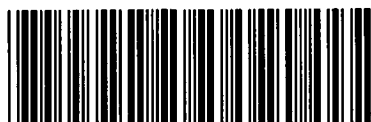


BANK OF MONTREAL
CAPITAL MARKETS (HOLDINGS) LIMITED
ANNUAL REPORT
For the year ended 31 October 2018

Registered Number 1175125



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Annual Report

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BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

STRATEGIC REPORT

Bank of Montreal Capital Markets (Holdings) Limited (the "Company") is a holding company registered in England and Wales, with its wholly owned subsidiaries being BMO Capital Markets Limited ("BMOCML") and Pyrford International Limited ("Pyrford"), collectively referred to as "the Group".

This Strategic Report sets out an overview of the Group's strategic objectives and the principal risks that could impact the Group's strategy.

Review of the Business

The principal activities of the Group are listed below. The Company is a wholly owned subsidiary of the Bank of Montreal.

BMO Capital Markets Limited

BMOCML comprises three business units split out as six separate Lines of Business. These are:

1. Global Equity Product ("GEP")

Cash Equity

BMOCML has sales teams in London, Paris (branch office) and Zurich (representative office) that advises customers in global equities. In addition to accepting client orders in Canadian and United States equities, BMOCML's Equities Trading desk acts as a market maker in Alternative Investment Market ("AIM") and London Stock Exchange ("LSE") listed stocks in the Natural Resources sector. BMOCML owns BMO Capital Markets (Nominees) Limited to act as its nominee in order to facilitate BMOCML being a member of the LSE.

Relative Value Europe

In Fiscal Year 2018 BMOCML established the Relative Value desk. The overall strategy of the business is to primarily take advantage of price differentials between highly correlated securities by simultaneously buying and selling the different securities—thereby allowing BMOCML to potentially profit from the "relative value" of the two securities. The strategy includes arbitrage situations resulting from buybacks, mandatory conversions, dual listing collapse, corporate actions (rights issues, scrip, dividends, tender elections, and mergers) and index rebalances.

Global Equity Finance ("GEF")

BMOCML's GEF staff are based in London and a representative office in Melbourne, acting as an intermediary between lenders and borrowers of securities. The GEF portfolio is primarily managed either on a matched/conduit basis, or as a provider of funding to the wholesale market, with positions collateralised by cash and/or securities.

American Depositary Receipt/Ordinary Share ("ADR/Ord")

The ADR/Ord trading book is mainly run on a hedged, market neutral basis where the desk seeks to realize differences between the price at which an ordinary share ("Ord") is trading against the price of its corresponding American Depositary Receipt ("ADR"). The ADR/Ord desk utilises the GEF business to help fund long positions, as well as cover the corresponding short position of the ADR/Ord pair.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

STRATEGIC REPORT (continued)

Review of the Business

2. Investment & Corporate Banking ("I&CB") Advisory

This unit comprises a team in London and Melbourne and provides corporate advisory services, Mergers and Acquisitions ("M&A") and Acquisitions and Divestitures ("A&D") advice as well as corporate broking advice and Equity Capital Markets ("ECM") execution. BMOCML, through its membership of the LSE where it acts as a broker in its own name, has the authority to advise and execute on equity offerings, including leading initial public offerings and secondary financings, on behalf of companies on the LSE or AIM. During the current year, BMOCML expanded I&CB coverage to the infrastructure sector.

3. Equity Research

As a part of the BMO Capital Markets global research team, BMOCML's research analysts produce independent equity research. The distribution of their research is restricted to institutional investors. BMOCML's research team currently specialises in Metals & Mining and Oil & Gas companies. In conjunction with the sales team, BMOCML's research provides investment ideas and market information to Bank of Montreal ("BMO") institutional clients in order to generate commission revenue.

Pyrford International ("Pyrford") Limited

Pyrford International Limited's ("Pyrford") principal activity is that of professional investment management. Pyrford is authorised by the Financial Conduct Authority ("FCA") to conduct Investment Advisory services.

Financial Performance

The Group had a profitable year although lower than the prior year due to reduced profits in BMOCML. Group profit before tax decreased from £33,436,000 in 2017 to £24,745,000 in 2018.

ADR/Ord activity in BMOCML decreased as Brexit tempered exposure to UK equities and in preparation for the net stable funding ratio ("NSFR") regime. Unrealised losses on the Pyrford seed capital investments increased year on year. Overall, net trading income decreased despite the implementation of the new BMOCML Relative Value Europe line of business.

Net fee and commission income decreased largely as a result of a decrease in external advisory fees in the BMOCML I&CB line of business. This was partly offset by an increase in Pyrford's fee and commission income driven by fund performance with new asset flows in the second half of the year.

The increase in expenses was mainly driven by an overall increase in salary expenses as well as severance costs. This was partly offset by a decrease in short term incentive pay.

Profits in the prior year were enhanced by the one off sale of a share investment by BMOCML contributing a profit of £4,107,000 as well as a more active and profitable earnings season in BMOCML's GEF line of business.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

STRATEGIC REPORT (continued)

Financial Performance

The table below sets out the Group key results and performance indicators for the year.

	Year ended 31 October 2018 £'000	Year ended 31 October 2017 £'000
Total Operating Income	84,476	92,081
Profit before tax	24,745	33,436
Total Shareholders' funds	199,205	179,197
Return on assets	1.1%	1.4%
Return on capital employed	12.4%	18.7%

The return on capital employed is calculated by dividing Profit before tax by total shareholders' funds.

During the current year, the Company received a dividend from Pyrford of £15,000,000. The funds were used towards a capital injection in BMOCML of £19,500,000. BMOCML issued an additional 15,600,000 ordinary shares at a par value of £1.25 per share.

The directors of BMO Financial Group manage the Group's operations on a global line of business basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Group is not necessary or appropriate for an understanding of the development, performance and position of the business of the Group. The development, performance and position of the business of BMO, which includes the Group, is discussed in the BMO Financial Group's annual report, and does not form part of this report.

Future Developments and Prospects

BMOCML

BMOCML's vision is to be the lead investment firm that enables clients globally to achieve their ambitions through an integrated European platform that is differentiated by leading ideas and coverage. To achieve this vision, the four key strategic priorities of BMOCML are:

1. In Global Equity Products (covering Equity Sales & Trading, Global Equity Finance, ADR/Ord, Relative Value Europe and Equity Research), to be a preferred counterparty and advisor for our clients in Europe, the Middle East and Africa ("EMEA") markets by offering a client-centric platform that is differentiated by leading ideas, coverage and expansion. The following are key objectives:
 - Post Brexit, drive increased activity around our core non-EU27 clients, including the Middle East and Asia, through a unified, cross-entity and cross-asset effort that is client centric;
 - Address market and product gaps by offering a broader product set in line with our peer group;
 - Improve balance sheet optimisation capabilities in BMOCML;
 - Partner in the development of a best in class local Capital Markets regulatory architecture;
 - Maintain a strong 1st line risk management culture; and
 - Target segments focused on North American equities and securities lending, market making for ADR/Ord and Research specialising in Metal & Mining and Oil & Gas.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

STRATEGIC REPORT (continued)

Future Developments and Prospects

2. In I&CB, grow and diversify revenues and deepen client relationships by increasing lead advisory/execution roles and recurring revenue. The following are key objectives:
 - Grow and diversify revenue by expanding / deepening client relationships in strategic sectors; and
 - Target segments principally within the Natural Resources sector (Metal & Mining and Oil & Gas) with expanded coverage to Infrastructure. The growth in the Infrastructure business will include advisory mandates and Equity Capital Market ("ECM") revenue.
3. For BMOCML as a whole, build a strong risk and compliance structure to effectively manage the business while complying with risk and regulatory requirements. The following are key objectives:
 - Implement a "best in class" Compliance Framework and Risk Management Framework to guide and secure the compliance of BMOCML with its requirements;
 - Develop a culture of compliance that is led from the top and understood by all and supported by clear local governance; and
 - Create strategic advantage in regulatory compliance and early response to emerging regulation.
4. Continue to evolve the culture to develop and retain the best talents across the region. The following are key objectives:
 - Create BMOCML talent strategy to address hiring, mobility and retention challenges;
 - Deepen talent management practices including the earlier identification of talent, strengthening succession pipelines and promoting leadership development;
 - Continue to build manager capability in performance coaching, assessing potential, and developing talent and supporting employees with career management and professional development;
 - Assess new opportunities to apply best practices in performance management; and
 - Develop diversion and inclusion strategies.

The global IT strategy calls for transformative investment in key priority areas. BMO globally has a multi-year technology roadmap to enhance our digital experience, digitize and improve our processes.

Pyrford

Pyrford net fee and commission income rose 2% year on year to £28.7million with Profit before tax up by 1% at £12.7million. This has primarily been driven by fund performance with new asset flows in the second half of the year. Underlying operating expenses, excluding variable employee awards and one off items, have been flat year on year.

Global and international equity markets delivered far more muted returns in the financial year to 31st October 2018, largely due to sharp falls in the final month of the year. The World Index was flat whilst international equity returns were negative. Despite the lack of assistance from market returns, assets under management ended the year at USD 10.8bn, up approximately 8% from the previous financial year end.

Due to the low downside capture characteristics of Pyrford's products, the fall in equity markets led to a sharp turnaround in relative performance. In the flagship international equity product, Pyrford is now outperforming over 1, 3, 5 and 10 years. The investment team is to be commended on its rigorous and disciplined focus on applying the investment process to deliver portfolios consistently characterised by value and quality.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

STRATEGIC REPORT (continued)

Future Developments and Prospects

Pyrford won 8 new clients during the financial year and lost only 2. There was a net inflow of around USD 700m over the year which was dominated by the gain of a large international equity mandate from a large California-based public pension fund plus a large global equity mandate from an Ontario based public utility. The global absolute return product also held up very well due to strong performance relative to its peer group in UK.

The beginning of 2018 saw the introduction of major changes under the MIFID II regulations for which Pyrford had prepared by making significant investments in new systems and resources. These investments performed very well and as a result there were no significant regulatory issues to report.

The improved investment performance bodes well for the future and Pyrford's staff look forward to working with BMO's distribution teams in 2019 to secure more new client wins.

Pyrford's investment portfolios are defensively positioned with a major focus on preserving the clients' capital in the more volatile market conditions which may lie ahead.

The Group does face a number of risks in implementing the Board's strategic plan. These risks include, market risk, credit risk, operational risk, liquidity risk and macroeconomic risk. The Board believes that these risks are satisfactorily mitigated through the comprehensive systems of controls, policies and procedures and senior management oversight that have been implemented through the business. The principal risks faced by the group are discussed in more detail on Note 4.

Brexit

With the triggering of Article 50 of the Lisbon Treaty on 29 March 2017, the UK Government indicated its intention to exit from the European Union ("EU") effective 29 March 2019. The Board is monitoring the markets in which it operates and continues to consider the nature and extent of risks, uncertainties and opportunities arising from the UK's exit from the EU.

The Board considers the principal risks to be in the following areas:

- Macro-economic market conditions (including reduced liquidity) resulting in a downturn in the UK economy;
- Passporting rights of services to certain segments of the Group's EU client base;
- Impact on the Group's clients, counterparties and membership of its market infrastructure and the complexity to successfully restructure operations in compliance with Brexit;
- Impact on the Group's staff, its strategy, performance and operating model; and
- Impact on the Group's system infrastructure to ensure it meets its ongoing reporting requirements to regulators, suppliers and clients.

BMO Financial Group has formed a Brexit Steering Committee comprising the senior management of the Group and BMO Financial Group specifically to ensure that all potential implications relating to Brexit are considered and solutions are executed to reduce risk to an acceptable level. Brexit working groups have also been formed for the main functional areas of the Group and meet regularly to assess the risks and propose recommendations.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

STRATEGIC REPORT (continued)

Brexit

The Group has been planning its strategy assuming a "Hard-Brexit" scenario. Under this scenario, the main impact on BMOCML will be on the Cash Equities business where the passport related to EU clients will cease. The Board anticipates that the impact due to the loss of passporting will have a minimal impact on profit after tax in 2019. BMOCML's operating model will change with the current activities undertaken from the Paris branch to remain in-situ but will move to a fellow related entity, Bank of Montreal Ireland plc (BMI) and be conducted from a newly established Paris branch of BMI. This will enable the BMO Financial Group to continue servicing its EU client base and counterparties. Activities within BMOCML related to EU clients and counterparties are expected to reduce with some business flows being relocated to BMI. BMOCML will continue to execute deals on UK product for BMI's EU client base.

EU clients affected by the removal of the passporting rights have been identified and relevant communications and engagement has already commenced to ensure Brexit impacted transaction flows are capable of being moved to BMI without delay and before the passporting rights cease for BMOCML.

Pyrford currently acts as investment manager for an Irish UCITS open ended investment company (the "Fund"), which is self-managed by its own separate independent board of directors. Pyrford anticipates that the Fund will be able to continue to delegate portfolio management to it, something that will be permitted even in the event of a "no deal" Brexit scenario provided the necessary co-operation arrangements are in place between the Irish and UK regulators. Various EU authorities have indicated that firms can plan on the basis that these arrangements will be concluded in good time before 29th March. In addition, applications will be made under the FCA's Temporary Permissions Regime to enable Pyrford to continue offering the Fund to UK investors.

Pyrford will utilise arrangements being made by BMO Global Asset Management (EMEA) ("BMO GAM EMEA") to enable continued operation in post-Brexit environment without disruption. BMO GAM EMEA has a long standing and substantive business in the Netherlands, with an established regulatory presence and relationship (including certain EU passport permissions), a stable workforce, a developed business infrastructure and a local institutional client base. These factors, together with a range of other considerations, mean it is now taking all necessary steps to ensure the appropriate operating model, additional regulatory permissions, connectivity, systems and people are in place prior to Brexit. These steps will enable its Dutch business to operate as its European hub and offer products and services, including those of the Company, to EU clients. The Group anticipates that its Dutch business will continue to delegate portfolio management to UK regulated entities such as Pyrford in a post-Brexit environment.

By order of the Board



William Smith
Director

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

DIRECTORS REPORT

The directors of the Company ("the Directors") present their annual report and the audited financial statements of the Company and its subsidiaries for the year ended 31 October 2018, which are prepared under International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Results and dividends

The results of the Group for the year are disclosed on page 14. The profit for the year after taxation amounted to £20,008,000 (2017: £26,923,000). The Directors of the Company do not recommend the payment of a dividend (2017: £nil). During the current year, the Directors of Pyrford approved a dividend payment to the Company of £15,000,000 (2017: £nil).

Directors

The Directors of the Company who held office during the year and subsequent to the year ended 31 October 2018 were as follows:

Smith WKS (Chairman)
Matthews SJ
Yeung RA
Mohammed JZ

Employees

The average number of persons employed during the year by the Group was 132 (2017: 133).

Registered Company Address

95 Queen Victoria Street, London, EC4V 4HG

Liability Insurance

During the period Bank of Montreal maintained liability insurance for the Directors and officers of the Group.

Political and charitable contributions

The Group made no political contributions during the period (2017: £nil). The Group made charitable donations of £5,813 during the period (2017: £5,660). Most of the charitable donations for the period for the Bank of Montreal UK entities were made out of Bank of Montreal London Branch.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

DIRECTORS REPORT (continued)

Third Party indemnities

During the financial year, the Group's Directors benefited from qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006) granted by the Company's ultimate parent company Bank of Montreal indemnifying the Directors against liabilities and associated costs which they could incur in the course of their duties. The indemnities remain in force as at the date of the Directors' Report. The Company also maintains Directors' and officers' liability insurance.

Location of Pillar 3 disclosures

Pillar 3 disclosures for the Group required by the Capital Requirements Directive are available at Companies House, Crown Way, Cardiff, CF14 3UZ as an addendum to the Annual Report. While the Pillar 3 disclosures can be found as an addendum to the Annual Report, they do not form part of the audited financial statements and are not subject to audit.

Statement of Directors' responsibilities in respect of the Annual Report, the Directors' Report and the Strategic Report

The Directors are responsible for preparing the Strategic report, the Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

DIRECTORS REPORT (continued)

Disclosure of Information to Auditor

Each of the Directors at the date of approval of this report reconfirms that:

1. There are no relevant audit information of which the Company's auditor is unaware; and
2. Each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

A resolution for the appointment of KPMG LLP as auditor of the Group and the individual subsidiaries is to be proposed at the BMO annual general meeting.

On behalf of the board



Director
Scott Matthews



Director
William Smith

95 Queen Victoria Street
London EC4V 4HG
Date: 31 January 2019

Registered Company Number: 1175125

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Opinion

We have audited the financial statements of Bank of Montreal Capital Markets (Holdings) Limited for the year ended 31 October 2018 which comprise the Consolidated and Non-Consolidated Statement of Income, Consolidated and Non-Consolidated Statement of Comprehensive Income, Consolidated and Non-Consolidated Balance Sheet, Consolidated and Non-Consolidated Statement of Changes in Equity and Consolidated and Non-Consolidated Cash Flow Statement and related notes, including the accounting policies in notes 1 to 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 October 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of goodwill and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group and Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group and Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and Company's business model, including

the impact of Brexit, and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

Strategic report and Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8-10, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Smith

Richard Smith (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

31 January 2019

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Consolidated & Non-Consolidated Statement of Income

For the Years Ended 31 October

		Group	Group	Company	Company
		2018	2017	2018	2017
		£'000	£'000	£'000	£'000
	Note *				
Interest income	5	28,174	14,439	8	4
Interest expense	5	(45,094)	(38,295)	(143)	(316)
Net interest expense		(16,920)	(23,856)	(135)	(312)
Fees and commission income	6	82,465	83,013	-	-
Fees and commission expense	6	(10,115)	(8,836)	-	-
Net fees and commission income		72,350	74,177	-	-
Net trading income	7	29,046	38,052	-	-
Other income	8	-	3,708	-	-
Dividend Income	9	-	-	15,000	-
Total operating income/(loss)		84,476	92,081	14,865	(312)
Employee compensation and benefits	10	(39,786)	(38,620)	-	-
Other operating expenses	11	(19,945)	(20,025)	(91)	(67)
Total operating expenses		(59,731)	(58,645)	(91)	(67)
Profit/(Loss) before tax		24,745	33,436	14,774	(379)
Income tax (expense)/income	12	(4,737)	(6,513)	16	418
Profit after tax		20,008	26,923	14,790	39

*The accompanying notes form an integral part of these financial statements.

