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**BANK OF MONTREAL EUROPE PLC**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FINANCIAL YEAR ENDED 31 OCTOBER 2020**

**REGISTERED NUMBER: 255687**

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## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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## DIRECTORS AND OTHER INFORMATION

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### Board of Directors

#### ***Independent Non-Executive Directors***

Brian Hayes (Chair)  
Roslyn O'Shea  
John McCormick

#### ***Non-Executive Directors***

William Smith  
Michelle Liposky

#### ***Executive Directors***

Noel Reynolds  
Jane Anne Negi  
Mark Caplan (resigned 31 October 2020)

### Registered Office Secretary

6<sup>th</sup> Floor  
2 Harbourmaster Place  
IFSC  
Dublin 1  
D01 X5P3  
Ireland

### Audit & Compliance Committee

Roslyn O'Shea (Chair)  
John McCormick  
Michelle Liposky

### Nomination Committee

Roslyn O'Shea (Chair)  
Brian Hayes  
William Smith

### Auditors

Grant Thornton  
Chartered Accountants & Statutory Audit Firm  
13-18 City Quay  
Dublin 2  
D02 ED70  
Ireland

### Secretary

Karl Soden (appointed 24 June 2020)  
Colin Rafferty (resigned 24 June 2020)

### BMO Group Head Office

105 Rue St Jacques  
Montreal  
Quebec  
Canada

### Risk & Capital Committee

John McCormick (appointed Chair 20 November 2019)  
Brian Hayes  
Roslyn O'Shea  
Michelle Liposky

### Registered Number

255687

### Solicitors

Matheson  
70 Sir John Rogerson's Quay  
Dublin 2  
D02 R296  
Ireland

## DIRECTORS' REPORT

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The Directors of Bank of Montreal Europe plc ("the Company") present their report and the audited Financial Statements for the financial year ended 31 October 2020.

### Accounting records

The Directors have taken appropriate measures to ensure compliance with the requirements of Sections 281 to 285 of the Companies Act, 2014 with regard to the keeping of adequate accounting records. The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records include the use of appropriate systems, procedures and the employment of competent persons.

The accounting records are kept at 6<sup>th</sup> Floor, 2 Harbourmaster Place, IFSC, Dublin 1, D01 X5P3, Ireland.

### Ownership

The Company is a wholly owned subsidiary of Bank of Montreal ("BMO"). BMO and its direct and indirect subsidiaries, including the Company, are collectively referred to herein as ("the BMO Group").

### Relevant audit information

The Directors confirm, in so far as they are aware, that all relevant audit information has been made available to the Company's statutory auditors and that they have taken all steps they ought to have taken in order to make themselves aware of any relevant audit information and have established that the Company's statutory auditors are aware of that information.

### Principal activities

The Company is engaged in the business of banking including the provision of financial services. The Company is regulated by the Central Bank of Ireland and has a full banking licence.

### Review of business

As the BMO Group's only fully licenced bank in Europe, the Company uniquely holds passporting rights to do business, including loans and derivatives, in all jurisdictions across the European Union ("EU") region. As such, the Company is an integral part of the BMO Group's strategic and operating infrastructure, acting as the BMO Capital Markets ("BMO CM") European banking platform. The Company transacts on its own account, and within its own risk appetite, with local and franchise clients and counterparties in Europe, North America and Asia on a wide range of Fixed Income, Currency, Commodity, Equity and Corporate Banking products. As a licensed bank regulated by the Central Bank of Ireland, the Company also has full access to the European Central Bank standing facilities and is therefore also uniquely placed within the BMO Group to perform Euro-area funding and liquidity management.

The BMO CM platform covers Corporate Banking and Global Markets activities.

The Company covers three lines of business: Fixed Income, Currency and Commodities ("FICC"), Global Equity Products ("GEP") and Corporate Banking ("CB"). The FICC and GEP lines of business are part of Global Market activities.

## DIRECTORS' REPORT (CONTINUED)

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### Review of business (continued)

FICC products traded include:

- Supranational Sovereign and Agency ("SSA") bond portfolio
- Interest Rate Swaps, Cross Currency Swaps and Commodity Swaps

#### SSA Bond Portfolio

The Company's FICC business manages two portfolios of high quality liquid bonds within the SSA sector; bonds held at Fair Value through Other Comprehensive Income ("FVOCI") and bonds held for Trading (Fair Value through Profit or Loss ("FVTPL")). As of 31 October 2020, the Company's bond portfolios stood at US\$3.0 billion FVOCI and US\$0.37 billion FVTPL. At 83% of the FVOCI portfolio, the SSA sector provides a low risk return for the Company while also contributing to the overall liquidity profile and regulatory Liquidity Coverage Ratio ("LCR") compliance. The SSA sector offers some yield pickup over pure AAA government debt and traders only purchase bonds issued by entities with a Long-Term Debt Rating of A or better. Approximately 74% of the SSA portfolio comprises fixed rate bonds which are hedged from an interest rate perspective via receive float / pay fixed interest rate swaps with notional volume per end of October 2020 of approximately US\$2.24 billion. These swaps qualify for hedge accounting under International Financial Reporting Standards ("IFRSs") rules.

#### Interest Rate Swaps, Cross Currency Swaps and Commodity Swaps

In addition to the interest rate swaps hedging fixed rate SSA bonds mentioned above, the Company has a derivatives capability to support the hedging needs of those clients with whom BMO CM has a lending relationship through its Corporate Banking business. FICC executes client facing Interest Rate Swaps, Cross Currency and Commodity Swaps to provide clients with hedges to their loan and market exposure.

GEP trades equity and equity related products categorised as:

- Cash Equities
- Equity Finance
- Equity Total Return Swaps
- Index Arbitrage

#### Cash Equities

The Company facilitates the origination and execution of European Economic Area ("EEA") client orders in listed equities. The nature of the BMO Group franchise means that these are predominantly North American listed equities. The core client facing activities undertaken in relation to this business reside in the Company's Paris Branch, with a local sales trading presence established to originate business activity and expand into new geographies in the EEA as opportunities arise.

## DIRECTORS' REPORT (CONTINUED)

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### Review of business (continued)

The business activities include:

- Partnering with leading buy-side institutions in the EEA on cash equities.
- Servicing client requests to purchase/sell cash equities and instructing the BMO Group entity with the required exchange memberships to execute the client request.
- Offering direct market access to clients through third party providers as a secondary solution to reduce the reliance on the BMO Group.
- Distributing equity research from the BMO Group to clients in the EEA.

#### Equity Finance

The Company's Equity Finance transactions involve GEP funding client equity positions by providing cash vs. receiving equity collateral. These transactions are traded under industry standard Global Master Securities Lending Agreements ("GMSLA") with collateral posted in line with Company Equity Finance limits and are typically no more than three months in term.

#### Equity Total Return Swaps ("ETRS")

The ETRS product entails the Company entering into a total return swap with approved counterparties linked to the performance of a portfolio of listed equities. The Company pays/receives an amount equal to the performance of the equities plus dividends and respectively receives/pays the counterparty a floating interest rate based on the notional of the trade. The Company earns a spread on the notional of the trade. The Company hedges out the market risk on these trades by buying or selling the corresponding equities.

#### Index Arbitrage

GEPs' Index Arbitrage activity centres around the Company shorting a basket of Canadian equities comprising the TSX60 Index while at the same time purchasing a number of TSX60 Index futures on the Montreal Exchange with a view to generating funding that can be deployed at higher yields in the Company's core businesses. GEP enters into these trades only where the market dislocation generates the potential to do so on a profitable basis.

#### Corporate Banking ("CB"):

CB provides lending facilities (bilateral and as part of a syndicate) to existing and new target BMO Group clients and their European subsidiaries to build on client relationships and enhance local income. The Company's client-side derivative activity linked to its lending portfolio represents a development of synergies between Global Markets and CB client coverage. CB clients tend to be global borrowers domiciled within the EEA. Such clients are sourced organically by the Company as well as through existing BMO Group relationships and are primarily large corporate sector and private equity clients (or their subsidiaries/affiliates) which meet the Company's strategic and credit criteria.

## DIRECTORS' REPORT (CONTINUED)

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### Review of business (continued)

#### COVID-19

The World Health Organisation declared COVID-19 a global pandemic on 11 March 2020. The emergence and spread of the COVID-19 pandemic dealt a major shock to global economies in 2020. During the first half of the year, widespread lockdown measures resulted in the steepest and most synchronised global recession on record. Extraordinary policy support on the part of governments and central banks has helped to cushion the impact but continuing economic impacts and rising cases are constraining the recovery.

The European and North American economies experienced an historic contraction in the first half of 2020 in response to business closures and precautionary measures implemented to contain the spread of COVID-19. The subsequent reopening of certain non-essential businesses, as well as a rebound in energy and other resource prices, led to a partial recovery in economic activity that was greatly assisted by substantial government income-support measures. Consumer spending and housing markets also benefitted from very low interest rates. However, the permanent closure of some businesses, along with increased caution on the part of consumers and businesses and renewed restrictions on some activities in the face of a recent increase in cases suggests global economies will not return to pre-virus levels of activity until at least the second half of 2021.

COVID-19 has had significant impacts on equity and commodity prices, bond yields and credit spreads. The impact on corporate profits varies depending on the particular sector, 'lock-down' duration as well as the speed and shape of the subsequent recovery.

The Company has actively managed the risks associated with COVID-19 across all the lines of business and has experienced no loss of service to its customers during the pandemic. The Company has demonstrated strong operational resiliency and its Risk Management Framework and stress testing assumptions have proven to be robust and its capital and liquidity adequacy more than adequate.

Given the pandemic's impact on the global economy, there has been a corresponding negative impact on the Company's financial results. Impacts on the Company's financial results include higher provisions for credit losses, lower loan growth and a negative impact on revenue from lower interest rates. COVID-19 also affected the execution of some elements of the Company's strategy as client roadshows were postponed and the Brexit related on-boarding process for new clients was delayed until the end of 2020 as all parties dealt with the pandemic.

The one risk area with the most uncertainty from the impact from COVID-19 is Credit Risk in the Corporate Banking loan portfolio. However, as of 29 January 2021, there have been no missed payments by any borrowers, and despite a small number of ratings downgrades, the performance of the loan portfolio remains well within risk parameters.

The unpredictable course of the coronavirus pandemic subjects the economic outlook to a high degree of uncertainty that is likely to persist until vaccines become widely distributed. Specifically, the possibility of a further escalation in cases could lead to renewed widespread shutdowns of non-essential business activity, potentially leading to another economic contraction.

## DIRECTORS' REPORT (CONTINUED)

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### Review of business (continued)

#### Brexit

The UK Government triggered Article 50 of the Lisbon Treaty on 29 March 2017 and indicated its intention to exit from the European Union ("Brexit") effective 29 March 2019. The delay in the UK Parliament's approval of the withdrawal agreement meant that the UK left the European Union at the end of January 2020 with a transition agreement which remained in force until 31 December 2020. The UK Government and the European Union agreed a free trade agreement on goods on 24 December 2020 to take effect from 1 January 2021.

The Company received authorisation from the Central Bank of Ireland for an expanded business footprint post-Brexit on 29 March 2019. Following this authorisation, BME established a Paris Branch to carry on certain EEA Cash Equity and Research distribution activities formally undertaken by BMO Capital Markets Limited. Since this authorisation the Company has been evolving to become the BMO Group's European client serving platform and a great deal of effort has gone into building out a solid, fit for purpose platform.

This resulted in significant increases in investments in full time employee headcount and capabilities in 2019 and 2020 which are reflected in the increased personnel expenses for fiscal 2020.

Uncertainty surrounding the timing and final trade deal status meant that the planned post Brexit activities were not started during the fiscal year and were delayed until the start of 2021.

Going forward post-Brexit, the Company's business model will encompass an expanded FICC capability including Cash Bonds, Debt Capital Market activities and a Cross Asset Solutions capability embedded in both the FICC and GEP lines of business.

The business model and asset profile of the Company seeks to maintain flexibility to support the BMO Group and BMO CM strategies. Consequently, assets are primarily highly liquid or very short term in nature across the lines of business allowing for a low risk, yet adaptable business that remains profitable through the business cycle.

## DIRECTORS' REPORT (CONTINUED)

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### Review of business (continued)

The Company's FICC, GEP and CB activities deliver client and product coverage across Europe, with equity clients also in Asia and North America, and are closely tied to the overall market opportunities and challenges of the European banking market as a whole rather than any specifics associated with Ireland. The nature of the Company's business model means that the external environment and competitive landscape is influenced by pan-European financial industry environmental factors rather than any forces specific to Ireland. In this context the environment remained challenging during the financial year including:

- Moderate growth in European markets and the quantification of the economic impact of COVID-19.
- An increase in the number of institutions (central bank, bank and non-bank) involved in the same markets as the Company with a consequent impact on spreads.
- Erosion of return potential in traditional markets for the Company.
- Higher funding costs.
- Geopolitical uncertainty including questions around the stability of Europe and the timing of Brexit.
- A heavy regulatory agenda including capital, liquidity and funding measures that impact on costs of doing business.

In pursuit of its strategic priorities in fiscal 2020 the Company was successful in making significant progress with the completion of the "fix the bank" elements of previous strategic efforts.

## DIRECTORS' REPORT (CONTINUED)

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### Results

Profit for the financial year is set out in the Statement of Comprehensive Income on page 24. In a challenging market driven by the COVID 19 pandemic, the Company contributed US\$32.9 million in operating income down from US\$40.6 million in fiscal 2019, a 19% year on year ("YoY") decrease. Operating costs increased to US\$28.9 million, up from US\$26.9 million in fiscal 2019, a 7% YoY increase primarily due to increased personnel expenses. Personnel expenses increased to US\$17.1 million, up from US\$11.9 million in fiscal 2019 as a result of increased full time employee headcount arising from the authorisation for an expanded business footprint post Brexit.

Overall the profit for the financial year decreased 72% YoY, down to US\$3.7 million, representing a 0.5% Return on Total Equity.

The Statement of Financial Position shows a 1% YoY increase in total assets to US\$9,749 million primarily reflecting a decrease in Cash and balances with central banks of US\$1,260 offset by an increase in Loans and advances to customers of US\$1,084 million and an increase in Debt securities of US\$1,316 million.

### Future developments

While a focus on governance and oversight will always be critical to the Company's success, the "fix the bank" elements of previous strategic efforts are now largely complete. The goal for the Company in fiscal 2021 and beyond is to build and grow a viable and sustainable business that serves its clients and returns for its shareholder. The next stage in the Company's evolution is expanding its client base and product capability.

The Company's business strategy for fiscal 2021-2023 was updated in December 2020 to take into account the adverse impact from the BMO Group decision to exit the Infrastructure Financing business and Energy related business in Europe. The updated business strategy for fiscal 2021-2023 including the business plan and funding strategy was approved at the scheduled 15 December 2020 Board meeting.

The anticipated expanded business activity resulting from Brexit is forecast to develop gradually over the coming months and will focus on FICC products.

The Company's business strategy stems from the following four overarching objectives:

- Grow the client footprint. Increase the proportion of profit attributable to client activity.
- Implement and effectively integrate the identified new post-Brexit business and seek out new opportunities.
- Improve capital efficiency and availability.
- Effectively deploy our increased human capital while maintaining high standards of conduct and engagement.

These four objectives underpin the following strategic priorities:

- Client – work with BMO CM partners to ensure a structured and orderly onboarding of existing BMO CM EEA clients requiring an EU-passported banking solution post-Brexit; jointly identify and evaluate markets and growth opportunities to attract net new business and clients to the Company.
- Capability - build out and operationalise product capabilities to provide continued coverage of and excellent execution for BMO CM EEA clients; evaluate and expand new capabilities focusing on the BMO Group's core strengths and with a growing focus on Sustainable Finance and electronic execution.

## DIRECTORS' REPORT (CONTINUED)

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### Future developments (continued)

- Capital - achieve a capital requirement that allows the Company to successfully compete and is reflective of the Company's risk; ensure the quantum of shareholder capital is appropriate and sufficient for the opportunities available to BMO CM in Europe; embed return on equity in all transactional and initiative evaluation and decision making.
- Attract, develop and retain the best talent - expand front office resourcing; focus on developing deep and diverse talent pools to ensure continuity and sustainability; build on the improved culture in the Company and encourage a highly engaged, client focused staff, exemplifying 'Being BMO'.

Global Markets (FICC and GEP) fiscal 2021 strategy is to grow and expand its European client base and to strengthen its existing relationships for the new products/businesses that the Company is anticipated to begin to undertake as result of Brexit. The CB platform has the strategic priority of diversifying its business footprint by seeking to originate transactions that drive the Company's profitability in conjunction with other BMO Group entities/divisions seeking to expand their capabilities and franchises.

### FICC

#### SSA Bond Portfolio

- A fiscal 2021 FICC strategic initiative is to continue to have three component parts in the FICC portfolio, each with different accounting treatments and exemptions, to provide a robust and future proofed platform to build a sustainable business model during a changing regulatory environment. Additional diversification of the portfolio will be key to long term growth and success.

#### Interest Rate Swaps, Cross Currency Swaps and Commodity Swaps

- The Company has recently established commodity derivatives capability to offer hedging products to its clients including those with whom BMO CM has a lending relationship through its CB business. This will be built out further by leveraging the Company's European passport to establish an EU client focused business.

### GEP

A GEP fiscal 2021 strategic initiative is to trade listed equity derivatives, enabling the Company to access a larger market. Products will include Single Stock Futures, Index Futures and Options.

### CB

CB's fiscal 2021 strategy focuses on opportunities in two areas:

- Corporate Banking Global partnerships: The Company works in conjunction and partners with the BMO Group's London and North America Corporate Lending and Asset Backed Lending teams. The Company is the preferred location for all BMO Group loans to EU clients (excluding the UK).
- Ancillary GM Business: further expanding derivative transactions with corporate lending clients or corporate clients where there are standalone derivative transactions.

## DIRECTORS' REPORT (CONTINUED)

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### Future developments (continued)

#### Debt Capital Markets ("DCM")

DCM will provide origination and syndication services to bonds issuers and activities planned include:

- Marketing Non-European Union (EU) debt securities to EU investors and acting as the distributor of the issue to European eligible counterparties and per se professional clients.
- Acting as a syndicate member to underwrite and distribute EU issues to investors.
- Coordinating the execution of any transactions to be underwritten in the Company including relevant legal documentation, underwriting agreements and related swap/hedge transactions.

The Company will seek to expand existing relationships within the SSA and EU public sector, with a view to offering underwriting and distribution services. Alongside this, the Company will identify and expand any other new bond issue opportunities available within the EU.

#### Cash Bonds

The Cash Bond / International Rates business in the Company will provide clients with access to North American and EU government and corporate bonds. Activities planned include:

- Maintaining client relationships within the EU and servicing client inquires around primary and secondary cash fixed income flow, including coordinating with BMO Group research, trading and DCM colleagues in response to client activities and market movements.
- Acting as a principal to execute client orders in EUR and USD government bonds.
- Maintaining BMO Group's leading North American fixed income franchise and continuing to grow this franchise within the EU.

The Company will work to grow BMO CM's market share in the SSA market to drive an increase in ancillary swap revenue opportunities.

#### Interest Rate and Cross Currency Swaps

The Company will broaden its current activity in interest rate and cross currency swaps to include:

- Increasing Interest Rate and Cross Currency swap activity with corporate clients in support of the continued growth of the CB book.
- Providing interest rate and cross currency swap markets to EU DCM clients and issuers in support of BMO Group's global offering.
- Providing hedging services for EU corporate clients with the Company managing its risks with BMO Group or third party dealers.

The Company will work to expand its capability to quote swaps on electronic platforms, thereby increasing volumes through the expanded distribution channels.

## DIRECTORS' REPORT (CONTINUED)

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### Future developments (continued)

#### FX Spot/Forward/Swap

The Company will broaden its current activity in FX Spot/Forward/Swap activities to include:

- Offering deliverable or non-deliverable transactions to EU clients within a pre-established set of currency pairs.
- Providing hedging services to EU clients in support of a complete offering to the Company's corporate clients.

The Company's activities are aligned with BMO CM's global strategy to maintain its top tier rank in CAD FX, whilst targeting European Central Banks, Sovereign Wealth Funds, fund managers and corporate clients.

The Company will work to expand its capability to quote FX derivatives on electronic platforms, thereby increasing volumes through the expanded distribution channels.

#### Cross Assets Solutions ("CAS")

CAS will offer a range of structured solutions to clients including financing activities and structured products with specific synthetic exposure. Activities planned include:

- Marketing and placement of structured notes issued by BMO CM or other third party issuers to EU counterparties, coordination of client interest and work with issuing desks outside of the EU to tailor fully-funded notes to be sold into Europe.
- Structuring of solutions for EU counterparties along with CAS financing initiatives with risk profiles in line with the current Equities businesses within the Company.

The Company will seek to target an institutional client base, offering equity-linked opportunities and increase balances with fixed income TRS across a diversified client base.

#### Third Party Deposits

An element of the Company's future funding strategy is to establish and grow a third party deposit portfolio primarily aimed at funding new asset origination. The Company will target deposits in the local Irish and potentially wider EU markets which will help diversify its funding sources.

The strategy will be implemented in a two-pronged approach broken down by short-term and long-term deposit tenors. FICC will have responsibility for deposits with a maturity of less than one year while Corporate Treasury will have responsibility for longer term NSFR accretive deposits with a maturity of greater than one year.

## **DIRECTORS' REPORT (CONTINUED)**

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### **Dividends**

The Directors do not propose the payment of a dividend in respect of the financial year ended 31 October 2020 (2019: US\$ nil).

### **Risk Management – principal risks and uncertainties**

The Company's Statement of Financial Position is low risk in terms of credit risk, market risk and liquidity risk. This is reflected in the Company's risk appetite and managed through its Risk Management Framework. Information regarding principal risks and uncertainties facing the Company is set out in Note 26 to the Financial Statements.

### **Corporate governance**

The Company is subject to the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 ("the Requirements") but is not subject to the additional obligations on high impact designated credit institutions as set out in Appendix 1 of the Requirements. The Directors have satisfied themselves that the Company is in material compliance with the Requirements.

### **Directors**

The names of the Directors in office at the date of signing of the Financial Statements for the financial year ended 31 October 2020 are Brian Hayes, Michelle Liposky, John McCormick, Jane Anne Negi, Roslyn O'Shea, Noel Reynolds and William Smith. Any changes to the Board of Directors during the financial year and up to the date of signing are detailed on page 3.

### **Directors' Compliance Statement**

Pursuant to Section 225 of the Companies Act 2014, the Directors acknowledge their responsibility for securing the Company's compliance with its relevant obligations.

The Directors also confirm the following:

- (a) The Company has in place a compliance policy statement setting out the Company's policies (that, in their opinion, are appropriate to the Company) concerning compliance by the Company with its relevant obligations.
- (b) There are appropriate arrangements and structures in place that are, in their opinion, designed to secure material compliance with the Company's relevant obligations, on the basis that they provide a reasonable assurance of compliance in all material respects with the obligations.
- (c) A review has been conducted, during the financial year, of the arrangements and structures referred to in paragraph (b).

### **Directors' and Secretary's interest in the share capital of the Company or of BMO Group Companies**

In accordance with Section 260(f)(i) of the Companies Act 2014, there were no disclosable interests of the Directors' and the Company Secretary's interest in shares of the Company or BMO Group Companies at 31 October 2020.

## DIRECTORS' REPORT (CONTINUED)

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### Political donations

The Electoral Act, 2012 requires Companies to disclose all political donations over €200 in aggregate made during the financial year. The Directors, on enquiry, have satisfied themselves that no such donations have been made by the Company during the financial year.

### Post financial year end events

There were no significant post financial year end events that would require disclosure to the Company's Financial Statements at 31 October 2020.


### Audit Committee

In accordance with Section 325(2) of the Companies Act 2014, the Directors confirm that an Audit Committee is established. This committee is referred to as the Audit and Compliance Committee.

### Auditors

While the Auditors, Grant Thornton have indicated their willingness to continue in office in accordance with Section 383(2) of Companies Act, 2014, the Company proposes to appoint KPMG Chartered Accountants as Statutory Auditor for the 31 October 2021 audit.

