporary differences (net of related tax liability) | 685 |

14 Appendix 3 capital instruments main features table

Table 23 the main features of the CET 1 instruments issued by BMO CML

| Capital instruments' main features template (1) | | 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 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A | N/A | N/A | N/A |
| 3 | Governing law(s) of the instrument | English | English | English | English |
| | Regulatory treatment | | | | |
| 4 | Transitional UK CRR rules | Common Equity Tier 1 | Common Equity Tier 1 | Common Equity Tier 1 | Common Equity Tier 1 |
| 5 | Post-transitional UK CRR rules | Common Equity Tier 1 | Common Equity Tier 1 | Common Equity Tier 1 | Common Equity Tier 1 |
| 6 | Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated | Solo | Solo | Solo | Solo |
| 7 | 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 |
| 8 | 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 |
| 9 | Nominal amount of instrument | GBP 16.000m | GBP 19.500m | GBP 74.625m | GBP 13.545m |
| 9a | Issue price | GBP 1.25 per share | GBP 1.25 per share | GBP 1.25 per share | GBP 0.55139 per share |
| 9b | 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 | 2nd June 2020 | 6th July 2018 | 11th December 2009 | 3rd 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 |
| 15 | Optional call date, contingent call dates, and redemption amount | N/A | N/A | N/A | N/A |
| 16 | Subsequent call dates, if applicable | N/A | N/A | N/A | N/A |
| | Coupons / dividends | | | | |
| 17 | Fixed or floating dividend/coupon | N/A | N/A | N/A | N/A |
| 18 | Coupon rate and any related index | N/A | N/A | N/A | N/A |
| 19 | Existence of a dividend stopper | N/A | N/A | N/A | N/A |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | Fully discretionary | Fully discretionary | Fully discretionary |

| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | Fully discretionary | Fully discretionary | Fully discretionary |
|--|---|---------------------|---------------------|---------------------|---------------------|
| 21 | Existence of step up or other incentive to redeem | No | No | No | No |
| 22 | Noncumulative or cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative | Non-Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger (s) | N/A | N/A | N/A | N/A |
| 25 | If convertible, fully or partially | N/A | N/A | N/A | N/A |
| 26 | If convertible, conversion rate | N/A | N/A | N/A | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A | N/A | N/A | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A | N/A | N/A | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A | N/A | N/A | N/A |
| 30 | Write-down features | No | No | No | No |
| 31 | If write-down, write-down trigger (s) | N/A | N/A | N/A | N/A |
| 32 | If write-down, full or partial | N/A | N/A | N/A | N/A |
| 33 | If write-down, permanent or temporary | N/A | N/A | N/A | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A | N/A | N/A | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | N/A | N/A | N/A | N/A |
| 36 | Non-compliant transitioned features | No | No | No | No |
| 37 | If yes, specify non-compliant features | N/A | N/A | N/A | N/A |
| (1) 'N/A' inserted if the question is not applicable | | | | | |