The profit on ordinary activities before tax is derived from continuing activities.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Consolidated & Non-Consolidated Statement of Comprehensive Income

For the Years Ended 31 October

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Net profit after tax	20,008	26,923	14,790	39
Other comprehensive income				
Unrealised gains on fair value through other comprehensive income securities*	150	337	-	-
Realised gains reclassified to profit and loss	(150)	(3,708)	-	-
Total comprehensive income wholly attributable to the parent company	20,008	23,552	14,790	39

**Disclosed as available for sale in prior years in terms of IAS 39.*

The accompanying notes form an integral part of these financial statements.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Consolidated & Non-Consolidated Balance Sheet

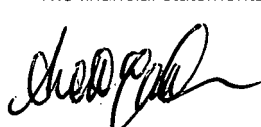
For the Years ended 31 October

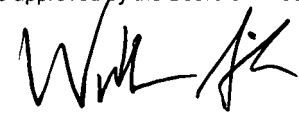
		Group	Group	Company	Company
		2018	2017	2018	2017
	Note *	£'000	£'000	£'000	£'000
Assets					
Cash and cash equivalents	2(j)	24,494	30,700	1,353	6,137
Investments in subsidiaries	13	-	-	132,035	112,535
Securities	14				
Trading		996,334	1,269,514	-	-
Fair value through other comprehensive income**		106,794	92,932	-	-
		1,127,622	1,393,146	133,388	118,672
Securities borrowed or purchased under resale agreements	15	275,485	260,954	-	-
Due from banks and similar financial institutions	16	36,043	34,152	356	7,808
Derivative assets	17	-	8	-	-
Premises and equipment	18	1,676	2,282	-	-
Goodwill and other intangibles	19	18,854	18,854	-	-
Current tax assets	12	785	2,973	28	12
Deferred tax assets	20	1,418	2,120	-	-
Other assets	21	294,647	227,038	-	-
Total Assets		1,756,530	1,941,527	133,772	126,492
Liabilities and Shareholder's Equity					
Liabilities					
Securities sold but not yet purchased	22	989,270	1,253,666	-	-
Securities lent or sold under repurchase agreements	23	112,684	82,077	-	-
Due to banks and similar financial institutions	24	150,527	188,138	-	7,462
Current tax liability	11	4,495	6,435	-	-
Other liabilities	26	300,349	232,014	15	63
Total Liabilities		1,557,325	1,762,330	15	7,525
Shareholder's Equity					
Share capital	25	91,494	91,494	91,494	91,494
Retained earnings		107,721	87,713	42,263	27,473
Accumulated other comprehensive income		(10)	(10)	-	-
Total Shareholder's Equity		199,205	179,197	133,757	118,967
Total Liabilities and Shareholder's Equity		1,756,530	1,941,527	133,772	126,492

*The accompanying notes form an integral part of these financial statements

**Disclosed as available for sale in prior years in terms of IAS 39.

The financial statements were approved by the Board of Directors on 31 January 2019 and were signed on its behalf by


 Director
J. MATTHEWS
 Registered Company Number: 1175125


 Director
WKS SMITH

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Consolidated & Non-Consolidated Statements of Changes in Equity

For the Years Ended 31 October

	Share Capital	Accumulated other com- prehensive income	Retained Earnings	Total Equity
	Group £'000	Group £'000	Group £'000	Group £'000
Balance at 1 November 2016	91,494	3,361	60,790	155,645
Net profit attributable to the owners of the parent company	-	-	23,215	23,215
Net change in unrealised gains on fair value through other comprehensive income securities*	-	337	-	337
Realised gains reclassified to profit and loss	-	(3,708)	3,708	-
Balance at 31 October 2017	91,494	(10)	87,713	179,197
Net profit attributable to the owners of the parent company	-	-	20,008	20,008
Net change in unrealised gains on fair value through other comprehensive income securities*	-	150	-	150
Realised gains reclassified to profit and loss	-	(150)	-	(150)
Balance at 31 October 2018	91,494	(10)	107,721	199,205

*Disclosed as available for sale in prior years in terms of IAS 39.

	Share Capital	Accumulated other com- prehensive income	Retained Earnings	Total Equity
	Company £'000	Company £'000	Company £'000	Company £'000
Balance at 1 November 2016	91,494	-	27,434	118,928
Net profit attributable to the owners of the parent company	-	-	39	39
Balance at 31 October 2017	91,494	-	27,473	118,967
Net profit attributable to the owners of the parent company	-	-	14,790	14,790
Balance at 31 October 2018	91,494	-	42,263	133,757

The accompanying notes form an integral part of these financial statements.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Consolidated & Non-Consolidated Cashflow Statement

For the Years Ended 31 October

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Profit for the year	20,008	26,923	14,790	39
Adjustments for				
Depreciation	959	960	-	-
Net gain on available for sale securities	-	857	-	-
Accumulated other comprehensive income transferred to profit and loss	-	(3,708)	-	-
Deferred tax	702	(981)	-	-
Changes in				
Trading securities	273,180	(210,070)	-	-
Securities borrowed or purchased under resale agreements	(14,531)	148,810	-	-
Due from banks and similar financial institutions	(1,891)	25,671	7,452	12,832
Current tax assets	2,188	370	(16)	984
Other assets	(67,609)	(94,992)	-	1
Obligations related to securities sold short	(264,396)	209,924	-	-
Obligations related to securities lent or sold under repurchase agreements	30,607	(189,896)	-	-
Derivative assets	8	79	-	-
Due to banks and similar financial institutions	(37,611)	8,660	(7,462)	(12,820)
Current tax liabilities	(1,940)	(1,018)	(48)	-
Other liabilities	68,335	89,062	-	(77)
Net cash provided from/(used in) operating activities	8,009	10,651	14,716	959
Cash flows from financing activities				
Capital injection in the form of share capital	-	-	-	-
Net cash Flow from financing activities	-	-	-	-
Cash flows from investing activities				
Net redemption of available for sale shares	-	4,107	-	-
Net acquisition of fair value through other comprehensive income securities*	(13,862)	(12,963)	-	-
Net acquisition of tangible fixed assets	(353)	(635)	-	-
Net increase in investment in subsidiary	-	-	(19,500)	-
Net cash provided from/(used in) investing activities	(14,215)	(9,491)	(19,500)	-
Net (decrease)/increase in cash and cash equivalents	(6,206)	1,160	(4,784)	959
Cash and cash equivalents as at 1 November	30,700	29,540	6,137	5,178
Cash and cash equivalents as at 31 October	24,494	30,700	1,353	6,137
Interest paid	(44,745)	(38,373)	191	(394)
Income tax paid**	(7,864)	(2,033)	-	-
Income tax recovered	952	2,803	-	1,402

*Disclosed as available for sale in prior years in terms of IAS 39.

**Includes payments made during 2018 to group companies in respect of group relief received of £7,582,257.

The accompanying notes form an integral part of these financial statements.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

1) Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

1.1. Basis of preparation

- a) The consolidated financial statements comprise that of Bank of Montreal Capital Markets (Holdings) Limited ("the Company") and its subsidiaries, being BMO Capital Markets Limited ("BMOCML") and Pyrford International Limited ("Pyrford") ("the Group") after elimination of all intercompany balances and transactions.
- b) The consolidated and non-consolidated financial statements ("the financial statements") have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") as adopted by the EU and interpretations issued by the IFRS Interpretations Committee of the IASB. The financial statements have been prepared in accordance with all current IFRS issued and in effect as at 31 October 2018. The Company and the Group's subsidiaries are incorporated in the UK and its financial statements are presented in compliance with the Companies Act 2006.
- c) The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:
 - Derivative financial instruments are measured at fair value;
 - Financial instruments at fair value through profit and loss are measured at fair value; and
 - Financial instruments at fair value through other comprehensive income are measured at fair value.
- d) These financial statements are presented in Sterling ("GBP"), the Company and the Group's functional currency, and all values are rounded to the nearest thousand except where otherwise indicated.
- e) Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.
- f) Management conduct business in a variety of foreign currencies and report the Company and the Group's financial statements in Sterling, which is our functional currency. Monetary assets and liabilities as well as non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are translated into Sterling at the exchange rate in effect at the consolidated balance sheet date. Non-monetary assets and liabilities carried at amortized cost are translated into sterling at historical rates. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the year.
- g) The Directors have a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

1.2. Basis of consolidation

(a) Business Combinations

Business combinations are accounted for using the acquisition method at acquisition date i.e. when control is transferred to the Group. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, the Group takes into consideration all relevant facts and circumstances including potential voting rights.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non- controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in fair value of the contingent consideration are recognised in profit or loss.

(b) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity and consolidated cashflow statement include the financial statements of the Group and its subsidiary undertakings made up to 31 October 2018. The results of the subsidiaries acquired are included in the consolidated profit and loss account from the date of acquisition. Profits or losses on intra-group transactions are eliminated fully on consolidation. Investments in subsidiary undertakings are held at cost.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds, its recoverable amounts, the investment is considered impaired and is written down to its recoverable amount.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

(c) Funds management

The Group through one of its main subsidiaries, Pyrford manages assets held in investment vehicles on behalf of investors. The funds that it manages are held with BMO Investments (Ireland) plc which is a company organised under the European "Undertakings for Collective Investments in Transferable Securities" ("UCITS"), in the form of an umbrella fund with segregated liability between sub-funds. BMO Investments (Ireland) plc offers separate classes of shares, each representing interests in a Sub-Fund.

The sub-funds Pyrford maintained investments in are listed in note 13; these funds are measured at fair value through profit and loss.

2) Significant Accounting Policies and use of Judgements and Estimates

2.1 Use of Judgements and Estimates

The preparation of the Company and the Group's financial statements requires management to use estimates and assumptions that affect the carrying amounts of certain assets and liabilities, certain amounts reported in net income and other related disclosures. The most significant instances for which estimates must be made include the impairment of goodwill (note 19), the recognition of deferred tax assets (note 20) and the calculation of expected credit losses.

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

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

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

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. We have developed models incorporating specific macroeconomic variables that are relevant to each portfolio. Forecasts are developed internally by our economics group, considering external data and our view of future economic conditions. We exercise experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecasts and the probability weight assigned to each forecast scenario.

Due to the operational activities of the Group and the nature of the financial assets held, the Group has limited exposure to credit risk.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

2.1 Use of Judgements and Estimates (continued)

We have established detailed policies and control procedures that are intended to ensure these judgments are well controlled, independently reviewed and consistently applied from period to period. We believe that our estimates of the value of our assets and liabilities are appropriate. If actual results differ from the estimates, the impact would be recorded in future years.

2.2 Changes in Accounting Policies

Financial Instruments

Effective November 1, 2017 the Group early adopted IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 addresses impairment, classification and measurement, and hedge accounting. The impact to shareholders' equity at November 1, 2017 was assessed as immaterial by management. No opening balance adjustment has been made due to the impact on the financial position of the Company and the Group being immaterial. The policies previously applied under IAS 39 are disclosed in the prior year annual report.

Classification and Measurement

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

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

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

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

Equity instruments are measured at FVTPL unless we elect to measure at FVOCI, in which case gains and losses are never recognized in income.

The implementation of IFRS 9 did not result in any changes in the measurement basis of any of the financial instruments on the Group or Company's balance sheet.

Securities which were previously presented as available for sale are now presented as fair value through other comprehensive income in line with the new IFRS 9 classification categories. These securities continue to be measured at fair value through other comprehensive income in line with prior years.

The IFRS 9 amendments relating to financial liabilities are limited and do not impact the classification or measurement of any of the financial liabilities on the Group or Company's balance sheet.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

Impairment

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

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

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

Financial Assets are in default when the counterparty is unlikely to pay its obligations in full without recourse by the Company or Group such as realising security or when the counterparty is unable to settle its obligation.

Due to the short term profile of the financial assets of the Company, stage 1 has been assessed as appropriate.

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

In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period, including pre-payment, extension and other options.

Given the operational activities of the Group and the short term nature of the financial assets held, the Group has limited exposure to credit risk. Further, transactions within the securities lending business are collateralised. As such, an application of the ECL impairment model did not produce any material expected credit losses for any of the financial assets within the scope of the model held on the Company or Group's balance sheet. No adjustments were necessary in order to reflect expected credit losses.

Hedge Accounting

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

2.3 Significant Accounting Policies

a) Interest

Interest income and interest expense are recorded using the effective interest rate method. The effective interest rate method allocates interest income and expense over the expected term by applying the effective interest rate to the carrying amount of the financial asset or liability. The effective interest rate is defined as the rate that exactly discounts estimated future cash receipts through the expected term of the financial asset or liability to the net carrying amount of the financial asset or liability.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

b) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees, performance fees and advisory fees, are recognised as the related services are performed. Performance fees are recognized at the point of crystallising when the criteria for payment of the fee are met.

c) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

d) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend for equity securities. Dividends are presented in net trading income and other income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

e) Lease payments

We are lessees in operating leases. Payments under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

f) Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss in the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from declaration of dividends.

(ii) Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

g) Financial instruments- recognition and measurement

Securities

Securities are divided into two types, each with a different business model and accounting treatment. The two types of securities held are as follows:

(i) Trading securities

Trading securities are securities that we purchase for resale over a short period of time. Trading securities are measured at fair value through profit and loss. We report these securities at their market value and record the mark-to-market adjustments, transaction costs and any gains or losses on the sale of these in the Statement of Income in net trading income.

(ii) Fair value through other comprehensive income securities

Fair value through other comprehensive income securities are debt securities purchased with the objective of both collecting contractual cash flows and selling the securities. The securities' cash flows represent solely payments of principal and interest. These securities may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in credit risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs.

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

Debt securities classified as amortized cost or FVOCI are assessed for impairment using the ECL model.

(iii) Securities borrowed or purchased under resale agreements

The Group through its subsidiary undertaking BMOCML purchases securities under agreements to resell (reverse repurchase agreements) and takes possession of these securities. Reverse repurchase agreements are treated as collateralised lending transactions whereby the market value of the securities purchased is monitored and additional collateral is obtained when appropriate. In the context of collateralised lending transactions, the cash flows represent solely payments of principal and interest. BMOCML has the right to liquidate the collateral in the event of a counterparty default. These assets are realised through repayment of the principal balance and not through sale. BMOCML also sells securities under agreements to repurchase (repurchase agreements), which are treated as collateralised borrowings transactions. The securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised on, or derecognised from, the Consolidated Balance Sheet, unless the risks and rewards of ownership are transferred.

Reverse repurchase agreements and repurchase agreements are recognised at amortised cost. These are initially recognised at fair value, if issued at market rate, fair value is represented by the cash received or borrowed. Reverse repurchase agreements and repurchase agreements are subsequently recorded at amortised cost using the effective interest method. Reverse repurchase agreements are recorded net of any impairment losses.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

Other assets

Other assets relate primarily to unsettled trades arising from the equities desk, securities lending and ADR/Ord BMO CML business lines. Other assets also include related party receivable balances and trade debtors. The cash flows arising from these assets represent the principal balance and interest. They are held within a business model to collect the contractual cash flows and are accordingly measured at amortised cost.

Derecognition

Financial Instruments are derecognised when the rights to receive or deliver cash flows from the financial assets or liabilities have expired or have been transferred and the Group or Company has transferred substantially all the risks and rewards of ownership.

Trade date accounting

All financial assets are recognised on the trade date which is the date when the Group enters into contractual arrangements with counterparties to purchase or sell the financial assets.

h) Premises and equipment

Premises and equipment are all recorded at cost less accumulated amortisation, premises and equipment are amortised on a straight line basis over their estimated useful lives.

The estimated useful lives are as follows:

- Leasehold improvements: Lease term to a maximum of 10 years
- Fixtures and fittings: Lease term to a maximum of 10 years; and
- Computers and software: 2 to 5 years

i) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. It represents the excess of the price paid for the business over the fair value of the net identifiable assets acquired on the date of acquisition. Goodwill is allocated to cash-generating units ("CGU") or a group of CGUs and is not amortised but is tested annually for impairment as at 31 October or more frequently if there are indications of impairment.

The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Significant judgement is required in estimating the fair value and value in use of the CGU, including the determination of future cash flows (uncertainty in timing and amount), discount rate (based on CGU specific risks) and terminal growth rates. CGU specific risks include country risk, business/operational risk, geographical risk (including potential risk, devaluation risk and government regulation), currency risk and price risk (including product pricing risk and inflation). Terminal growth rates reflect the gross domestic product and inflation for the countries within which the CGU operates. Changes in these assumptions may impact the amount of impairment loss recognised in other operating expenses.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

i) Goodwill (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j) Cash and cash equivalents

Cash includes cash and non-interest bearing deposits with banks, cheques and other items in transit. Cash comprises amounts deposited in the Group and Company's principal nostro.

k) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

l) Investments in subsidiaries

Investments in subsidiaries are held at cost, these are held in the Company. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

m) Employee benefits

The Group offers a number of benefit plans which provide pension and other benefits to eligible employees. These plans include a registered defined benefit plan, defined contribution plans and health, dental, disability and life insurance plans.

BMOCML and Pyrford participate in the defined benefit plan. The net benefit cost is recognised in the group financial statements of the Bank of Montreal who are legally the sponsoring employer in the plan. The Group entities recognise a cost equal to their contribution payable for the period. The Group's contribution to defined benefit plan is expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution. Defined contribution plan expense is included within Employee compensation and benefit.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

3) *Future Changes in Accounting Policies*

Management is currently assessing the impact of adopting the following standards on the Group and Company's financial statements

3.1 Revenue

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), which replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, providing a principles-based approach for revenue recognition, and introducing the concept of recognizing revenue for performance obligations as they are satisfied. Revenues outside of the scope of IFRS 15 include interest and dividend income, trading revenues, securities gains/losses, insurance revenues, investments in associates and joint ventures and lease income. The standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with our customers.

In April 2016, the IASB issued clarifications to IFRS 15, which provided additional clarity on revenue recognition related to identifying performance obligations, application guidance on principal versus agent and licences of intellectual property.

In order to meet the requirements of IFRS 15, an enterprise-wide project led by our parent has been established. An evaluation of the impact on adoption has been carried out. As the majority of our revenue streams are outside the scope of the new standard, we do not expect a significant impact on our financial statements following the adoption of the new standard.

IFRS 15 is effective for our fiscal year beginning November 1, 2018. On transition to IFRS 15 on November 1, 2018, we can either restate prior periods as if we had always applied IFRS 15 or alternatively, we can recognize the cumulative effect of any changes resulting from our adoption of IFRS 15 in opening retained earnings with no comparison for prior years. We have elected not to restate prior periods. The net impact of adopting IFRS 15 on profit before tax and opening retained earnings is expected to be immaterial.

The evaluation of the net impact of adopting IFRS 15 is ongoing, however is expected to be immaterial.

3.3 Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding asset on the balance sheet for most leases. There are minimal changes to lessor accounting. IFRS 16 is effective for our fiscal year beginning November 1, 2019. In order to meet the requirements of IFRS 16, we have established an enterprise-wide project and are currently assessing the impact of the standard on our future financial results.

The main impact identified to date is the requirement to record real estate leases on balance sheet. Currently, most of our real estate leases are classified as operating leases, whereby we record lease expense over the term of the lease with no asset or liability recorded on balance sheet other than any related leasehold improvements. Under IFRS 16, we will gross up the balance sheet by recognizing a right-of-use asset and a lease liability.

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3.4 Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment ("IFRS 2") in relation to the classification and measurement of share-based payment transactions. We do not expect the amendments to have a significant impact on our financial statements. The amendments are effective for our fiscal year beginning November 1, 2018.