### On behalf of the Board



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|                                  |                                |                                  |  |
|----------------------------------|--------------------------------|----------------------------------|--|
| <b>Roslyn O'Shea</b><br>Director | <b>Brian Hayes</b><br>Director | <b>Noel Reynolds</b><br>Director | <b>Karl Soden</b><br>Company Secretary |
|----------------------------------|--------------------------------|----------------------------------|--|

29 January 2021

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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The Directors are responsible for preparing the Directors' Report and Financial Statements in accordance with applicable law and regulations.

Irish company law requires the Directors to prepare Financial Statements for each financial year giving a true and fair view of the assets, liabilities and financial position of the Company as at the financial year end date and of the profit or loss of the Company for the financial year. Under that law the Directors have elected to prepare the Company Financial Statements in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU") and in accordance with the provisions of the Companies Act 2014.

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 assets, liabilities and financial position of the Company as at the financial year end date and of the profit or loss of the Company for the financial year and otherwise comply with the Companies Act 2014.

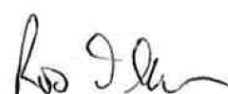
In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as issued by the IASB and adopted by the EU and in accordance with the provisions of the Companies Act 2014; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the assets, liabilities and financial position and profit or loss of the Company and enable them to ensure that the Financial Statements comply with the Companies Acts 2014 and enable those Financial Statements to be audited. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

### On behalf of the Board



**Roslyn O'Shea**  
Director



**Brian Hayes**  
Director



**Noel Reynolds**  
Director



**Karl Soden**  
Company Secretary

29 January 2021

## INDEPENDENT AUDITOR'S REPORT

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To the members of Bank of Montreal Europe plc

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Bank of Montreal Europe plc (or the "Company"), which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Shareholders' Equity and the Statement of Cash Flows for the financial year ended 31 October 2020, and the related notes to the financial statements, including the summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and International Financial Reporting Standards as adopted by the European Union (or "IFRS").

In our opinion, the Company's financial statements:

- give a true and fair view in accordance with IFRS of the assets, liabilities and financial position of the Company as at 31 October 2020 and of its financial performance and cash flows for the financial year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014, and the European Union (Credit Institutions: Financial Statements) Regulations 2015.

#### **Basis for our opinion**

We conducted our audit in accordance with International Standards on Auditing (Ireland) (or "ISAs (Ireland)") and applicable law. Our responsibilities under those standards are further described in the 'Responsibilities of the auditor for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, namely the Irish Auditing and Accounting Supervisory Authority (or "IAASA") Ethical Standard concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by Chartered Accountants Ireland, applied as determined to be appropriate in the circumstances for the entity. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (Ireland) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and the directing of efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and therefore we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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### **Key audit matters (continued)**

#### Overall audit strategy

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

#### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the operational structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

In establishing the overall approach to our audit we assessed the risk of material misstatement of the Company, taking into account the nature, likelihood and potential magnitude of any misstatement.

#### Materiality and audit approach

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations such as our understanding of the Company and its environment, the history of misstatements, the complexity of the Company and the reliability of the control environment, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Company based on a metric of 1% of Net Asset Value as at 31 October 2020. We believe that Net Asset Value provides us with the most appropriate basis for materiality having considered the users of the financial statements, the ultimate parent entity and the overall business environment of the Company.

Performance materiality is the threshold for application of materiality at the individual account or balance level. On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that the performance materiality threshold was appropriate to set at 75% of our materiality. We have determined this based on our prior year experience of the risk of misstatements, both corrected and uncorrected, and our understanding of the business and processes at the Company.

The reporting threshold is set as the amount below which identified misstatements are considered as being clearly trivial. We agreed with the audit committee that we would report to them misstatements identified during our audit of amounts greater than 5% of materiality, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

#### Significant matters identified

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are set out below as significant matters together with an explanation of how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. This is not a complete list of all risks identified by our audit.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

| <b>Key audit matters</b>   | <b>Our audit approach</b>   |
|--|---|
| <p><b>Fair value measurement of financial instruments- valuation</b></p> <p>The Company's financial instrument products include debt securities, derivatives and securities sold not yet purchased. Valuation techniques depend on the nature and complexity of each security.</p> <p>Given the scale and complexity of the portfolios held, we consider these as key audit matters requiring significant auditor's attention. We have focused our audit procedures on ensuring that instruments are appropriately valued in compliance with the measurement requirements of IFRS.</p> <p>(Please refer to notes 3, 12, 15, 19, 20 and 29)</p>   | <p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> <li>• Assessed and tested the design and implementation of the controls over financial instrument valuation, independent price verification, model validation and approval.</li> <li>• Independently confirmed key inputs required to determine the fair value of all financial instruments held at the Statement of Financial Position date. This included quantity, notional, trade and settle dates, as applicable per product.</li> <li>• Verified the price of all financial instruments held at the Statement of Financial Position date by repricing to external market sources and/or independently agreeing prices to counterparties.</li> </ul> <p>Our planned audit procedures were completed without material exception.</p>   |
| <p><b>Loans and advances to customers – valuation of impairment provision</b></p> <p>As at 31 October 2020, gross loans and advances to customers amounted to \$2,476m (2019: \$1,391m) and the related impairment provision amounted to \$7.1m (2019: \$4.6m).</p> <p>The determination of impairment provisions requires a significant amount of management judgement, using subjective assumptions, when determining both the timing and the amounts of the impairment provisions for loans and advances to customers. Calculations depend upon available reliable data. There is a risk that the provisions for impairment of loans and advances to customers do not represent a reasonable estimate of the losses incurred if the past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the loans and advances to customers are not appropriate. As a result, we consider these as key audit matters.</p> <p>(Please refer to notes 3, 14 and 26)</p> | <p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> <li>• Evaluated the design and implementation of the controls over impairment identification and calculation.</li> <li>• Evaluated the design and implementation and tested the operating effectiveness of controls over credit origination and credit monitoring.</li> <li>• Tested the underlying loans and advances for impairment, challenging management judgements and testing samples of data used in models.</li> <li>• Reviewed and assessed the work of group auditors around collective impairment models, including source data and calculations and performed additional procedures as/where necessary.</li> <li>• Reviewed impairment methodology to establish model parameters and utilised our credit risk specialists to test the assumptions and benchmark judgemental inputs, including the impact of Covid 19, of modelled provisions against market practice.</li> <li>• Tested assets in stage 1, 2 and 3 to verify that they were allocated correctly in line with the Company's policy. Additionally, for a sample of performing loans, we evaluated the adequacy of internally assigned credit risk ratings and IFRS 9 staging with consideration given to the qualitative factors and management judgement on whether there was a significant increase in credit risk, consistent with the Company's policy.</li> </ul> <p>Our planned audit procedures were completed without material exception.</p> |

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

| Key audit matters  | Our audit approach          |                             |                         |                    |                              |                     |   |
|--|-----------------------------|-----------------------------|-------------------------|--------------------|------------------------------|---------------------|---|
| <p><b>Hedge Accounting- Fair Value Hedging-valuation and accuracy</b></p> <p>In order to modify exposure to changes of the fixed FVOCI debt securities held by the Company, the Company enters into interest rate swaps, as hedging derivatives. The hedging derivative is used to convert the fixed rate earned on the FVOCI debt securities to a floating rate.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><i>Hedge Item</i></th> <th style="text-align: left;">Fixed FVOCI Debt Securities</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;"><i>Hedge Instrument</i></td> <td style="text-align: left;">Interest Rate Swap</td> </tr> <tr> <td style="text-align: left;"><i>Nature of risk hedged</i></td> <td style="text-align: left;">Fixed Rate Interest</td> </tr> </tbody> </table> <p>Hedge accounting is viewed as an exception to normal accounting rules. We have considered hedge accounting to be a key audit matter due to the complexities and management judgement involved in determining if a proposed hedging relationship qualifies for hedge accounting and the on-going monitoring of the hedge relationship. The Company is only permitted to apply hedge accounting if specific qualifying criteria is met, under IFRS 9, for each hedge relationship.</p> <p>Furthermore, under IFRS 9, the Company must continue to make an on-going assessment of whether the hedge continues to meet the hedge effectiveness criteria.</p> <p>As at 31 October 2020, the Company had 89 effective hedging relationships (2019: 64)</p> <p>(Please refer to notes 3, 20 and 28)</p> | <i>Hedge Item</i>           | Fixed FVOCI Debt Securities | <i>Hedge Instrument</i> | Interest Rate Swap | <i>Nature of risk hedged</i> | Fixed Rate Interest | <p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> <li>• Evaluated the design and implementation of the controls over the formal documentation and approval of the hedging relationship for the new interest rate swap held for hedging transactions, under IFRS 9.</li> <li>• Tested the operating effectiveness for controls over new hedging relationships, verifying that qualifying criteria for hedge effectiveness was achieved at the outset for all samples.</li> <li>• Tested the operating effectiveness for controls over the on-going assessment of the fair value hedges to ensure the hedge continues to meet the hedge effectiveness criteria, for all samples.</li> <li>• Verified the valuation of all interest rate swaps held for hedging (hedge instrument) at the Statement of Financial Position date by re-pricing to external market sources and/or independently agreeing prices to counterparties.</li> <li>• Verified the valuation of all FVOCI Debt Securities (hedge item) by re-pricing to external market sources.</li> <li>• Reviewed the offset between the changes in the fair value of the interest rate swaps held for hedging (hedge instrument) and the FVOCI debt securities (hedge item) and reconciled to the net movement in the OCI reserve.</li> </ul> <p>Our planned audit procedures were completed without material exception.</p> |
| <i>Hedge Item</i>  | Fixed FVOCI Debt Securities |                             |                         |                    |                              |                     |   |
| <i>Hedge Instrument</i>  | Interest Rate Swap          |                             |                         |                    |                              |                     |   |
| <i>Nature of risk hedged</i>   | Fixed Rate Interest         |                             |                         |                    |                              |                     |   |

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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### **Other information**

Other information comprises information included in the annual report, other than the financial statements and our auditors' report thereon, including the Directors' report, Additional Pillar 3 Disclosures and Country by Country Reporting. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies in the financial statements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

### **Matters on which we are required to report by the Companies Act 2014**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the Directors' report is consistent with the financial statements. Based solely on the work undertaken in the course of our audit, in our opinion, the Directors' report has been prepared in accordance with the requirements of the Companies Act 2014.

### **Matters on which we are required to report by exception**

Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by section 305 to 312 of the Companies Act 2014 have not been made. We have no exceptions to report arising from this responsibility.

### **Responsibilities of management and those charged with governance for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities, management are responsible for the preparation of the financial statements which give a true and fair view in accordance with IFRS, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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### **Responsibilities of the auditor for the audit of the financial statements**

The auditors' 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 an auditors' report that includes their opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), the auditor will exercise professional judgement and maintain professional scepticism throughout the audit. The auditor will also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If they conclude that a material uncertainty exists, they are required to draw attention in the auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify their opinion. Their conclusions are based on the audit evidence obtained up to the date of the auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that may be identified during the audit.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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### **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 section 391 of the Companies Act 2014. 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 auditors' 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.

### **Report on other legal and regulatory requirements**

We were appointed by the Board's Audit Committee on 11 September 2017. This is the fourth year we have been engaged to audit the financial statements of the Company.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (Ireland). Our audit approach is a risk-based approach and is explained more fully in the 'Responsibilities of the auditor for the audit of the financial statements' section of our report.

We have not provided non-audit services prohibited by the IAASA's Ethical Standard to the Bank and we remain independent of the Bank in conducting our audit.

The audit opinion is consistent with the additional report to the audit committee.



Colin Feely  
For and on behalf of  
Grant Thornton  
Chartered Accountants & Statutory Audit Firm  
13-18 City Quay  
Dublin 2  
D02 ED70  
Ireland

29 January 2021

## STATEMENT OF COMPREHENSIVE INCOME




| (US\$ in thousands)  | Note | Financial<br>Year ended<br>31 October<br>2020 | Financial<br>Year ended<br>31 October<br>2019 |
|--|------|---|---|
| Interest income  | 4    | <b>114,893</b>                                | 274,610                                       |
| Interest expense   | 4    | <b>(84,910)</b>                               | (237,315)                                     |
| <b>Net interest income</b>   |      | <b>29,983</b>                                 | <b>37,295</b>                                 |
| Fee and commission income  | 5    | <b>9,426</b>                                  | 4,035   |
| Fee and commission expense   | 5    | <b>(10,405)</b>                               | (11,660)                                      |
| <b>Net fee and commission expense</b>  |      | <b>(979)</b>                                  | <b>(7,625)</b>                                |
| Net trading income   | 6    | <b>6,864</b>                                  | 15,557  |
| Provision for credit losses  | 26   | <b>(2,931)</b>                                | (4,624)                                       |
| <b>Operating income</b>  |      | <b>32,937</b>                                 | <b>40,603</b>                                 |
| Personnel expenses   | 7    | <b>(17,175)</b>                               | (11,914)                                      |
| Depreciation of property and equipment   | 18   | <b>(1,288)</b>                                | (444)   |
| Other operating expenses   | 8    | <b>(10,463)</b>                               | (14,616)                                      |
| <b>Profit before income tax</b>  |      | <b>4,011</b>                                  | <b>13,629</b>                                 |
| Income tax expense   | 9    | <b>(343)</b>                                  | (641)   |
| <b>Profit for the financial year</b>   |      | <b>3,668</b>                                  | <b>12,988</b>                                 |
| <b>Other comprehensive income ("OCI")</b>  |      |   |   |
| Items that will be reclassified subsequently to profit or loss:                        |      |   |   |
| Net change in unrealised gains / (losses) on fair value through OCI of debt securities |      | <b>2,649</b>                                  | (4,622)                                       |
| Income tax (expense) /benefit on other comprehensive income                            |      | <b>(331)</b>                                  | 578   |
| <b>Other comprehensive income/(loss) for the financial year, net of income tax</b>     |      | <b>2,318</b>                                  | <b>(4,044)</b>                                |
| <b>Total comprehensive income for the financial year</b>                               |      | <b>5,986</b>                                  | <b>8,944</b>                                  |

Certain comparative figures have been reclassified to conform with the current year's presentation  
The accompanying notes are an integral part of these financial statements

## STATEMENT OF FINANCIAL POSITION

| (US\$ in thousands)                               | Note | As At<br>31 October<br>2020 | As At<br>31 October<br>2019 |
|---|------|-----------------------------|-----------------------------|
| <b>Assets</b>                                     |      |                             |                             |
| Cash and balances with central banks              | 11   | 2,161,305                   | 3,421,219                   |
| Debt securities                                   | 15   | 3,396,671                   | 2,080,535                   |
| Derivative assets                                 | 12   | 92,079                      | 58,503                      |
| Trading equities                                  | 16   | -                           | 544,378                     |
| Loans and advances to banks                       | 13   | 1,590,582                   | 2,126,292                   |
| Loans and advances to customers                   | 14   | 2,475,586                   | 1,390,947                   |
| Current tax assets                                | 10   | 1,751                       | 3,901                       |
| Deferred tax assets                               | 10   | 98                          | 224                         |
| Property and equipment                            | 18   | 6,936                       | 1,353                       |
| Other assets                                      | 17   | 24,317                      | 12,590                      |
| <b>Total assets</b>                               |      | <b>9,749,325</b>            | <b>9,639,942</b>            |
| <b>Liabilities</b>                                |      |                             |                             |
| Securities sold but not yet purchased             | 19   | 931,452                     | 846,736                     |
| Derivative liabilities                            | 20   | 239,453                     | 178,301                     |
| Deposits from banks                               | 21   | 1,552,975                   | 1,563,719                   |
| Deposits from customers                           | 22   | 123,534                     | 152,590                     |
| Debt securities in issue                          | 23   | 6,007,391                   | 6,083,809                   |
| Current tax liabilities                           | 10   | 985                         | 1,476                       |
| Deferred tax liabilities                          | 10   | 162                         | -                           |
| Other liabilities                                 | 24   | 99,979                      | 25,905                      |
|   |      | <b>8,955,931</b>            | <b>8,852,536</b>            |
| <b>Equity</b>                                     |      |                             |                             |
| Share capital                                     | 25   | 10,051                      | 10,049                      |
| Capital contribution                              |      | 503,994                     | 503,994                     |
| Retained earnings                                 |      | 278,217                     | 274,549                     |
| Accumulated OCI                                   |      | 1,132                       | (1,186)                     |
| <b>Total shareholders' equity</b>                 |      | <b>793,394</b>              | <b>787,406</b>              |
| <b>Total liabilities and shareholders' equity</b> |      | <b>9,749,325</b>            | <b>9,639,942</b>            |
| <b>Off balance sheet items</b>                    |      |                             |                             |
| Committed lending and undrawn facilities          | 27   | 647,939                     | 386,407                     |

### On behalf of the Board

|   |   |  |   |
|---|---|--|---|
|  |  |  |  |
| <b>Roslyn O'Shea</b><br>Director  | <b>Brian Hayes</b><br>Director  | <b>Noel Reynolds</b><br>Director   | <b>Karl Soden</b><br>Company Secretary  |

29 January 2021

The accompanying notes are an integral part of these financial statements

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

### For the financial year ended 31 October 2020

| (US\$ in thousands)                            | Share capital | Capital Contribution | Retained earnings | Accumulated OCI | Total          |
|--|---------------|----------------------|-------------------|-----------------|----------------|
| 1 November 2019                                | 10,049        | 503,994              | 274,549           | (1,186)         | 787,406        |
| Profit for the year                            | -             | -                    | 3,668             | -               | 3,668          |
| <b>Other OCI, net of tax</b>                   |               |                      |                   |                 |                |
| OCI reserve:                                   |               |                      |                   |                 |                |
| Net change in fair value                       | -             | -                    | -                 | 4,468           | 4,468          |
| OCI reserve:                                   |               |                      |                   |                 |                |
| Net amount transferred to profit and loss      | -             | -                    | -                 | (2,150)         | (2,150)        |
| <b>Total OCI</b>                               | -             | -                    | 3,668             | 2,318           | 5,986          |
| <b>Total comprehensive income for the year</b> | -             | -                    | 3,668             | 2,318           | 5,986          |
| FX Translation                                 | 2             | -                    | -                 | -               | 2              |
| <b>31 October 2020</b>                         | <b>10,051</b> | <b>503,994</b>       | <b>278,217</b>    | <b>1,132</b>    | <b>793,394</b> |

### For the financial year ended 31 October 2019

| (US\$ in thousands)                            | Share capital | Capital Contribution | Retained earnings | Accumulated OCI | Total          |
|--|---------------|----------------------|-------------------|-----------------|----------------|
| 1 November 2018                                | 10,042        | 504,001              | 261,561           | 2,858           | 778,462        |
| Profit for the year                            | -             | -                    | 12,988            | -               | 12,988         |
| <b>Other OCI, net of tax</b>                   |               |                      |                   |                 |                |
| OCI reserve:                                   |               |                      |                   |                 |                |
| Net change in fair value                       | -             | -                    | -                 | (3,381)         | (3,381)        |
| OCI reserve:                                   |               |                      |                   |                 |                |
| Net amount transferred to profit and loss      | -             | -                    | -                 | (663)           | (663)          |
| <b>Total OCI</b>                               | -             | -                    | 12,988            | (4,044)         | 8,944          |
| <b>Total comprehensive income for the year</b> | -             | -                    | 12,988            | (4,044)         | 8,944          |
| Issued during the year                         | 7             | -                    | -                 | -               | 7              |
| Redeemed during the year                       | -             | (7)                  | -                 | -               | (7)            |
| <b>31 October 2019</b>                         | <b>10,049</b> | <b>503,994</b>       | <b>274,549</b>    | <b>(1,186)</b>  | <b>787,406</b> |

The accompanying notes are an integral part of these financial statements

## STATEMENT OF CASH FLOWS

| (US\$ in thousands)   | Financial year<br>ended 31<br>October 2020 | Financial year<br>ended 31<br>October 2019 |
|---|--|--|
| <b>Cash flows from operating activities</b>   |  |  |
| Profit before income tax  | 4,011                                      | 13,629                                     |
| <b>Adjusted for non-cash items included in income statement and other adjustments</b> |  |  |
| Depreciation  | 1,288                                      | 444  |
| Gain on sale of debt securities   | (2,150)                                    | (663)                                      |
|   | <b>3,149</b>                               | <b>13,410</b>                              |
| <b>Net increase/decrease in operating assets/liabilities</b>                          |  |  |
| (Increase)/decrease in derivative assets  | (33,576)                                   | 116,499                                    |
| Increase in trading securities  | (365,930)                                  | -  |
| Decrease/(increase) in loans and advances to banks                                    | 535,710                                    | (1,576,158)                                |
| Increase in loans and advances to customers   | (1,084,639)                                | (580,574)                                  |
| Decrease in equities  | 544,378                                    | 665,441                                    |
| Decrease in current tax assets  | 2,150                                      | 229  |
| Increase in other assets  | (11,727)                                   | (7,200)                                    |
| Increase in securities sold but not yet purchased                                     | 84,716                                     | 240,413                                    |
| Increase/(decrease) in derivative liabilities   | 61,152                                     | (7,636)                                    |
| (Decrease)/increase in deposits from banks  | (10,744)                                   | 1,534,001                                  |
| (Decrease)/increase in deposits from customers  | (29,056)                                   | 67,750                                     |
| (Decrease)/increase in debt securities in issue                                       | (76,418)                                   | 1,350                                      |
| Increase in other liabilities   | 74,654                                     | 18,197                                     |
| Tax reclaimed/(paid)  | 1,335                                      | (850)                                      |
| <b>Net cash (outflow)/inflow from operating activities</b>                            | <b>(307,995)</b>                           | <b>471,462</b>                             |
| <b>Cash flows from financing activities</b>   |  |  |
| Repayment of lease liabilities (refer to Note 24)                                     | (580)                                      | -  |
| <b>Net cash outflow from financing activities</b>                                     | <b>(580)</b>                               | <b>-</b>                                   |
| <b>Cash flows from investing activities</b>   |  |  |
| Acquisition of debt securities  | (1,444,980)                                | (930,707)                                  |
| Maturity and sale of debt securities  | 491,341                                    | 710,467                                    |
| Additions of property and equipment   | (849)                                      | (695)                                      |
| <b>Net cash outflow from investing activities</b>                                     | <b>(954,488)</b>                           | <b>(220,935)</b>                           |
| Net (decrease)/increase in cash and balances with central banks                       | (1,259,914)                                | 263,937                                    |
| Cash and balances with central banks at the beginning of the financial year           | 3,421,219                                  | 3,157,282                                  |
| <b>Cash and balances with central banks at the end of the financial year</b>          | <b>2,161,305</b>                           | <b>3,421,219</b>                           |

Included in the cash flows from operating activities for the financial year are the following amounts:

|                          |          |           |
|--------------------------|----------|-----------|
| Interest income received | 117,516  | 270,867   |
| Interest expense paid    | (91,668) | (236,910) |

Prior to adoption of IFRS 16, repayments of lease liabilities were included in "Net cashflow from operating activities". The accompanying notes are an integral part of these financial statements  
Certain comparative figures have been reclassified to conform with the current year's presentation.

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. General information

Bank of Montreal Europe plc (the "Company") is a public limited company domiciled in Ireland. The address of the Company's registered office is 6th Floor, 2 Harbourmaster Place, IFSC, Dublin 1, D01 X5P3, Ireland.

The Company is engaged in the business of banking including the provision of financial services, is regulated by the Central Bank of Ireland (the "CBI") and has a full banking licence. The Company is a wholly owned subsidiary of Bank of Montreal ("BMO"). BMO and its direct and indirect subsidiaries, including the Company, are collectively referred to herein as "the BMO Group". As the BMO Group's only fully licenced bank in Europe, the Company acts as BMO Capital Markets' ("BMO CM") European banking platform, transacting on its own account, and within its own risk appetite, with local and franchise clients and counterparties on a wide range of financial products.

### 2. Basis of preparation

#### Statement of compliance

The Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU") and in accordance with the provisions of the Companies Act 2014 and the European Union (Credit Institutions: Financial Statements) Regulation 2015.