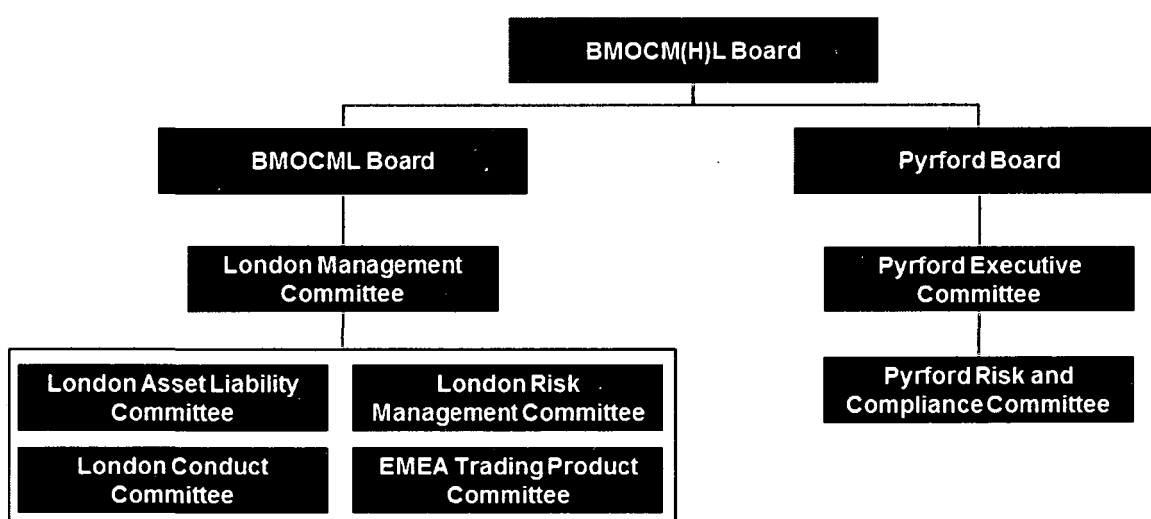
3.5 Conceptual Framework

In March 2018, the IASB issued the revised conceptual Framework ("Framework"), which sets out the fundamental concepts of financial reporting to ensure consistency in standard setting decisions and treatment of similar transactions, so as to provide useful information to users of financial statements. The revised framework will inform future standard setting decisions but does not impact existing IFRS. The revised Framework is effective for our fiscal year beginning November 1, 2020. We do not expect the Framework to have a significant impact on our current accounting policies.

4) Financial and other risk management

BMOCM(H)L is a wholly owned subsidiary of the BMO Financial Group ("BMO"), the risk management frameworks for BMOCM(H)L and entities within the Group are governed by and fall within BMO's Enterprise Risk and Portfolio Management ("ER&PM") policies and practices. In addition, local policies driven by local regulatory requirements are approved by the BMOCM(H)L Board as necessary.

The Group's risk management and governance structure is composed of several committees that have the responsibility for key risk management areas. Each committee has a defined mandate allocating their accountability and responsibility. An illustration of how these committees roll up to the Group Board is provided below:



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4) Financial and other risk management (continued)

- The Board of BMOCM(H)L fulfils its responsibilities in relation to ensuring compliance with Consolidated regulatory reporting for the Group and ensuring a consistent approach to risk management policies and procedures within the Group. It meets at least quarterly. The Board of BMOCM(H)L relies on the underlying boards of the subsidiaries and the committees of these boards to manage the operating companies' risks.
- The Boards of BMOCML and Pyrford fulfil their 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 as promulgated by BMO. The Boards of Pyrford and BMOCML are responsible for implementing the approved strategy of the Group as well as adhering to local regulatory requirements for their respective companies. The Boards meet at least quarterly.
- The Chairman of the Board of BMOCM(H)L who is also CEO of BMOCML and a Director of Pyrford is directly accountable to the Board for all of the Group's risk taking activities.

The London Management Committee ("LMC") is the senior collective management forum for the activities of Bank of Montreal, London Branch, BMOCM(H)L and BMOCML. 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, best risk practice, law, regulation and the established policies, procedures and strategies of the Group.

The Assets and Liabilities Committee ("ALCO") is a sub-committee of the London LMC and its mandate covers activities of Bank of Montreal, London Branch and BMOCML across all categories of balance sheet development, liquidity and funding management, treasury, tax review, strategies and efficient capital allocation. Its mandate is 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 London Risk Management Committee ("LRMC") is a sub-committee of the LMC and consists of the senior administrative and risk executives of Bank of Montreal, London Branch and BMOCM(H)L and its subsidiaries. Within the context of BMO Risk Management Policy, the LRMC reviews and discusses all significant risk issues that arise in executing BMOCM(H)L and its subsidiaries' strategies. It serves as a forum to review, inform, consult and discuss significant risk issues and action plans addressing current and emerging risks that arise in the course of executing the business plans and day-to-day operations.

The London Conduct Committee ("LCC") is a sub-committee of the LMC and is responsible for providing oversight in relation to conduct issues in BMO London Branch and BMOCML.

The EMEA Trading Products Management Committee ("EMEA TP MC") is a sub-committee of the London LMC and is responsible for providing oversight and guidance on all affairs relating to strategic, operational, and supervisory and governance matters of the overall business and operations of EMEA Trading Products. It is composed of the senior collective management forum for the Trading Product activities of all business lines of Bank of Montreal, London Branch, BMOCML, BMI and all other Bank of Montreal subsidiaries and branches in EMEA.

The Pyrford Executive Committee ("ExCo") is the senior collective management forum for the activities of Pyrford International Limited ("Pyrford") which supports the Chief Executive Officer by monitoring the strategy of the Pyrford business within the wider strategy of BMO GAM, reporting on business and support function activities and sharing knowledge and expertise. The ExCo meets monthly and is chaired by the Chief Executive Officer ("CEO").

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The **Pyrford Risk and Compliance Committee ("RCC")** is a sub-committee of the ExCo and provides appropriate risk and compliance oversight for all Pyrford activities. The RCC reviews any business or other initiatives that could materially affect Pyrford's existing limits and other risk control and monitoring mechanisms used to manage its activities in line with its agreed risk profile. It further monitors that these initiatives are within the approved business plan and Corporate Policies including operational risk. The RCC meets monthly and is chaired by the Chief Operating Officer ("COO"). The Deputy Chair is the Chief Compliance Officer ("CCO").

a) Credit Risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most important risks for the Group's business. Management therefore carefully manages its exposure to credit risk.

The Group's maximum exposure to credit risk is equivalent to the total asset balance sheet position of assets exposed to credit risk as it does not include any netting benefit or collateral.

An application of the IFRS 9 ECL model did not produce any material credit losses. Due to the short term profile of the financial assets of the Group and Company, stage 1 has been applied in the determination of expected credit losses.

Credit risk management in the banking book

The material credit exposures in the banking arise principally in the following areas;

- UK Government Gilts (fair value through other comprehensive income securities);
- Nostros & Short term money market deposits;
- Intercompany receivable balances (included within other assets); and
- Management fee income which is primarily receivable 3 months in arrears.

The largest credit exposure is to UK Government Gilts which is currently highly rated AA+. Other material credit exposures relate to short term money market balances which are placed with either a fellow related entity or banks and these are not collateralised.

The Group 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 and past due loans as at 31 October 2018 and 31 October 2017.

Credit risk management in the trading book

The Group fully complies with BMO credit procedures to control counterparty credit risk by following an established credit approval process, daily monitoring of net exposure to individual counterparties, requiring additional collateral where appropriate. Credit risk undertaken by the Group is also subject to BMO's Corporate Policies and Corporate Standards.

The Group is subject to counterparty risk in relation to the securities lending business. The securities lending business borrows securities from counterparties and is required to collateralize the trade with cash or other securities that are, typically, equivalent to 105% of the value of the stock borrowed. In turn, the securities lending business lends the borrowed security to approved counterparties and receives collateral, again typically at 105% value. The positions are marked to market daily, with collateral topped up where appropriate.

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Credit risk management in the trading book (continued)

The Group is also subject to minimal counterparty risk in relation to fails from equity trades as the majority of the trades are delivery versus payment. Fails are reported daily and the capital requirements attributable to counterparty risk are monitored daily by management against regulatory limits.

Offsetting financial assets and financial liabilities

The following table presents the amounts that are subject to enforceable master netting arrangements or similar agreements but do not qualify for netting on the balance sheet. There are no amounts offset in the balance sheet as they relate to transactions where a master netting arrangement or similar agreement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or where the offset criteria are otherwise not met. As there is no on balance sheet netting, amounts included on the balance sheet are the gross amount. The following table shows the net economic exposure under a master netting agreement.

	2018	2017
	Market Value	Market Value
	£'000	£'000
Securities borrow ed or purchased under resale agreements	1,272,457	1,406,227
Securities lent or sold under repurchase agreements	(1,143,195)	(1,259,805)
Cash collateral received	112,684	82,077
Cash collateral given	(275,485)	(260,954)
Net exposure under a master netting agreement	(33,539)	(32,455)

b) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's solvency while optimising the return or risk.

Management of market risk

The portfolios subject to market risk in CML include those positions arising from the ADR-ORD desk, the market-making UK Equity desk and the Relative Value Europe desk which commenced trading in July 2018. Each trading desk is governed by a Market Risk Limit Letter which includes primary and secondary limits to ensure the market risk exposures remain within the agreed risk appetite.

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Exposure to market risks

The Group measures and controls market risk using VaR metrics, stress testing and a range of other metrics such as sensitivities to market risk factors.

The VaR of the trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified period of time (holding period) within a specified probability (confidence) level. The VaR model used by the Group estimates over a 1-day holding period at a 99 per cent confidence interval. The requisite risk reports are produced and monitored daily in accordance with the Market Risk Corporate Policy.

A summary of the Group's total VaR and the 12 month Average VaR ("Av VaR") as at 31 October can be seen below:

	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
	VaR	Av VaR	VaR	Av VaR
ADR/Ord	348	312	337	369
UK Equity	30	32	45	32
Relative Value Europe	170	120	-	-

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based gives rise to certain limitations including the following:

A 1-day holding period is used as it is consistent with daily profit and loss reporting. A 1-day holding period does not factor into account market liquidity. Some positions could take longer to hedge or close out, especially in times of severe market illiquidity. A 99 per cent confidence level does not reflect losses that may occur beyond this level. VaR is calculated on an end of day basis.

The general market risk VaR measure, calculated using historical scenarios, is based on the historically observed volatility. The VaR of an unchanged position reduces if the market price volatility declines and vice versa

The limitations of VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Traders for example must obtain pre-approval from the limit delegator and approval from the Risk Management Department for any primary limit extensions.

Other metrics that are used to monitor market risk include net Delta which is the change in present value of a position with respect to a specified change in the price of the underlying asset and Market Stress where the limit is based on measurement of the worst case stress scenario at approximately 99.95 per cent or higher confidence. The stress scenarios generated are based on the combined effect of changes in market and credit factors that affect the valuation of the portfolio.

The above VaR is for BMOCML only. Pyrford is a 50K BIPRU limited license firm. Pyrford is exposed to market risk through its investment in seed funds. A 10 per cent decline in the market value of the seed funds will cause a £386,925 charge to the Statement of Comprehensive Income (2017: £891,572).

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c) Foreign exchange risk

The Group is subject to currency risk due to a material portion of the revenue generated in BMOCML and Pyrford being either in US Dollars ("USD"), Canadian Dollars ("CAD") or Euros ("EUR"), whereas the balance sheet is denominated in GBP.

Foreign exchange risk on the non-trading portfolio mainly arises on the following non trading book transactions:

- Revenues related to commissions that are received in non GBP;
- Management fee revenues relating to managing Funds Under Management that are earned and receivable in CAD, USD and EUR;
- Foreign currency payments to and from other BMO entities; and
- Foreign currency deposits which are subject to foreign exchange risk.

Exposure to foreign exchange risk- trading portfolio

In BMOCML the securities lending business seeks to have minimal exposure to foreign exchange risk for profit making purposes. Management will ideally seek to match security market with collateral currency i.e. borrow/lend Euro securities versus Euro cash or Euro denominated non cash collateral. The main foreign exchange exposure in the ADR/ORD trading portfolio is when the ADR/ORD long/short position is being held over the dividend date, this will result in a cross currency dividend exposure. There will be a dividend in USD (from the ADR position) and a dividend in the underlying currency of the dividend of the Ordinary share. When collateral currency or dividend currency is mismatched management will enter into a foreign exchange trade.

The carrying amount of the Group's open foreign currency denominated positions can be seen below:

	2018	2017
	£'000	£'000
United States dollars	22,061	15,625
Canadian dollars	(14,612)	(15,965)
Euro	(46,862)	(13,195)
Australian Dollar	(17)	(2,519)
Other	(979)	(5,203)
	<u>(40,409)</u>	<u>(21,257)</u>

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Exposure to foreign exchange risk- trading portfolio (continued)

As at 31 October 2018, had GBP strengthened by 10 per cent in relation to all currencies, with all other variables held constant, the net assets and loss for the period would have decreased and increased respectively by the amounts shown below. The analysis is performed on the same basis for 2017.

	2018	2017
	£'000	£'000
United States dollars	2,206	1,562
Canadian dollars	(1,461)	(1,597)
Euro	(4,686)	(1,320)
Australian Dollar	(2)	(252)
Other	(98)	(520)
	<u>(4,041)</u>	<u>(2,127)</u>

A 10 per cent weakening of GBP against the above currencies would have resulted in an equal but opposite effect on the consolidated financial statements amounts to the amounts shown above, on the basis that all other variables remain constant. The above analysis does not take into consideration the use of foreign exchange forwards which are used to hedge foreign exchange positions.

d) Interest rate risk

It is the Group's intention not to take any direct interest rate risk. The only balances that are subject to interest rate variability are the UK Treasury bills and the money market deposits which are deposited on a rolling 1 month basis. These attract minimal interest rate risk.

e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The consequence may be the failure to meet the obligations to repay depositors and fulfil commitments to lend. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under normal and stressed conditions, without incurring additional losses or risking damage to the Group's reputation.

FCA liquidity regulation

The Group is subject to qualitative and quantitative liquidity regulation by the FCA. The Group's main subsidiary BMOCML has been in receipt of an intra-Group liquidity modification from the FCA under its BIPRU 12 rules to create a Defined Liquidity Group ("DLG") in which BMOCML can rely for liquidity support on its parent BMO as an overseas entity. The DLG consists of BMOCML and BMO. As part of the modification BMOCML as a non-UK DLG may not include liquidity resources that can be made available by other members of its Group other than specific liquidity resources made available by BMO.

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Liquidity risk management process

The Group is an integrated part of the BMO Group and therefore follows, and is obliged to comply with all applicable aspects of BMO Group's policy regarding Group-wide contingency funding plan. The Group's liquidity is managed within a global framework that manages the liquidity position on a consolidated basis and considers legal, regulatory, operational and any other restrictions when analysing the ability to lend or borrow funds between legal entities.

In alignment with the three lines of defence operating model the Lines of Business ("LoB") own the operational and liquidity and funding risks in their operations. Corporate Treasury Europe, as part of the first line of defence is responsible for Company-level liquidity and funding management and provides direction and monitors LoB activities to ensure BMOCM's liquidity and funding objectives are achieved and are within net regulatory ratios. Risk management provides independent oversight and effective challenge to liquidity and funding management as the second line of defence. Corporate Audit Division acts as the third line of defence.

Risk Management as second line of defence oversee, review and challenge Liquidity and Funding deliverables for BMOCM completed by Corporate Treasury Europe, including Liquidity and Funding management framework, risk appetite and related limits, relevant policies, (including annual Individual Liquidity Adequacy Assessment ("ILAA"), Contingency Funding Plan ("CFP") and Recovery Plan), strategic initiatives, stress testing and any Liquidity and Funding measures.

BMOCM also manages its liquidity risk by financing its securities lending activities through the use of a USD 1 billion uncommitted loan facility as well as a USD 200 million committed facility with BMO.

BMOCM also conducts an annual ILAA process whereby the impact of various stress scenarios are modelled to assess the adequacy of the firm's liquidity resources.

Liquidity table

The table presents the maturity analysis for financial assets it holds as part of managing liquidity and the undiscounted cash flows payable by the Group by remaining contractual maturities at the Balance sheet date, except where management have deemed the expected liquidity profile to be different.

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Liquidity table (continued)

Liquidity table as at 31 October 2018

	£'000	£'000	£'000	£'000	£'000
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 Year	Total
Assets held for liquidity purposes					
Cash and cash equivalents	24,494	-	-	-	24,494
Fair value through other comprehensive income securities*	15,600	7,400	83,794	-	106,794
Securities borrowed or purchased under resale agreements	275,485	-	-	-	275,485
Other assets	276,747	-	-	-	276,747
Trading securities	996,334	-	-	-	996,334
	1,588,660	7,400	83,794	-	1,679,854
Liabilities					
Securities sold but not yet purchased	989,270	-	-	-	989,270
Securities lent or sold under repurchase agreements	112,684	-	-	-	112,684
Due to banks and similar financial institutions	147,174	15	-	3,338	150,527
Other liabilities	274,289	-	-	-	274,289
Total liabilities	1,523,417	15	-	3,338	1,526,770

*Disclosed as available for sale in prior years in terms of IAS 39.

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Liquidity table (continued)

Liquidity table as at 31 October 2017

	£'000 Less than 1 month	£'000 1 to 3 months	£'000 3 months to 1 year	£'000 More than 1 Year	£'000 Total
Assets held for liquidity purposes					
Cash and cash equivalents	30,700	-	-	-	30,700
Fair value through other comprehensive income securities*	-	55,000	37,932	-	92,932
Securities borrowed or purchased under resale agreements	260,954	-	-	-	260,954
Other assets	211,227	-	-	-	211,227
Trading securities	1,269,514	-	-	-	1,269,514
	1,772,395	55,000	37,932	-	1,865,327
Liabilities					
Securities sold but not yet purchased	1,253,666	-	-	-	1,253,666
Securities lent or sold under repurchase agreements	82,077	-	-	-	82,077
Due to banks and similar financial institutions	188,138	-	-	-	188,138
Other liabilities	204,983	-	-	-	204,983
Total liabilities	1,728,864	-	-	-	1,728,864

*Disclosed as available for sale in prior years in terms of IAS 39.

d) Regulatory capital

The Group and its major subsidiaries are regulated by the FCA as a securities firm with an Individual Capital Guidance ("ICG") through its Supervisory Review and Evaluation Process ("SREP"). The ICG represents the minimum amount and quality of capital that the FCA considers appropriate that an entity must hold in order to meet its adequate capital resources rule.

The Group is regulated by the FCA as a securities firm. It is in the Group's capital management policy to ensure that it remains adequately capitalised in accordance with its risk appetite. The Group is committed to maintaining sufficient capital to underpin all risks as defined by internal and external regulatory capital requirements.

The Group's regulatory capital consists of Tier 1 capital which includes ordinary shares. Relevant deductions are made to the capital resources where appropriate, in the Group's case this relates to Goodwill on the Paloma acquisition.

The FCA required the Group to submit a series of Regulatory Returns for capital monitoring and measurement of risk. During 2018 the Group fully complied with its internal and external requirements.

The Group conducts an annual assessment of the adequacy of its capital resource requirements as part of the internal capital adequacy assessment process ("ICAAP").

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e) Classification of Financial Assets and Liabilities

The table below shows the carrying amount of the Group's financial instruments classified in the categories as per the requirements of IFRS 9.

Assets as at 31 October 2018

	Fair value through P&L £'000	Fair value through OCI £'000	Amortised cost £'000	Total carrying amount £'000
Assets				
Cash and cash equivalents	-	-	24,494	24,494
Securities				
Trading	996,334	-	-	996,334
Fair value through other comprehensive income*	-	106,794	-	106,794
Derivatives	-	-	-	-
Securities borrowed or purchased under resale agreements	-	-	275,485	275,485
Due from banks and similar financial institutions	-	-	36,043	36,043
Other assets	-	-	276,747	276,747
Total Assets	996,334	106,794	612,769	1,715,897

Liabilities as at 31 October 2018

	£'000	£'000	£'000	£'000
Liabilities				
Securities sold but not yet purchased	989,270	-	-	989,270
Securities lent or sold under repurchase agreements	-	-	112,684	112,684
Due to banks and similar financial institutions	-	-	150,527	150,527
Other liabilities	-	-	274,289	274,289
Total Liabilities	989,270	-	537,500	1,526,770

*Disclosed as available for sale in prior years in terms of IAS 39.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

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October 31, 2018

e) Classification of Financial Assets and Liabilities (continued)

Assets as at 31 October 2017

	Fair value through P&L £'000	Fair value through OCI £'000	Amortised cost £'000	Total carrying amount £'000
Assets				
Cash and cash equivalents	-	-	30,700	30,700
Securities				
Trading	1,269,514	-	-	1,269,514
Fair value through other comprehensive income*	-	92,932	-	92,932
Derivatives	8	-	-	8
Securities borrowed or purchased under resale agreements	-	-	260,954	260,954
Due from banks and similar financial institutions	-	-	34,152	34,152
Other assets	-	-	211,229	211,229
Total Assets	1,269,522	92,932	537,035	1,899,489

Liabilities as at 31 October 2017

	£'000	£'000	£'000	£'000
Liabilities				
Securities sold but not yet purchased	1,253,666	-	-	1,253,666
Securities lent or sold under repurchase agreements	-	-	82,077	82,077
Due to banks and similar financial institutions	-	-	188,138	188,138
Other liabilities	-	-	204,983	204,983
Total Liabilities	1,253,666	-	475,198	1,728,864

*Disclosed as available for sale in prior years in terms of IAS 39.

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5 Net Interest Income

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Interest income includes amounts earned on:				
Cash and cash equivalents	34	4	8	4
Securities				
Trading	-	-	-	-
Fair value through other comprehensive income	424	71	-	-
Securities borrowed or purchased under resale agreements	27,266	14,180	-	-
Due from banks and similar financial institutions	417	162	-	-
Other	33	22	-	-
	28,174	14,439	8	4

Including interest income received from related parties

BMO Nesbitt Burns Inc	202	142	-	-
Bank of Montreal Ireland plc	24	25	4	2
BMO Capital Markets Corp	6,480	4,264	-	-
	6,706	4,431	4	2

Interest expense includes amounts paid on:

Securities lent or sold under repurchase agreements	(44,733)	(37,803)	-	-
Due to banks and similar financial institutions	(361)	(492)	(143)	(316)
	(45,094)	(38,295)	(143)	(316)

Including interest expense paid to related parties

BMO Nesbitt Burns Inc	(597)	(1,068)	-	-
BMO London Branch	(3,934)	(1,799)	(143)	(316)
Bank of Montreal Ireland plc	(128)	(24)	-	-
Bank of Montreal	-	(1)	-	-
BMO Capital Markets Corp	(13,472)	(19,954)	-	-
	(18,131)	(22,846)	(143)	(316)

Interest expense and income are calculated using the effective interest method.

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6 Net fee and commission income

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Fee and commission income				
Brokerage fees	21,482	20,815	-	-
Securities lending fees	4,422	3,511	-	-
Advisory fees	25,765	29,205	-	-
Management fees	30,796	29,415	-	-
Performance fees	-	67	-	-
Total fee and commission income	82,465	83,013	-	-

Including fee and commission income received from related parties

BMO Nesbitt Burns Inc	18,540	18,965	-	-
BMO London Branch	60	60	-	-
Bank of Montreal Ireland plc	431	-	-	-
BMO Capital Markets Corp	3,977	3,313	-	-
Other	8,489	7,871	-	-
	31,497	30,209	-	-

Fee and commission expense

Fee and commission expense	(7,275)	(6,581)	-	-
Brokerage and other	(756)	(790)	-	-
Rebates and revenue share	(2,084)	(1,465)	-	-
Total fee and commission expense	(10,115)	(8,836)	-	-

Including fee and commission expense paid to related parties

BMO Nesbitt Burns Inc	(205)	(215)	-	-
Bank of Montreal	(950)	(964)	-	-
BMO London Branch	(4,943)	(4,366)	-	-
BMO Capital Markets Corp	(1,933)	(1,826)	-	-
Other	(1,823)	(1,229)	-	-
	(9,854)	8,600	-	-

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7 Net Trading Income

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Derivatives	(7)	(80)	-	-
Securities	29,190	37,750	-	-
Other	(137)	382	-	-
Total net trading income	29,046	38,052	-	-

Including net trading revenue with related parties

BMO Capital Markets Corp.

66,023	103,950	-	-
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8 Other Income

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Gains and losses transferred to profit and loss	-	3,708	-	-

Other income relates to the disposal of a share investment by BMOCML during the previous period. The investment was classified as Available for Sale under IAS 39 and was carried at fair value. The fair value gains and losses relating to the investment were recognized in accumulated other comprehensive income up until the date of sale. Upon sale of the shares, these gains and losses were transferred to profit and loss.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

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9 Dividend Income

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Dividend income	-	-	15,000	-

The Company received a dividend of £15,000,000 from Pyrford during the year.

10 Employee compensation and benefits

The average number of people employed by the Group during the year was 132 (2017: 133). Their aggregate remuneration comprised:

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Wages and salaries	(32,683)	(32,059)	-	-
Social security costs	(4,567)	(4,485)	-	-
Defined contribution pension costs	(1,388)	(1,350)	-	-
Defined benefit pension costs	(130)	139	-	-
Other	(1,018)	(865)	-	-
Total employee compensation and benefits	(39,786)	(38,620)	-	-

Including related party expenses

Defined benefit pension costs	(130)	139	-	-
	(130)	139	-	-

The Company has no direct employees. As such, the remuneration shown above includes that of the subsidiaries only.

The related party expenses comprise of the contributions payable to non-contributory pension scheme. As the Bank of Montreal is the sponsoring employer, the Company's financial statements recognise a cost equal to their contribution for period. The Bank of Montreal financial statements include the net defined benefit cost of the plan.

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10 Employee compensation and benefits (continued)

The emoluments of Directors are set out below:

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Aggregate emoluments excluding pension contributions paid to or receivable by Directors in the year	6,611	6,588	-	-
Aggregate amount of Company contributions to defined benefit pension and money purchase schemes in respect of Directors in the year	122	178	-	-
Emoluments excluding pension contributions paid to or receivable by the highest paid Director in the year	3,170	2,938	-	-
Amount of Company contributions to defined benefit pension scheme or money purchase scheme in respect of the highest paid Director in the year	53	46	-	-
Amount payable to Directors relating to long term incentive scheme	2,645	2,699	-	-
Number of Directors to whom benefits are accruing under defined benefit pension schemes	6	6	-	-
Aggregate value of accrued pensions of Directors under the defined benefit pension scheme	81	62	-	-

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11 Other operating expenses

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Fees payable to the auditor for the audit of the annual accounts	(113)	(96)	(31)	(14)
Fees payable to the auditor for other services	(31)	(40)	-	(10)
Amortisation and depreciation	(959)	(960)	-	-
Occupancy	(3,286)	(3,316)	-	-
Communications	(5,452)	(4,294)	-	-
Trading related expenses	(1,676)	(2,507)	-	-
Other expenses	(8,428)	(8,812)	(60)	(43)
	(19,945)	(20,025)	(91)	(67)

Including related party incurred expenses

BMO London Branch	(618)	(795)	(30)	(30)
BMO Nesbitt Burns Inc	(44)	(422)	-	-
Other	(14)	-	-	-
	(676)	(1,217)	(30)	(30)

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12 Income tax

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Current Tax:				
<i>United Kingdom:</i>				
UK tax before double tax relief	(4,917)	(6,543)	16	418
UK corporation tax on income for the year	(4,917)	(6,543)	16	418
<i>Foreign tax:</i>				
Foreign tax on income for the year	(72)	(680)	-	-
Foreign tax relief/other relief	87	681	-	-
Adjustment in respect of prior period	866	(142)	-	-
Total current tax (charge)/credit	(4,036)	(6,684)	16	418
Deferred Tax:				
Deferred tax (charge)/credit on temporary differences	(63)	132	-	-
Change in tax rates	(76)	(62)	-	-
Adjustment in respect of prior years	(562)	101	-	-
Total tax (charge)/credit for the year	(4,737)	(6,513)	16	418
 Profits/(Loss) before taxation	 24,746	 33,436	 14,774	 (379)
Total tax (charge)/credit	(4,737)	(6,513)	16	418
Effective tax rate	19.1%	19.5%	-0.1%	110.3%

The tax charge on activities for the year is different from the standard rate of UK corporation tax as detailed below:

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12 Income tax (continued)

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Profit/(Loss) on ordinary activities before tax	24,746	33,436	14,774	(379)
Tax (charge)/credit at standard rate of UK corporation tax of 19% (2017: 19.41%)	(4,702)	(6,491)	(2,807)	74
Effects of:				
Expenses not deductible for tax purposes	(277)	(293)	-	-
Deemed loan interest expense	28	62	-	-
Change in tax rates	(77)	(62)	-	-
Income not taxable	-	760	2,850	-
Higher tax rates on overseas earnings	14	1	-	-
Adjustments to tax in respect of previous periods	304	(42)	-	-
Tax on sale of shares	-	(792)	-	-
Transfer pricing adjustment	(27)	(61)	(27)	(62)
Payment for use of capital losses	-	405	-	406
Total tax (charge)/credit for the year	(4,737)	(6,513)	16	418

Current Tax Asset

UK corporation tax debtor	300	-	-	-
Foreign tax debtor	30	90	-	-
Group relief debtor	455	2,883	28	12
	785	2,973	28	12

Current Tax Liability

UK corporation tax creditor	4,495	4,966	-	-
Group relief creditor	-	1,469	-	-
	4,495	6,435	-	-

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

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13 Investments

The Company has the following subsidiary and related undertakings, which were owned 100% by the Group, as at 31 October 2018.

	Nature of business	Accounting year end	Country of registration	Registered Address
BMO Capital Markets Limited	Investment Banking	31 October	England	95 Queen Victoria Street, London, EC4V 4HG
Pyrford International Limited	Asset Management	31 October	England	95 Queen Victoria Street, London, EC4V 4HG
BMO Capital Markets (Nominees) Limited	Nominee Company	31 October	England	95 Queen Victoria Street, London, EC4V 4HG

During the current year, the Company increased its share investment in BMOCML with the purchase of an additional 15,600,000 shares at a par value of £1.25 per share.

In addition to the above, Pyrford International Limited maintains investments in the following funds.

Sub-Fund Name	Currency of Investment	Fund Domicile	% Ownership
Pyrford Asia Ex-Japan Equity Fund	USD	Ireland	100%
Pyrford Global Equity (Euro) Fund	EUR	Ireland	100%
Pyrford Global Equity (Sterling) Fund	GBP	Ireland	57%
Pyrford Global Equity (USD) Fund	USD	Ireland	4%
Pyrford Global Total Return (EUR) Fund	EUR	Ireland	96%
Pyrford Shariah Global Equity Fund	USD	Ireland	55%
Pyrford GTR Sterling Hedged USD Class C Distributing	USD	Ireland	less than 1%
Pyrford GTR Sterling Hedged EUR Class I Accumulating	EUR	Ireland	less than 1%
Pyrford GTR Sterling Hedged EUR Class I Distributing	EUR	Ireland	less than 1%
Pyrford GTR Sterling Hedged EUR Class S Accumulating	EUR	Ireland	less than 1%
Pyrford GTR Sterling Hedged EUR Class S Distributing	EUR	Ireland	less than 1%
Pyrford GTR Sterling Hedged EUR Class W Accumulating	EUR	Ireland	less than 1%
Pyrford GTR Sterling Hedged EUR Class W Distributing	EUR	Ireland	less than 1%

The registered address of the Umbrella fund is 78 Sir John Rogerson's Quay, Dublin 2, Ireland.

Our ability to transfer funds between our subsidiaries may be restricted by statutory, contractual, capital and regulatory requirements. Restrictions could include regulatory and statutory requirements that reflect capital and liquidity requirements.

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14 Securities

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trading				
Common stock	992,465	1,260,598	-	-
Irish UCITS fund	3,869	8,916		
Fair value through other comprehensive income				
Government securities	106,794	92,932	-	-
	1,103,128	1,362,446	-	-

Pyrford manages assets held in investment vehicles on behalf of investors. The fund that it manages are held with BMO Investments (Ireland) plc which is a company organised under the European "Undertakings for Collective Investments in Transferable Securities" ("UCITS"). This is an open-ended investment company incorporated with limited liability under the laws of Ireland. This company has been structured as an umbrella fund with segregated liability between funds so that separate classes of shares representing interests in different funds may be authorised for issue from time to time by the directors with the prior approval of the Central Bank of Ireland.

During the year ended 31st October 2018 the following new investments were made (2017: none) and the following disposals were made (2017: 3 full redemptions and 1 partial redemption):

New Investments

Pyrford GTR Sterling Hedged EUR Class C Distributing	EUR	Ireland
Pyrford GTR Sterling Hedged USD Class C Distributing	USD	Ireland
Pyrford GTR Sterling Hedged EUR Class I Accumulating	EUR	Ireland
Pyrford GTR Sterling Hedged EUR Class I Distributing	EUR	Ireland
Pyrford GTR Sterling Hedged EUR Class S Accumulating	EUR	Ireland
Pyrford GTR Sterling Hedged EUR Class S Distributing	EUR	Ireland
Pyrford GTR Sterling Hedged EUR Class W Accumulating	EUR	Ireland
Pyrford GTR Sterling Hedged EUR Class W Distributing	EUR	Ireland

Redemptions

BMO LGM Asia Growth & Income Fund	USD	Ireland	Fully redeemed
BMO LGM Global Emerging Markets Fund	AUD	Australia	Fully redeemed
Pyrford GTR Sterling Hedged EUR Class C Distributing	EUR	Ireland	Fully redeemed
Pyrford Asia Ex-Japan Equity Fund	USD	Ireland	Partial redemption
Pyrford Global Equity (Sterling) Fund	GBP	Ireland	Partial redemption
Pyrford Global Equity (USD) Fund	USD	Ireland	Partial redemption
Pyrford Global Total Return (EUR) Fund	EUR	Ireland	Partial redemption
Pyrford Shariah Global Equity Fund	USD	Ireland	Partial redemption

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14 Securities (continued)

The BMO LGM Global Emerging Markets Fund is a fund domiciled in Australia and authorised and regulated by the Australian Securities and Investments Commission.

Refer to note 13 for a full list of investments held by Pyrford.

15 Securities borrowed or purchased under resale agreements

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
One month or less	275,485	260,954	-	-
	275,485	260,954	-	-

Including amounts due from related parties

BMO Nesbitt Burns Inc	6,016	18	-	-
BMO Capital Markets Corp	165,662	230,709	-	-
	171,678	230,727	-	-

16 Due from Banks and similar financial institutions

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
One month or less	14,064	8,607	356	346
Between one month and three months	-	18,082	-	-
Between three months and one year	21,979	7,463	-	7,462
	36,043	34,152	356	7,808

Including amounts due from related parties

BMO London Branch	-	14	-	-
Bank of Montreal Ireland plc	356	346	356	346
Bank of Montreal	250	626	-	-
Pyrford International Ltd	-	-	-	7,462
	606	986	356	7,808

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17 Derivatives

The Group currently only uses over the counter ("OTC") foreign exchange forwards which it uses for non-trading purposes, primarily for economic hedging in conjunction with the management of foreign exchange risk in the securities borrowing business

As at 31 October 2018

	Group 2018 £'000	Group 2018 £'000	Group 2018 £'000
	Notional amount	Year-end positive fair value	Year-end negative fair value
OTC Derivatives			
Foreign exchange contract	<u>1,506</u>	<u>-</u>	<u>-</u>

As at 31 October 2017

	Group 2017 £'000	Group 2017 £'000	Group 2017 £'000
	Notional amount	Year-end positive fair value	Year-end negative fair value
OTC Derivatives			
Foreign exchange contract	<u>12,796</u>	<u>8</u>	<u>-</u>

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

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18 Premises and Equipment

	Fixtures & Fittings	Computers	Software	Leasehold Improvements	Total
	Group	Group	Group	Group	Group
Cost	£'000	£'000	£'000	£'000	£'000
At 1st November 2017	1,219	842	535	3,824	6,420
Additions	1	15	157	181	354
Disposals	-	(1)	-	-	(1)
At 31st October 2018	<u>1,220</u>	<u>856</u>	<u>692</u>	<u>4,005</u>	<u>6,773</u>
Depreciation					
At 1st November 2017	893	433	327	2,485	4,138
Charge for the year	128	133	148	550	959
On disposals	-	-	-	-	-
At 31st October 2018	<u>1,021</u>	<u>566</u>	<u>475</u>	<u>3,035</u>	<u>5,097</u>
Net Book Value					
At 31st October 2018	199	290	217	970	1,676
At 31st October 2017	326	409	208	1,339	2,282

Depreciation methods, useful lives and the values of premises and equipment are reviewed regularly for any change in circumstance and are adjusted if appropriate. At least annually, the Group reviews whether there are any indications that premises and equipment need to be tested for impairment. If there is an indication that an asset may be impaired, the Group test for impairment by comparing the asset's carrying value to its recoverable amount. The recoverable amount is calculated as the higher of the value in use and the fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset. An impairment charge is recorded when the recoverable amount is less than the carrying value.

There were no write-downs of premises and equipment due to impairment during the years ended October 31, 2018 and 2017.

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19 Goodwill

Goodwill includes goodwill arising from business combinations and other intangible assets.

The following table presents changes in the carrying amount of goodwill by Cash Generating Unit ("CGU") for the year ended 31 October 2018 and 31 October 2017.

	Paloma £'000	Pyrford £'000	Total £'000
Cost			
Balance at 31 October 2017	864	17,990	18,854
Balance at 1 November 2017	864	17,990	18,854
Balance at 31 October 2018	864	17,990	18,854
Carrying amount			
Balance at 31 October 2017	864	17,990	18,854
Balance at 31 October 2018	864	17,990	18,854

There were no write-downs of goodwill due to impairments during the years ended October 31, 2018 and 2017.

Key inputs and assumptions

The Group performs an annual impairment test. Goodwill is tested for impairment in each reporting unit for which goodwill was assigned. This requires that irrespective of whether there are any indicators of impairment, goodwill acquired in a business combination should be tested for impairment annually. In the testing for impairment, the carrying amount of the CGU is compared to its recoverable amount. Recoverable amount of the CGU is defined in IAS 36.6 as 'the higher of its fair value less costs to sell and its value in use'.

The Group calculates the recoverable amount using the discounted cash flow ("DCF") method that projects future cash flows, which are discounted to their present value. Future cash flows for the CGU are based on a 10 year forecast, estimated based on a board approved strategic five year plan for the relevant CGU. Beyond the first 10 years, cash flows were assumed to grow at perpetual annual rates of up to 2.5 per cent, a rate that is consistent with long-term nominal GDP growth. A 10 year forecast is used to align the goodwill testing methodology with the BMO Group.

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19 Goodwill (continued)

The Group calculates the recoverable amount using the discounted cash flow ("DCF") method that projects future cash flows, which are discounted to their present value. Future cash flows for the CGU are based on a 10 year forecast, estimated based on a board approved strategic five year plan for the relevant CGU. Beyond the first 10 years, cash flows were assumed to grow at perpetual annual rates of up to 2.5 per cent, a rate that is consistent with long-term nominal GDP growth. A 10 year forecast is used to align the goodwill testing methodology with the BMO Group.