The Financial Statements were approved by the Board of Directors on 29 January 2021.

#### Basis of measurement

The Financial Statements are prepared on a going concern basis and have been prepared under the historical cost convention as modified to include the following:

- derivative financial instruments are measured at fair value;
- financial assets measured or designated at fair value through other comprehensive income ("FVOCI") are measured at fair value;
- held for trading equities are measured at fair value; and
- securities sold but not yet purchased are measured at fair value.

### 3. Accounting policies

The following accounting policies have been applied consistently to all periods presented in these Financial Statements.

#### Functional and presentation currency

These Financial Statements are presented in United States dollars ("US\$"), which is the Company's functional currency. Except as indicated, financial information presented in US\$ has been rounded to the nearest thousand.

#### Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The most significant assets and liabilities for which the Company must make estimates include allowance for credit losses and financial instruments measured at fair value. If actual results differ from the estimates, the impact would be recorded in future periods.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Use of estimates and judgements (continued)

The full extent of the impact that COVID-19, including government and regulatory responses to the outbreak, will have on the European and North American economies and the Company's business remains uncertain and difficult to predict at this time. By their very nature, the judgments and estimates the Company makes for the purposes of preparing its financial statements relate to matters that are inherently uncertain. However, the Company has detailed policies and internal controls that are intended to ensure that these judgments and estimates are well controlled and, independently reviewed and that the Company's policies are consistently applied from period to period. The Company believes that its estimates of the value of its assets and liabilities are appropriate.

#### *Allowance for Credit Losses*

The expected credit loss ("ECL") model requires the recognition of credit losses generally based on 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 30-day past due and watchlist status. The assessment of a significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Company 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. The BMO Group has developed models incorporating specific macroeconomic variables that are relevant to each portfolio. Forecasts are developed internally by the BMO Group Economics group, considering external data and its view of future economic conditions. The Company exercises experienced credit judgment to a) incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss in order that the allowance is sensitive to changes in both economic forecasts and the probability weights assigned to each forecast scenario, and b) determine if any non-model adjustments are required, based on the local credit assessment process.

Additional information regarding the allowance for credit losses is included in Note 26.

#### *Financial Instruments Measured at Fair Value*

Fair value measurement techniques are used to value various financial assets and financial liabilities. Additional information regarding the fair value measurement techniques is included in Note 29.

#### *Income Taxes and Deferred Tax Assets*

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in either the Statement of Comprehensive Income or Statement of Changes in Shareholders' Equity. In determining the provision for income taxes, the Company interprets tax legislation, case law and administrative positions in numerous jurisdictions and, based on its judgment, records the estimate of the amount required to settle tax obligations.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Use of estimates and judgements (continued)

##### *Income Taxes and Deferred Tax Assets (continued)*

The Company will also make assumptions about the expected timing of the reversal of deferred tax assets and liabilities. If its interpretations and assumptions differ from those of tax authorities or if the timing of reversals is not as expected, the provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated.

Deferred tax assets are recognised only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences or unused tax losses and tax credits may be utilised. The Company assesses whether it is probable that its deferred income tax assets will be realised. The factors used to assess the probability of realisation are its past experience of income and capital gains, forecast of future net income before taxes, and the remaining expiration period of tax loss carry forwards and tax credits. Changes in the assessment of these factors could increase or decrease the provision for income taxes in future periods. Additional information regarding accounting for income taxes is included in Notes 9 and 10.

##### *Going concern*

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

##### *Leases*

The Company enters leases as a lessee for which it recognises a lease liability and a corresponding right-of-use asset. In calculating the lease liability and corresponding right-of-use asset, the Company assesses whether a contract is a lease by determining if it has the right to control the asset based on the ability to make decisions or direct how and for what purpose the asset is used. The Company evaluates the lease term based on the terms of the lease contract, including any extension or termination options that the Company is reasonably certain to exercise based on the economic rationale underlying the decision. The Company makes estimates in determining the incremental borrowing rate that is used to discount lease liabilities, based on its expected costs of secured borrowing for the lease term.

##### *Foreign currency translation*

Transactions in foreign currencies are translated to the functional currency of the Company at month end exchange rates in the month the transaction occurred. Monetary assets and liabilities that are denominated in foreign currencies are translated into US\$ at the exchange rate in effect at the reporting date. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated into US\$ at the date of the transaction. Resulting exchange gains and losses are recorded in the profit or loss in the Statement of Comprehensive Income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Interest income and expense

Interest income and expense are recognised in the net interest income of the Statement of Comprehensive Income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the Statement of Comprehensive Income includes:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- interest on FVOCI debt securities on an effective interest rate basis; and
- interest on derivative financial instruments.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Company's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

#### Fees and commission

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 are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on an accruals basis over the commitment period.

#### 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, dividends and foreign exchange differences. This includes ineffectiveness recorded on hedging transactions.

#### Dividends

Dividend income or expense is recognised when the right to receive or pay income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of interest income or net trading income based on the underlying classification of the equity instrument.

#### Financial assets and liabilities

##### Recognition and initial measurement

The Company initially recognises loans and advances, debt securities, deposits and debt securities issued on the date that they are originated. All other financial assets and liabilities (including regular-way purchases and sales of financial assets) are initially recognised on the settlement date at which the Company becomes a party to the contractual provisions of the instrument. Changes in fair value between the trade date and settlement date are recorded in net income, except for those related to debt securities measured at FVOCI, which are recorded in other comprehensive income

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Financial assets and liabilities (continued)

##### Classification and subsequent measurement of financial assets

The Company classifies its financial assets, other than those designated and effective as hedging instruments, as measured at: amortised cost, FVOCI or FVTPL. The classification is determined by both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. For purposes of subsequent measurement, the Company's financial assets are classified into the following categories:

- Debt instruments at amortised cost (loans and advances and cash and balances with central banks)
- Debt instruments at FVOCI (debt securities)
- Equity instruments at FVTPL (trading equities)

##### *Debt instruments at amortised cost*

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows and those cash flows represent solely payments of principal and interest. Gains or losses on disposal and impairment losses are recognised in profit or loss in the Statement of Comprehensive Income.

##### *Debt instruments at FVOCI*

Debt instruments are measured at FVOCI if they are held within a business model whose objective is achieved by both selling the assets and collecting contractual cash flows and those cash flows represent solely payments of principal and interest. These debt 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.

Changes in fair value are recorded in other comprehensive income; gains or losses on disposal, interest income calculated using the effective interest method, impairment losses and foreign exchange gains and losses are recorded in profit or loss in the Statement of Comprehensive Income.

##### *Equity instruments at FVTPL*

Equity instruments are measured at FVTPL unless an election is made to measure at FVOCI, in which case gains and losses are never recognised in income.

##### Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

##### Fair value measurement

For traded securities, quoted market value is based on bid prices, where available. For all other financial instruments where market quotes are not available, fair value is determined using valuation techniques. These estimation techniques include discounted cash flows, internal models that utilise observable market data or comparisons with other securities that are substantially the same.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Financial assets and liabilities (continued)

##### Identification and measurement of impairment

IFRS 9 *Financial Instruments* ("IFRS 9") uses an ECL impairment model for all debt instruments measured at amortised cost or FVOCI as well as certain off-balance sheet loan commitments and guarantees. The new ECL model results in an allowance for credit losses ("ACL") being recorded on financial assets regardless of whether there has been an actual impairment.

The ECL model requires the recognition of credit losses based on up to 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. The main factors considered in making this determination are credit judgement, relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and Watch list status. 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.

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 to 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.

##### Classification and subsequent measurement of financial liabilities

The Company classifies its financial liabilities as either financial liabilities at FVTPL or other financial liabilities.

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or it is designated as at FVTPL. As at reporting date, the company does not have financial liabilities designated at FVTPL. Financial liabilities held for trading are represented in the Statement of Financial Position as Securities sold but not yet purchased.

##### *Other financial liabilities*

Other financial liabilities, including deposits and debt securities in issue are subsequently measured at amortised cost using the effective interest method.

##### Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Company acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the Statement of Financial Position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income/(expense) in the Statement of Comprehensive Income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Financial assets and liabilities (continued)

##### Cash and balances with central banks

Cash and balances with central banks comprise cash reserves including balances held with central banks other than mandatory reserve deposits with original maturity of less than 3 months. They are carried at amortised cost.

##### Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method.

##### Securities

Securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either fair value through profit or loss, or FVOCI for those instruments that are not subsequently measured at fair value through profit and loss.

##### Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company enters into transactions whereby it transfers assets recognised on its Statement of Financial Position but retains both risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

##### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position only 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.

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Derivative financial instruments

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or financial or commodity prices or indices.

Derivative financial instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. Derivative financial instruments are used for trading or risk management purposes. Derivatives are measured at fair value.

Trading derivatives are entered into to generate trading income from client facilitation trading positions.

#### Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities.

The Company's policy is to hedge the following banking or trading book exposures:

- interest rate risk – using interest rate swaps
- currency exposures – using forward exchange swaps or contracts
- market risk – using total return swaps or offsetting physical long/ short positions

The following table provides examples of certain activities undertaken by the Company, the related risks associated with such activities and the types of derivatives in managing such risks. Such risks may also be managed by using on-balance sheet instruments as part of an integrated approach to risk management.

| <u>Activity</u>            | <u>Risk</u>   | <u>Economic hedging instruments</u>            |
|----------------------------|---|--|
| Funding requirements       | Receipt of funds in a certain currency and requirement to provide funding in a different currency | Foreign Exchange forwards/cross-currency swaps |
| Equity derivatives trading | Change in the value of the underlying asset/liability   | Total Return Swap                              |

#### Hedge accounting

In order to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset being hedged, as well as how hedge effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting either changes in fair value or the amount of future cash flows. Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. Any ineffectiveness in the hedging relationship is recognised in the Statement of Comprehensive Income as it arises. The Company has early adopted 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7'. The amendments provide temporary reliefs which enable the Company's hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Fair value hedges

Fair value hedges modify exposure to changes in a fixed rate instrument's fair value caused by changes in interest rates. These hedges convert fixed rate assets to floating rate assets. The Company's fair value hedges include hedges of fixed FVOCI debt securities by using an interest rate swap as a hedging derivative. For fair value hedges, the hedging derivative is recorded at fair value and any fixed rate assets that are part of a hedging relationship are adjusted for the changes in value of the risks being hedged ("fair value adjustment"). The nature of the risks being hedged are changes in the fair value of the FVOCI debt securities caused by changes in interest rates.

#### Equity reserves

The reserves recorded in equity on the Company's Statement of Financial Position include:

- FVOCI reserve, which comprises changes in fair value of FVOCI investments

#### Property and equipment

All property and equipment is stated at cost less accumulated depreciation. Historical cost includes any expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance costs are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation of property and equipment is provided on a straight line basis over estimated useful lives as follows:

- Computers and other equipment - 2 to 5 years
- Fixtures and fittings - Lease term to a maximum of 10 years

#### Leases

Applicable from 1 November 2019, when the Company enters into a new arrangement as a lessee, a right-of-use asset is recognised equal to the lease liability, which is calculated based on the future lease payments discounted at our incremental borrowing rate over the lease term. The lease term is based on the non-cancellable period and includes any options to extend or terminate which the Company is reasonably certain to exercise. The right-of-use asset is depreciated on a straight-line basis, based on the shorter of the useful life of the underlying asset or the lease term, and is adjusted for impairment losses, if any. The lease liability accretes interest over the lease term, using the effective interest method, with the associated interest expense recognised in interest expense, other liabilities, in the Statement of Comprehensive Income. The lease liability is remeasured when decisions are made to exercise options under the lease arrangement or when the likelihood of exercising an option within the lease changes. Refer to Notes 4 and 18 for further information. Amounts relating to leases of low value are expensed when incurred in other operating expenses in the Statement of Comprehensive Income.

Leases accounting policy before 1 November 2019.

Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, were expensed as incurred.

#### Pensions

The Company operates a defined contribution pension scheme. Under this pension scheme, the Company is responsible for contributing a predetermined amount to a participant's retirement savings, based on a percentage of that employee's salary. The costs of this scheme, recorded in personnel expenses, are equal to the Company's contributions to the scheme.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Share-based payments

Select employees 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. A minimum portion of 40% or 60% of an employee's incentive award is deferred over a period of between three and seven years. Share linked awards are granted as restricted share units ("RSU"). One RSU is equivalent to one common share of the BMO Group. The costs of this plan, recorded in personnel expenses, are equal to the Company's contributions to the plan.

#### Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. The Company reports its provision for income taxes in the Statement of Comprehensive Income based upon transactions recorded in the financial statements regardless of when they are recognised for income tax purposes.

The provision for income taxes is calculated based on the applicable tax law and the tax treatment of transactions recorded in the Statement of Comprehensive Income or Changes in Shareholders' Equity. In determining the provision for income taxes, the Company makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities. If the Company's interpretations differ from those of tax authorities or if the timing of reversals is not as expected, the provision for income taxes could increase or decrease in future periods.

Deferred income tax balances are the cumulative amount of tax applicable to temporary differences between the accounting and tax values of the Company's assets and liabilities. Deferred income tax assets and liabilities are measured at tax rates expected to apply when the differences reverse. Changes in deferred income tax assets and liabilities related to a change in tax rates are recorded in income in the year the tax rate change is substantively enacted.

The Company's deferred income tax asset is expected to be realised in the normal course of operations. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### Securities lending

The Company funds client equity positions by providing cash and receiving equity collateral. These transactions are traded under industry standard Global Master Securities Lending Agreements ("GMSLA"). The Company account for these instruments as if they were loans and depending on the counterparty classification are reported in the Statement of Financial Position as loans and advances to banks or loans and advances to customers. Refer to Notes 13 and 14 for further breakdowns.

#### Reverse repo

The Company is predominantly long cash and therefore enters reverse repos giving cash and receiving collateral. Eligible collateral includes government debt of certain countries, high quality securities, and bonds from selected supranational debt issuers.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Accounting policies (continued)

#### Changes in accounting policies

The following new standards, interpretations and amendments were adopted by the Company for the first time in the financial reporting period. The impact of each is set out below:

#### IFRS 16 *Leases*

Effective 1 November 2019, the Company adopted IFRS 16 *Leases* (IFRS 16) whereby lessees are required to recognise a liability for the present value of future lease payments and record a corresponding asset on the Statement of Financial Position for most leases. There were minimal changes to the accounting from the lessor's perspective.

The main impact for the Company is recording leases related to real estate on the Statement of Financial Position. Previously, the Company's real estate leases were classified as operating leases, whereby the Company recorded the lease expense over the lease term with no asset or liability recorded on the Statement of Financial Position other than related leasehold improvements.

On transition, the Company calculated the right-of-use asset and set it equal to the lease liability. The Company will continue to account for short-term leases and low dollar value leases as executory contracts with lease expense recorded over the lease term and no corresponding right-of-use asset or lease liability. The impact to the Statement of Financial Position as at 1 November 2019 was an increase in property and equipment of US\$5.75 million and an increase in other liabilities of US\$5.65 million.

The following table sets out a reconciliation of our operating lease commitments, as disclosed under IAS 17 *Leases* as at 31 October 2019, which were used to derive the lease liabilities as at 1 November 2019.

|  | <b>US\$ in<br/>thousands</b> |
|--|------------------------------|
| Operating lease commitment at 31 October 2019 as disclosed in the financial statements | 4,548                        |
| Discounted using the incremental borrowing rate at 1 November 2019                     | (695)                        |
| Extension and termination options reasonably certain to be exercised                   | 1,795                        |
| <b>Lease liabilities recognised at 1 November 2019</b>                                 | <b>5,648</b>                 |

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 November 2019. The weighted average rate applied was 2.1%.

#### *Interbank Offered Rate (IBOR) Reform – Phase 1 Amendments*

Under IBOR reform, certain benchmark rates may be subject to discontinuance, changes in methodology, increased volatility or decreased liquidity during the transition from IBORs to alternative rates. Banks will cease rate submissions for the calculation of the London Interbank Offered Rates (LIBOR) after 31 December 2021.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Changes in accounting policies (continued)

Effective 1 November 2019, the Company early adopted the IASB's Phase 1 amendments to IAS 39 *Financial instruments: recognition and measurement* (IAS 39) and IFRS 7 *Financial instruments: disclosures* (IFRS 7), which provide hedge accounting relief from the uncertainty arising from IBOR reform during the period prior to replacement of IBORs. These amendments modify certain hedge accounting requirements, allowing the Company to assume the interest rate benchmark which are the basis for cash flows of the hedged item and the hedging instrument is not altered as a result of IBOR reform, thereby allowing hedge accounting to continue. They also provide an exception from the requirement to discontinue hedge accounting if a hedging relationship does not meet the effectiveness requirements solely as a result of IBOR reform.

Application of these amendments will end at the earlier of the discontinuation of the impacted hedge relationship and when there is no longer uncertainty arising from IBOR reform over the timing and amount of IBOR-based cash flows. In order to manage the transition from IBORs to alternative rates, the BMO Group enterprise-wide IBOR Transition Office is evaluating potential changes to market infrastructures on the Company's risk framework, models, systems and processes, and reviewing legal documents to ensure the Company is prepared prior to the cessation of IBORs. The Company will apply judgment with respect to the need for new or revised hedging relationships; however, given market uncertainty, the assessment of the impact on the Company's hedging relationships and its mitigation plans are still in progress.

The notional amount of the derivatives likely subject to IBOR reform designated as hedging instruments that mature after 31 December 2021 on adoption of the Phase 1 amendments as at 1 November 2019 was US\$1,449 million of USD LIBOR and US\$31 million of GBP LIBOR. The notional amount excludes derivatives referencing interest rate benchmarks in multi-rate jurisdictions, including the Canadian Dollar Offered Rate and Euro Interbank Offered Rate. The Company provides disclosure on its current hedging relationships and the notional amount of derivatives likely subject to IBOR reform in Note 28.

#### Uncertainty Over Income Tax Treatments

Effective 1 November 2019, the Company adopted IFRIC 23 *Uncertainty Over Income Tax Treatments*. The interpretation clarifies the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation had no impact on the Company's financial results on adoption.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 3. Accounting policies (continued)

#### Future Changes in IFRS:

##### Conceptual Framework

In March 2018, the IASB issued the revised Conceptual Framework ("Framework"), which sets out the fundamental concepts for financial reporting to ensure consistency in standard-setting decisions and that similar transactions are treated in a similar way, so as to provide useful information to users of financial statements. The revised Framework, which is effective for the Company's fiscal year beginning 1 November 2020, will inform future standard-setting decisions but does not impact existing IFRS. The Company does not expect the revised Framework to have a significant impact on its accounting policies.

##### IBOR Reform – Phase 2 amendments

In August 2020, the IASB published Phase 2 of its amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 *Insurance Contracts* as well as IFRS 16. While the Phase 1 amendments addressed the uncertainty that could arise in the period before IBOR transition, the Phase 2 amendments address issues that arise from implementation of IBOR reform, where IBOR are replaced with alternative benchmark rates.

For financial instruments at amortised cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognised. The amendments also provide additional temporary relief from applying specific IAS 39 hedge accounting requirements to hedging relationships affected by IBOR reform. For example, there is an exception from the requirement to discontinue hedge accounting as a result of changes to hedge documentation required solely by IBOR reform. The amendments also require additional disclosure that allow users to understand the effect of IBOR reform on the Company's financial instruments and risk management strategy. The Phase 2 amendments are effective for the fiscal year beginning 1 November 2021 with early adoption permitted. The Company is in the process of assessing the impact of these amendments on contracts in scope, including the Company's IBOR-based financial instruments and hedge relationships.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4. Net interest income

| (US\$ in thousands)                                     | Financial Year ended 31 October |          |
|---|---------------------------------|----------|
|   | 2020                            | 2019     |
| <b>Interest income</b>                                  |                                 |          |
| Cash and balances with central banks <sup>1</sup>       | <b>(16,334)</b>                 | (20,774) |
| Securities  | <b>25,671</b>                   | 49,433   |
| Derivative assets held for risk management              | <b>73,009</b>                   | 181,763  |
| Loans and advances to banks                             | <b>17,840</b>                   | 40,049   |
| Loans and advances to customers                         | <b>14,707</b>                   | 24,139   |
|   | <b>114,893</b>                  | 274,610  |
| <b>Interest expense</b>                                 |                                 |          |
| Debt securities in issue (refer to note 23)             | <b>61,378</b>                   | 150,895  |
| Derivative liabilities held for risk management         | <b>1,821</b>                    | 4,088    |
| Deposits from banks                                     | <b>20,532</b>                   | 80,474   |
| Deposits from customers                                 | <b>1,061</b>                    | 1,858    |
| Lease liabilities (refer to note 24)                    | <b>118</b>                      | -        |
|   | <b>84,910</b>                   | 237,315  |
| <b>Net interest income by product type</b>              | <b>29,983</b>                   | 37,295   |
| <b>Interest income</b>                                  |                                 |          |
| BMO Group <sup>2</sup>                                  | <b>74,154</b>                   | 181,955  |
| Non BMO Group   | <b>40,739</b>                   | 92,655   |
|   | <b>114,893</b>                  | 274,610  |
| <b>Interest expense</b>                                 |                                 |          |
| BMO Group   | <b>84,949</b>                   | 236,947  |
| Non BMO Group   | <b>(39)</b>                     | 368      |
|   | <b>84,910</b>                   | 237,315  |
| <b>Net interest income by related/non related party</b> | <b>29,983</b>                   | 37,295   |

<sup>1</sup> Negative interest income due to negative rates on underlying central bank placement.