The strategic five year plan provides a good foundation for the DCF because senior management is committed to achieving the forecasted results and their performance will be evaluated against the strategic plans. The DCF is applied to the free cash flow which is the net income adjusted for items like the cost of equity and the incremental financing charges. A terminal value is then applied to the free cash after year ten. The recoverable amount of the CGU which is then computed by summing the present value ("PV") of the ten year cash flows and the PV of the terminal value and this is compared to the carrying value. Impairment occurs if the carrying value is greater than the calculated recoverable amount.

A perpetuity value was used in the DCF valuations based on the CGU's 2028 Net Income, specific perpetuity growth rate and discount rate. The perpetuity formula yielded a terminal value of 11.5 times for both the Pyrford and Paloma CGUs. These can be seen in the table below.

The discount rate used is based on the cost of capital, adjusted for the risks to which the CGU is exposed. CGU specific risks include country risk, business/operational risk, and geographic risk (including political risk, devaluation risk and government regulation), currency risk and price risk (including product pricing risk and inflation). Terminal growth rates are based on the current market assessment of gross domestic product and inflation.

The terminal growth rates and discount rates used in the annual impairment tests are summarised below.

	2018	2018	2017	2017
	Discount	Terminal growth	Discount	Terminal growth
	rate %	(times)	rate %	(times)
Paloma	11.4%	11.5	12.3%	10.4
Pyrford	11.4%	11.5	12.3%	10.4

Sensitivity

The estimation of value in use and fair value less costs to sell involves significant judgment and those valuations are most sensitive to changes in future cash flows, discount rates and terminal growth rates applied to cash flows, discount rates and terminal growth rates applied to cash flows beyond the forecast period. Those key inputs and assumptions used to determine the recoverable amount of the CGU were tested for sensitivity by applying a reasonable possible change to those assumptions.

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20 Deferred tax assets

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000

Deferred tax asset

The deferred tax asset arises from:

Deferred capital allowances	135	157	-	-
Other temporary differences	1,283	1,963	-	-
	1,418	2,120	-	-

Reconciliation of deferred tax assets:

At beginning of year	2,120	1,949	-	-
Temporary differences	(63)	130	-	-
Deferred tax charged to profit and loss	-	(57)	-	-
Change in tax rates	(77)	(3)	-	-
Adjustment in respect of prior years	(562)	101	-	-
At year end	1,418	2,120	-	-

Group	Group	Company	Company
2,018	2,017	2018	2017
£'000	£'000	£'000	£'000

Deferred tax liability

The deferred tax liability arises from:

Other temporary differences	-	810	-	-
	-	810	-	-

Reconciliation of deferred tax liabilities:

At beginning of year	-	810	-	-
Temporary differences	-	-	-	-
Deferred tax charged to profit and loss	-	(810)	-	-
At year end	-	-	-	-

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20 Deferred tax assets (continued)

The deferred tax asset relates to unpaid bonuses, gains on financial assets measured at fair value, differences between net book value of fixed assets and their tax written down values, and accrued pension contributions. The Finance Act 2013 which was enacted on 26 October 2015 contains provisions to reduce the main rate of UK corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020.

Therefore the deferred tax asset has been stated at 17%, the rate at which the temporary differences are predominantly expected to reverse.

21 Other assets

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Prepayments	1,461	1,022	-	-
Settlement accounts and trade debtors	281,752	215,575	-	-
Other assets	11,434	10,441	-	-
	294,647	227,038	-	-

Including amounts due from related parties

BMO Nesbitt Burns Inc	3,117	3,671	-	-
LGM Investments Ltd	128,116	11	-	-
Bank of Montreal Ireland plc	332	-	-	-
BMO Capital Markets Corp	1,606	417	-	-
Other	1,851,543	2,124	-	-
	1,984,714	6,223	-	-

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22 Securities sold but not yet purchased

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Equity shares	989,270	1,253,666	-	-
	989,270	1,253,666	-	-

23 Securities lent or sold under repurchase agreements

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
One month or less	112,684	82,077	-	-
	112,684	82,077	-	-
Including amounts due to related parties				
BMO Nesbitt Burns Inc	21,500	1,527	-	-
BMO Capital Markets Corp	12,157	6,802	-	-
	33,657	8,329	-	-

24 Due to banks and similar financial institutions

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
One month or less	147,174	188,138	-	7,462
Between one month and three months	15	-	-	-
Between three months and one year	-	-	-	-
Greater than one year	3,338	-	-	-
	150,527	188,138	-	7,462
Including amounts due to related parties				
BMO London Branch	146,612	188,138	-	7,462
BMO Chicago Branch	3,915	-	-	-
	150,527	188,138	-	7,462

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25 Share Capital

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Allotted, called up and fully paid				
22,779,963 Ordinary shares of £1 per share	22,780	22,780	22,780	22,780
15,115,490 Ordinary shares of £3.68 per share	55,625	55,625	55,625	55,625
21,000,000 Ordinary shares of C\$1 per share	13,089	13,089	13,089	13,089
	91,494	91,494	91,494	91,494

26 Other Liabilities

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Taxation liabilities	1,439	1,025	-	-
Settlement accounts and trade creditors	274,289	204,983	-	-
Accruals and deferred income	24,621	26,006	15	63
	300,349	232,014	15	63

Including amounts due from related parties

BMO Nesbitt Burns Inc	58	79	-	-
BMO London Branch	308	451	-	48
Other	512	569	-	-
	878	1,099	-	48

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27 Pension

The Bank of Montreal, London operates a defined benefit pension plan (the Bank of Montreal 1972 UK Pension Plan ("the Plan")) and several defined contribution schemes which incorporate the staff of the BMO London Branch and its subsidiaries.

The Bank of Montreal, London is legally the sponsoring employer of the Plan and the net defined benefit cost for the Plan is shown in the Bank of Montreal's ("the Bank") accounts. The Group recognises a cost equal to their contribution for the period. The amount of contribution is determined by head office in Canada, it is then allocated to the various cost centres based on a pro rata as a percentage of gross salaries.

The Plan closed to future accrual on 31 August 2015 although active members at that point maintain a link to future salary increases in respect of service accrued up to 31 August 2015. With effect from 1 September 2015, all Plan members were eligible to join the main UK defined contribution scheme for future pension accrual.

The last formal triennial actuarial valuation of the Plan was undertaken as at 31 October 2014. This actuarial valuation showed a shortfall against the Technical Provisions of £7.2 million. To address this, the Trustee of the Plan and the Bank of Montreal agreed that the Bank would pay deficit contributions of at least £5.26 million per annum (£438,333 per month) until 30 April 2016. In April 2016, the Bank agreed to continue to pay deficit contributions of £5.26 million per annum beyond 31 October 2016, to be reviewed once the results of the 31 October 2017 statutory valuation are available.

The actuarial valuation of the Plan as at 31 October 2017 has been produced and agreed but not yet formally signed off by the Trustees and the Bank. The actuarial valuation shows a surplus against the Technical Provisions of £18.7m. Since there is a surplus no shortfall contributions need to be formally agreed. However, there are proposals for the Bank to pay £2.58 million per annum to address the shortfall on a buy-out basis. The reduction in the shortfall will result in a reduced allocation of costs to the Group.

Following the preliminary results of the 2017 funding valuation the Trustees and Group decided to change the investment strategy of the Plan. This was done primarily to reduce the risk of mismatch between the Plan's assets and liabilities and therefore protect the surplus revealed at the 2017 funding valuation. Previous asset allocations to 40% equity funds and 60% index-index and fixed gilts were transitioned to a benchmark allocation of 10% long-lease property, 60% liability driven investment (LDI) targeting a 100% hedge of TP liability risk and 30% global buy and maintain credit (predominantly investment grade corporate credit).

The LDI strategy aims to perform in line with the Plan's bespoke Liability Benchmark Portfolio (LBP) matching the sensitivity of the Plan's liabilities to changes in interest rates and inflation. The changes to the investment strategy of the Plan have significantly reduced the risks the Plan is exposed to and therefore the Bank has reviewed and updated the stress test scenarios shown under the pillar 2 assessment".

Details of the Company's contribution to the Plan can be seen in note 10.

Staff members who were not part of the Plan prior to April 2012 are members of defined contribution schemes to which the Bank contributes a certain percentage to the fund. With effect from 1 September 2015, all Plan members also joined the main UK defined contribution scheme for pension accrual from that date.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

28 Commitments

	Group	Group	Company	Company
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Within 1 year	1,370	1,064	-	-
Between 1-5 years	952	2,619	-	-
	2,322	3,683	-	-

The commitment in 2018 represents the rent and service charges on the office lease signed on the 29th August 2013 by Pyrford.

There are no commitments for the Company.

29 Related Parties

Related parties include associated companies, BMO Board of Directors and entities which are directly or indirectly, controlled by, jointly controlled by or significantly influenced by the directors or their close family members.

Transaction with other Group entities

In the normal course of business, the Group provides certain banking and financial services to other Group entities including funding, accepting deposits and inter Group management fees. These transactions were made on substantially the same terms as for comparable transactions with third-party counterparties. Details of such related party transactions are disclosed in the related notes to the financial statements above.

Compensation of key management personnel

Related parties include key management personnel and their close family members. Close family members include spouses, common-law partners and dependent minors. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling our activities, directly or indirectly. Senior management of the Company plan, direct and control the day-to-day business activities. These business activities are carried out within the strategic framework established by the executive of our ultimate parent, the Bank. Thus, our key management personnel have been determined to be the Bank's Board of Directors and certain key executives (together "key management personnel") as they provide overall direction and oversight for the Bank. The key management personnel are ultimately responsible for all material decisions of the Bank. The key management personnel are also responsible for establishing the overall strategic direction of the consolidated Bank, both domestically and internationally and, in that regard, establish such parameters for the consolidated Bank within which the Board of Directors and management of each subsidiary in the consolidated Bank exercise their discretion to make decisions concerning the strategic direction and day-to-day management of the operations of the particular subsidiary. The Bank's Directors oversee the management of the business and provide stewardship.

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Notes to the Consolidated & Non-Consolidated Financial Statements

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29 Related Parties (continued)

The following table presents the compensation of key management personnel: Such compensation is not recharged or allocated to the Company for the year(s) ended 31 October 2018 and 2017.

The following table presents the compensation of key management personnel:

(Canadian \$ in thousands)	2018	2017
Base salary and incentives	21,287	23,457
Post-employment benefits	2,345	1,471
Share-based payments (1)	31,063	38,364
Total key management personnel compensation	54,695	63,292

⁽¹⁾ Amounts included in share-based payments are the fair values of awards granted in the year.

We offer senior executives market interest rates on credit card balances, a fee-based subsidy on annual credit card fees, and a select suite of customer loan and mortgage products at rates normally accorded to preferred customers. At October 31, 2018 loans to key management personnel totalled CAD 15,881 (CAD 9,669 in 2017).

Directors receive a specified amount of their annual retainers in deferred stock units. Until a director's shareholdings (including deferred stock units) are eight times greater than their annual retainer, they are required to take 100% of their annual retainer and other fees in the form of either our common shares or deferred stock units. They may elect to receive the remainder of such retainer fees and other remuneration in cash, common shares or deferred stock units.

30 Fair Value of Financial Instruments

Fair value represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to changes in market conditions or other factors. Some financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. Where there is no quoted market price, we determine fair value using management's best estimates based on a range of valuation techniques and assumptions; since these involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the asset or liability.

Governance over the determination of fair value

Senior executive oversight of our valuation processes is provided through various valuation and risk committees. In order to ensure that all financial instruments carried at fair value are reasonably measured for risk management and financial reporting purposes, we have established governance structures and controls, such as model validation and approval, independent price verification ("IPV") and profit and loss attribution analysis ("PAA"), consistent with industry practice. These controls are applied independently of the relevant operating groups.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

30 Fair Value of Financial Instruments (continued)

We establish and regularly update valuation methodologies for each financial instrument that is required to be measured at fair value. The application of valuation models for products or portfolios is subject to independent approval to ensure only validated models are used. The impact of known limitations of models and data inputs is also monitored on an ongoing basis. IPV is a process that regularly and independently verifies the accuracy and appropriateness of market prices or model inputs used in the valuation of financial instruments. This process assesses fair values using a variety of different approaches to verify and validate the valuations. PAA is a daily process used by management to identify and explain changes in fair value positions across all operating lines of business within BMO Capital Markets. This process works in concert with other processes to ensure that the fair values being reported are reasonable and appropriate.

Securities

For traded securities, quoted market value is considered to be fair value. Quoted market value is based on bid price. Securities for which no active market exists are valued using all reasonably available market information.

Securities sold but not yet purchased

The fair value of these obligations is based on the fair value of the underlying securities, which can include equity or debt securities. As these obligations are fully collateralised, the method used to determine fair value would be the same as that used for the relevant underlying equity or debt securities.

Government Securities

The fair value of government issued or guaranteed debt securities in active markets is determined by reference to recent transaction prices, broker quotes or third-party vendor prices. The fair value of securities that are not traded in an active market is modelled using implied yields derived from the prices of similar actively traded government securities and observable spreads. Market inputs to the model include coupon, maturity and duration.

Financial Instruments with a Carrying Value Approximating Fair Value

Short-term Financial Instruments

Carrying value is a reasonable estimate of fair value for certain financial assets and liabilities due to their predominantly short-term nature, such as securities borrowed, other assets, securities lent and certain other liabilities.

Other Financial Instruments

Carrying value is assumed to be a reasonable estimate of fair value for our cash and cash equivalents and certain other securities.

The carrying value of certain financial assets and liabilities, such as interest bearing deposits with banks, securities borrowed or purchased under resale agreements, certain other assets, securities lent or sold under repurchase agreements and certain other liabilities, is a reasonable estimate of fair value due to their short-term nature or because they are frequently repriced to current market rates.

Certain assets, including premises and equipment, goodwill and intangible assets, as well as shareholders' equity, are not considered financial instruments and therefore no fair value has been determined for these items.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

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Other Financial Instruments (continued)

Due to the frequent interest rate repricing on the majority of instruments not measured at fair value and the short time between trade date and settlement date on settlement accounts, the fair value is considered to be equivalent to the carrying value on all financial instruments measured at amortised cost.

Fair Value Hierarchy

IFRS 13 uses a fair value hierarchy to categorise financial instruments according to inputs that are used in valuation techniques to measure fair value. The extent of our use of actively quoted market prices (level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities, fair value liabilities, derivative assets and derivative liabilities was as follows:

Financial Assets at fair value as at 31 October 2018

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Securities				
Trading	992,465	3,869	-	996,334
Fair value through other comprehensive income*	-	106,794	-	106,794
Derivative instruments	-	-	-	-
	<u>992,465</u>	<u>110,663</u>	<u>-</u>	<u>1,103,128</u>

Financial Liabilities at fair value as at 31 October 2018

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Securities sold but not yet purchased	989,270	-	-	989,270
	<u>989,270</u>	<u>-</u>	<u>-</u>	<u>989,270</u>

Financial Assets at fair value as at 31 October 2017

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Securities				
Trading	1,269,514	-	-	1,269,514
Fair value through other comprehensive income*	-	92,932	-	92,932
Derivative instruments	-	8	-	8
	<u>1,269,514</u>	<u>92,940</u>	<u>-</u>	<u>1,362,454</u>

Financial Liabilities at fair value as at 31 October 2017

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Securities sold but not yet purchased	1,253,666	-	-	1,253,666
	<u>1,253,666</u>	<u>-</u>	<u>-</u>	<u>1,253,666</u>

*Disclosed as available for sale in prior years in terms of IAS 39.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

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31 Transition to IFRS 9

The following table shows the pre-transition IAS 39 and corresponding IFRS 9 classification and measurement categories for each category of financial assets and liabilities.

There were no reclassifications or re measurements as a result of the implementation of IFRS 9. Further, there were no material expected credit losses arising from the application of the ECL mode. As a result, there are no changes to the carrying amounts of any of the financial instruments following the implementation of IFRS 9.

	IAS 39 measurement category	IFRS 9 Measurement category
Financial Assets		
Cash and cash equivalents	FVTPL	FVTPL
Securities		
Trading	FVTPL	FVTPL
Fair value through other comprehensive income*	FVOCI	FVOCI
Derivatives	FVTPL	FVTPL
Securities borrowed or purchased under resale agreements	Amortised cost	Amortised cost
Due from banks and similar financial institutions	Amortised cost	Amortised cost
Other assets	Amortised cost	Amortised cost
Financial Liabilities		
Securities sold but not yet purchased	FVTPL	FVTPL
Securities lent or sold under repurchase agreements	Amortised cost	Amortised cost
Due to banks and similar financial institutions	Amortised cost	Amortised cost
Other liabilities	Amortised cost	Amortised cost

*Disclosed as available for sale in prior years in terms of IAS 39.

32 Going Concern

The Board has made an assessment of the Company's and Group's ability to continue as a going concern and is satisfied that the Company and Group have the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's or Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

October 31, 2018

33 Events after the Reporting Period

No material facts or circumstances have arisen between the date of the financial position and this report which materially affects the financial position of the Company or Group at 31 October 2018 as reflected in these financial statements.

34 Ultimate Holding Company

The Group's ultimate parent undertaking and controlling party is Bank of Montreal, incorporated in Canada. The largest and smallest Group in which the results of the Group are consolidated is that headed by The Bank of Montreal. The consolidated accounts of the Group are available from Bank of Montreal, Public Affairs Department, P.O. Box 6002, Place d'Armes, Montreal, Quebec H2Y, Canada or P.O. Box 1, First Canadian Place, Toronto, Ontario M5X 1A1, Canada. The registered address of the parent is First Canadian Place, Toronto, Ontario M5X 1A1.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

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35 EU Capital Requirements Directive IV ("CRD IV") disclosure

Article 89 of CRD IV requires credit institutions and investment firms to report the following information by member state and third countries in which it has an establishment: nature of activities, geographical location, turnover and number of employees on a full time equivalent basis, the profit or loss before tax, the corporation tax paid and public subsidies received. The below show the required disclosures for the Bank of Montreal Capital Markets (Holdings) Limited and its two major subsidiaries are BMOCML which conducts investment banking business and Pyrford whose principal activity is that of a professional investment manager.

CRD IV Country by Country Disclosures

i) The name and geographical locations of subsidiaries and branches within the Group

Name of Subsidiary	Type of Entity	Nature of business	Geographical Location
BMO Capital Markets Ltd	Subsidiary	Investment Banking	United Kingdom
BMO Capital Markets Ltd: France Branch	Branch	Investment Banking	France
BMO Capital Markets Ltd: Swiss Representative office	Representative Office	Investment Banking	Switzerland
BMO Capital Markets Ltd: Australia Representative office	Representative Office	Investment Banking	Australia
BMO Capital Markets (Nominees) Limited	Subsidiary	Nominee Company	United Kingdom
Pyrford International Limited	Subsidiary	Investment Management	United Kingdom

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

Notes to the Consolidated & Non-Consolidated Financial Statements

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CRD IV Country by Country Disclosures (continued)

- ii) Nature of activities, turnover, number of employees on a full time basis, profit or loss before tax, corporation tax paid and public subsidies received.