<sup>2</sup> Majority of BMO Group income relates to derivative assets held for risk management including FX and interest rate swaps economically hedging underlying financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Net fee and commission expense

| (US\$ in thousands)                        | Financial Year ended 31 October |                |
|--|---------------------------------|----------------|
|  | 2020                            | 2019           |
| <b>Fee and commission income</b>           |                                 |                |
| Lending fees                               | 1,875                           | 1,468          |
| Broker fees                                | 5,682                           | 1,500          |
| Advisory fees                              | 1,321                           | 831            |
| Service agreements with BMO Group entities | 548                             | 236            |
|  | <b>9,426</b>                    | <b>4,035</b>   |
| <b>Fee and commission expense</b>          |                                 |                |
| Service agreements with BMO Group entities | 9,038                           | 9,609          |
| Securities lending fees                    | 669                             | 1,308          |
| Equity related fees                        | 639                             | 700            |
| Other                                      | 59                              | 43             |
|  | <b>10,405</b>                   | <b>11,660</b>  |
| <b>Net fee and commission expense</b>      | <b>(979)</b>                    | <b>(7,625)</b> |

### 6. Net trading income

| (US\$ in thousands)                         | Financial Year ended 31 October |               |
|---|---------------------------------|---------------|
|   | 2020                            | 2019          |
| Equity swaps                                | 3,611                           | 12,976        |
| Futures                                     | 474                             | 567           |
| Interest rate swaps – hedge ineffectiveness | 221                             | 317           |
| Interest rate swaps                         | (17)                            | 32            |
| Gain on sale of FVOCI debt securities       | 2,145                           | 663           |
| Held for trading debt securities            | 34                              | -             |
| Foreign exchange swaps                      | 552                             | 28            |
| Commodity swaps                             | (156)                           | 974           |
| <b>Net trading income</b>                   | <b>6,864</b>                    | <b>15,557</b> |

### 7. Personnel expenses

| (US\$ in thousands)                                 | Financial Year ended 31 October |               |
|---|---------------------------------|---------------|
|   | 2020                            | 2019          |
| Wages, salaries and other benefits                  | 14,848                          | 10,773        |
| Compulsory social security obligations              | 1,592                           | 716           |
| Contribution to defined contribution pension scheme | 735                             | 425           |
| <b>Total personnel expenses</b>                     | <b>17,175</b>                   | <b>11,914</b> |
| <b>Average number of employees during the year</b>  | <b>63</b>                       | <b>48</b>     |

All of the above are considered to be engaged in the business of banking including the provision of financial services. Pension contributions accrued but not paid at financial year end were US\$ nil in 2020 (2019 US\$ nil). No employee costs are capitalised, details of director remuneration are shown in Note 32.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8. Other operating expenses

| (US\$ in thousands)                   | Financial Year ended 31 October |               |
|---------------------------------------|---------------------------------|---------------|
|                                       | 2020                            | 2019          |
| Information technology costs          | <b>1,787</b>                    | 1,726         |
| Legal and consulting costs            | <b>1,482</b>                    | 3,746         |
| Auditors remuneration <sup>3</sup>    | <b>142</b>                      | 167           |
| Premises related costs                | <b>555</b>                      | 1,047         |
| Other overhead expenses               | <b>6,497</b>                    | 7,930         |
| <b>Total other operating expenses</b> | <b>10,463</b>                   | <b>14,616</b> |

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

### 9. Income tax expense

| (US\$ in thousands)                   | Financial Year ended 31 October |             |
|---------------------------------------|---------------------------------|-------------|
|                                       | 2020                            | 2019        |
| <b>Current tax expense</b>            |                                 |             |
| Current year                          | <b>403</b>                      | 515         |
| Adjustments for prior year            | <b>(18)</b>                     | 144         |
|                                       | <b>385</b>                      | <b>659</b>  |
| <b>Deferred tax (benefit)/expense</b> |                                 |             |
| Temporary differences                 | <b>(42)</b>                     | (18)        |
|                                       | <b>(42)</b>                     | <b>(18)</b> |
| <b>Total income tax expense</b>       | <b>343</b>                      | <b>641</b>  |

The reconciliation of statutory corporation tax to the effective rate on ordinary activities is as follows:

| (US\$ in thousands)                         | Financial Year ended 31 October |              |         |            |
|---|---------------------------------|--------------|---------|------------|
|   |                                 | 2020         |         | 2019       |
| Profit before tax                           |                                 | <b>4,011</b> |         | 13,629     |
| Tax using the domestic corporation tax rate | <b>12.5%</b>                    | <b>594</b>   | 12.5%   | 1,909      |
| Tax exempt income                           | <b>(5%)</b>                     | <b>(191)</b> | (10.2%) | (1,394)    |
| Deferred tax                                | <b>(1.1%)</b>                   | <b>(42)</b>  | (0.1%)  | (18)       |
| Prior year adjustment                       | <b>(0.5%)</b>                   | <b>(18)</b>  | 1.1%    | 144        |
| <b>Provision for income taxes</b>           |                                 | <b>343</b>   |         | <b>641</b> |

<sup>3</sup> Auditors remuneration consists of the audit of the Company's Accounts. Fees paid for audit related services were US\$153,800 in 2020 (2019 US\$123,750) excluding VAT and fees paid for other assurance services, tax advisory services and other non-audit services were US\$ Nil in 2020 (2019 US\$9,900) excluding VAT.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. Income tax expense (continued)

#### Tax recognised in Other Comprehensive Income (US\$ in thousands)

|            | Financial Year ended 31 October |                               |                |                |                               |                |
|------------|---------------------------------|-------------------------------|----------------|----------------|-------------------------------|----------------|
|            | 2020                            |                               |                | 2019           |                               |                |
|            | Before tax                      | Tax<br>(expense)<br>/ benefit | Net of<br>tax  | Before tax     | Tax<br>(expense)<br>/ benefit | Net of<br>tax  |
| Debt       | <b>2,649</b>                    | <b>(331)</b>                  | <b>2,318</b>   | (4,622)        | 578                           | (4,044)        |
| Securities |                                 |                               |                |                |                               |                |
|            | <b>2,649</b>                    | <b>(331)</b>                  | <b>(2,318)</b> | <b>(4,622)</b> | <b>578</b>                    | <b>(4,044)</b> |

### 10. Tax assets and liabilities

#### Recognised deferred tax assets and liabilities

| (US\$ in<br>thousands)    | As at 31 October |              |              |            |             |            |
|---------------------------|------------------|--------------|--------------|------------|-------------|------------|
|                           | 2020             |              |              | 2019       |             |            |
|                           | Assets           | Liabilities  | Net          | Assets     | Liabilities | Net        |
| Property and<br>equipment | <b>92</b>        | -            | <b>92</b>    | 49         | -           | 49         |
| IFRS 9<br>adjustments     | <b>6</b>         | -            | <b>6</b>     | 6          | -           | 6          |
| Securities                | -                | <b>(162)</b> | <b>(162)</b> | 169        | -           | 169        |
|                           | <b>98</b>        | <b>(162)</b> | <b>(64)</b>  | <b>224</b> | <b>-</b>    | <b>224</b> |

#### Current tax assets and liabilities

| (US\$ in<br>thousands)                    | As at 31 October |              |              |              |                |              |
|---|------------------|--------------|--------------|--------------|----------------|--------------|
|   | 2020             |              |              | 2019         |                |              |
|   | Assets           | Liabilities  | Net          | Assets       | Liabilities    | Net          |
| Corporation tax<br>preliminary<br>payment | <b>1,751</b>     | -            | <b>1,751</b> | 3,901        | -              | 3,901        |
| Corporation Tax<br>payable                | -                | <b>(985)</b> | <b>(985)</b> | -            | (1,476)        | (1,476)      |
|   | <b>1,751</b>     | <b>(985)</b> | <b>766</b>   | <b>3,901</b> | <b>(1,476)</b> | <b>2,425</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. Cash and balances with central banks

| (US\$ in thousands)   | As at 31 October        |                         |
|---|-------------------------|-------------------------|
|   | 2020                    | 2019                    |
| Balances with Central Banks other than mandatory reverse deposits | <b>2,147,498</b>        | 3,398,147               |
| Reserve requirement <sup>4</sup>                                  | <b>13,807</b>           | 23,072                  |
| <b>Cash and balances with central banks</b>                       | <b><u>2,161,305</u></b> | <b><u>3,421,219</u></b> |

### 12. Derivative assets

| (US\$ in thousands)                      | As at 31 October     |                      |
|--|----------------------|----------------------|
|  | 2020                 | 2019                 |
| Interest rate swaps – fair value hedging | <b>1,398</b>         | 681                  |
| Interest rate swaps                      | <b>5,903</b>         | 5,141                |
| FX swaps                                 | <b>75,956</b>        | 6,388                |
| Equity swaps                             | -                    | 2,005                |
| Cross currency swaps                     | <b>2,483</b>         | 35,121               |
| Commodity swaps                          | <b>6,339</b>         | 9,167                |
| <b>Total derivative assets</b>           | <b><u>92,079</u></b> | <b><u>58,503</u></b> |

### 13. Loans and advances to banks

| (US\$ in thousands)                   | As at 31 October        |                         |
|---------------------------------------|-------------------------|-------------------------|
|                                       | 2020                    | 2019                    |
| <b>Loans and advances to banks</b>    | <b>1,590,582</b>        | 2,126,292               |
| Of which: securities lending          | <b>1,526,498</b>        | 2,079,820               |
| Of which: reverse repo                | <b>47,197</b>           | -                       |
| <b>Remaining contractual maturity</b> |                         |                         |
| 1 to 3 months                         | <b>1,219,976</b>        | 1,000,000               |
| Less than 1 month                     | <b>370,606</b>          | 1,126,292               |
|                                       | <b><u>1,590,582</u></b> | <b><u>2,126,292</u></b> |
| <b>Geographical split</b>             |                         |                         |
| Ireland                               | <b>133</b>              | 242                     |
| Europe other than Ireland             | <b>1,582,008</b>        | 2,094,472               |
| Rest of world                         | <b>8,441</b>            | 31,578                  |
|                                       | <b><u>1,590,582</u></b> | <b><u>2,126,292</u></b> |

There were no assets past due but not impaired and no assets impaired in 2020 and 2019. The carrying value on these loans represents the maximum exposure to credit risk on these assets.

<sup>4</sup> Mandatory reserve deposits with the Central Bank of Ireland.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14. Loans and advances to customers

| (US\$ in thousands)                               | As at 31 October |                  |
|---|------------------|------------------|
|   | 2020             | 2019             |
| Loans and advances to customers at amortised cost | <b>2,475,586</b> | <b>1,390,947</b> |

| (US\$ in thousands)         | As at 31 October |                                   |                  |                  |                      |                  |
|-----------------------------|------------------|-----------------------------------|------------------|------------------|----------------------|------------------|
|                             | 2020             |                                   | 2019             |                  |                      |                  |
|                             | Gross amount     | Impairment allowance <sup>5</sup> | Carrying amount  | Gross amount     | Impairment allowance | Carrying amount  |
| <b>Corporate customers:</b> |                  |                                   |                  |                  |                      |                  |
| Secured lending             | <b>2,199,832</b> | <b>(44)</b>                       | <b>2,199,788</b> | 1,160,045        | (2)                  | 1,160,043        |
| Other lending               | <b>282,848</b>   | <b>(7,050)</b>                    | <b>275,798</b>   | 235,453          | (4,549)              | 230,904          |
|                             | <b>2,482,680</b> | <b>(7,094)</b>                    | <b>2,475,586</b> | <b>1,395,498</b> | <b>(4,551)</b>       | <b>1,390,947</b> |

| (US\$ in thousands)                   | As at 31 October |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2020             | 2019             |
| <b>Remaining contractual maturity</b> |                  |                  |
| 3 months to 1 year                    | <b>59,511</b>    | 71,103           |
| 1 to 3 months                         | <b>1,721,578</b> | 171,338          |
| Less than 1 month                     | <b>694,497</b>   | 1,148,506        |
|                                       | <b>2,475,586</b> | <b>1,390,947</b> |
| <b>Geographical split</b>             |                  |                  |
| Ireland                               | <b>194,012</b>   | 197,733          |
| Europe other than Ireland             | <b>1,184,196</b> | 757,818          |
| Rest of world                         | <b>1,097,378</b> | 435,396          |
|                                       | <b>2,475,586</b> | <b>1,390,947</b> |

The gross amount on these loans represents the maximum exposure to credit risk on these assets. Additional detail with regard to the credit quality of loans and advances to customers is included in the Credit Risk section of Note 26.

<sup>5</sup> Further detail in Credit Risk section of Note 26.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15. Debt securities

| (US\$ in thousands)                      | As at 31 October |                  |
|--|------------------|------------------|
|  | 2020             | 2019             |
| <b>Debt securities, of which:</b>        |                  |                  |
| FVOCI securities                         | 3,030,741        | 2,080,535        |
| FVTPL securities                         | 365,930          | -                |
| <b>Total debt securities</b>             | <b>3,396,671</b> | <b>2,080,535</b> |
| <br>                                     |                  |                  |
| <b>FVOCI securities</b>                  |                  |                  |
| Government bonds                         | 601,828          | 21,621           |
| Public sector entities                   | 575,982          | 516,056          |
| Bank bonds carrying government guarantee | 160,756          | 172,466          |
| Multilateral development bank bonds      | 1,177,767        | 918,078          |
| Bank bonds                               | 471,732          | 452,314          |
| Covered bonds                            | 17,775           | -                |
| Corporate bonds                          | 24,901           | -                |
|  | <b>3,030,741</b> | <b>2,080,535</b> |
| <br>                                     |                  |                  |
| <b>Remaining contractual maturity</b>    |                  |                  |
| Greater than 5 years                     | 275,065          | -                |
| 1 to 5 years                             | 2,073,635        | 1,980,113        |
| 3 months to 1 year                       | 505,153          | 50,336           |
| 1 month to 3 months                      | 166,282          | 50,086           |
| Up to 1 month                            | 10,606           | -                |
|  | <b>3,030,741</b> | <b>2,080,535</b> |
| <br>                                     |                  |                  |
| Securities unencumbered                  | 2,389,285        | 1,946,589        |
| Securities pledged as collateral         | 641,456          | 133,946          |
|  | <b>3,030,741</b> | <b>2,080,535</b> |
| <br>                                     |                  |                  |
| <b>FVTPL securities</b>                  |                  |                  |
| Government bonds                         | 296,245          | -                |
| Public sector entities                   | 14,761           | -                |
| Multilateral development bank bonds      | 39,922           | -                |
| Bank bonds                               | 15,002           | -                |
|  | <b>365,930</b>   | <b>-</b>         |
| <br>                                     |                  |                  |
| <b>Remaining contractual maturity</b>    |                  |                  |
| Greater than 5 years                     | 69,685           | -                |
| 3 months to 1 year                       | 243,691          | -                |
| 1 month to 3 months                      | 52,554           | -                |
|  | <b>365,930</b>   | <b>-</b>         |
| <br>                                     |                  |                  |
| Securities unencumbered                  | 256,548          | -                |
| Securities pledged as collateral         | 109,382          | -                |
|  | <b>365,930</b>   | <b>-</b>         |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 16. Trading equities

| (US\$ in thousands)          | As at 31 October |                |
|------------------------------|------------------|----------------|
|                              | 2020             | 2019           |
| Long positions held - equity | <u>-</u>         | <u>544,378</u> |

### 17. Other assets

| (US\$ in thousands)                | As at 31 October     |               |
|------------------------------------|----------------------|---------------|
|                                    | 2020                 | 2019          |
| Accounts prepaid                   | <b>18,016</b>        | 6,672         |
| Securities lending fees receivable | <b>2,709</b>         | 5,140         |
| Intercompany receivables           | <b>3,451</b>         | 723           |
| Loan fee receivables               | <b>141</b>           | 55            |
| <b>Total other assets</b>          | <u><b>24,317</b></u> | <u>12,590</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. Property and equipment

| (US\$ in thousands)                       | Fixtures<br>and<br>fittings | Computers<br>and other<br>equipment | Right<br>of use<br>Asset | Total               |
|---|-----------------------------|-------------------------------------|--------------------------|---------------------|
| <b>Cost</b>                               |                             |                                     |                          |                     |
| As at 1 November 2018                     | 725                         | 1,492                               | -                        | 2,217               |
| Additions                                 | -                           | 695                                 | -                        | 695                 |
| Disposals                                 | -                           | -                                   | -                        | -                   |
| Exchange translation adjustment           | (10)                        | (23)                                | -                        | (33)                |
| As at 31 October 2019                     | <u>715</u>                  | <u>2,164</u>                        | <u>-</u>                 | <u>2,879</u>        |
| <b>Cost</b>                               |                             |                                     |                          |                     |
| As at 1 November 2019                     | <b>715</b>                  | <b>2,164</b>                        | <b>-</b>                 | <b>2,879</b>        |
| Impact from adopting IFRS 16 <sup>6</sup> | -                           | -                                   | <b>5,750</b>             | <b>5,750</b>        |
| Additions / lease modifications           | <b>212</b>                  | <b>637</b>                          | <b>34</b>                | <b>883</b>          |
| Disposals                                 | -                           | -                                   | -                        | -                   |
| Exchange translation adjustment           | <b>32</b>                   | <b>96</b>                           | <b>258</b>               | <b>386</b>          |
| As at 31 October 2020                     | <u><b>959</b></u>           | <u><b>2,897</b></u>                 | <u><b>6,042</b></u>      | <u><b>9,898</b></u> |
| <b>Accumulated depreciation</b>           |                             |                                     |                          |                     |
| As at 1 November 2018                     | 352                         | 748                                 | -                        | 1,100               |
| Disposals                                 | -                           | -                                   | -                        | -                   |
| Charge for the financial year             | 48                          | 396                                 | -                        | 444                 |
| Exchange translation adjustment           | (6)                         | (12)                                | -                        | (18)                |
| As at 31 October 2019                     | <u>394</u>                  | <u>1,132</u>                        | <u>-</u>                 | <u>1,526</u>        |
| <b>Accumulated depreciation</b>           |                             |                                     |                          |                     |
| As at 1 November 2019                     | <b>394</b>                  | <b>1,132</b>                        | <b>-</b>                 | <b>1,526</b>        |
| Disposals                                 | -                           | -                                   | -                        | -                   |
| Charge for the financial year             | <b>96</b>                   | <b>641</b>                          | <b>551</b>               | <b>1,288</b>        |
| Exchange translation adjustment           | <b>21</b>                   | <b>111</b>                          | <b>16</b>                | <b>148</b>          |
| As at 31 October 2020                     | <u><b>511</b></u>           | <u><b>1,884</b></u>                 | <u><b>567</b></u>        | <u><b>2,962</b></u> |
| Net Book Value 31 October 2019            | <u>321</u>                  | <u>1,032</u>                        | <u>-</u>                 | <u>1,353</u>        |
| <b>Net Book Value 31 October 2020</b>     | <u><b>448</b></u>           | <u><b>1,013</b></u>                 | <u><b>5,475</b></u>      | <u><b>6,936</b></u> |

<sup>6</sup> Effective 1 November 2019, the Company adopted IFRS 16 Leases.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 19. Securities sold but not yet purchased

| (US\$ in thousands)                                | As at 31 October |                |
|--|------------------|----------------|
|  | 2020             | 2019           |
| Short positions held – equity                      | 861,775          | 846,736        |
| Short positions held – debt securities             | 69,677           | -              |
| <b>Total securities sold but not yet purchased</b> | <b>931,452</b>   | <b>846,736</b> |

Securities sold but not yet purchased represent the Company's obligations to deliver securities that the Company did not own at the time of sale. These obligations are recorded at their fair value. Adjustments to the fair value as at the Statement of Financial Position date and gains and losses on the settlement of these obligations are recorded in trading revenues in the Statement of Comprehensive Income.

### 20. Derivative liabilities<sup>7</sup>

| (US\$ in thousands)                      | As at 31 October |                |
|--|------------------|----------------|
|  | 2020             | 2019           |
| Interest rate swaps – fair value hedging | 80,840           | 50,766         |
| Interest rate swaps                      | 5,345            | 4,443          |
| Equity swaps                             | 27,011           | 67,116         |
| Cross currency swaps                     | 60,102           | 15,198         |
| Cross currency swaps - hedging           | 674              | -              |
| Foreign exchange forwards                | 58,123           | 32,592         |
| Commodity swaps                          | 5,527            | 8,186          |
| Futures                                  | 1,831            | -              |
| <b>Total derivative liabilities</b>      | <b>239,453</b>   | <b>178,301</b> |

### 21. Deposits from banks

| (US\$ in thousands)                     | As at 31 October |                  |
|---|------------------|------------------|
|   | 2020             | 2019             |
| Deposits from other BMO Group Companies | 1,540,951        | 1,563,719        |
| Deposits from Banks                     | 12,024           | -                |
| <b>Total deposits from banks</b>        | <b>1,552,975</b> | <b>1,563,719</b> |
| <b>Remaining contractual maturity</b>   |                  |                  |
| 1 to 5 years                            | 200,007          | 200,024          |
| 3 months to 1 year                      | 793,676          | 1,300,135        |
| 1 to 3 months                           | 352,526          | -                |
| Less than 1 month                       | 206,766          | 63,560           |
|   | <b>1,552,975</b> | <b>1,563,719</b> |
| <b>Geographical split</b>               |                  |                  |
| Ireland                                 | -                | -                |
| Europe other than Ireland               | 1,307,169        | 22,458           |
| Rest of world                           | 245,806          | 1,541,261        |
|   | <b>1,552,975</b> | <b>1,563,719</b> |

<sup>7</sup> All derivatives with the exception of Interest rate swaps – fair value hedging are used for the purposes of economic hedges.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 22. Deposit from customers

| (US\$ in thousands)                     | As at 31 October |                |
|---|------------------|----------------|
|   | 2020             | 2019           |
| Deposits from other BMO Group Companies | 123,534          | 152,590        |
| Remaining contractual maturity          |                  |                |
| 1 to 3 months                           | 74,603           | -              |
| Less than 1 month                       | 48,931           | 152,590        |
|   | <u>123,534</u>   | <u>152,590</u> |
| Geographical split                      |                  |                |
| Ireland                                 | 16,739           | 15,766         |
| Europe other than Ireland               | 106,795          | 136,824        |
|   | <u>123,534</u>   | <u>152,590</u> |

### 23. Debt securities in issue

| (US\$ in thousands)      | As at 31 October |                  |
|--------------------------|------------------|------------------|
|                          | 2020             | 2019             |
| Debt securities in issue | <u>6,007,391</u> | <u>6,083,809</u> |

All of the above debt securities were issued by the Company under a Canadian Dollar ("CAD") 8 billion programme for the issue of unsecured notes. The program is for a term of 10 years, beginning 31 March 2016. Debt securities in issue comprise eight notes in aggregate. The debt securities in issue from the program are listed on The International Stock Exchange "TISE". Interest expense on debt securities in issue as set out in Note 4 is based upon the effective US\$ cost of the programme following conversion from CAD to US\$ using cross currency swaps.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. Other liabilities

| (US\$ in thousands)  | As at 31 October |               |
|--|------------------|---------------|
|  | 2020             | 2019          |
| Accounts payable   | 88,436           | 19,684        |
| Other  | 5,555            | 6,026         |
| Lease liabilities  | 5,476            | -             |
| Allowance for credit losses on off-balance sheet exposures | 512              | 195           |
| <b>Total other liabilities</b>                             | <b>99,979</b>    | <b>25,905</b> |

Beginning 1 November 2019, when the Company enters into leases it records lease liabilities representing the present value of future lease payments over the lease term. Interest expense on lease liabilities for the year ended 31 October 2020 was US\$117,675. Total cash outflow for leases for the year ended 31 October 2020 was US\$580,120. Variable lease payments (for example maintenance, utilities and property taxes) not included in the measurement of lease liabilities for the year ended 31 October 2020 was US\$211,270. IFRS 16 was adopted on 1 November 2019, prior period amounts are not applicable.

The maturity profile for our undiscounted lease liabilities for each of the next five years and thereafter are US\$643,600 for 2021, US\$643,600 for 2022, US\$605,400 for 2023, US\$643,600 for 2024 and US\$3,520,100 for 2025 and thereafter.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

#### (US\$ in thousands)

|   |              |
|---|--------------|
| <b>As at 1 November 2019 – effect of adoption of IFRS 16 (Note 3)</b> | <b>5,648</b> |
| Additions   | 34           |
| Accretion of interest   | 118          |
| Payments  | (580)        |
| Exchange translation adjustment                                       | 256          |
| <b>As at 31 October 2020</b>  | <b>5,476</b> |

### 25. Share capital

| (Number)  | As at 31 October |               |
|---|------------------|---------------|
|   | 2020             | 2019          |
| <b>Authorised</b>                                   |                  |               |
| Ordinary shares of €1.25 each                       | 30,000           | 30,000        |
| Ordinary shares of US\$1 each                       | 50,000,000       | 50,000,000    |
| <b>(US\$ in thousands)</b>                          |                  |               |
| <b>Issued</b>                                       |                  |               |
| 30,000 fully paid ordinary shares of €1.25 each     | 44               | 42            |
| 10,007,040 fully paid ordinary shares of US\$1 each | 10,007           | 10,007        |
| <b>Total share capital</b>                          | <b>10,051</b>    | <b>10,049</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management

The Company's Risk Management Framework defines how risks faced by the Company are managed, and where appropriate, leverages off the BMO Group's approach to the identification, measurement, monitoring and management of risks.

The Risk and Capital Committee ("RCC") of the Board of Directors is responsible for assisting the Board of Directors in fulfilling its responsibilities for oversight of the Company's risk management framework, including the policies and processes used to manage credit, market, capital management, funding and liquidity, operational and other relevant risks; and the Company's management of these risks. The RCC also advises the Board of Directors on the Company's risk appetite for future strategy (taking account of the Company's overall risk appetite), the Company's current capital position and the Company's capacity to manage and control risks within the agreed strategy.

The Risk Management Committee ("RMC") is the Company's risk management committee accountable for oversight and governance of risk impacting the Company, including the major risk categories, credit, market, liquidity, operational and business risk. The RCC approves the mandate of the Company's risk management function. The RMC supports the RCC in fulfilling its responsibilities as set out in the RCC charter. The RMC accomplishes this by ensuring that material risks arising from the Company's operations are appropriately identified, managed, measured, monitored and reported. The RMC meets at least ten times a year according to its mandate and the RCC meets on a quarterly basis. The Chief Risk Officer ("CRO") of the Company or delegate is the Chair of the RMC. The participants of the RMC include senior management who receive regular reports from the CRO and their risk management colleagues.

Risk Management is sufficiently independent to challenge decisions that affect the Company's exposure to risk. The CRO leads the Company's Risk Management Team and reports directly to the Company's Chief Executive Officer and functionally to the BMO Group CRO EMEA. The CRO has frequent, direct and independent access to the RCC and the Chair of the Board and is a member of all management committees.

The Company's Risk Register includes the following risk types:

- a) Market Risk;
- b) Credit Risk;
- c) Credit Concentration Risk;
- d) Funding & Liquidity Risk;
- e) Currency Risk;
- f) Operational Risk;
- g) Interest Rate Risk in the Banking Book ("IRRBB") including Credit Spread Risk in the Banking Book ("CSRBB");
- h) Governance Risk;
- i) Conduct Risk;
- j) Business & Strategic Risk;
- k) Reputational Risk;
- l) Climate Change Risk;
- m) Excess Leverage Risk; and
- n) Concentration Risk (excluding Credit Concentration Risk)

The Company has actively managed the risks associated with COVID-19 across all the lines of business and has experienced no loss of service to its customers during the pandemic. The Company has demonstrated strong operational resiliency and its Risk Management Framework and stress testing assumptions have proven to be robust and its capital and liquidity adequacy more than adequate.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

The Company's risk appetite is reviewed at least annually by the RMC and submitted to the RCC who review it and recommend it for approval to the Board of Directors. This is done alongside the strategic planning process through which a three-year strategy is produced. The Company establishes its own risk appetite. The risk appetite framework consists of the Risk Appetite Statement, as well as key risk metrics, policies, limits and controls through which risk appetite is established, communicated and monitored. The Board of Directors holds the final responsibility for approval of the Risk Appetite Statement. Compliance with the Risk Appetite Statement is monitored by regular reporting to the RMC and RCC.

The Risk Appetite Statement includes:

- Key Strategic Goals;
- Guiding Principles;
- Risk appetite qualitative statement; and
- Risk Metrics and Limits (three-year horizon).

The Internal Capital Adequacy Assessment Process ("ICAAP") further integrates the evaluation of the Company's capital adequacy with the associated capital targets and capital strategies, while taking into consideration strategic direction and risk appetite.

The ongoing assessment of the Company's liquidity and funding position against regulatory requirements and internal limits through the Internal Liquidity Adequacy Assessment Process ("ILAAP") demonstrates that the Company is able to determine and maintain the level of liquidity required to support its strategic objectives, considering the risks it is exposed to under normal and stressed conditions.

Compliance with the Company's standards is supported by a program of periodic reviews undertaken by the Corporate Audit Division. The results of the Corporate Audit Division reviews are discussed with the Board of Directors, the Audit and Compliance Committee and with senior management in the Company and in the BMO Group.

The Board of Directors considers the risk management systems in place to be adequate in regard to the Company's risk profile, tolerances and strategy.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### a) Market Risk

Market risk is the potential for on and off-balance sheet exposures to cause losses due to adverse changes in the underlying variables of interest, foreign exchange, equity, commodity, and credit market factors.

The Company incurs Market Risk in its trading activities. As part of the Company's risk management framework, the Company applies extensive governance and management processes to its market risk-taking activities. The Board sets the Company's overall Risk Appetite with respect to Market Risk in terms of acceptable levels of 'Value-at-Risk' (VaR) on the Risk Appetite Statement (RAS). The RAS limits cascade down to individual Line of Business limits, which are authorised by the CRO.

The Company has a framework within which Market Risk is managed to ensure that all risks associated with all business activities are identified, managed, measured, monitored and reported. Market Risk within the Company is measured on a transaction, portfolio and also on a line of business basis with information provided to senior management on a daily, weekly and monthly basis. Key market risks identified for the Company include general interest rate risk, equity specific risk, foreign exchange risk and traded credit risk.

The Company uses VaR as the primary mechanism for monitoring market risk for trading activities that include portfolios that are marked to market daily. VaR is the potential loss in value of the Company's trading positions, which might arise due to adverse movements in markets over a defined time horizon with a certain confidence level.

VaR is measured for specific classes of risk in trading activities: interest rate, foreign exchange rate, equity, commodity and credit, whenever applicable. VaR is computed using the BMO Group Value at Risk model. The model determines a 1-day VaR based on a 99% confidence level, which is used for day-to-day market risk management, monitoring and reporting. During F2020, the minimum VaR was US\$958,849 (2019: US\$852,477) and the maximum was US\$2,532,302 (2019: US\$1,441,617). The VaR at 31 October 2020 was US\$2,156,030 (31 October 2019: US\$1,202,998).

The Company receives Market Risk reports on a daily basis that are internally approved model-based results. However, the Company uses the Standardised Approach for the determination and reporting of Pillar 1 Market Risk Capital.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

The following table summarises the interest rate exposure of assets and liabilities of the Company grouped into time buckets.

| Interest Rate Sensitivity Gap Analysis as at 31 October 2020 |                  |                  |                  |                    |                   |  |                  |
|--|------------------|------------------|------------------|--------------------|-------------------|--|------------------|
| (US\$ in thousands)  | 0-3 months       | 3-6 months       | 6-12 months      | 1-5 years          | More than 5 years | No exposure to interest rate sensitivity | Carrying amount  |
| <b>Assets</b>  |                  |                  |                  |                    |                   |  |                  |
| Cash and balances with central banks                         | 2,161,305        | -                | -                | -                  | -                 | -  | 2,161,305        |
| Debt securities  | 277,624          | 137,202          | 66,413           | 1,889,506          | 278,131           | 747,795                                  | 3,396,671        |
| Derivative assets  | -                | -                | -                | -                  | -                 | 92,079                                   | 92,079           |
| Trading equities   | -                | -                | -                | -                  | -                 | -  | -                |
| Loans and advances to banks                                  | 1,590,582        | -                | -                | -                  | -                 | -  | 1,590,582        |
| Loans and advances to customers                              | 2,416,075        | -                | 59,511           | -                  | -                 | -  | 2,475,586        |
| Current tax assets   | -                | -                | -                | -                  | -                 | 1,751                                    | 1,751            |
| Deferred tax   | -                | -                | -                | -                  | -                 | 98                                       | 98               |
| Property and equipment                                       | -                | -                | -                | -                  | -                 | 6,936                                    | 6,936            |
| Other assets   | -                | -                | -                | -                  | -                 | 24,317                                   | 24,317           |
| <b>Total Assets</b>  | <b>6,445,586</b> | <b>137,202</b>   | <b>125,924</b>   | <b>1,889,506</b>   | <b>278,131</b>    | <b>872,976</b>                           | <b>9,749,325</b> |
| <b>Liabilities and equity</b>                                |                  |                  |                  |                    |                   |  |                  |
| Securities sold but not yet purchased                        | -                | -                | -                | -                  | -                 | 931,452                                  | 931,452          |
| Derivative liabilities                                       | -                | -                | -                | -                  | -                 | 239,453                                  | 239,453          |
| Deposits from banks  | 559,292          | -                | 793,676          | 200,007            | -                 | -  | 1,552,975        |
| Deposits from customers                                      | 123,534          | -                | -                | -                  | -                 | -  | 123,534          |
| Debt securities in issue                                     | 6,007,391        | -                | -                | -                  | -                 | -  | 6,007,391        |
| Current tax liabilities                                      | -                | -                | -                | -                  | -                 | 985                                      | 985              |
| Deferred tax liabilities                                     | -                | -                | -                | -                  | -                 | 162                                      | 162              |
| Other liabilities  | -                | -                | -                | -                  | -                 | 99,979                                   | 99,979           |
| Equity   | -                | -                | -                | -                  | -                 | 793,394                                  | 793,394          |
| <b>Total liabilities and equity</b>                          | <b>6,690,217</b> | <b>-</b>         | <b>793,676</b>   | <b>200,007</b>     | <b>-</b>          | <b>2,065,425</b>                         | <b>9,749,325</b> |
| <b>Off balance sheet items</b>                               | <b>2,064,138</b> | <b>20,240</b>    | <b>(64,774)</b>  | <b>(1,779,279)</b> | <b>(240,235)</b>  | <b>-</b>                                 | <b>-</b>         |
| <b>Interest rate sensitivity gap</b>                         | <b>1,819,507</b> | <b>157,442</b>   | <b>(732,526)</b> | <b>(89,780)</b>    | <b>37,806</b>     | <b>(1,192,449)</b>                       | <b>-</b>         |
| <b>Cumulative gap</b>  | <b>1,819,507</b> | <b>1,976,949</b> | <b>1,244,423</b> | <b>1,154,643</b>   | <b>1,192,449</b>  | <b>-</b>                                 | <b>-</b>         |

Assuming the financial assets and liabilities at 31 October 2020 were to remain until maturity or settlement without any action by the Company to alter the resulting interest rate risk exposure, an immediate and sustained increase / decrease of 1% in market interest rates across all maturities would increase / decrease net income for the following year by approximately US\$7.2 million (31 October 2019: US\$8.8 million).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### Interest Rate Sensitivity Gap Analysis as at 31 October 2019

| (US\$ in thousands)                   | 0-3 months       | 3-6 months       | 6-12 months        | 1-5 years        | More than 5 years | No exposure to interest rate sensitivity | Carrying amount  |
|---------------------------------------|------------------|------------------|--------------------|------------------|-------------------|--|------------------|
| <b>Assets</b>                         |                  |                  |                    |                  |                   |  |                  |
| Cash and balances with central banks  | 3,421,219        | -                | -                  | -                | -                 | -  | 3,421,219        |
| Debt securities                       | 275,830          | 30,403           | 19,933             | 1,754,369        | -                 | -  | 2,080,535        |
| Derivative assets                     | -                | -                | -                  | -                | -                 | 58,503                                   | 58,503           |
| Trading equities                      | -                | -                | -                  | -                | -                 | 544,378                                  | 544,378          |
| Loans and advances to banks           | 2,126,292        | -                | -                  | -                | -                 | -  | 2,126,292        |
| Loans and advances to customers       | 1,319,844        | -                | 71,103             | -                | -                 | -  | 1,390,947        |
| Current tax assets                    | -                | -                | -                  | -                | -                 | 3,901                                    | 3,901            |
| Deferred tax                          | -                | -                | -                  | -                | -                 | 224                                      | 224              |
| Property and equipment                | -                | -                | -                  | -                | -                 | 1,353                                    | 1,353            |
| Other assets                          | -                | -                | -                  | -                | -                 | 12,590                                   | 12,590           |
| <b>Total Assets</b>                   | <b>7,143,185</b> | <b>30,403</b>    | <b>91,036</b>      | <b>1,754,369</b> | <b>-</b>          | <b>620,949</b>                           | <b>9,639,942</b> |
| <b>Liabilities and equity</b>         |                  |                  |                    |                  |                   |  |                  |
| Securities sold but not yet purchased | -                | -                | -                  | -                | -                 | 846,736                                  | 846,736          |
| Derivative liabilities                | -                | -                | -                  | -                | -                 | 178,301                                  | 178,301          |
| Deposits from banks                   | 63,560           | -                | 1,300,135          | 200,024          | -                 | -  | 1,563,719        |
| Deposits from customers               | 152,590          | -                | -                  | -                | -                 | -  | 152,590          |
| Debt securities in issue              | 6,083,809        | -                | -                  | -                | -                 | -  | 6,083,809        |
| Current tax liabilities               | -                | -                | -                  | -                | -                 | 1,476                                    | 1,476            |
| Deferred tax liabilities              | -                | -                | -                  | -                | -                 | -  | -                |
| Other liabilities                     | -                | -                | -                  | -                | -                 | 25,905                                   | 25,905           |
| Equity                                | -                | -                | -                  | -                | -                 | 787,406                                  | 787,406          |
| <b>Total liabilities and equity</b>   | <b>6,299,959</b> | <b>-</b>         | <b>1,300,135</b>   | <b>200,024</b>   | <b>-</b>          | <b>1,839,824</b>                         | <b>9,639,942</b> |
| Off balance sheet items               | 1,744,332        | (30,384)         | (20,000)           | (1,693,948)      | -                 | -  | -                |
| <b>Interest rate sensitivity gap</b>  | <b>2,587,558</b> | <b>19</b>        | <b>(1,229,099)</b> | <b>(139,603)</b> | <b>-</b>          | <b>(1,218,875)</b>                       | <b>-</b>         |
| <b>Cumulative gap</b>                 | <b>2,587,558</b> | <b>2,587,577</b> | <b>1,358,478</b>   | <b>1,218,875</b> | <b>1,218,875</b>  | <b>-</b>                                 | <b>-</b>         |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### b) Credit Risk

Credit Risk is the potential for loss due to the failure of a borrower, endorser, guarantor, obligor or counterparty to repay a loan or honour another pre-determined financial obligation (also known as counterparty risk). The definition also includes Credit Valuation Adjustment ("CVA") which covers losses from derivatives mark-to market. Sub-categories of Credit Risk include but are not limited to Country Risk, Loan Loss Risk, Replacement Risk and Settlement Risk.

The Company incurs credit risk within its Corporate Banking business via loans (including capital markets products such as derivatives and in its holding of investment securities) and within Trading Products via bonds, derivatives, repos and securities financing. Operating practices include the on-going monitoring of credit risk exposures, regular portfolio reviews and reporting to the Board of Directors and senior management committees. Credit limits are assigned to each entity and connection based on the credit assessment and decision process. Credit Risk assessments and decisions must be undertaken by credit qualified employees within delegated limits, in a manner that is independent and objective and with consideration for the Company's risk appetite and risk return objectives.

As is market standard for financial institutions the Company has entered into a number of collateral agreements (Credit Support Agreement ("CSA")) with derivative counterparties under International Swaps and Derivatives Association ("ISDA") documentation. The Company has also entered into a number of GMSLAs in relation to securities lending. The Company revalues all collateral, governed under a CSA, Global Master Repurchase Agreement ("GMRA") or GMSLA on a daily basis.

Each of the CSAs specifies minimum threshold amounts of collateral to be posted by one entity to the other. Many of the thresholds will vary depending on the entity's external credit rating or ratings. This means that if an entity's credit rating rises some of the thresholds may increase. Conversely if an entity's credit rating is downgraded some of the thresholds may decrease. The extent of such an adjustment is explicitly stated in the CSA with the contracted entity. The impact of a rating downgrade would not be material in relation to the financial position of the Company.

Wrong Way Risk ("WWR") is a type of Replacement Risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. With respect to Replacement Risk, wrong-way risk occurs when the market rate factors underlying the Company's exposure to the counterparty, result in an increased exposure to the counterparty at the same time the counterparty's Probability of Default increases. Specific WWR arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty, due to the nature of the transactions with the counterparty. General WWR arises where the credit quality of the counterparty may, for non-specific reasons, correlate with a macroeconomic factor which also affects the value of the Company's exposure. The Company has mitigated its exposure to WWR through collateral agreements where appropriate.

Credit Risk activities are undertaken in alignment with the Company's Risk Management Framework and operate under the three-lines-of-defence operating model. The Company has a framework within which Credit Risk is managed to ensure that risks associated with its business activities are identified, managed, measured, monitored and reported. The RMC, RCC, along with the Board of Directors, has overall responsibility for the credit process. Credit Risk is measured on an entity/connection/portfolio and country of risk basis. Each entity/connection/country has an approved credit limit and the exposure against this limit is monitored regularly. The Company reviews its limits, at least annually, with each entity/connection, and approves triggers which are monitored on an ongoing basis for credit deterioration. Policy limits are reviewed, at least, annually. Credit risk is also monitored regularly under IFRS 9 for any significant increase in credit risk or impairment of credit exposures.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### Credit Rating Analysis as at 31 October 2020

The assets in the following tables are broken down by credit exposure, based on Standard & Poor's rating agency credit ratings:

(US\$ in thousands)

| Assets  | AAA              | AA+ to AA-     | A+ to A-         | BBB+ to BBB-   | BB+ to BB-     | B+ to B-     | Unrated        | Total            |
|---|------------------|----------------|------------------|----------------|----------------|--------------|----------------|------------------|
| Cash and balances with central banks                    | 2,147,514        | 13,791         | -                | -              | -              | -            | -              | 2,161,305        |
| Debt securities; <i>of which:</i>                       | 2,115,441        | 938,635        | 342,595          | -              | -              | -            | -              | 3,396,671        |
| <i>Government bonds</i>                                 | 273,382          | 328,446        | 296,245          | -              | -              | -            | -              | 898,073          |
| <i>Public Sector entities</i>                           | 224,909          | 365,834        | -                | -              | -              | -            | -              | 590,743          |
| <i>Bank bonds carrying government guarantee</i>         | 107,618          | 53,138         | -                | -              | -              | -            | -              | 160,756          |
| <i>Multilateral development bank bonds</i>              | 1,171,445        | 46,244         | -                | -              | -              | -            | -              | 1,217,689        |
| <i>Bank bonds</i>                                       | 338,087          | 102,297        | 46,350           | -              | -              | -            | -              | 486,734          |
| <i>Covered bonds</i>                                    | -                | 17,775         | -                | -              | -              | -            | -              | 17,775           |
| <i>Corporate bonds</i>                                  | -                | 24,901         | -                | -              | -              | -            | -              | 24,901           |
| Loans and advances to banks                             | -                | 2,706          | 1,437,878        | 149,998        | -              | -            | -              | 1,590,582        |
| Loans and advances to customers                         | -                | -              | 1,423,380        | 599,999        | 176,401        | -            | 275,806        | 2,475,586        |
| Derivative assets                                       | -                | -              | 86,177           | 2,340          | -              | -            | 3,562          | 92,079           |
| Held for trading equities                               | -                | -              | -                | -              | -              | -            | -              | -                |
| Current tax assets                                      | -                | -              | -                | -              | -              | -            | 1,751          | 1,751            |
| Deferred tax assets                                     | -                | -              | -                | -              | -              | -            | 98             | 98               |
| Other assets  | -                | -              | -                | -              | -              | -            | 24,317         | 24,317           |
| Property and equipment                                  | -                | -              | -                | -              | -              | -            | 6,936          | 6,936            |
| <b>Total Assets</b>                                     | <b>4,262,955</b> | <b>955,132</b> | <b>3,290,030</b> | <b>752,337</b> | <b>176,401</b> | <b>-</b>     | <b>312,470</b> | <b>9,749,325</b> |
| <b>Committed lending &amp; undrawn facilities</b>       |                  |                |                  |                |                |              |                |                  |
| Loans and advances to banks                             | -                | 50,000         | -                | -              | -              | -            | -              | 50,000           |
| Loans and advances to customers                         | -                | -              | -                | 61,139         | 69,873         | 5,000        | 461,927        | 597,939          |
| <b>Total Committed lending &amp; undrawn facilities</b> | <b>-</b>         | <b>50,000</b>  | <b>-</b>         | <b>61,139</b>  | <b>69,873</b>  | <b>5,000</b> | <b>461,927</b> | <b>647,939</b>   |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

Credit Rating Analysis as at 31 October 2019

(US\$ in thousands)

| Assets  | AAA              | AA+ to AA-     | A+ to A-         | BBB+ to BBB-   | BB+ to BB-     | B+ to B- | Unrated          | Total            |
|---|------------------|----------------|------------------|----------------|----------------|----------|------------------|------------------|
| Cash and balances with central banks                    | 3,259,716        | -              | 161,503          | -              | -              | -        | -                | 3,421,219        |
| Debt securities; <i>of which:</i>                       | 1,647,323        | 376,407        | 56,805           | -              | -              | -        | -                | 2,080,535        |
| <i>Government bonds</i>                                 | 21,621           | -              | -                | -              | -              | -        | -                | 21,621           |
| <i>Public Sector entities</i>                           | 317,722          | 198,331        | -                | -              | -              | -        | -                | 516,053          |
| <i>Bank bonds carrying government guarantee</i>         | 105,937          | 69,210         | -                | -              | -              | -        | -                | 175,147          |
| <i>Multilateral development bank bonds</i>              | 863,114          | 54,966         | -                | -              | -              | -        | -                | 918,080          |
| <i>Bank bonds</i>                                       | 338,929          | 53,900         | 56,805           | -              | -              | -        | -                | 449,634          |
| <i>Covered bonds</i>                                    | -                | -              | -                | -              | -              | -        | -                | -                |
| <i>Corporate bonds</i>                                  | -                | -              | -                | -              | -              | -        | -                | -                |
| Loans and advances to banks                             | -                | 836            | 1,250,161        | 251,949        | -              | -        | 623,346          | 2,126,292        |
| Loans and advances to customers                         | -                | -              | 493,733          | -              | 159,426        | -        | 737,788          | 1,390,947        |
| Derivative assets                                       | -                | -              | 53,574           | -              | -              | -        | 4,929            | 58,503           |
| Held for trading equities                               | -                | -              | -                | -              | -              | -        | 544,378          | 544,378          |
| Current tax assets                                      | -                | -              | -                | -              | -              | -        | 3,901            | 3,901            |
| Deferred tax assets                                     | -                | -              | -                | -              | -              | -        | 224              | 224              |
| Other assets  | -                | -              | -                | -              | -              | -        | 12,590           | 12,590           |
| Property and equipment                                  | -                | -              | -                | -              | -              | -        | 1,353            | 1,353            |
| <b>Total Assets</b>                                     | <b>4,907,039</b> | <b>377,243</b> | <b>2,015,776</b> | <b>251,949</b> | <b>159,426</b> | <b>-</b> | <b>1,928,509</b> | <b>9,639,942</b> |
| <b>Committed lending &amp; undrawn facilities</b>       |                  |                |                  |                |                |          |                  |                  |
| Loans and advances to banks                             | -                | -              | -                | -              | -              | -        | -                | -                |
| Loans and advances to customers                         | -                | -              | -                | -              | -              | -        | 386,407          | 386,407          |
| <b>Total Committed lending &amp; undrawn facilities</b> | <b>-</b>         | <b>-</b>       | <b>-</b>         | <b>-</b>       | <b>-</b>       | <b>-</b> | <b>386,407</b>   | <b>386,407</b>   |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### Geographic breakdown of assets

| (US\$ in thousands) | As at 31 October |                  |
|---------------------|------------------|------------------|
|                     | 2020             | 2019             |
| Central Banks       | <b>2,161,305</b> | 3,421,219        |
| United Kingdom      | <b>1,840,734</b> | 1,629,862        |
| Supranational       | <b>1,139,664</b> | 944,013          |
| France              | <b>976,882</b>   | 934,439          |
| USA                 | <b>554,571</b>   | 781,825          |
| Germany             | <b>485,964</b>   | 562,365          |
| Rest of Europe      | <b>605,421</b>   | 562,250          |
| Ireland             | <b>227,224</b>   | 258,328          |
| Sweden              | <b>214,114</b>   | 159,073          |
| Rest of World       | <b>985,652</b>   | 143,544          |
| Denmark             | <b>180,238</b>   | 97,488           |
| Luxembourg          | <b>106,964</b>   | 85,595           |
| Canada              | <b>93,647</b>    | 57,027           |
| Belgium             | <b>10,838</b>    | 2,914            |
| Singapore           | <b>166,107</b>   | -                |
|                     | <b>9,749,325</b> | <b>9,639,942</b> |

#### Geographic breakdown of committed lending & undrawn facilities

| (US\$ in thousands) | As at 31 October |                |
|---------------------|------------------|----------------|
|                     | 2020             | 2019           |
| France              | <b>120,056</b>   | 131,351        |
| Rest of Europe      | <b>249,132</b>   | 129,000        |
| Luxembourg          | <b>152,879</b>   | 63,384         |
| USA                 | <b>87,921</b>    | 39,555         |
| Germany             | <b>30,286</b>    | 23,117         |
| Ireland             | <b>7,665</b>     | -              |
|                     | <b>647,939</b>   | <b>386,407</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### Allowance for Credit Losses

The allowance for credit losses recorded in the Statement of Financial Position is maintained at a level considered adequate to absorb credit-related losses on financial assets. The allowance for credit losses amounted to US\$7,826,260 as at 31 October 2020 (US\$4,875,892 as at 31 October 2019), of which US\$7,314,178 (US\$4,680,432 as at 31 October 2019) was recorded in financial assets and US\$512,082 (US\$195,460 as at 31 October 2019) was recorded in other liabilities which represents the risk of loss of value due to the failure of a borrower or counterparty to repay a loan or honour another pre-determined financial obligation.