Entity	BMOCM(H)L	BMOCL	BMOCL	BMOCL	BMOCL	Pyrford	
Nature of activities	Holding Company	Investment Banking	Investment Banking	Investment Banking	Investment Banking	Investment Management	Total
Geographical location	UK	UK	France	Australia	Switzerland	UK	
Turnover (£'000)	14,865	47,423	2,680	2,735	2,804	28,969	99,476
Average number of employees on a full time equivalent basis	-	83	4	10	3	32	132
Profit/(loss) before tax	14,774	10,638	(241)	235	1,612	12,727	39,745
Net corporation tax paid/(refunded)	-	(822)	(97)	174	75	-	(670)
Net group relief tax paid/(received)	-	4,871	-	-	-	2,711	7,582
Public subsidies received	-	-	-	-	-	-	-

Group relief tax paid relates to payments made to group companies in respect of group relief received.

BANK OF MONTREAL CAPITAL MARKETS (HOLDINGS) LIMITED

2018

Pillar 3 Disclosure

For the year ended 31 October 2018

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1 Glossary

A&D	Acquisitions and Divestitures
ADR	American Depository Receipt
AIM	Alternative Investment Market
ALCO	London Asset Liability Committee
AT1	Additional Tier 1 Capital
BEICF	Business Environment and Internal Control Factors
BIPRU	Prudential sourcebook for Banks, Building Societies and Investment Firms
BMI	BMO Ireland
BMO	Bank of Montreal/BMO Financial Group
BMOCMC	BMO Capital Markets Corporation
BMOCML	BMO Capital Markets Limited
BMOCM(H)L	BMO Capital Markets Holding Limited
BMOGAM	Bank of Montreal Global Asset Management
BMONBI	BMO Nesbitt Burns Inc.
CAD	Corporate Audit Division
CCO	Chief Compliance Officer
CCR	Counterparty credit risk
CCyB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CET	Common Equity Tier 1 Capital
CFO	Chief Finance Officer, EMEA
CIU	Collective Investment Unit
COO	Chief Operating Officer
CPB	Capital Planning Buffer
CRO	Chief Risk Officer, Europe
CRD IV	Capital Requirements Directive
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation (EU)
CREST	Certificateless Registry for Electronic Share Transfer
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
ECM	Equity Capital Markets
EEA	European Economic Area
EMEA	European, Middle East and Africa
EMEA TP MC	EMEA Trading Products Management Committee
ERPM	Enterprise Risk and Portfolio Management
EU	European Union
ExCo	The Pyrford Executive Committee
FCA	Financial Conduct Authority
FSB	Financial Stability Board
FX	Foreign Exchange
GEF	Global Equity Finance
GEP	Global Equity Product

GGA	Global Governance Advisors
GMSLA	Global Master Securities Lending Agreement
GWWR	General Wrong Way Risk
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
LSE	London Stock Exchange
M&A	Mergers and Acquisitions
MiFID	Markets in Financial Instruments Directive
MRE	Material Risk Employee
Ord	Ordinary share
OTC	Over The Counter
PD	Probability of Default
Pyrford	Pyrford International Limited
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RCC	Pyrford Risk and Compliance Committee
RWA	Risk Weighted Assets
SFT	Securities Financing Transactions
SLA	Service Level Agreement
SWWR	Specific Wrong Way Risk
T-Bills	United Kingdom Government Treasury Bills
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 Bank of Montreal Capital Markets (Holdings) Limited ("BMOCM(H)L") which is a European Union ("EU") parent institution. 'The Group' consists of BMOCM(H)L and two directly and wholly owned subsidiaries which are Pyrford International Limited ("Pyrford") and BMO Capital Markets Limited ("BMOCML"). Both entities are regulated by the Financial Conduct Authority ("FCA"). The Group is a UK incorporated Investment firm authorised and regulated by the FCA. The Group is a wholly owned subsidiary of Bank of Montreal ("BMO").

The Group's risk profile materially represents the risk profile of BMOCML. As per article 13 of the Capital Requirements Regulation ("CRR") BMOCML is deemed a significant subsidiary of the Group. Additional disclosures will be made for BMOCML as per the requirements of the CRR.

EU parent institutions shall comply with the Pillar 3 obligations laid down in Part 8 of the CRR under Basel III on a consolidated 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.

The Group has adopted a formal policy to comply with the disclosure requirements laid out in Part 8 of the 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 board of BMOCM(H)L and the board of BMOCML.

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 along with the audited financial statements.

2.3 Means of Disclosure

This report will be attached as an addendum to the audited financial statements which are lodged at Companies House. 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 of the basis on which the Group 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 the Group. 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 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. The Group 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 the Group), 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. The Group’s and BMOCML’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 gives ICG to a firm it will generally specify a percentage of capital (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 disclosure are based on the European Banking Authority ("EBA") guidelines on disclosure requirements under part 8 of regulation (EU) No 575/2013 (EBA reference: EBA/GL/2016/11). The Group have included the applicable templates as per the guidelines.

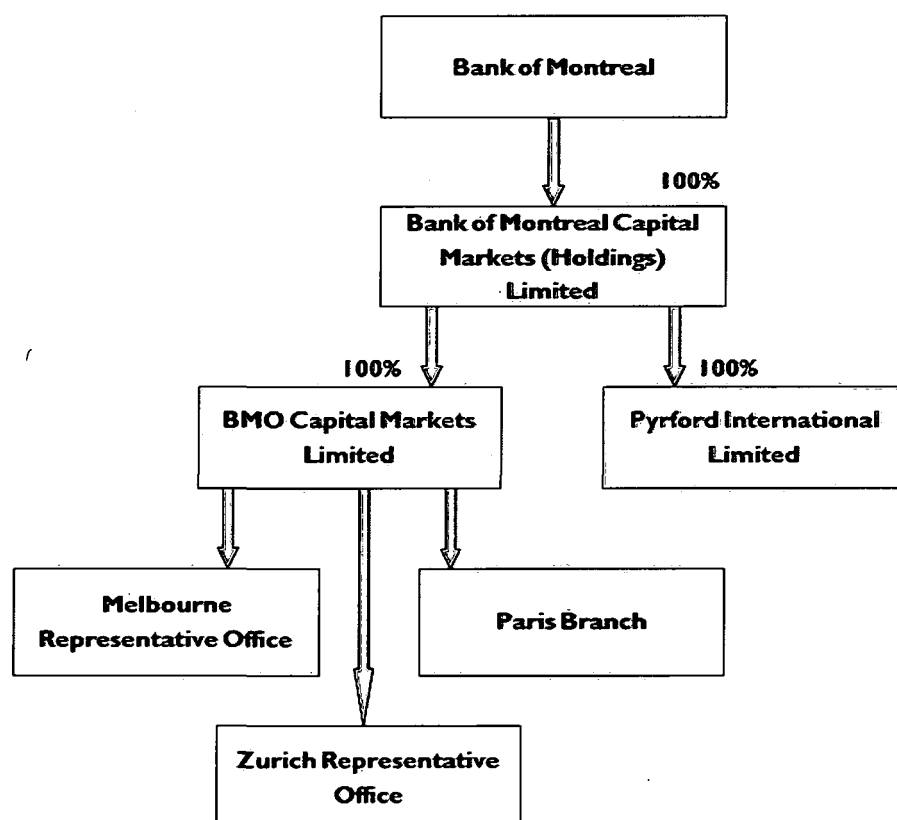
As per paragraph 17 of the above guidelines any rows/columns not applicable to the Group or BMOCML have been deleted without altering the numbering of the rows and columns in the original template.

3 Scope of Application

The Group as a whole comprises four separate business units. While BMOCM(H)L serves as a holding company for BMOCM(L) and Pyrford, it has no staff and undertakes no regulated business activities in the UK. Administrative services are supported under a Technical Service Agreement ("TSA") with BMO.

BMOCM(H)L fits into the corporate structure as follows. The blue highlighted boxes below distinguish the legal entities within the Group:

Figure 1: Group Overview



The Group to which the requirements of this regulation apply is subject to the consolidated disclosure requirements laid out in Part 8 of the CRR.

Table 1 Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	
		Full consolidation	Description of the entity
Bank of Montreal Capital Markets (Holdings) Limited	Full consolidation	X	Financial Holding Company
BMO Capital Markets Limited	Full consolidation	X	Full Scope €730k investment firm
Pyrford International Limited	Full consolidation	X	BIPRU €50k investment firm

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

Table 2 Differences between the Groups 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	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	24,494	24,494	-	-	-
Trading	996,334	-	-	996,334	-
Fair value through other comprehensive income	106,794	106,794	-	-	-
Securities borrowed or purchased under resale agreements	275,485	275,485	-	-	-
Due from banks and similar financial institutions	36,043	36,043	-	-	-
Derivative assets	-	-	-	-	-
Premises and equipment	1,676	1,676	-	-	-
Goodwill and other intangibles	18,854	-	-	-	18,854
Current tax assets	785	785	-	-	-
Deferred tax assets	1,418	1,418	-	-	-
Other assets	294,647	294,647	-	-	-
Total Assets	1,756,530	741,342	-	996,334	18,854
Liabilities - GBP 000					
Securities sold but not yet purchased	989,270	-	-	989,270	-
Securities lent or sold under repurchase agreements	112,684	112,684	-	-	-
Due to banks and similar financial institutions	150,527	-	-	-	150,527
Current tax liability	4,495	-	-	-	4,495
Other liabilities	300,349	264,328	-	-	36,021
Total Liabilities	1,557,325	377,012	-	989,270	191,043

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 The Group's business lines

Details of the businesses in Pyrford and BMOCML can be found under the Strategic Report section of the Bank of Montreal Capital Markets (Holdings) Limited financial statements.

4 Risk management objectives and policies

BMOCM(H)L 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 the Group is exposed are identified, managed, measured and reported in line with corporate policy.

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

4.1.1 Credit and Counterparty Credit

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

- UK Government Gilts;
- Short term money market deposits;
- Intercompany receivable balances;
- Management fee income which is primarily receivable 3 months in arrears; and
- Seed funds owned by Pyrford into highly liquid equities listed on major international stock exchanges and also in high yield bonds.

The Group 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 the Group 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 banks and these are not collateralised. The Group 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.

The Group is subject to counterparty risk in relation to the GEF business. The GEF business borrows securities from counterparties and is required to collateralise the trade with cash or other securities that are, typically, equivalent to 105% of the value of the stock borrowed. All collateral pledged must meet BMO specified criteria on, for example, type, quality and tenor.

In turn, the GEF business lends the borrowed security to approved counterparties and receives collateral, again typically at 105% value. The positions are marked to market daily, with collateral topped up where appropriate. The GEF business could suffer a credit loss if the counterparty defaults and the realised value of collateral is insufficient. The Group is also subject to minimal 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 the group applies to the equity positions on the GEP and GEF desks for BMOCML, the seed capital of Pyrford, and for both entities through the foreign exchange ("FX") positions they hold.

- **Equity Risk:** Market making whereby the Group holds equity positions to facilitate customer demand.
- **ADR/Ord Spread Risk:** The Core Equity UK desk at BMOCML runs a market making business that generates revenue by facilitating client demand to convert ADRs to ordinary shares 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 Core Equity UK premium/discount.
- **Corporate Action Market Marking Activity:** Both the Core Equity UK, the GEF desk and the Relative Value Europe desks engage in scrip dividend and rights trading which is a marked-to-market activity. The Relative Value Europe desk may additionally trade the following corporate events: dividend elections, merger elections, company takeovers, restructurings, economically-linked pairs and related index adjustments.
- **Collective Investment Unit ("CIU") Risk:** Pyrford's CIU Risk is via the seed capital held in the Pyrford business and invested in CIUs. Total seed capital investments are approximately GBP 3.9 million as of 31 October 2018.
- **Foreign Exchange Risk:** For both entities this arises largely from transactions denominated in currencies other than entity's reporting currency resulting in a number of net balance sheet FX positions. None of the trading desks in BMOCML take material FX risk. In Pyrford, FX risk arises due to cash held and management fees received in CAD, EUR, USD and AUD.

Market risk undertaken by the Group is subject to local policies 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 CRR all market risk exposures will be measured, monitored, and classified as either Trading Book or Banking Book for regulatory capital calculation. The process to achieve this is described in the BMOCML 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 and Liquidity risk is the risk that the Group is unable to meet its financial commitments in a timely manner as they fall due. As part of the Group's liquidity buffer, an amount of approximately GBP 107 million has been placed in UK Treasury bills which are reinvested on a 3 monthly basis. These can be sold to raise cash on a T+1 basis, or intraday basis.

The Group manages its liquidity risk by financing its business activities when required through the use of an unsecured loan facility (US\$ 1 billion) with the BMO. BMOCML also has a US\$ 200 million committed loan facility with the BMO Group.

Pyrford's liquidity risk is a function of the term of its short-term deposits placed in the inter-bank market with investment grade banks. The liquidity risk is mitigated by the short tenure of the deposits, with all being of a term less than three months.

The Asset Liability Committee ("ALCO") is mandated to annually review the liquidity policy for the Group and any findings are reported to the BMOCM(H)L Board.

4.1.4 Operational risk

A risk based methodology has been adopted by the BMOCM(H)L, and its subsidiaries BMOCML and Pyrford to conduct its own assessment of operational economic risk capital. An operational risk capital model has been built for use in the BMOCM(H)L ICAAP.

The model has been built to meet BMOCM(H)L's requirements and uses expert judgments garnered via workshops with the business and corporate support areas as key inputs for the model. The model scope only covers BMOCM(H)L and has no applicability to any other entity in the BMO Group of companies. Further to this, the model does not consider the interaction with other entities within BMO Group.

The two main aims of this model are:

1. To provide a simple, transparent modelling framework which enables users of the model to understand and have confidence in the results.
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, event categories and consideration of internal tools and information that are used to inform management of operational risk in a structured methodology to assess operational risk loss distributions and quantify capital at the 1-in-200 year confidence level (99.5%).

In addition to the holding of capital to mitigate the impact of operational risk issues, a comprehensive control framework is implemented across the Group to ensure that preventative and detective operational controls are in place. Regular assessment of the operational control framework is conducted by the Risk team and any operational events are recorded, analysed and further controls implemented as required.

4.1.5 Conduct Risk

Conduct Risk is the risk that employee behaviour in business falls short of 'Being BMO' values and regulatory expectations resulting in harm to customers and/or the financial markets.

The Group's Conduct Risk framework is embedded into the risk management framework and is assessed on a regular basis to ensure the promotion of sound corporate governance and employee conduct. The Board, the London Management Committee ("LMC") and the Pyrford ExCo are responsible for ensuring that the business manages conduct risk as expected by the Board and in line with this framework.

The key objectives of the framework 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.

- Maintain a good reputation with all our stakeholders.

Each employee is responsible for his or her own conduct in carrying out their role and to ensure that such conduct is consistent with BMO's values. Such conduct includes acting in compliance with all the relevant laws, rules and regulation that impact on the employees' role.

4.1.6 Pension Risk

The BMO's defined benefit scheme in the UK is now closed to new joiners and to further accruals, however there still is the possibility of further impact on the Group's profitability salary linkage of accrued pension for existing employees, from increased longevity, increasing scheme liabilities or from changes in accounting policy leading to the requirement for extra contributions. We allocate a specific amount of capital under Pillar 2 to cater for stress reduction in asset values or an increase in pension liabilities, which is reviewed annually as part of the ICAAP process.

4.1.7 Stress and Scenario Testing

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

Stress tests are aligned to the Board approved risk appetite and are consistent with the annual BMOCM(H)L ICAAP and BMOCM(L) Internal Liquidity Adequacy Assessment Process ("ILAAP"). Results are reported monthly to the London Risk Management Committee ("LRMC") and quarterly to the Board.

4.2 Risk Governance

As a wholly owned subsidiary of BMO, the risk management frameworks for BMOCM(H)L and entities within the Group are 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.

The capital risk management framework is governed by the Risk Appetite Framework ("RAF"), Risk Inventory Guideline and the ICAAP Guideline.

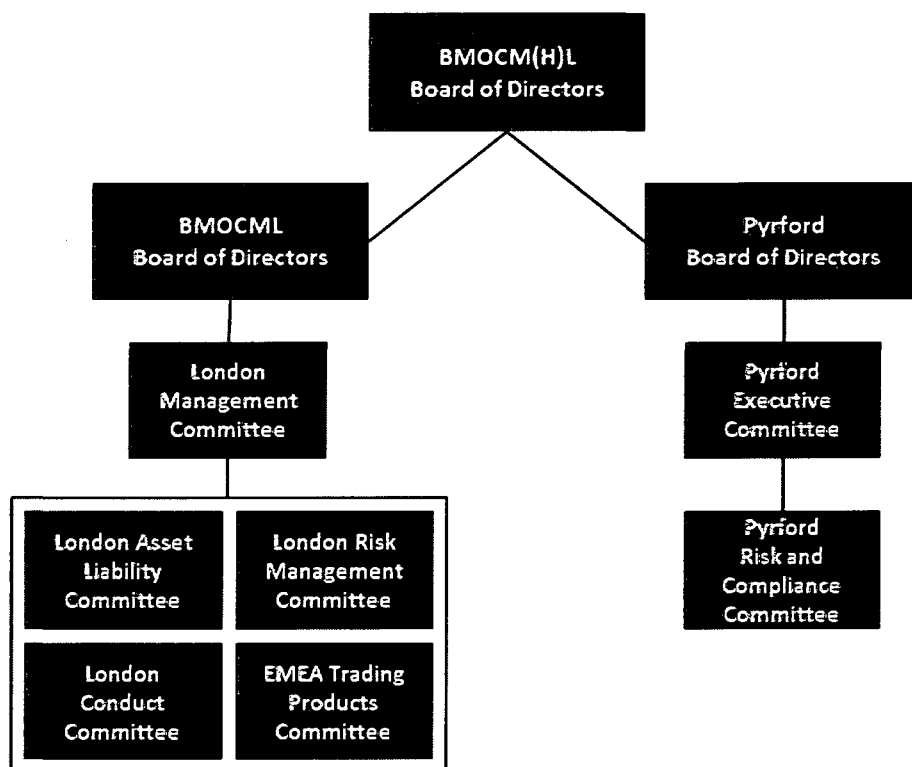
Annually the Boards of BMOCM(H)L, BMOCM(L) and Pyrford review and update their respective Risk Appetite Statement ("RAS") and supporting key risk indicators. The RAS defines the aggregate level of risk that BMOCM(H)L is willing to take both qualitatively (including risk transparency, stress testing and business strategy) and quantitatively (including capital and liquidity, earnings, and performance) to ensure alignment of expectations on risk governance among the board, all levels of management and supervisory bodies.

As part of the ICAAP, the relevant and material risks as determined in the Risk Inventory are reviewed annually. The material risks that result from the Risk Inventory assessment are considered in the material risk assessment section of the ICAAP. All material risks are stressed on a quarterly and annual basis and the stress test results are assessed against the limits laid down in the RAS.

4.2.1 Governance Structure

The governance structure is outlined below. Final review and approval authorities are the Boards of BMOCML and Pyrford for review and the Group for approval.

Figure 2: Governance Framework



The **Board of BMOCM(H)L** fulfils its responsibilities in relation to ensuring compliance with relevant regulatory requirements for the UK Recovery Group and ensuring a consistent approach to policies and procedures within the UK Recovery Group. It meets at least quarterly. The Board of BMOCM(H)L relies on the underlying boards of the subsidiaries to manage the operating companies' risks.

The **Boards of CML and Pyrford** fulfil their responsibilities in relation to the identification and management of risk, the establishment of the risk appetite and adherence to either internal risk management policies and procedures or those promulgated by BMO. The Boards of Pyrford and BMOCML are responsible for adhering to local regulatory requirements for their respective companies. The Boards meet at least quarterly.