#### Allowance on performing financial assets

The approach to establishing and maintaining the allowance on performing financial assets is based on the requirements of IFRS. Under the IFRS 9 ECL methodology, an allowance is recorded for ECL on financial assets regardless of whether there has been an actual impairment. The Company recognises a loss allowance at an amount equal to 12 month ECL, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). The Company recognises ECL over the remaining life of performing financial assets which are considered to have experienced a significant increase in credit risk (Stage 2).

An allowance is maintained in order to cover a significant increase in credit risk and/or impairment of financial assets that have not yet been individually identified. 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 credit judgement, relative changes in probability-weighted probability of default since origination and certain other criteria, such as 30-day past due and watchlist status.

For each exposure, ECL is a function of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment to reflect factors not captured in ECL models.

PD represents the likelihood that a loan will not be repaid and will go into default in either a 12 month horizon for Stage 1 or a lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical data and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

The Company considers credit judgement past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses.

The Provision for credit losses in the Statement of Comprehensive income includes an increase in Stage 1 and 2 ECL of US\$940,163 for the financial year ended 31 October 2020 (31 October 2019 US\$226,188).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

In assessing information about possible future economic conditions, multiple economic scenarios are utilised including a base case, representing, in the Company's view, the most probable outcome, as well as benign and adverse forecasts, all of which are developed by the BMO Group.

The ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results.

The Company has applied experienced credit judgement to reflect the impact of the extraordinary and highly uncertain environment on credit conditions and on the economy as a result of the COVID-19 pandemic.

#### **Allowance on impaired financial assets**

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired (Stage 3). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Company considers a borrower to have defaulted where either or both of the following events have taken place:

- the Company considers the borrower is unlikely to pay its credit obligations in full, without recourse by the Company to actions such as realising security, if held;
- the financial assets are generally past due over 90 days.

Evidence that a financial asset is credit-impaired includes the following:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the BMO Group on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties;
- the granting of a concession by the lender due to the economic circumstances of the borrower;
- the existence of observable data which might include, for example, indicators of profitability and debt service capacity, assessment of future prospects for the obligor and/or any guarantor, and valuation of stabilised cash flow and country significant deterioration in debt service capacity, financial performance, net worth and future prospects, prospects for support from financially responsible guarantors, country risk and value of underlying collateral;
- material deterioration in relevant macroeconomic or industry circumstances to an extent likely to threaten credit exposure recovery;
- the borrower requests forbearance;
- in the case of an exposure which requires refinancing for repayment, the absence of viable refinancing options or a change in circumstances resulting in high financing risk;
- in the case of an externally rated counterparty, a change in rating to B- or lower;
- in the case of an exposure which requires collateral realisation for recovery, a material change in the value of the collateral such that it is less than the value of the exposure. In the case of a default or evidence of impairment, when multiple loans have been advanced to a counterparty all loans to that counterparty will be assessed for objective evidence of impairment;
- the purchase or origination of a financial asset at a deep discount that reflects credit losses;

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

- the borrower's and/or guarantor's declared financial statement is false and the true position is unsatisfactory;
- payments are contractually overdue;
- authorisation has been obtained by due process to proceed with legal action to recover the loan;
- any step has been taken for the purpose of realising on security;
- when none of the foregoing criteria apply but management believes there is no longer reasonable assurance of timely collectability of principal or interest.

The Provision for credit losses in the Statement of Comprehensive income includes an increase in Stage 3 specific impairment of US\$1,991,238 for the financial year ended 31 October 2020 (31 October 2019 US\$4,398,437).

### Credit Quality Analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt securities along with committed lending facilities. The amounts in the table represent gross carrying amounts for financial assets and amounts committed for committed lending facilities.

#### Credit Quality Analysis as at 31 October 2020

| (US\$ in thousands)                  | Credit Quality       | Stage 1          | Stage 2      | Stage 3       |
|--------------------------------------|----------------------|------------------|--------------|---------------|
| <b>Assets</b>                        |                      |                  |              |               |
| Cash and balances with central banks | Investment grade     | 2,161,337        | -            | -             |
| FVOCI debt securities                | Investment grade     | 3,030,882        | -            | -             |
| Loans and advances to banks          | Investment grade     | 1,590,629        | -            | -             |
| Loans and advances to customers      | Investment grade     | 2,366,747        | -            | -             |
| Loans and advances to customers      | Sub Investment grade | 73,582           | 2,461        | 39,890        |
|                                      |                      | <b>9,223,177</b> | <b>2,461</b> | <b>39,890</b> |
| <b>Loan commitments</b>              |                      |                  |              |               |
| Committed lending facilities         | Investment grade     | 513,152          | -            | -             |
| Committed lending facilities         | Sub Investment grade | 127,257          | 7,530        | -             |
|                                      |                      | <b>640,409</b>   | <b>7,530</b> |               |

#### Credit Quality Analysis as at 31 October 2019

| (US\$ in thousands)                  | Credit Quality       | Stage 1          | Stage 2      | Stage 3       |
|--------------------------------------|----------------------|------------------|--------------|---------------|
| <b>Assets</b>                        |                      |                  |              |               |
| Cash and balances with central banks | Investment grade     | 3,421,224        | -            | -             |
| FVOCI Debt securities                | Investment grade     | 2,080,636        | -            | -             |
| Loans and advances to banks          | Investment grade     | 2,126,315        | -            | -             |
| Loans and advances to customers      | Investment grade     | 1,299,455        | -            | -             |
| Loans and advances to customers      | Sub Investment grade | 46,293           | 2,359        | 47,391        |
|                                      |                      | <b>8,973,923</b> | <b>2,359</b> | <b>47,391</b> |
| <b>Loan commitments</b>              |                      |                  |              |               |
| Committed lending facilities         | Investment grade     | 248,776          | -            | -             |
| Committed lending facilities         | Sub Investment grade | 129,984          | 7,647        | -             |
|                                      |                      | <b>378,760</b>   | <b>7,647</b> |               |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

| <b>(US\$ in thousands)</b>                     | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> |
|--|----------------|----------------|----------------|
| <b>Cash and balances with central banks</b>    |                |                |                |
| Balance at 31 October 2018                     | 7              | -              | -              |
| Net remeasurement of loss allowance            | (2)            | -              | -              |
| Balance at 31 October 2019                     | 5              | -              | -              |
| Net remeasurement of loss allowance            | 27             | -              | -              |
| Balance at 31 October 2020                     | 32             | -              | -              |
| <b>Debt securities</b>                         |                |                |                |
| Balance at October 31, 2018                    | 79             | -              | -              |
| Net remeasurement of loss allowance            | 11             | -              | -              |
| New financial assets purchased                 | 11             | -              | -              |
| Balance at 31 October 2019                     | 101            | -              | -              |
| Net remeasurement of loss allowance            | 24             | -              | -              |
| New financial assets purchased                 | 20             | -              | -              |
| Financial assets that have been derecognised   | (4)            | -              | -              |
| Balance at 31 October 2020                     | 141            | -              | -              |
| <b>Loans and advances to banks</b>             |                |                |                |
| Balance at October 31, 2018                    | 23             | -              | -              |
| Net remeasurement of loss allowance            | (6)            | -              | -              |
| New financial assets purchased                 | 5              | -              | -              |
| Financial assets that have been derecognised   | (4)            | -              | -              |
| Balance at 31 October 2019                     | 18             | -              | -              |
| Net remeasurement of loss allowance            | 18             | -              | -              |
| New financial assets purchased                 | 13             | -              | -              |
| Financial assets that have been derecognised   | (2)            | -              | -              |
| Balance at 31 October 2020                     | 47             | -              | -              |
| <b>Loans and advances to customers</b>         |                |                |                |
| Balance at October 31, 2018                    | 114            | -              | -              |
| Net remeasurement of loss allowance            | 91             | -              | -              |
| New financial assets purchased                 | 34             | 7              | 4,398          |
| Financial assets that have been derecognised   | (88)           | -              | -              |
| Balance at 31 October 2019                     | 151            | 7              | 4,398          |
| Net remeasurement of loss allowance            | 440            | 29             | 1,991          |
| New financial assets purchased                 | 139            | -              | -              |
| Financial assets that have been derecognised   | (61)           | -              | -              |
| Balance at 31 October 2020                     | 669            | 36             | 6,389          |
| <b>Committed lending facilities</b>            |                |                |                |
| Balance at October 31, 2018                    | 32             | -              | -              |
| Net remeasurement of loss allowance            | 41             | -              | -              |
| New committed lending facilities               | 123            | -              | -              |
| Lending facilities that have been derecognised | (1)            | -              | -              |
| Balance at 1 November 2019                     | 195            | -              | -              |
| Net remeasurement of loss allowance            | 353            | -              | -              |
| New committed lending facilities               | 25             | -              | -              |
| Lending facilities that have been derecognised | (61)           | -              | -              |
| Balance at 31 October 2020                     | 512            | -              | -              |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### ECL Sensitivity and Key Economic Variables

The allowance for credit losses is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario. Many of the factors have a high degree of interdependency although there is no single factor to which credit loss allowances as a whole are sensitive.

As at 31 October 2020, the base case economic forecast used to calculate the allowance depicts a contracting European economy with the Canadian and U.S. economies following a similar trajectory. Assuming a 100% base case economic forecast and including the impact of loan migration by restaging, with other assumptions held constant including the application of experienced credit judgment, the allowance for credit losses for performing loans in stages 1 and 2 would be approximately US\$1.1 million as at 31 October 2020 (31 October 2019 US\$0.2 million), compared to the reported allowance for performing loans of US\$1.4 million (31 October 2019 US\$0.5 million). As at 31 October 2020, the adverse case economic forecast depicts a more severe contraction of the European, Canadian and U.S. economies for the remainder of 2020 with a further decline in 2021 before recovering in 2022. Assuming a 100% adverse economic forecast with other assumptions held constant including the application of experienced credit judgment, the allowance for credit losses for performing loans in stages 1 and 2 would be approximately US\$2.0 million as at 31 October 2020 (31 October 2019 US\$1.3 million), compared to the reported allowance for performing loans of US\$1.4 million (31 October 2019 US\$0.5 million).

Actual results in an economic downturn will differ as the portfolio will change over time due to migration, growth, risk mitigation actions and other factors. In addition, the allowance for credit losses will reflect the three economic scenarios used in assessing the allowance with the weightings attached to scenarios changing over time.

The following table shows the key economic variables used to estimate the allowance on performing loans during the forecast period. The values shown represent the national annual average values for calendar 2020 for the base case scenario, and calendar 2021 and 2022 for all scenarios.

|                                     | Benign Scenario |      | Base Scenario |      |      | Adverse Scenario |      |
|-------------------------------------|-----------------|------|---------------|------|------|------------------|------|
|                                     | 2021            | 2022 | 2020          | 2021 | 2022 | 2021             | 2022 |
| <b>Real GDP</b>                     |                 |      |               |      |      |                  |      |
| Europe                              | 8.3             | 3.6  | -7.0          | 5.8  | 3.0  | -2.9             | 0.8  |
| Canada                              | 9.0             | 4.0  | -5.5          | 6.0  | 3.0  | -2.1             | 0.8  |
| US                                  | 7.0             | 3.7  | -4.5          | 4.0  | 3.0  | -2.9             | 0.8  |
| <b>Corporate BBB 10 Year Spread</b> |                 |      |               |      |      |                  |      |
| Canada                              | 3.2             | 3.8  | 3.0           | 3.0  | 3.3  | 4.8              | 4.4  |
| US                                  | 1.6             | 1.8  | 2.2           | 2.0  | 2.1  | 4.4              | 3.7  |
| <b>Volatility</b>                   |                 |      |               |      |      |                  |      |
| VIX (US)                            | 13.8            | 14.4 | 28.2          | 17.5 | 17.0 | 36.0             | 25.8 |
| VSTOXX (Europe)                     | 19.1            | 19.8 | 28.8          | 22.3 | 22.0 | 46.0             | 32.9 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### c) Credit Concentration Risk

Credit Concentration Risk is the risk from exposure(s) (on or off balance sheet) that may arise within or across different risk categories throughout the Company with the potential to produce losses in its portfolio that are: (i) large enough to threaten the Company's financial health or ability to maintain its core operations; or (ii) result in a material change in the Company's risk profile. Credit Concentration Risk is the risk arising from a dominant share or overexposure in an institution's risk bearing positions or exposures (assets or liabilities, on or off balance sheet) carrying common risk characteristics and which are sensitive to the same risk drivers. Such positions or exposures, in a risk event, may lead to a material loss jeopardising the institutions earnings, capital or liquidity position and hence putting the institution at risk.

Credit Concentration Risk is the Company's primary type of concentration risk.

The Company received approval from the CBI on 19 November 2019 to apply contractual netting to exposures from a specified list of counterparties in respect of determining regulatory large exposure to counterparties.

Credit concentrations indicate a related sensitivity of the Company's performance to developments affecting a particular counterparty, industry or geographic location. These limits are set in the context of the Company's risk appetite and risk bearing capacity of the Company's capital structure.

Credit Concentration Risks can occur as traditional intra-risk concentration, e.g. within a credit risk portfolio, or inter-risk concentration, concentration risk between or across different risk types. The Company has set a broad range of limits to mitigate credit concentration risk, focusing on single name/connection, settlement, industry and geographic concentration. Adherence to limits, the composition of the portfolios and potential concentrations are reported monthly to the RMC and reported quarterly to the RCC.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

Breakdown of loans and advances to customers and committed lending and undrawn facilities by maturity and geography are shown in Notes 14 and 27. The following table breaks these down by industrial sector:

| (US\$ in thousands)   | As at 31 October |                  |
|---|------------------|------------------|
|   | 2020             | 2019             |
| <b>Loans and advances to customers</b>                          |                  |                  |
| Other financial intermediaries                                  | <b>2,287,308</b> | 1,160,045        |
| Manufacturing   | <b>73,793</b>    | 77,536           |
| Venture Capital   | <b>65,683</b>    | 114,272          |
| Oil and Gas   | <b>40,714</b>    | 39,094           |
| Information and communication                                   | <b>8,088</b>     | -                |
| <b>Total loans and advances to customers by sector</b>          | <b>2,475,586</b> | <b>1,390,947</b> |
| <b>Committed lending and undrawn facilities</b>                 |                  |                  |
| Other financial intermediaries                                  | <b>272,351</b>   | 55,165           |
| Mining  | <b>104,873</b>   | 40,000           |
| Venture capital   | <b>83,060</b>    | 47,774           |
| Information and communication                                   | <b>68,804</b>    | -                |
| Manufacturing   | <b>61,717</b>    | 143,167          |
| Electrical  | <b>34,937</b>    | 33,434           |
| Motor   | <b>22,197</b>    | -                |
| Oil & Gas   | -                | 66,867           |
| <b>Total Committed lending and undrawn facilities by sector</b> | <b>647,939</b>   | <b>386,407</b>   |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### d) Funding and Liquidity Risk

Funding and Liquidity Risk is the risk that the Company is unable to meet its cash and collateral obligations as they fall due without incurring unacceptable losses or the sale of assets.

The Company has a framework within which funding and liquidity risk is managed to ensure that all risks associated with all business activities are identified, managed, measured, monitored and reported. Maturity and undiscounted cash flows analysis of interest-bearing and derivative liabilities is detailed in the tables below:

| 31 October 2020<br>(US\$ in thousands)              | Carrying<br>Amount | Gross notional<br>inflow/<br>(outflow) | 0-3 Months               | 3 Months to 1<br>Year | 1-5 Years        |
|---|--------------------|--|--------------------------|-----------------------|------------------|
| <b>Interest bearing non-derivative liabilities:</b> |                    |  |                          |                       |                  |
| Securities sold but not yet purchased               | (931,452)          | (931,452)                              | (931,452)                | -                     | -                |
| Deposits from banks                                 | (1,552,975)        | (1,552,975)                            | (559,292)                | (793,676)             | (200,007)        |
| Deposits from customers                             | (123,534)          | (123,534)                              | (123,534)                | -                     | -                |
| Debt securities in issue                            | (6,007,391)        | (6,007,391)                            | (6,007,391) <sup>8</sup> | -                     | -                |
|   | <b>(8,615,352)</b> | <b>(8,615,352)</b>                     | <b>(7,621,669)</b>       | <b>(793,676)</b>      | <b>(200,007)</b> |

#### Derivative liabilities

|                     |                  |                  |                  |   |   |
|---------------------|------------------|------------------|------------------|---|---|
| Derivative outflows | (239,453)        | (239,453)        | (239,453)        | - | - |
|                     | <b>(239,453)</b> | <b>(239,453)</b> | <b>(239,453)</b> | - | - |

| 31 October 2019<br>(US\$ in thousands)              | Carrying<br>Amount | Gross notional<br>inflow/<br>(outflow) | 0-3 Months         | 3 Months to 1<br>Year | 1-5 Years |
|---|--------------------|--|--------------------|-----------------------|-----------|
| <b>Interest bearing non-derivative liabilities:</b> |                    |  |                    |                       |           |
| Securities sold but not yet purchased               | (846,736)          | (846,736)                              | (846,736)          | -                     | -         |
| Deposits from banks                                 | (1,563,719)        | (1,563,719)                            | (63,560)           | (1,300,135)           | -         |
| Deposits from customers                             | (152,590)          | (152,590)                              | (152,590)          | -                     | -         |
| Debt securities in issue                            | (6,083,809)        | (6,083,809)                            | (6,083,809)        | -                     | -         |
|   | <b>(8,646,854)</b> | <b>(8,646,854)</b>                     | <b>(7,146,695)</b> | <b>(1,300,135)</b>    | -         |

#### Derivative liabilities

|                     |                  |                  |                  |   |   |
|---------------------|------------------|------------------|------------------|---|---|
| Derivative outflows | (178,301)        | (178,301)        | (178,301)        | - | - |
|                     | <b>(178,301)</b> | <b>(178,301)</b> | <b>(178,301)</b> | - | - |

<sup>8</sup> The Company recognises funding from debt securities in issue as long term from a strategic perspective as the programme maturity is greater than five years, notwithstanding that debt securities in issue have a demand or term feature that allows the BMO Group to elect not to rollover at the end of term, subject to a period of 60 days which has never been exercised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### Pledged Assets

In the normal course of business, assets are pledged as security for various liabilities that the Company incurs. The following tables summarises pledged assets and collateral, and the activities to which they relate:

| (US\$ in thousands)                                      | As at 31 October |                |
|--|------------------|----------------|
|  | 2020             | 2019           |
| <b>Financial assets pledged</b>                          |                  |                |
| Trading equities   | -                | 64,812         |
| Debt securities  | <u>750,838</u>   | <u>133,946</u> |
|  | <b>750,838</b>   | <b>198,758</b> |
| <b>Financial assets pledged related to:</b>              |                  |                |
| Trading equities - Securities sold but not yet purchased | <u>750,838</u>   | <u>198,758</u> |
|  | <b>750,838</b>   | <b>198,758</b> |

#### Collateral

When entering into trading activities, such as repurchase agreements, securities borrowing and lending activities or financing for certain derivative transactions, the Company requires counterparties to provide collateral that will protect from losses in the event of their default.

Collateral transactions (received or pledged) are typically conducted under terms that are standard to such trading activities. If there is no default, the securities or their equivalents must be returned to, or returned by, the counterparty at the end of the contract. The fair value of counterparty collateral that the Company is permitted to sell or repledge (in the absence of default by the owner of the collateral) was US\$3,186 million as at 31 October 2020 (US\$2,880 million as at October 31, 2019). The fair value of collateral sold or repledged was US\$ Nil as at 31 October 2020 (US\$ Nil as at 31 October 2019).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### e) Currency Risk

The Company does not maintain material open currency positions. The Company manages foreign currency risk through cross-currency swaps and foreign exchange forward and spot transactions along with deposits denominated in foreign currencies. The table below shows the Company's transactional exposures that give rise to net currency gains and losses recognised in the Statement of Comprehensive Income. Such exposures comprise the assets and liabilities that are not denominated in the operating currency of the Company.

| (US\$ in thousands) | As at 31 October 2020 |             |                                    | Net Exposure |
|---------------------|-----------------------|-------------|------------------------------------|--------------|
|                     | Assets                | Liabilities | Notional FX / Cross Currency Swaps |              |
| Euro                | 2,785,880             | (208,298)   | (2,581,619)                        | (4,037)      |
| Pound Sterling      | 128,962               | (34,597)    | (95,036)                           | (671)        |
| Canadian dollar     | 535,822               | (6,921,417) | 6,386,347                          | 752          |
| Australian dollar   | 44,561                | (44,532)    | -                                  | 29           |

| (US\$ in thousands) | As at 31 October 2019 |             |                                    | Net Exposure |
|---------------------|-----------------------|-------------|------------------------------------|--------------|
|                     | Assets                | Liabilities | Notional FX / Cross Currency Swaps |              |
| Euro                | 3,620,995             | (39,395)    | (3,584,473)                        | (2,873)      |
| Pound Sterling      | 33,944                | (33,875)    | -                                  | 69           |
| Canadian dollar     | 1,351,113             | (7,001,842) | 5,650,735                          | 6            |
| Australian dollar   | 30,086                | (1,491)     | (28,249)                           | 346          |

#### Sensitivity analysis – Foreign exchange

At 31 October 2020, had the US\$ strengthened by 5% in relation to all currencies, with all other variables held constant, the Statement of Comprehensive Income would have changed by the amounts shown below:

| (US\$ in thousands) | 2020                    | 2019         |
|---------------------|-------------------------|--------------|
|                     | <b>As at 31 October</b> |              |
| Euro                | (202)                   | (144)        |
| Pound sterling      | (34)                    | 3            |
| Canadian dollar     | 38                      | -            |
| Australian dollar   | 1                       | 17           |
| <b>Total</b>        | <b>(197)</b>            | <b>(124)</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### f) Operational Risk

Operational Risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events.

The Company is exposed to potential losses arising from a variety of operational risks. Operational risk is inherent in all the Company's business activities, including the processes and controls used to manage all categories of risk across the Company. While operational risk can never be fully eliminated, it can be effectively managed to reduce the financial and non-financial consequences.

The Company categorises Operational Risk into seventeen sub-categories as listed below. Some of these Operational Risk sub-categories, by their nature, require specialist skills to ensure the most effective management and may be managed through outsourcing arrangements.

The sub-categories of Operational Risk are as follows:

- Accounting & Financial Management Risk
- Money Laundering, Terrorist Financing & Sanctions Measures Risk
- Business Continuity Risk
- Fraud & Criminal Risk
- Human Resources Risk
- Information Risk: Information Security & Information Management Risk
- IT Risk
- Legal Risk
- Model Risk
- Outsourcing & Supplier Risk
- Physical Security Risk
- Privacy Risk
- Process Risk
- Project Management Risk
- Property Risk
- Regulatory Compliance Risk
- Taxation Risk

The Company's objective is to manage Operational Risk within its risk appetite, balancing risk and return within acceptable levels.

The primary responsibility for the development and implementation of controls to address Operational Risk is assigned to senior management. This responsibility is supported by the development of the Company's overall standards for the management of Operational Risk within the Company's Risk Management Framework.

#### g) Interest Rate Risk in the Banking Book including Credit Spread Risk in the Banking Book

Interest Rate Risk in the Banking Book ("IRRBB") is the current or prospective risk to both the earnings and the economic value of the Company arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk, credit spread risk, basis risk and option risk. IRRBB encompasses interest rate risk as well as Credit Spread Risk in the Banking Book ("CSRBB") in the Company's Banking Book operations. IRRBB results mainly from the structural balance sheet duration profile stemming from mismatches in the interest rate repricing dates of assets, liabilities and off-balance sheet items from non-trading activities.

IRRBB is managed under the Market Risk Framework and delegated limit controls. Limits on IRRBB are expressed in terms of Economic Value of Equity ("EVE") and Net Interest Income ("NII") sensitivities. These Limits are defined and set in the Company's Risk Appetite Statement which is reviewed and approved by the Board of Directors on an annual basis.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### h) Governance Risk

Governance Risk is the potential for deficiency in the overall oversight and internal control mechanisms which the Company has in place to ensure that it is soundly and prudently managed, referring in particular to processes, structures and information flows which are used to allow the Board and senior management to satisfy themselves that effective internal control mechanisms are in place to protect all stakeholders.

The Board of Directors is responsible for the effective, prudent and ethical oversight of the Company. It is responsible for approving the business strategy and its implementation, within the approved risk appetite, and ensuring that the Company has an effective internal control framework. The effectiveness of the Board of Directors in carrying out its oversight function is a critical component of the Company's overall internal governance framework.

The Board of Directors annually reviews and approves the Risk Management, Compliance and Corporate Audit Frameworks. This ensures that the Company has robust second and third lines of defence. The obligation for these lines of defence to report to the Board, or one of its committees, is set out in the relevant framework.

The Company monitors governance risk as part of its risk register, acknowledging it as a key risk.

#### i) Conduct Risk

Conduct Risk within the Company is defined as the risk that behavior in the Company falls short of the BMO Groups "Being BMO" values and regulatory expectations, resulting in harm to customers, the Company and/or the financial markets. A taxonomy of applicable conduct risks has been developed and is updated at least annually. Sources of Conduct Risk within the Company include breaches of or a failure to report breaches of the Code of Conduct, breaches of relevant policies, procedures and limits, unreported conflicts of interest, internal fraud, failure to adhere to Personal Trading Account requirements, leaking of confidential information, market abuse, mis-selling products to clients outside target markets, unclear or misleading communications with clients and treating clients unfairly.

The Company manages Conduct Risk through a framework that promotes sound corporate governance and appropriate employee conduct in the execution of its business strategy, the protection of its reputation and maintenance of the trust of its stakeholders and the broader market. The framework outlines the processes by which the Company identifies, assesses, and monitors conduct risk to ensure risks are appropriately managed and mitigated. The Company's approach to Conduct Risk management is integrated in its Risk Management Framework and Compliance Management Framework and is consistent with its three lines of defence model. The objective of the Framework is to ensure that the Company has an effective approach to:

- Identifying and measuring conduct risk.
- Maintaining a current and accurate inventory of conduct risks inherent in the Company's business model, booking models and activities.
- Providing guidance regarding conduct-related issues consistent with internal policies, directives and procedures.
- Reinforcing adherence to the Company's values and behaviours.
- Conducting conduct risk monitoring and testing.
- Ensuring timely and effective remediation of identified issues.
- Coordinating and delivering conduct-related training.
- Developing and maintaining conduct related policies, directives and procedures.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### j) Business & Strategic Risk

Business & Strategic Risk is the potential for loss due to fluctuations in the external business environment and/or failure to properly respond to these fluctuations due to inaction, ineffective strategies or poor implementation of strategies.

Business & Strategic Risk arises from two sources: external risks inherent in the business environment and the risk of potential loss if those external risks are not dealt with effectively. While external strategic risks including economic, political, regulatory, technological, social and competitive risks cannot be controlled, the likelihood and magnitude of their impact can be mitigated through an effective strategic management framework.

The Company's Business Strategy is reviewed by the Board annually in interactive sessions designed to challenge assumptions and strategies in the context of current and potential future business environments. Performance objectives established through the strategic management process are regularly monitored and reported. The Company faces many risks that are similar to those faced by non-financial firms; principally that profitability may be eroded by changes in the business environment or by failures of strategy or execution. Sources of these risks include, but are not limited to, changing client expectations, adverse business developments and ineffective responses to industry changes.

The Company's senior management is responsible for overseeing the activities of the businesses and support functions and, in particular, the risks attributable to the implementation of strategy, conduct of business, best risk practice, law, regulation and the established policies, procedures and strategies of the BMO Group.

#### k) Reputational Risk

Reputational Risk is the risk of negative impacts on the Company resulting from the deterioration of the Company's or the BMO Group's reputation with key stakeholders.

The Company recognises that its reputation is one of the most valuable and fragile assets. As such, reputation risk management is an extremely important process for the Company and includes the forecasting and evaluation of reputational risks across existing and new business, together with the identification of procedures to avoid or minimise their impact.

The Company's Conduct Risk Framework, Business Strategy planning process and Climate Change Risk management assist it in the effective management of reputational risk. These elements assist the Company to shape public perception of its products, services, and brand in ways that foster public and consumer trust. The Company's senior management is responsible for overseeing the day-to-day operations and control of the business in line with the implemented policies and procedures.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 26. Risk management (continued)

#### l) Climate Change Risk

Climate Change Risk relates to the impact from the structural change towards a low-carbon economy and the related impact on the financial system. The European Central Bank defines two components of Climate Change Risk:

- Physical risk refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation; and
- Transition risk refers to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy.

Physical risks to the Company's tangible assets are considered limited due to their concentration in Dublin and Paris. There are no concentrated exposures to countries at significant physical Climate Change Risk. Climate Change Risk has been deemed relevant due to the focus of the BMO Group on the natural resources/ mining industry and the increased regulatory expectations on financial institutions in this space.

The Company is involved in climate change working groups within the BMO Group and at local industry level. Climate change is already considered by the Company in credit decisions and Board training was provided in 2020. The Company plans to integrate Climate Change Risk more fully into its overall strategy and Risk Management Framework in 2021.

#### m) Excess Leverage Risk

Leverage Risk refers to risks resulting from the Company's vulnerability due to leverage that may require corrective measures which could impact earnings. The Company monitors this risk using the regulatory leverage ratio which is the ratio of the Company's capital to total assets.

There is a specific RAS metric to limit leverage. Historically, the Company has operated well above this limit and this is not anticipated to change.

#### n) Concentration Risk (excluding Credit Concentration Risk)

Concentration Risk is identified, managed, monitored and reported by the Company in accordance with its Concentration Risk Management Policy and applicable regulatory guidelines. In addition to the assessment of credit concentration risk as described earlier, the Company produces an assessment on concentration risk in other aspects of its business as part of its annual ICAAP process. This assessment specifically considers the following areas; business strategy, collateral, market, liquidity and operations. This assessment quantifies concentration risk in each of these areas and provides an assessment on whether internal capital as a mitigant to the risk should be allocated.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### Capital management

Regulatory capital and capital adequacy ratios are produced in accordance with the Capital Requirements Directive 2013/36/EU and the Capital Requirements Regulation No 575/2013 (transcribed into Irish law under the European Union (Capital Requirements) Regulations 2014 (Statutory Instruments 158/2014 and 159/2014). These directives and regulations are together referred to as CRD IV.

The Company is regulated by the CBI, which applies a capital/risk framework for measuring capital adequacy based on the CRD IV. The Company uses the CRD IV standardised approach to calculate risk weighted assets ("RWA"). The CBI requires the Company to maintain a prescribed ratio of total capital to risk weighted assets under Pillar 1 of the CRD IV.

In line with Pillar 2 requirements, the Company operates ICAAP. The internal capital buffers calculated are only applicable to own funds and are held in addition to the capital required under Pillar 1. The Company received authorisation from the CBI for an expanded business footprint post Brexit on 29 March 2019. The CBI also imposed revised Pillar 2 supervisory measures in the form of additional capital requirements on the Company, replacing the previously imposed additional capital requirements following the Supervisory Review & Evaluation Process ("SREP") in June 2018. These additional capital requirements are also only applicable to own funds.

The Pillar 1 capital requirements, Pillar 2 capital requirements, own funds and surplus of own funds are set out in the table below. Further detail is provided in the Additional Pillar 3 Disclosure notes on pages 90 to 154.

| (US\$ in thousands)                         | As at 31 October |                |
|---|------------------|----------------|
|   | 2020             | 2019           |
| <b>Capital requirement – Pillar 1</b>       | <b>94,029</b>    | <b>82,609</b>  |
| <b>Capital requirements – Pillar 2</b>      |                  |                |
| Additional capital buffers                  | <b>328,688</b>   | 332,687        |
| <b>Total capital requirement – Pillar 2</b> | <b>328,688</b>   | <b>332,687</b> |
| <b>Capital buffer<sup>9</sup></b>           | <b>147,746</b>   | <b>109,392</b> |
| <b>Total capital requirement</b>            | <b>570,463</b>   | <b>524,688</b> |
| <b>Total own funds</b>                      | <b>789,426</b>   | <b>784,366</b> |
| <b>Surplus of own funds</b>                 | <b>219,000</b>   | <b>259,678</b> |

<sup>9</sup> Capital buffer comprises of the capital conservation buffer, countercyclical capital buffer and additional CBI imposed supervisory Pillar 2 Guidance. The capital conservation buffer was phased in from 1 January 2016 with an initial charge of 0.625% of risk weighted assets as at 31 October 2016, rising to 2.5% by 1 January 2019. Per 31 October 2019 the capital conservation buffer stood at 2.5% of risk weighted assets.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Risk management (continued)

#### Capital and capital ratios

The Company's regulatory capital and capital ratios are as follows:

|  | As at 31 October 2020 |               |
|--|-----------------------|---------------|
|  | (US\$ in thousands)   | (Ratio %)     |
| Common Equity ("CET1"), Tier 1 and Total Capital | <b>789,426</b>        | <b>67.16%</b> |
|  | As at 31 October 2019 |               |
|  | (US\$ in thousands)   | (Ratio %)     |
| Common Equity ("CET1"), Tier 1 and Total Capital | 784,366               | 75.96%        |

Capital amounts include the audited "profit for the year" as per the Statement of Comprehensive Income on page 24.

There were no breaches by the Company of the capital ratios during the financial year ended 31 October 2020 (financial year ended 31 October 2019: no breaches).

At 31 October 2020 the Company with a CET1 capital ratio, a Tier 1 capital ratio and a Total capital ratio of 66.76% (2019: 75.96%) exceeded the minimum required ratios imposed by the CBI (total SREP capital requirement ("TSCR") of 34.70% and minimum overall capital requirement ("OCR") ratio of 37.20%.

### 27. Committed lending and undrawn facilities

|                                       | As at 31 October      |                       |
|---------------------------------------|-----------------------|-----------------------|
| (US\$ in thousands)                   | 2020                  | 2019                  |
| <b>Remaining contractual maturity</b> |                       |                       |
| Greater than 5 years                  | <b>26,643</b>         | -                     |
| 1 to 5 years                          | <b>408,221</b>        | 338,633               |
| 3 months to 1 year                    | <b>148,993</b>        | -                     |
| Less than 1 month                     | <b>64,082</b>         | 47,774                |
|                                       | <b><u>647,939</u></b> | <b><u>386,407</u></b> |
| <b>Geographical split</b>             |                       |                       |
| Ireland                               | <b>7,665</b>          | -                     |
| Europe other than Ireland             | <b>548,859</b>        | 295,916               |
| Rest of world                         | <b>91,415</b>         | 90,491                |
|                                       | <b><u>647,939</u></b> | <b><u>386,407</u></b> |

The committed lending and undrawn facilities shown represent maximum amount payable related to various lending commitments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. Derivatives

| (US\$ in thousands)            | As at 31 October 2020 |                   |                        |
|--------------------------------|-----------------------|-------------------|------------------------|
|                                | Notional              | Derivative Assets | Derivative Liabilities |
| Foreign exchange forwards      | 6,884,601             | 75,956            | 58,123                 |
| Equity derivatives             | 580,543               | -                 | 27,011                 |
| Interest rate swaps - hedging  | 2,129,778             | 1,398             | 80,840                 |
| Interest rate swaps            | 372,294               | 5,903             | 5,345                  |
| Commodity swaps                | 166,689               | 6,339             | 5,527                  |
| Cross currency swaps           | 6,084,406             | 2,483             | 60,102                 |
| Cross currency swaps - hedging | 29,401                | -                 | 674                    |
| Futures                        | 308,083               | -                 | 1,831                  |
| <b>Total derivatives</b>       | <b>16,555,795</b>     | <b>92,079</b>     | <b>239,453</b>         |

| (US\$ in thousands)           | As at 31 October 2019 |                   |                        |
|-------------------------------|-----------------------|-------------------|------------------------|
|                               | Notional              | Derivative Assets | Derivative Liabilities |
| Foreign exchange forwards     | 4,271,076             | 6,388             | 32,592                 |
| Equity derivatives            | 1,811,977             | 2,005             | 67,116                 |
| Interest rate swaps - hedging | 1,744,332             | 681               | 50,766                 |
| Interest rate Swaps           | 795,087               | 5,141             | 4,443                  |
| Cross currency swaps          | 6,054,927             | 35,121            | 15,198                 |
| Commodity Swaps               | 260,649               | 9,167             | 8,186                  |
| <b>Total derivatives</b>      | <b>14,938,048</b>     | <b>58,503</b>     | <b>178,301</b>         |

| (US\$ in thousands)  | As at 31 October  |                   |
|--|-------------------|-------------------|
|  | 2020              | 2019              |
| <b>Remaining contractual maturity of derivative (notional)</b> |                   |                   |
| Greater than 5 years   | 407,960           | 244,461           |
| 1 to 5 years   | 2,482,379         | 2,458,097         |
| 3 months to 1 year   | 1,512,665         | 1,324,956         |
| 1 to 3 months  | 6,966,258         | 3,854,979         |
| Less than one month  | 5,186,533         | 7,055,555         |
|  | <b>16,555,795</b> | <b>14,938,048</b> |
| <b>Geographical split of derivatives (notional)</b>            |                   |                   |
| Europe other than Ireland                                      | 5,589,890         | 1,696,474         |
| Rest of world  | 10,965,905        | 13,241,574        |
|  | <b>16,555,795</b> | <b>14,938,048</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 28. Derivatives (continued)

#### Derivative used in hedge accounting

##### *Fair Value Hedges*

Fair value hedges modify exposure to changes in a fixed rate instrument's fair value caused by changes in interest rates. These hedges economically convert fixed rate debt securities to floating rate. The Company uses interest rate swaps to hedge interest rate risk, including benchmark interest rates, inherent in fixed rate debt securities. Any fixed rate assets or liabilities that are part of a hedging relationship are adjusted for the change in value of the risk being hedged. To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item for the risk being hedged, the net amount (hedge ineffectiveness) is recorded directly in net trading income in the Statement of Comprehensive Income.

For fair value hedges that are discontinued, the Company ceases adjusting the hedged item. The cumulative fair value adjustment of the hedged item is then amortised to net interest income over the hedged item's remaining term to maturity. If the hedged item is sold or settled, the cumulative fair value adjustment is included in the gain or loss on sale or settlement.

In the Company's fair value hedge relationships, the main sources of ineffectiveness are the counterparty effect and the Company's own credit risk on the fair value of the swap, and the difference in terms such as fixed interest rate or reset/settlement frequency between the swap and the hedged item. In order to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset as well as how effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value or changes in the amount of future cash flows of the hedged item. The Company evaluates hedge effectiveness at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using a quantitative statistical regression analysis. The Company considers a hedging relationship highly effective when all of the following criteria are met: correlation between the variables in the regression is at least 0.8; the slope of the regression is within a 0.8 to 1.25 range; and the confidence level of the slope is at least 95%.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. Derivatives (continued)

The following table outlines the notional amounts and average rates of derivatives and the carrying amounts of deposits designated as hedging instruments, by term to maturity, hedge type, and risk type, where applicable as at 31 October 2020.

| (US\$ in thousands)                                 | Remaining term to maturity |              |              |                 | 2020<br>Total    | 2019<br>Total |
|---|----------------------------|--------------|--------------|-----------------|------------------|---------------|
|   | Within 1<br>year           | 1-3<br>years | 3-5<br>years | Over 5<br>years |                  |               |
| <b>Fair value hedges</b>                            |                            |              |              |                 |                  |               |
| <i>Interest rate risk – interest rate swaps</i>     |                            |              |              |                 |                  |               |
| Notional amount <sup>10</sup>                       | 110,174                    | 1,091,810    | 687,468      | 240,325         | <b>2,129,777</b> | 1,744,332     |
| Average fixed interest rate                         | 2.27%                      | 2.15%        | 1.22%        | 0.71%           | <b>1.64%</b>     | 2.34%         |
| <i>Foreign exchange risk – Cross-currency swaps</i> |                            |              |              |                 |                  |               |
| USD-GBP pair  |                            |              |              |                 |                  |               |
| Notional amount <sup>11</sup>                       |                            |              | 58,557       |                 | <b>58,557</b>    | -             |
| Average fixed interest rate                         |                            |              | 0.66%        |                 | <b>0.66%</b>     | -             |
| Average exchange rate: USD-GBP                      |                            |              | 1.3024       |                 | <b>1.3024</b>    | -             |

The amounts relating to derivatives designated as fair value hedging instruments, hedged items and hedge ineffectiveness for the year are as follows:

| 31 October 2020<br>(US\$ in thousands) | Carrying amount of hedging derivatives |               | Hedge ineffectiveness  |   |  | Carrying amount of the hedged item | Accumulated amount of fair value hedge (losses) on hedged items |                     |
|--|--|---------------|--|---|--|------------------------------------|---|---------------------|
|  | Asset                                  | Liability     | Gains on hedging derivatives used to calculate hedge ineffectiveness | (Losses) on hedged item used to calculate hedge ineffectiveness | Ineffectiveness recorded in net trading income |                                    | Active hedges   | Discontinued hedges |
| <b>Fair value hedge</b>                |  |               |  |   |  |                                    |   |                     |
| Interest rate swaps                    | 1,398                                  | 80,840        |  |   |  |                                    |   |                     |
| Cross currency swaps                   |  | 674           |  |   |  |                                    |   |                     |
| FVOCI debt securities                  | -                                      | -             | (40,720)   | 41,064  | 344  | 2,239,382                          | 72,409  | -                   |
| <b>Total</b>                           | <b>1,398</b>                           | <b>81,514</b> | <b>(40,720)</b>  | <b>41,064</b>   | <b>344</b>                                     | <b>2,239,382</b>                   | <b>72,409</b>   | <b>-</b>            |
| <br>                                   |  |               |  |   |  |                                    |   |                     |
| 31 October 2019<br>(US\$ in thousands) | Carrying amount of hedging derivatives |               | Hedge ineffectiveness  |   |  | Carrying amount of the hedged item | Accumulated amount of fair value hedge (losses) on hedged items |                     |
|  | Asset                                  | Liability     | Gains on hedging derivatives used to calculate hedge ineffectiveness | (Losses) on hedged item used to calculate hedge ineffectiveness | Ineffectiveness recorded in net trading income |                                    | Active hedges   | Discontinued hedges |
| <b>Fair value hedge</b>                |  |               |  |   |  |                                    |   |                     |
| Interest rate swaps                    | 681                                    | 50,766        |  |   |  |                                    |   |                     |
| FVOCI debt securities                  | -                                      | -             | 71,617   | (71,300)  | 317  | 1,788,297                          | 47,205  | -                   |
| <b>Total</b>                           | <b>681</b>                             | <b>50,766</b> | <b>71,617</b>  | <b>(71,300)</b>   | <b>317</b>                                     | <b>1,788,297</b>                   | <b>47,205</b>   | <b>-</b>            |

<sup>10</sup> The notional amount of the interest rate swaps likely subject to IBOR reform that mature after 31 December 2021 was \$1,420 million of USD LIBOR, and \$31 million of GBP LIBOR as at 31 October 2020.

<sup>11</sup> The notional amount of the cross-currency swaps likely subject to IBOR reform that mature after 31 December 2021 was \$29 million of USD LIBOR as at 31 October 2020.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 29. Fair value of financial instruments

The Company records securities, derivative financial instruments and financial instruments at fair value through profit or loss and other non-trading assets and liabilities at amortised cost less allowances or write-downs for impairment. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. The values are based upon the estimated amounts for individual assets and liabilities.

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value represents the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. Some of the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In those cases, management have estimated fair value taking into account only changes in interest rates and credit risk that have occurred since the Company acquired them or entered into the underlying contracts. These calculations represent management's best estimates based on a range of methodologies and assumptions; since they involve uncertainties, the fair values may not be realised in an actual sale or immediate settlement of the instruments.

#### Governance over the determination of fair value

Senior management oversight of the Company's valuation processes is provided through the RMC. In order to ensure that all financial instruments carried at fair value are reasonably measured for risk management and financial reporting purposes, the Company has established a governance structure and controls, such as model verification and approval, Independent Price Verification ("IPV") and profit and loss attribution analysis ("PPA"), consistent with industry practice. These controls are applied independently to the relevant Lines of Business.

The Company establishes and regularly updates 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.

#### Securities

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

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 29. Fair value of financial instruments (continued)

#### Held for trading equities

The fair value of equity securities is based on quoted prices in active markets where available. Where quoted prices in active markets are not available fair value is determined based on quoted market prices for similar securities or through valuation techniques such as discounted cash flow analysis.

#### Loans

In determining the fair value of its fixed rate and floating rate performing loans, the Company discounts the remaining contractual cash flows, adjusted for estimated prepayment, at market interest rates currently offered for loans with similar terms. Current interest rates are taken to reflect the interest rate on the loan unless there is evidence of a material change in market pricing which is taken as a change of at least 50 basis points. The value of the Company loan balances determined using this approach is further adjusted by a credit mark that represents an estimate of the credit losses in the loan portfolio. No credit mark adjustment was required as at 31 October 2020. As all the loans are all short term in nature and as there is no evidence of a material change in market pricing, fair value is assumed to equal carrying value.

#### Derivative instruments

A number of valuation techniques are employed to estimate fair value, including discounted cash flow analysis, Monte Carlo simulation and other accepted market models. These vetted models incorporate current market measures for interest rates, currency exchange rates, equity prices and indices, credit spreads, recovery rates, corresponding market volatility levels, spot prices, correlation levels and other market-based pricing factors. Option implied volatilities, an input into many valuation models, are either obtained directly from market sources or calculated from market prices. Multi-contributor pricing sources are used wherever possible. The Company calculates a Credit Valuation Adjustment ("CVA") to recognise the risk that any given derivative counterparty may not ultimately be able to fulfil its obligations. The CVA is derived from market-observed credit spreads or proxy credit spreads and the Company's assessment of the net counterparty credit risk exposure.

#### Deposits

In determining the fair value of its deposits, the Company assumes that changes in interest rates have minimal impact on fair value since all deposits are on a floating rate which reprice to market frequently. On that basis, fair value is considered to equal carrying value.

#### Securities sold but not yet purchased

The fair value of these obligations is based on the fair value of the underlying securities, which can only 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.