The Chairman of the Board of BMOCM(H)L is also a director of the Pyrford and CML Boards and is directly accountable to the BMOCM(H)L Board for all of the UK Recovery Group's risk taking activities.

The **LMC** is the senior collective management forum for the activities of Bank of Montreal, London Branch ("London Branch"), BMOCML and the members of the UK Recovery Group. 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 represented by at least two members of the BMOCM(H)L and BMOCML boards. It is chaired by the Head of EMEA.

ALCO is a sub-committee of the LMC and its mandate covers activities of London Branch and BMOCML across all categories of balance sheet development, liquidity and funding management, treasury, tax review, strategies and efficient capital allocation. Its mandate is 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, EMEA ("CFO").

The LRMC consists of the senior administrative and risk executives of the London Branch and the UK Recovery Group members. Within the context of BMO Risk Management Policy, the LRMC reviews and discusses all significant risk issues that arise in executing the UK Recovery Group's strategies. It serves as a forum to review, inform, consult and discuss significant risk issues and action plans addressing current and emerging risks that arise in the course of executing the business plans and day-to-day operations of each of the members of the UK Recovery Group. The LRMC meets monthly and is chaired by the Chief Risk Officer ("CRO") Europe.

The London Conduct Committee ("LCC") is a sub-committee of the LMC and has been charged with providing oversight in relation to conduct issues in London Branch and BMOCML. The LCC meets monthly, is chaired by the Chief Compliance Officer ("CCO"), Europe & Australia and reports quarterly to the LMC.

The EMEA Trading Products Management Committee ("EMEA TP MC") is a sub-committee of the LMC and has been charged with providing oversight and guidance to all affairs relating to strategic, operational, and supervisory and governance matters of the overall business and operations of EMEA Trading Products. It is composed of the senior collective management forum for the Trading Product activities of all business lines of London Branch, BMOCML, BMI and all other Bank of Montreal subsidiaries and branches in EMEA. The EMEA TP MC meets at least monthly and is chaired by the Head of Europe and Asia Trading Products.

The Pyrford Executive Committee ("ExCo") is the senior collective management forum for the activities of Pyrford which supports the Chief Executive Officer ("CEO") by monitoring the strategy of the Pyrford business within the wider strategy of Bank of Montreal Global Asset Management ("BMOGAM"), reporting on business and support function activities and sharing knowledge and expertise. The ExCo meets monthly and is chaired by the CEO of Pyrford.

The Pyrford Risk and Compliance Committee ("RCC") is a sub-committee of the Pyrford Executive Committee and provides appropriate risk and compliance oversight for all Pyrford activities. The Risk and Compliance Committee reviews any business or other initiatives that could materially affect Pyrford's existing limits and other risk control and monitoring mechanisms used to manage its activities in line with its agreed risk profile. It further monitors that these initiatives are within the approved business plan and Corporate Policies including operational risk. The Risk and Compliance Committee meets monthly and is chaired by the Chief Operating Officer ("COO"). The Deputy Chair will be the CCO. The CRO, Europe is in attendance.

The **CRO, Europe** reports to the Chairman of the Group and is the Chair of the LRMC.

The CRO, Europe ensures the consistent integration of the Group's risk management practices, policies and standards with those set by BMO Enterprise. He ensures that the Group adopts a disciplined

approach to risk-taking through the execution of policies, risk reporting, modelling and vetting and he ensures that the corporate objectives as determined by the Board are in alignment with the Group's risk tolerance. Along with the CFO, the CRO provides input around risk management and stress testing for the completion of the ICAAP assessment for the Board and the Chairman.

The CRO, Europe 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.

In Q4 2018, following the retirement of his predecessor, a new Chief Risk Officer, Europe has been on-boarded.

Figure 3: BMOCM(H)L Risk Management Function



The CFO is directly accountable for the Group's capital management, and regulatory reporting through to the Board and the Chairman. The CFO is a member of the BMOCM(H)L, BMOCLM and Pyrford Boards.

4.3 Risk Framework

4.3.1 Risk Appetite Statement

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 Risk Appetite Statements and Risk Appetite Dashboards 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.

4.3.2 Three Lines of Defence

BMOCM(H)L'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 Group Risk Appetite.
- The **second line** of defence provides the oversight, control, effective challenge and independent assessment of applicable risks to ensure that the risk profile of the Operating Groups is maintained within BMOCM(H)L's 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") which, as part of the audit process, provides assessment on the effectiveness of the 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 – individual, aggregate and collective risks – and reporting to multiple stakeholders including management and risk committees, in alignment with first and second line of defence requirements.

BMOCM(H)L's monitoring and reporting activities cover all risk types (Market, Credit, Liquidity, and Operational) 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 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

BMOCM(H)L 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.

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.

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

The BMOCM(H)L Board believes that the risk management framework in place is adequate given the size and complexity of the Group. 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 acknowledges that the current macroeconomic environment leads to some uncertainty however they remain comfortable that the risks posed are suitably considered in the Groups business strategy and are adequately mitigated through the comprehensive systems of controls and senior management oversight that have been implemented throughout the Group.

4.5 Overall Risk Profile

The overall risk profile of BMOCM(H)L is captured through key metrics contained in the Risk Appetite Dashboard which 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 if required.

- BMOCM(H)L 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 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 thresholds.
- BMOCM(H)L remains well-funded. The Individual liquidity guidance ("ILG") ILG1 and ILG2 metrics for BMOCML, representing the minimum liquidity requirements as set by the FCA, remain comfortably above minimum thresholds. 'Pyrford surplus resources', representing unencumbered liquid assets which can be used to meet payment obligations should they fall due.
- BMOCM(H)L is not exposed to significant market risk. BMOCMLs Value at Risk ("VaR") measure, quantifying the loss that will not be exceeded based on a defined confidence level (99%) and a specific time period (1 day), remains low.
- BMOCM(H)L is not exposed to significant levels of credit risk. The pillar 2 assessment of credit risk, represented through the holding of risk capital, remains well within thresholds.
- Operational risk is measured using a Business Environment and Internal Control Factors (BEICF) score as well as operational risk-related significant losses. For both BMOCML and Pyrford, the BEICF scores remain well within tolerance with improvements noted in Anti-Money Laundering and Regulatory Compliance controls. Operational risk-related losses for BMOCM(H)L also remain within the Risk Appetite thresholds.

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 the Group hold the following non BMO Group directorships in addition to the Group directorship as at 31 October 2018:

Table 3 List of directors and the total no. of directorships held

Name	No. of non BMO Group directorships
Smith W K S	2
Matthews S J	0
Yeung R A	0
Mohammed J Z	0

4.6.2 The recruitment policy for the selection of members of management

Appropriate candidates are identified for senior management vacancies based on candidates' skills and experience. The senior executive for each of the relevant business or support areas, together with stakeholders within 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 BMOCLM 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

The Group's own funds consist as at 31 October 2018 solely of CET1, which comprised equity share capital, audited profit and loss and other reserves which at the consolidated level has been externally verified by the Group's auditors. The Group has not at this time issued any innovative tier 1 instruments or tier 2 capital instruments. Further details with regard to ordinary shares are provided in note 25 of the audited financial statement of BMOCM(H)L. The composition of the own funds of the Group and BMOCML can be seen below:-

Table 4 Reconciliation of the own funds of the Group's and BMOCML's and the balance sheet

	Group	BMOCML
	GBP 000	GBP 000
Ordinary shares	91,494	107,670
Retained Earnings	107,721	35,688
Accumulated other comprehensive income	(10)	(10)
Total Equity (all CET 1)	199,205	143,348
Deductions from CET 1 Capital:		
Additional value adjustment	(2,092)	(2,089)
Intangible assets	(18,854)	(864)
Total Own Funds	178,259	140,395

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 the Group.

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 Pyrford and Paloma acquisitions. For more information on Ordinary Share Capital see Appendix 3.

6 Capital Requirements

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

6.1 Internal Capital Adequacy Assessment Process Timelines

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

The guiding principles of the Group's ICAAP are:

- **Proportionality:** It is proportionate to the risk level, complexity and scale of the Group'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 the Group 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, the Group seeks to ensure that:

- All material risks faced by the Group are identified and have sufficient risk management and controls around them;
- Regulatory Capital and Internal Capital are adequate for the material risks faced by the Group;
- All Regulatory Capital and Internal Capital demands are considered and compared to Available Capital, including under stress tests, when setting target capital ratios;
- The Group has sufficient Available Capital and identified practical management actions to assist it in withstanding severe but plausible stresses;
- The Group 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 BMOCM(H)L and BMOCML on at least an annual basis.

6.2 Capital Requirements: Overview of RWA's

Table 5 Overview of the Group's RWA

		RWA		Minimum capital requirements
		GBP 000	GBP 000	GBP 000
		31/10/2018	31/10/2017	31/10/2018
1	Credit risk (excluding CCR)	55,736	76,257	4,460
2	Of which the standardised approach	55,736	76,257	4,460
6	CCR	6	26	-
7	Of which mark to market	3	21	-
12	Of which CVA	3	5	-
13	Settlement risk	3	-	-
19	Market risk	62,569	31,567	5,006
20	Of which the standardised approach	62,569	31,567	5,006
23	Operational risk	163,039	149,853	13,043
25	Of which standardised approach	163,039	149,853	13,043
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	3,545	-	283
29	Total	284,898	257,703	22,792

Table 6 Overview of BMO CML's RWA

		RWA		Minimum capital requirements
		GBP 000	GBP 000	GBP 000
		31/10/2018	31/10/2017	31/10/2018
1	Credit risk (excluding CCR)	35,101	45,656	2,809
2	Of which the standardised approach	35,101	45,656	2,809
6	CCR	6	26	-
7	Of which mark to market	3	21	-
12	Of which CVA	3	5	-
13	Settlement risk	3	-	-
19	Market risk	64,418	34,462	5,154
20	Of which the standardised approach	64,418	34,462	5,154
23	Operational risk	119,871	105,754	9,590
25	Of which standardised approach	119,871	105,754	9,590
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	1,017	-	81
29	Total	220,416	185,898	17,634

6.3 Capital Requirements: Credit Risk

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

The Group has nominated an European Banking Authority ("EBA") recognised ECAI for this purpose – Moody's Investors Service and Standard & Poor's using whichever is the most conservative rating. Section 4.1 describes the material credit exposures in the Group.

6.3.1 Credit Risk: Banking Book

The largest single credit exposure is to UK Government Gilts which are highly rated at AA. 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.

The Group 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 2018.

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

The main source of credit risk which utilises the effects of CRM under Part 3 Title 2 Chapter 4 of the CRR is from the 'fully adjusted exposure value' (E*) in the GEF business.

The GEF business seeks to reduce counterparty risks by:

- The counterparty credit limits are set in line with the BMO Corporate and Commercial Lending Manual. These limits, once approved, are a replacement risk credit limits and are monitored daily in BMO's credit monitoring system, Adaptiv Credit Risk ("ACR"), whereby a systematic process is followed for trade violations. The majority of the Group's counterparties are investment grade banks and broker-dealers. The Group uses master netting agreements for all GEF counterparties; and
- 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. 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 the Group ensures that there is no material positive correlation between the counterparty and the value of the collateral, clearly documented collateral management policies and procedures.

As at 31 October 2018, the Group has approximately GBP 275 million in cash collateral provided on securities borrowed. The GEF business borrows securities from counterparties and is required to collateralise the trade with cash or other securities that are, typically, equivalent to approximately 105%

of the value of the securities borrowed. In turn the GEF business lends the borrowed security to approved counterparties and receives collateral, again typically at 105% value. The securities are marked to market daily, with additional collateral borrowed or lent where appropriate. The GEF business could suffer a credit loss if the counterparty defaults and the realised value of collateral are insufficient. The Group typically receives government securities and equities as collateral on SFT's.

The Group uses collateral to mitigate credit risk. Collateral is monitored intra-day and reviewed to ensure continuing effectiveness. The business typically adheres to industry conventions with regards to collateral where there is a 5% margin but at a minimum 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.

The Group is a not rated, if there was a downgrade in BMO's ratings then the margin required to be posted by the Group may increase, therefore it will provide more collateral and the margining percentage will be greater than the 5% referred above.

To calculate the credit risk the net position (as calculated per Article 220 of the 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 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, the Groups counterparty risk capital requirement was GBP 1.9 million.

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 7 The Group's and BMOCML'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 ¹
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
	Non-Cash Collateral Received	Cash Collateral Received	Non-Cash Collateral Given	Cash Collateral Given		
Regional governments or local authorities	(158)	-	167	-	37	47
Institutions	(1,265,052)	(112,684)	1,137,124	275,250	75,623	110,823
Corporates	(7,247)	-	5,904	235	1,871	1,773
Total	(1,272,457)	(112,684)	1,143,195	275,485	77,531	112,643

¹ The net exposure amount is greater than or equal to the sum of the first 5 columns as the exposure amount for SFTs is floored at 0 per Part 3, Title 2 and Chapter 4 of the CRR.

6.3.3 Credit Risk Exposures

Total and average credit risk as at 31 October 2018 in the group is broken down as follows:-

Table 8 The Group'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	109,945	93,691
17	Regional governments or local authorities	47	197
18	Public sector entities	793	512
21	Institutions	194,782	203,986
22	Corporates	5,275	17,635
32	Collective investments undertakings	3,869	5,757
34	Other exposures	3,404	10,413
35	Total standardised approach	318,115	332,191
36	Total	318,115	332,191

Total and average credit risk as at 31 October 2018 in BMOCML is broken down as follows:-

Table 9 BMOCML'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	108,285	92,726
17	Regional governments or local authorities	47	197
21	Institutions	148,532	147,942
22	Corporates	3,700	16,581
34	Other exposures	1,847	8,660
35	Total standardised approach	262,411	266,106
36	Total	262,411	266,106

The geographical distribution of the exposures of the Group and BMOCML can be seen below:-

Table 10 The Group's geographical distribution of credit risk exposures

	a	b	c	d	e	f	g	h	i	j	k	l	m	n
	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	GBP 000
	Australia	Belgium	Canada	Switzerland	Germany	Spain	France	Great Britain	Ireland	Italy	Luxembourg	USA	Other	Total
7	15	-	-	7	-	-	21	109,902	-	-	-	-	-	109,945
8	-	-	-	-	-	-	-	-	-	-	-	47	-	47
9	-	-	145	-	-	-	-	485	-	-	-	163	-	793
12	442	5,959	26,608	4,529	1,547	214	18,451	102,422	2,766	1,275	-	30,469	100	194,782
13	1,578	-	210	4	-	-	66	1,990	-	-	541	857	29	5,275
20	-	-	-	-	-	-	-	-	3,869	-	-	-	-	3,869
22	-	-	-	9	-	-	-	3,395	-	-	-	-	-	3,404
23	2,035	5,959	26,963	4,549	1,547	214	18,538	218,194	6,635	1,275	541	31,536	129	318,115
24	2,035	5,959	26,963	4,549	1,547	214	18,538	218,194	6,635	1,275	541	31,536	129	318,115

Table 11 BMO CML's geographical distribution of credit risk exposures

	a	b	c	d	e	f	g	h	i	j	k	l	m	n
	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	GBP 000
	Australia	Belgium	Canada	Switzerland	Germany	Spain	France	Great Britain	Ireland	Italy	Luxembourg	USA	Other	Total
7	15	-	-	7	-	-	21	108,242	-	-	-	-	-	108,285
8	-	-	-	-	-	-	-	-	-	-	-	47	-	47
12	402	5,959	12,590	4,529	1,547	214	18,451	73,746	343	1,275	-	29,376	100	148,532
13	1,578	-	-	4	-	-	66	1,482	-	-	541	-	29	3,700
22	-	-	-	9	-	-	-	1,838	-	-	-	-	-	1,847
23	1,995	5,959	12,590	4,549	1,547	214	18,538	185,308	343	1,275	541	29,423	129	262,411
24	1,995	5,959	12,590	4,549	1,547	214	18,538	185,308	343	1,275	541	29,423	129	262,411

The credit risk exposures by industry and counterparty type

Table 12 The Group's credit risk exposures split by industry

		b GBP 000	k GBP 000	n GBP 000	o GBP 000	s GBP 000	u GBP 000
		Mining and quarrying	Financial and insurance activities	Administrative and support service activities	Public administration and defence; compulsory social security	Other services	Total
7	Central governments or central banks	-	-	-	109,945	-	109,945
8	Regional governments or local authorities	-	-	-	47	-	47
9	Public sector entities	-	793	-	-	-	793
12	Institutions	-	194,782	-	-	-	194,782
13	Corporates	1,351	3,429	495	-	-	5,275
20	Collective investments undertakings	-	3,869	-	-	-	3,869
22	Other exposures	-	2,586	-	-	818	3,404
23	Total standardised approach	1,351	205,459	495	109,992	818	318,115
24	Total	1,351	205,459	495	109,992	818	318,115

Table 13 BMO CMLs credit risk exposures split by industry

		b GBP 000	k GBP 000	n GBP 000	o GBP 000	s GBP 000	u GBP 000
		Mining and quarrying	Financial and insurance activities	Administrative and support service activities	Public administration and defence; compulsory social security	Other services	Total
7	Central governments or central banks	-	-	-	108,285	-	108,285
8	Regional governments or local authorities	-	-	-	47	-	47
12	Institutions	-	148,532	-	-	-	148,532
13	Corporates	1,351	1,854	495	-	-	3,700
22	Other exposures	-	1,029	-	-	818	1,847
23	Total standardised approach	1,351	151,415	495	108,332	818	262,411
24	Total	1,351	151,415	495	108,332	818	262,411

The maturity by exposure class of the Group and BMOCML can be seen below:-

Table 14 The Group's exposures by 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	-	108,511	16	-	1,418	109,945
8	Regional governments or local authorities	-	47	-	-	-	47
9	Public sector entities	-	793	-	-	-	793
12	Institutions	59,987	134,795	-	-	-	194,782
13	Corporates	-	5,275	-	-	-	5,275
20	Collective investments undertakings	-	-	-	-	3,869	3,869
22	Other exposures	-	1,727	-	-	1,677	3,404
23	Total standardised approach	59,987	251,148	16	-	6,964	318,115
24	Total	59,987	251,148	16	-	6,964	318,115

Table 15 BMOCML'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	-	107,878	-	-	407	108,285
8	Regional governments or local authorities	-	47	-	-	-	47
12	Institutions	18,227	130,305	-	-	-	148,532
13	Corporates	-	3,700	-	-	-	3,700
22	Other exposures	-	828	-	-	1,019	1,847
23	Total standardised approach	18,227	242,758	-	-	1,426	262,411
24	Total	18,227	242,758	-	-	1,426	262,411

The credit risk exposures by risk weighting

Table 16 The Group's exposures by risk weighting

	Exposure classes	Risk Weight				Total
		0%	20%	100%	250%	
1	Central governments or central banks	108,527	-	-	1,418	109,945
2	Regional government or local authorities	-	47	-	-	47
3	Public sector entities	-	-	793	-	793
6	Institutions	-	190,294	4,488	-	194,782
7	Corporates	-	196	5,079	-	5,275
14	Collective investment undertakings	-	-	3,869	-	3,869
16	Other items	-	-	3,404	-	3,404
17	Total	108,527	190,537	17,633	1,418	318,115

Table 17 BMOCMLs exposures by risk weighting

	Exposure classes	Risk Weight				Total
		0%	20%	100%	250%	
1	Central governments or central banks	107,878	-	-	407	108,285
2	Regional government or local authorities	-	47	-	-	47
6	Institutions	-	148,532	-	-	148,532
7	Corporates	-	196	3,504	-	3,700
16	Other items	-	-	1,847	-	1,847
17	Total	107,878	148,775	5,351	407	262,411

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.

The group has a small amount of counterparty credit risk on Over The Counter ("OTC") derivatives to which it applies the mark to market Method and the standardised approach for the calculation of the Credit Valuation Adjustments ("CVA").

The table below shows counterparty credit risk for the OTC derivative trades for both the Group and BMOCML under the mark to market approach as specified in article 274 of the CRR:

Table 18 The Group's and BMOCML's counterparty credit risk by approach

	a	b	c	d	e	f	g
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market	-	15			15	3
11	Total						3

Table 19 The Group's and BMOCL's counterparty credit risk by approach

	Exposure classes	Risk Weight	
		GBP 000	GBP 000
		20%	Total
6	Institutions	15	15
11	Total	15	15

Table 20 The Group's and BMOCL's credit valuation adjustment

		a	b
		GBP 000	GBP 000
		Exposure value	RWAs
4	All portfolios subject to the standardised method	15	3
5	Total subject to the CVA capital charge	15	3

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 Group'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 the Group'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 includes other BMO Group entities. Below is a description of how they are monitored:

GWWR monitoring

- Counterparty credit risk ("CCR") exposures are calculated and reported on an intra-day basis within the ACR system taking into account changes in the portfolio and market parameters.
- Fixed income Securities Financing Transactions ("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 meetings on a quarterly basis.

Specific WWR monitoring

- Specific WWR is captured as 100% exposure (independent of collateral received). From the reporting perspective:
- 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. At these meetings, Specific/General WWR exposures are reviewed by industry and region.
- Specific wrong way risk exposures are monitored on a daily basis and reported weekly.

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.

The Group is subject to currency risk due to a material portion of the revenue generated in the Group being either in US Dollars, Canadian Dollars or Euros, whereas the balance sheet is denominated in sterling (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.

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

The Group's capital resource requirements as at 31 October 2018 in respect of market risk is made up of the following:

Table 21 The Group's market risk under the standardised approach

		a	b
		GBP 000	GBP 000
		RWAs	Capital requirements
	Outright products		
2	Equity risk (general and specific)	35,399	2,832
3	Foreign exchange risk	27,170	2,174
9	Total	62,569	5,006

Table 22 BMOCLM's market risk under the standardised approach

		a	b
		GBP 000	GBP 000
		RWAs	Capital requirements
	Outright products		
2	Equity risk (general and specific)	35,399	2,832
3	Foreign exchange risk	29,019	2,322
9	Total	64,418	5,154

6.6 Capital Requirement: Operational Risk

Per the CRR Chapter 3 Article 317, the Group 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 the Group'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) **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;
- Business lines 1-3 all fall within BMOCML and make up the turnover for BMOCML so for the purposes of calculating operational risk we have included all of BMOCML turnover as 18%;
- (4) **Investment management** – for FCA Capital requirements reporting this business line is classified as 'asset management' in which attracts a 12% weighting; and
 - (5) **BMOCM(H)L's gross revenue** comprises of net interest income/expense from putting surplus cash on deposit, is classified as 'Trading and Sales' in which attracts a 18% weighting.

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

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

The Group'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. The Group's concentration risk requirement will continue to be captured via the large exposure requirement. Large exposures are defined in Article 392 of the CRR as total exposure to a counterparty, connected counterparties or a group of connected clients whether in the firms 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 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 CRR.

The Group's capital resources as at 31 October 2018 are approximately GBP 178.3 million hence any exposure over GBP17.8 million is a large exposure. The 25% limit referred to above is approximately GBP 44.6 million.

Within Article 395(1) of the 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 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 GEF 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 CRR. As the excess arises entirely on the trading book, the Group will set aside additional capital for this excess in accordance with Articles 397 (Table 1) of the 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 CRR is permitted to be recognised for the purposes of calculating a firm's exposure. Hence for the GEF 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.

The Group's capital resource requirement as at 31 October 2018 in respect of concentration risk is Nil; however during the European earnings season both the Group and BMOCML held an additional amount of pillar 1 capital for concentration risk.

6.8 Interest rate risk in non-trading book

It is BMOCM(H)L's intention not to take any direct interest rate risk. The only balances that are subject to interest rate variability are the holdings of UK Treasury Bills, the money market placements which are placed on a rolling 1-3 month basis and the money market intergroup borrowing on a rolling 15 day basis.

As the majority of Group's remaining liabilities are non-interest bearing the Group has assessed interest rate risk as 'not material'. Any changes in the Line of Business ("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 BMOCM(H)L'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 fully loaded requirement in 2019 is 2.5 per cent of Total Risk Exposure Amount ("TREA").

As of 31 October 2018, the capital conservation buffer as set by the FCA was 1.875% and therefore the requirement was GBP 5.3 million and GBP 4.1 million for the Group and BMOCML respectively.

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 23 The Group'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	5,384	418	418	0.42	0.50%
Norway	15	1	1	0.00	2.00%
France	66	5	5	0.01	0.00%
Ireland	3,870	310	310	0.31	0.00%
United States	857	69	69	0.07	0.00%
Other countries with no rate	2,356	188	188	0.19	
Total	12,548	991	991	1.00	

Table 24 The Group's institution-specific countercyclical capital buffer

	Amount of institution-specific countercyclical capital buffer
Total risk exposure amount GBP 000	284,898
Institution-specific countercyclical capital buffer rate %	0.21%
Institution-specific countercyclical capital buffer requirement GBP 000	606

Table 25 BMO CML'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	3,319	253	253	0.59	0.50%
Norway	15	1	1	0.00	2.00%
France	66	5	5	0.01	0.00%
Other countries with no rate	2,146	171	171	0.40	
Total	5,546	430	430	1.00	

Table 26 BMO CML's institution-specific countercyclical capital buffer

	Amount of institution-specific countercyclical capital buffer
Total risk exposure amount GBP 000	220,416
Institution-specific countercyclical capital buffer rate %	0.30%
Institution-specific countercyclical capital buffer requirement GBP 000	659 ¹

8 Use of External Credit Assessment Institutions (“ECAIs”)

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

ECAIs are used by the Group as part of the determination of risk weightings for the following classes of exposure:

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

The Group has nominated an EBA recognised ECAIs for this purpose. The nominated ECAIs are Moody’s Investors Service and Standard & Poor’s. The most conservative rating is used.

As at 31 October 2018 the gross and net exposures after credit risk mitigation subject to the use of ECAI’s was GBP 311 million for BMOCM(H)L and GBP 261 million for BMOCMCL.

9 Leverage

The leverage ratio is calculated by totalling the adjusted capital measure of the Group divided by the Group'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 the Group and BMOCML 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 CRR and the add on for counterparty credit risk. The main contributor of leverage within the Group 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 per cent. The disclosure of the leverage under Article 451(2) of the CRR can be seen below:

Table 27 The Group's and BMOCML's summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amount BMOCM(H)L GBP 000	Applicable Amount BMOCML GBP 000
1	Total assets as per published financial statements	1,756,530	1,682,836
5	Adjustment for securities financing transactions (SFTs)	(274,712)	(274,712)
7	Other adjustments	(20,946)	(2,953)
8	Leverage ratio total exposure measure	1,460,872	1,405,171

Table 28 The Group's and BMOCML's leverage ratio

		CRR leverage ratio exposures BMOCM(H)L GBP 000	CRR leverage ratio exposures BMOCML GBP 000
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,481,818	1,408,124
2	(Asset amounts deducted in determining Tier 1 capital)	(20,946)	(2,953)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	1,460,872	1,405,171
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	0	0
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	15	15
11	Total derivatives exposures	15	15
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	274,712	274,712
14	Counterparty credit risk exposure for SFT assets	37,785	37,785
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	312,497	312,497
	Capital and total exposure measure		
20	Tier 1 capital	178,259	140,395
21	Leverage ratio total exposure measure	1,773,384	1,717,683
	Leverage ratio		
22	Leverage ratio	10.05%	8.17%

Table 29 The Group's and BMOCML's split-up of on balance sheet exposures

		CRR leverage ratio exposures	CRR leverage ratio exposures
		BMOCM(H)L	BMOCML
		GBP 000	GBP 000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,481,904	1,408,213
EU-2	Trading book exposures	1,257,578	1,257,578
EU-3	Banking book exposures, of which:	224,326	150,635
EU-5	Exposures treated as sovereigns	110,737	108,285
EU-7	Institutions	83,958	37,709
EU-10	Corporate	3,502	1,927
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	26,129	2,714

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 2018 are based on the requirement in Part 8 of the CRR and in the related guidelines issued by the EBA.

Table 30 The Group'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	1,265,817		490,713	
030	Equity instruments	991,104	991,104	5,230	5,230
040	Debt securities	-	-	106,794	106,794
120	Other assets	274,713		378,689	

Table 31 The Group'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	152,090	131,663
150	Equity instruments	127,451	128,088
160	Debt securities	24,639	3,575
230	Other collateral received		
240	Own debt securities issued other than own covered bonds or ABSs		

Table 32 The Group'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	1,417,907	1,417,907

The Group provides securities financing transactions and collateralised borrowing as part of its equity finance 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, establishes and oversees human resources strategies, including compensation and talent management, which support the Bank's vision to be the bank that defines great customer experience. We aim to deliver top-tier total shareholder return as we balance our commitments to our customers and employees, the environment and the communities where we live and work. Our vision and brand inspire what we do every day. The HR Committee's oversight responsibilities include BMOCMHL.

The HR Committee met 8 times during 2018. 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 Ronald H. Farmer (Chair), George A. Cope, Christine A. Edwards, Lorraine Mitchelmore, J. Robert S. Prichard (Chairman of the Bank board) and Don M. Wilson III. 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 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 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 noted that the Bank has maintained its leadership position with respect to compliance with FSB Principles and Guidance and applicable regulatory requirements.

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 8 times throughout 2018. 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 BMOCML and Pyrford. No individual is involved in decisions relating to his or her own compensation.

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 Management 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, BMOCML and Pyrford, undertakes annual reviews of the implementation of their compensation policies to ensure that they complies with the FCA UK Remuneration Code.

11.1.3 Code Staff Criteria

i) BMOCML

BMO incorporates the European Banking Authority 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.

ii) Pyrford

BMO incorporates the BIPRU Remuneration Code (SYSC 19C.3.4) on its identification framework to identify Code Staff whose professional activities have a material impact on the risk profile of the firm. The criterion comprises the following categories:

- Senior management;
- Risk-takers;
- Staff engaged in control functions; and
- Any employee receiving total compensation that takes them into the same compensation bracket as senior management and risk-takers, whose professional activities have a material impact of the firm's risk profile.

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 the BMO Group strategy 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; and
- Encourage a long-term view to increase shareholder value.

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 using business results 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 are share ownership requirements, and
- Having leadership 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 and mid-term incentives). The performance-related pay is designed to reward the achievement of Bank, business and individual performance targets while managing risk.

i) BMOCML

BMOCML are eligible to participate in the BMO Capital Markets incentive-based compensation plan which has two components: 1) upfront compensation, and 2) deferred compensation, both equally split in cash and share-linked awards. 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.

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.

BMOCML Code Staff are subject to the Capital Requirements Directive IV bonus cap, whereby variable compensation cannot exceed 200% of fixed compensation.

ii) **Pyrford**

Pyrford Code Staff are eligible to participate in the Global Asset Management incentive-based compensation plan, which has two components: 1) upfront compensation, and 2) deferred compensation.

The incentive plan funding is based on actual GAM business performance and is subject to adjustments for Total Bank performance, and 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.. All Code Staff are eligible to participate in deferred compensation. Up to 50% of the total incentive award may be deferred over a period of three years under the mid-term equity incentive plan and/or mid-term cash plan based on the employee's level of total variable compensation.

- The mid-term equity incentive plan is designed to promote a greater alignment of interest between employees and shareholders of BMO and to risk over the medium to long-term. Payout is based on the performance on the Bank's common shares.
- The mid-term incentive cash plan is designed to promote the longer-term success of the business. Payout is based on Pyrford's performance against a set of performance measures and targets.

iii) **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, both equally split in cash and share-linked awards. Funding of the upfront compensation incentive pool is based on BMO's performance against annual targets set on business measures aligned to the Bank's strategic priorities. 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.

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.

BMOCML Control Functions Code Staff are subject to the Capital Requirements Directive IV bonus cap, whereby variable compensation cannot exceed 200% of fixed compensation.

iv) Clawback and forfeitures

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

For all BMO Capital Markets, PwC and Control Function Code Staff, 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. The HR Committee evaluates risk events (for example, 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 payouts from the awarded compensation.

For Code Staff in BMOCML and BMO boarded executives in PwC, the HR Committee may also, in their sole discretion have the ability to clawback all or a portion of variable compensation paid.

11.3 Remuneration Tables for Code Staff

The following tables show the remuneration awards made in respect of the 2018 performance year. The disclosures are made in accordance with Article 450 of the Capital Requirements Regulation, 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 2018 performance year.

Table 33 The Group's and BMOCML remuneration awards in 2018

Remuneration for the financial year ^{2 & 3}	BMOCM(HL)		BMOCML	
	Senior management	Other Code Staff	Senior management	Other Code Staff
Number of individuals	10	34	6	29
Fixed remuneration (EUR 000)	2,976	7,358	2,165	6,596
Variable remuneration (EUR 000)	4,895	4,604	2,152	2,993
Total remuneration (EUR 000)	7,871	11,962	4,317	9,589

² "Senior management" mean members of the BMOCM(H)L and BMOCML 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 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 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 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 CRR.
Equity Position Risk	Equity risk PRR is calculated in accordance with Part 3, Title, Chapter 2, and Section 3 of the CRR. Specific risk is calculated in line with Article 342 and general market risk is calculated in line with Article 343 of the CRR.
Credit Risk Capital Component	The Group has adopted the standardised approach to credit risk in accordance with Part 3, Title 2 of the 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 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 CRR. Settlement risk capital requirements for unsettled transactions are derived directly based on Part 3, Title 5 of the CRR.
Operational Risk	The Group has adopted the Standardised approach to calculate its operational risk capital requirements per Part 3, Title 3 and Chapter 3 of the CRR.
Concentration Risk Component	The Group monitors and calculates the concentration risk capital component of the credit risk capital requirements in line with Part 4 of the CRR.

13 Appendix 2 Own Funds disclosure

Table 34 The Group's and BMOCML own funds disclosure

	Group GBP 000	BMOCML 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	91,494	107,670
Retained earnings	107,721	35,688
Accumulated other comprehensive income (and other reserves)	(10)	(10)
Common Equity Tier 1 capital before regulatory adjustments	199,205	143,348
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	(2,092)	(2,089)
Goodwill (net of related tax liability)	(18,854)	(864)
Total regulatory adjustments to Common equity Tier 1	(20,946)	(2,953)
Common Equity Tier 1 capital (CET1)	178,259	140,395
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1 = CET1 + AT1)	178,259	140,395
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
Tier 2 capital (T2)	-	-
Total capital (TC = T1 + T2)	178,259	140,395
Total risk weighted assets	284,898	220,416
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	62.57%	63.70%
Tier 1 (as a percentage of risk weighted assets)	62.57%	63.70%
Total capital (as a percentage of risk weighted assets)	62.57%	63.70%
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)	6.59%	6.67%
of which: capital conservation buffer requirement	1.88%	1.88%
of which: bank specific countercyclical buffer requirement	0.21%	0.30%
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	38.25%	37.86%
Amounts below the thresholds for deduction (before risk weighting)		
Deferred tax assets arising from temporary differences (net of related tax liability)	1,418	407

14 Appendix 3 Capital Instruments main features table

Table 35 the main features of the CET 1 Instruments issued by the Group

Capital Instruments' main features template (*)		Common Shares		Common Shares		Common Shares	
		Bank of Montreal Capital Markets (Holdings) Limited	Bank of Montreal Capital Markets (Holdings) Limited	Bank of Montreal Capital Markets (Holdings) Limited	Bank of Montreal Capital Markets (Holdings) Limited	Bank of Montreal Capital Markets (Holdings) Limited	Bank of Montreal Capital Markets (Holdings) Limited
1	Issuer	N/A	N/A	N/A	N/A	N/A	N/A
2	Unique Identifier (eg CUSIP, ISIN or Bloomberg Identifier for private placement)						
3	Governing law(s) of the instrument	English	English	English	English	English	English
	Regulatory treatment						
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at sole/(sub-)consolidated/sole & (sub-)consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 22.78m	GBP 55.625m	GBP 13.089m	GBP 22.78m	GBP 55.625m	GBP 13.089m
9	Nominal amount of instrument	GBP 22.78m	GBP 55.625m	CAD 21.0m	GBP 22.78m	GBP 55.625m	CAD 21.0m
9a	Issue price	GBP 1 per share	GBP 3.68 per share	CAD 1 per share	GBP 1 per share	GBP 3.68 per share	CAD 1 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	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity
11	Original date of issuance	15th April 2010	15th April 2010	15th April 2010	15th April 2010	15th April 2010	15th April 2010
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No	No	No	No
15	Optional call date, contingent call dates, and redemption amount	N/A	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
	Coupons/dividends						
17	Fixed or floating dividend/coupon	N/A	N/A	N/A	N/A	N/A	N/A
18	Coupon rate and any related index	N/A	N/A	N/A	N/A	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A	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
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	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
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A
(1) 'N/A' inserted if the question is not applicable				

Table 36 the main features of the CET 1 instruments issued by BMO CML

Capital instruments, main features template (1)		Common Shares		Common Shares		Common Shares	
1	Issuer	BMO Capital Markets Limited	BMO Capital Markets Limited	BMO Capital Markets Limited	BMO Capital Markets Limited	BMO Capital Markets Limited	BMO Capital Markets Limited
2	Unique identifier (eg CUSIP, SIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A
3	Governing law(s) of the instrument	English	English	English	English	English	English
4	Regulatory treatment						
5	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
6	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
7	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	Solo	Solo	Solo	Solo	Solo
8	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28
9	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 74.625m	GBP 74.625m	GBP 13.545m	GBP 13.545m	GBP 19.500m	GBP 19.500m
9a	Nominal amount of instrument	GBP 74.625m	GBP 74.625m	GBP 13.545m	GBP 13.545m	GBP 19.500m	GBP 19.500m
9b	Issue price	GBP 1.25 per share	GBP 1.25 per share	GBP 0.55139 per share	GBP 0.55139 per share	GBP 1.25 per share	GBP 1.25 per share
10	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	100 per cent of Nominal amount	100 per cent of Nominal amount
11	Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity
12	Original date of issuance	11th December 2009	3rd October 1994	6th July 2018	6th July 2018	6th July 2018	6th July 2018
13	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
14	Original maturity date	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity
15	Issuer call subject to prior supervisory approval	No	No	No	No	No	No
16	Optional call date, contingent call dates, and redemption amount	N/A	N/A	N/A	N/A	N/A	N/A
17	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
18	Coupons/dividends	N/A	N/A	N/A	N/A	N/A	N/A
19	Fixed or floating dividend/coupon	N/A	N/A	N/A	N/A	N/A	N/A
20	Coupon rate and any related index	N/A	N/A	N/A	N/A	N/A	N/A
21	Existence of a dividend stopper	N/A	N/A	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	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary

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