#### Financial instruments with a carrying value approximating fair value

Fair value is based on quoted market prices. Fair value of financial assets and financial liabilities not measured at fair value was estimated as described above and it was determined that the carrying amount is a reasonable approximation of fair value. Therefore, tables below do not include further information on fair value of financial assets and financial liabilities not measured at fair value.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 29. Fair value of financial instruments (continued)

The Company uses a fair value hierarchy to categorise financial instruments according to the inputs used in valuation techniques to measure fair value. The extent of the 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, derivative assets and derivative liabilities was as follows:

#### Fair value hierarchy as at 31 October 2020

| (US\$ in thousands)                   | Level 1          | Level 2          | Level 3  | Total            |
|---------------------------------------|------------------|------------------|----------|------------------|
| <b>Assets</b>                         |                  |                  |          |                  |
| FVOCI Debt Securities                 | 1,511,458        | 1,519,283        | -        | 3,030,741        |
| FVTPL Debt Securities                 | 69,685           | 296,245          | -        | 365,930          |
| Foreign exchange forwards             | -                | 75,956           | -        | 75,956           |
| Equity swaps                          | -                | -                | -        | -                |
| Interest rate swaps                   | -                | 7,301            | -        | 7,301            |
| Commodity swaps                       | -                | 6,339            | -        | 6,339            |
| Cross currency swaps                  | -                | 2,483            | -        | 2,483            |
| <b>Total assets</b>                   | <b>1,581,143</b> | <b>1,907,607</b> | <b>-</b> | <b>3,488,750</b> |
| <b>Liabilities</b>                    |                  |                  |          |                  |
| Securities sold but not yet purchased | 931,452          | -                | -        | 931,452          |
| Interest rate swaps                   | -                | 86,185           | -        | 86,185           |
| Equity swaps                          | -                | 27,011           | -        | 27,011           |
| Foreign exchange forwards             | -                | 58,123           | -        | 58,123           |
| Cross currency swaps                  | -                | 60,776           | -        | 60,776           |
| Futures                               | -                | 1,831            | -        | 1,831            |
| Commodity swaps                       | -                | 5,527            | -        | 5,527            |
| <b>Total liabilities</b>              | <b>931,452</b>   | <b>239,453</b>   | <b>-</b> | <b>1,170,905</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 29. Fair value of financial instruments (continued)

Fair value hierarchy as at 31 October 2019

| (US\$ in thousands)                   | Level 1          | Level 2          | Level 3  | Total            |
|---------------------------------------|------------------|------------------|----------|------------------|
| <b>Assets</b>                         |                  |                  |          |                  |
| Debt securities                       | 1,061,731        | 1,018,804        | -        | 2,080,535        |
| Trading equities                      | 544,378          | -                | -        | 544,378          |
| Foreign exchange forwards             | -                | 6,388            | -        | 6,388            |
| Equity swaps                          | -                | 2,005            | -        | 2,005            |
| Interest rate swaps                   | -                | 5,822            | -        | 5,822            |
| Commodity swaps                       | -                | 9,167            | -        | 9,167            |
| Cross currency swaps                  | -                | 35,121           | -        | 35,121           |
| <b>Total assets</b>                   | <b>1,606,109</b> | <b>1,077,307</b> | <b>-</b> | <b>2,683,416</b> |
| <b>Liabilities</b>                    |                  |                  |          |                  |
| Securities sold but not yet purchased | 846,736          | -                | -        | 846,736          |
| Interest rate swaps                   | -                | 55,209           | -        | 55,209           |
| Equity swaps                          | -                | 67,116           | -        | 67,116           |
| Foreign exchange forwards             | -                | 32,592           | -        | 32,592           |
| Cross currency swaps                  | -                | 15,198           | -        | 15,198           |
| Commodity swaps                       | -                | 8,186            | -        | 8,186            |
| <b>Total liabilities</b>              | <b>846,736</b>   | <b>178,301</b>   | <b>-</b> | <b>1,025,037</b> |

#### Significant Transfers

The Company's policy is to record transfers of assets and liabilities between fair value hierarchy levels at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Transfers are made between the various fair value hierarchy levels that result from changes in the availability of quoted market prices or observable market inputs that result from changing market conditions. There were no transfers between Level 1, Level 2 and Level 3 balances for the financial year ended 31 October 2020 (31 October 2019: no transfers).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 30. Offsetting of financial assets and liabilities

The Company does not offset any financial instrument in the Statement of Financial Position. Amounts not offset relate to transactions where a master netting agreement or similar agreement is in place with a right of offset only in the event of default, insolvency or bankruptcy, or where the offset criteria are otherwise not met.

The disclosures set out in the tables below include financial assets and financial liabilities that

- are offset in the Company's Statement of Financial Position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Statement of Financial Position.

The following tables set out the effect or potential effect of netting arrangements on the Company's financial position. This includes the effect or potential effect of rights of set-off associated with the Company's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*.

In the tables following, the Derivative values in "Gross amount" represents the carrying value of derivatives positions on the Statement of Financial Position where the derivative is subject to an enforceable master netting agreement and where the overall net position of derivatives included in that netting agreement before collateral is considered. The net amount shows the impact on the Company's Statement of Financial Position if all set-off rights were exercised. The amounts reported under "Related amounts not set off in Statement of Financial Position" represent the carrying value of non-cash collateral (in "Financial instruments") and cash collateral received which are also part of these master netting agreements.

The "Securities Lending" amount represents the carrying value of amounts lent which are subject to an enforceable master netting agreement. The amounts reported under "Related amounts not set off in Statement of Financial Position" represent the carrying value of non-cash collateral (in "Financial instruments") and cash collateral received. Collateral received is not encumbered.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 30. Offsetting of financial assets and liabilities (continued)

Amounts not offset in Statement of Financial Position 31 October 2020  
(US\$ in thousands)

|                          | Gross amount     | Amounts offset in Statement of Financial Position | Net Amount in Statement of Financial Position | Related Amounts not offset in Statement of Financial Position |                       |                 |                |
|--------------------------|------------------|---|---|---|-----------------------|-----------------|----------------|
|                          |                  |   |   | Impact of master netting                                      | Financial Instruments | Cash Collateral | Net Amount     |
| Derivative Assets        | 92,079           | -   | 92,079  | (15,786)  | -                     | 12,024          | 88,317         |
| Securities Lending       | 3,726,330        | -   | 3,726,330                                     | -   | (3,695,464)           | -               | 30,866         |
| <b>Total Assets</b>      | <b>3,818,409</b> | <b>-</b>  | <b>3,818,409</b>                              | <b>(15,786)</b>   | <b>(3,695,464)</b>    | <b>12,024</b>   | <b>119,183</b> |
| Derivative Liabilities   | 239,453          | -   | 239,453                                       | (15,786)  | (165,803)             | (3,786)         | 54,078         |
| <b>Total Liabilities</b> | <b>239,453</b>   | <b>-</b>  | <b>239,453</b>                                | <b>(15,786)</b>   | <b>(165,803)</b>      | <b>(3,786)</b>  | <b>54,078</b>  |

Amounts not offset in Statement of Financial Position 31 October 2019  
(US\$ in thousands)

|                          | Gross amount     | Amounts offset in Statement of Financial Position | Net Amount in Statement of Financial Position | Related Amounts not offset in Statement of Financial Position |                       |                 |                |
|--------------------------|------------------|---|---|---|-----------------------|-----------------|----------------|
|                          |                  |   |   | Impact of master netting                                      | Financial Instruments | Cash Collateral | Net Amount     |
| Derivative Assets        | 58,503           | -   | 58,503  | (51,946)  | -                     | -               | 6,557          |
| Securities Lending       | 3,239,877        | -   | 3,239,877                                     | -   | (3,208,219)           | -               | 31,658         |
| <b>Total Assets</b>      | <b>3,298,380</b> | <b>-</b>  | <b>3,298,380</b>                              | <b>(51,946)</b>   | <b>(3,208,219)</b>    | <b>-</b>        | <b>38,215</b>  |
| Derivative Liabilities   | 178,301          | -   | 178,301                                       | (51,946)  | -                     | (19,840)        | 106,515        |
| <b>Total Liabilities</b> | <b>178,301</b>   | <b>-</b>  | <b>178,301</b>                                | <b>(51,946)</b>   | <b>-</b>              | <b>(19,840)</b> | <b>106,515</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 30. Offsetting of financial assets and liabilities (continued)

Reconciliation to the Net amounts of financial assets and financial liabilities presented in the statement of Financial Position 31 October 2020  
(US\$ in thousands)

|                    | Net Amount       | Line Item in Statement of Financial Position | Carrying Amount in Statement of Financial Position | Amounts not in scope for offsetting | Note      |
|--------------------|------------------|--|--|-------------------------------------|-----------|
| Securities Lending | <b>3,726,330</b> | Loans and advances to banks                  | <b>1,590,582</b>                                   | <b>64,084</b>                       | <b>13</b> |
|                    |                  | Loans and advances to customers              | <b>2,475,586</b>                                   | <b>275,754</b>                      | <b>14</b> |

Reconciliation to the Net amounts of financial assets and financial liabilities presented in the statement of Financial Position 31 October 2019  
(US\$ in thousands)

|                    | Net Amount | Line Item in Statement of Financial Position | Carrying Amount in Statement of Financial Position | Amounts not in scope for offsetting | Note |
|--------------------|------------|--|--|-------------------------------------|------|
| Securities Lending | 3,239,877  | Loans and advances to banks                  | 2,126,292  | 46,460                              | 13   |
|                    |            | Loans and advances to customers              | 1,390,947  | 230,902                             | 14   |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 31. Parent bank

The smallest and largest group into which the Financial Statements of the Bank of Montreal Europe plc are consolidated is that headed by Bank of Montreal. Copies of the Group Financial Statements are available from Corporate Communications, 100 King Street West, Toronto, Ontario, Canada.

### 32. Related party disclosures

#### Directors and officers loans

As at 31 October 2020 there were no amounts outstanding, under transactions, arrangements and agreements made by the Company from those who were Directors (including connected persons) or key management personnel of the Company (31 October 2019: no amounts outstanding).

#### Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

| (US\$ in thousands)                 | As at 31 October |              |
|-------------------------------------|------------------|--------------|
|                                     | 2020             | 2019         |
| Short term employment benefits      | <b>4,813</b>     | 3,518        |
| Termination benefits                | -                | 40           |
| Defined pension contribution scheme | <b>212</b>       | 163          |
| Share based payments                | <b>1,065</b>     | 1,004        |
|                                     | <b>6,090</b>     | <b>4,725</b> |

#### Director Compensation

Key management compensation includes the following Director compensation (whether executive or otherwise) of the Company.

| (US\$ in thousands)                 | As at 31 October |              |
|-------------------------------------|------------------|--------------|
|                                     | 2020             | 2019         |
| Short term employment benefits      | <b>1,957</b>     | 1,338        |
| Defined pension contribution scheme | <b>55</b>        | 44           |
| Share based payments                | <b>305</b>       | 330          |
|                                     | <b>2,317</b>     | <b>1,712</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 32. Related Party Disclosures (continued)

#### Transactions with related parties

All transactions with the related parties are entered into on an arm's length basis. Balances outstanding from BMO Group entities and related income and expense are disclosed in the respective notes and summarised in the table below:

|                     | As at 31 October 2020 |                       |           |
|---------------------|-----------------------|-----------------------|-----------|
| (US\$ in thousands) | Parent                | Other Related Parties | Total     |
| Assets              | 33,373                | -                     | 33,373    |
| Liabilities         | 1,728,237             | 6,130,923             | 7,859,160 |
| Interest income     | 73,009                | 1,299                 | 74,308    |
| Interest expense    | 26,884                | 58,218                | 85,102    |
| Fee Revenue         | -                     | 549                   | 549       |
| Fee expense         | 9,038                 | -                     | 9,038     |

|                     | As at 31 October 2019 |                       |           |
|---------------------|-----------------------|-----------------------|-----------|
| (US\$ in thousands) | Parent                | Other Related Parties | Total     |
| Assets              | 52,197                | -                     | 52,197    |
| Liabilities         | 1,700,224             | 6,236,400             | 7,936,624 |
| Interest income     | 181,762               | 193                   | 181,955   |
| Interest expense    | 104,183               | 132,764               | 236,947   |
| Fee Revenue         | -                     | 236                   | 236       |
| Fee expense         | 9,609                 | -                     | 9,609     |

### 33. Post financial year end events

There were no significant post year end events that would require disclosure to the Company's Financial Statements at 31 October 2020.

### 34. Approval of Financial Statements

The Company's Financial Statements were authorised for issue by the Board of Directors on 29 January 2021.

## ADDITIONAL PILLAR 3 DISCLOSURES - UNAUDITED

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### Purpose of disclosures

Bank of Montreal Europe plc (“the Company”) is incorporated in Ireland and regulated by the Central Bank of Ireland (“CBI”).

The purpose of these additional Pillar 3 disclosures is to meet the regulatory disclosure requirements for the Company on capital and risk management at 31 October 2020. The Company is a wholly owned subsidiary of Bank of Montreal (“BMO”). BMO and its direct and indirect subsidiaries, including the Company, are collectively referred to herein as (“the BMO Group”).

The regulatory disclosure requirements are those outlined in the Capital Requirements Directive (the European parliament’s Directive 2013/36/EU), the Capital Requirements Regulations (the European parliament’s Regulation No 575/2013), and associated EBA Guidelines, which together are referred to throughout these disclosures as “CRD IV”.

CRD IV is organised into three complementary elements, or “Pillars”, and formalises the framework for prudential supervision of credit institutions and investment firms. Pillar 1 of CRD IV prescribes minimum regulatory capital standards for the material components of risk that firms face. Pillar 2 of CRD IV requires credit institutions and investment firms to carry out an internal assessment of the amount of capital they consider adequate to cover all of the risks to which they are, or likely to be, exposed. In addition, under Pillar 2 the relevant regulatory authority is empowered to carry out a supervisory review and evaluation process (“SREP”). Pillar 3 of CRD IV requires credit institutions and investment firms to publicly disclose key information about their underlying risk models, controls and capital positions.

The Company has adopted a formal policy to comply with the disclosure requirements laid out in CRD IV and has policies for assessing the appropriateness of the disclosures, including their verification and the frequency on which the disclosures are made. The Company’s Pillar 3 disclosures detailed in the sections below should be read in conjunction with the preceding Financial Statements which contains some Pillar 3 qualitative and quantitative information. There is no requirement for the Pillar 3 disclosures to be externally audited. However, these additional disclosures have been subject to review and verification in accordance with the internal Company Pillar 3 disclosure policy.

### Frequency

These disclosures are made on an annual basis, with the disclosures based on the financial year-end date of 31 October.

### Pillar 3 table formats

The accompanying disclosures are based on the primary European Banking Authority (“EBA”) guidelines on disclosure requirements under part 8 of regulation (EU) No 575/2013 (EBA reference: EBA/GL/2016/11). The Company has included the applicable templates as per the guidelines. The templates that are not applicable are listed in the section ‘Pillar 3 Non Applicable Templates’ below.

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

Template 14 EU CR1-D – Ageing of past-due exposures which was not applicable and Template 15 EU CR1-E – Non-performing and forborne exposures have been replaced by new EBA/GL/2018/10 Guidelines on disclosure of non-performing and forborne exposures. These are shown as Table 3: Credit quality of performing and non-performing exposures by past due days numbers and Table 4: Performing and non-performing exposures and related provisions. No comparative periods are required as this is the first year that these tables are included.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Scope of application

These Pillar 3 disclosures are prepared on an unconsolidated / individual basis. The Company is a wholly owned subsidiary of Bank of Montreal.

**Template 1: EU LI1 - Differences between the accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories**

| 31 October 2020<br><br>(US\$ in thousands)        | Carrying values as reported in published financial statements & under scope of regulatory consolidation | Carrying values of items:        |                          |                                  |  |
|---|---|----------------------------------|--------------------------|----------------------------------|--|
|   |   | Subject to credit risk framework | Subject to CCR framework | Subject to market risk framework | Not subject to capital requirements or subject to deduction from capital |
| <b>Assets</b>                                     |   |                                  |                          |                                  |  |
| Cash and balances with central banks              | 2,161,305   | 2,161,305                        | -                        | -                                | -  |
| Debt securities                                   | 3,396,671   | 3,396,671                        | -                        | -                                | -  |
| Derivative assets                                 | 92,079  | -                                | 92,079                   | -                                | -  |
| Held for trading equities                         | -   | -                                | -                        | -                                | -  |
| Loans and advances to banks                       | 1,590,582   | 16,840                           | 1,573,742                | -                                | -  |
| Loans and advances to customers                   | 2,475,586   | 275,845                          | 2,199,741                | -                                | -  |
| Current tax assets                                | 1,751   | 1,751                            | -                        | -                                | -  |
| Deferred tax assets                               | 98  | 98                               | -                        | -                                | -  |
| Property and equipment                            | 6,936   | 6,936                            | -                        | -                                | -  |
| Other assets                                      | 24,317  | 24,317                           | -                        | -                                | -  |
| <b>Total Assets</b>                               | <b>9,749,325</b>  | <b>5,883,763</b>                 | <b>3,865,562</b>         | -                                | -  |
| <b>Liabilities</b>                                |   |                                  |                          |                                  |  |
| Held for trading equities                         | 931,452   | -                                | -                        | 931,452                          | -  |
| Derivative liabilities                            | 239,453   | -                                | 239,453                  | -                                | -  |
| Deposits from banks                               | 1,552,975   | -                                | -                        | -                                | 1,552,975  |
| Deposits from customers                           | 123,534   | -                                | -                        | -                                | 123,534  |
| Debt securities in issue                          | 6,007,391   | -                                | -                        | -                                | 6,007,391  |
| Current tax liability                             | 985   | -                                | -                        | -                                | 985  |
| Deferred tax liabilities                          | 162   | -                                | -                        | -                                | 162  |
| Other liabilities                                 | 99,979  | -                                | -                        | -                                | 99,979   |
| <b>Total Liabilities</b>                          | <b>8,955,931</b>  | -                                | <b>239,453</b>           | <b>931,452</b>                   | <b>7,785,026</b>   |
| <b>Equity</b>                                     |   |                                  |                          |                                  |  |
| Share capital                                     | 10,051  | -                                | -                        | -                                | 10,051   |
| Capital contribution                              | 503,994   | -                                | -                        | -                                | 503,994  |
| Retained earnings                                 | 278,217   | -                                | -                        | -                                | 278,217  |
| OCI reserve                                       | 1,132   | -                                | -                        | -                                | 1,132  |
| <b>Total shareholders' equity</b>                 | <b>793,394</b>  | -                                | -                        | -                                | <b>793,394</b>   |
| <b>Total liabilities and shareholders' equity</b> | <b>9,749,325</b>  | -                                | <b>239,453</b>           | <b>931,452</b>                   | <b>8,578,420</b>   |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

| 31 October 2019                                   | Carrying values as reported in published financial statements & under scope of regulatory consolidation | Carrying values of items:        |                          |                                  |  |
|---|---|----------------------------------|--------------------------|----------------------------------|--|
|   |   | Subject to credit risk framework | Subject to CCR framework | Subject to market risk framework | Not subject to capital requirements or subject to deduction from capital |
| <b>(US\$ in thousands)</b>                        |   |                                  |                          |                                  |  |
| <b>Assets</b>                                     |   |                                  |                          |                                  |  |
| Cash and balances with central banks              | 3,421,219   | 3,421,219                        | -                        | -                                | -  |
| Debt securities                                   | 2,080,535   | 2,080,535                        | -                        | -                                | -  |
| Derivative assets                                 | 58,503  | -                                | 58,503                   | -                                | -  |
| Held for trading equities                         | 544,378   | -                                | -                        | 544,378                          | -  |
| Loans and advances to banks                       | 2,126,292   | 46,460                           | 2,079,832                | -                                | -  |
| Loans and advances to customers                   | 1,390,947   | 230,902                          | 1,160,045                | -                                | -  |
| Current tax assets                                | 3,901   | 3,901                            | -                        | -                                | -  |
| Deferred tax assets                               | 224   | 224                              | -                        | -                                | -  |
| Property and equipment                            | 1,353   | 1,353                            | -                        | -                                | -  |
| Other assets                                      | 12,590  | 12,590                           | -                        | -                                | -  |
| <b>Total Assets</b>                               | <b>9,639,942</b>  | <b>5,797,184</b>                 | <b>3,298,380</b>         | <b>544,378</b>                   | <b>-</b>   |
| <b>Liabilities</b>                                |   |                                  |                          |                                  |  |
| Held for trading equities                         | 846,736   | -                                | -                        | 846,736                          | -  |
| Derivative liabilities                            | 178,301   | -                                | 178,301                  | -                                | -  |
| Deposits from banks                               | 1,563,719   | -                                | -                        | -                                | 1,563,719  |
| Deposits from customers                           | 152,590   | -                                | -                        | -                                | 152,590  |
| Debt securities in issue                          | 6,083,809   | -                                | -                        | -                                | 6,083,809  |
| Current tax liability                             | 1,476   | -                                | -                        | -                                | 1,476  |
| Deferred tax liabilities                          | -   | -                                | -                        | -                                | -  |
| Other liabilities                                 | 25,905  | -                                | -                        | -                                | 25,905   |
| <b>Total Liabilities</b>                          | <b>8,852,536</b>  | <b>-</b>                         | <b>178,301</b>           | <b>846,736</b>                   | <b>7,827,499</b>   |
| <b>Equity</b>                                     |   |                                  |                          |                                  |  |
| Share capital                                     | 10,049  | -                                | -                        | -                                | 10,049   |
| Capital contribution                              | 503,994   | -                                | -                        | -                                | 503,994  |
| Retained earnings                                 | 274,549   | -                                | -                        | -                                | 274,549  |
| OCI reserve                                       | (1,186)   | -                                | -                        | -                                | (1,186)  |
| <b>Total shareholders' equity</b>                 | <b>787,406</b>  | <b>-</b>                         | <b>-</b>                 | <b>-</b>                         | <b>787,406</b>   |
| <b>Total liabilities and shareholders' equity</b> | <b>9,639,942</b>  | <b>-</b>                         | <b>178,301</b>           | <b>846,736</b>                   | <b>8,614,905</b>   |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

The table below provides information on the main sources of differences between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

### Template 2: EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

| 31 October 2020<br>(US\$ in thousands)   | Total             | Items subject to      |                  |                          |                       |
|--|-------------------|-----------------------|------------------|--------------------------|-----------------------|
|  |                   | Credit Risk Framework | CCR Framework    | Securitisation framework | Market risk framework |
| <b>1 Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)</b> | <b>9,749,325</b>  | <b>5,883,763</b>      | <b>3,865,562</b> | -                        | -                     |
| 2 Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)   | -                 | -                     | -                | -                        | -                     |
| 3 Total net amount under the regulatory scope of consolidation   | 9,749,325         | 5,883,763             | 3,865,562        | -                        | -                     |
| 4 Off-balance-sheet amounts  | 1,254,892         | 657,464               | 597,428          | -                        | -                     |
| 5 Net potential future exposures   | 77,421            | -                     | 77,421           | -                        | -                     |
| <b>6 Exposure amounts considered for regulatory purposes</b>   | <b>11,081,638</b> | <b>6,541,227</b>      | <b>4,540,411</b> | -                        | -                     |

| 31 October 2019<br>(US\$ in thousands)   | Total             | Items subject to      |                  |                          |                       |
|--|-------------------|-----------------------|------------------|--------------------------|-----------------------|
|  |                   | Credit Risk Framework | CCR Framework    | Securitisation framework | Market risk framework |
| <b>1 Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)</b> | <b>9,639,942</b>  | <b>5,797,184</b>      | <b>3,298,380</b> | -                        | <b>544,378</b>        |
| 2 Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)   | -                 | -                     | -                | -                        | -                     |
| 3 Total net amount under the regulatory scope of consolidation   | 9,639,942         | 5,797,184             | 3,298,380        | -                        | 544,378               |
| 4 Off-balance-sheet amounts  | 495,235           | 391,005               | 104,230          | -                        | -                     |
| 5 Net potential future exposures   | 226,333           | -                     | 226,333          | -                        | -                     |
| <b>6 Exposure amounts considered for regulatory purposes</b>   | <b>10,361,510</b> | <b>6,188,189</b>      | <b>3,628,943</b> | -                        | <b>544,378</b>        |

The differences between the carrying value of assets under the scope of regulatory consolidation and the exposure amounts considered for regulatory purposes can be explained by the inclusion of; the off-balance sheet exposures on corporate lending facilities and collateral swaps; and the Derivative Add on which is the amount for potential future credit exposure over the remaining life of the derivative contract, calculated by applying an Add-on factor to the notional principal amount of the derivative.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Corporate Governance

The Corporate Governance Framework (the “Framework”) sets out the leadership, direction and control of the Company. The Framework reflects best practice standards, regulatory guidelines and statutory obligations and ensures that organisation and control arrangements are appropriate for the governance of the Company’s strategy, operations and the mitigation of related material risks.

The Company considers the Board of Directors (the “Board”) to be the management body for the purposes of these Pillar 3 additional disclosures. Names of Directors are contained in the Directors’ Report and also in the Director bios contained herein.

The number of non BMO Group Directorships held by Directors in addition to the Company Directorship at the date of this disclosure is listed below:

|                  |   |
|------------------|---|
| Brian Hayes      | 2 |
| Michelle Liposky | 0 |
| John McCormick   | 1 |
| Jane Anne Negi   | 1 |
| Roslyn O’Shea    | 3 |
| Noel Reynolds    | 0 |
| William Smith    | 3 |

The Company strives to maintain appropriate levels of knowledge, expertise, skill and diversity on the Board. In reviewing the Board’s composition, the Nomination Committee will consider the benefits of having a broad range of views, experiences, skills, backgrounds and values represented on the Board. To support this, the Nomination Committee will, when identifying and nominating candidates to recommend for appointment to the Board:

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

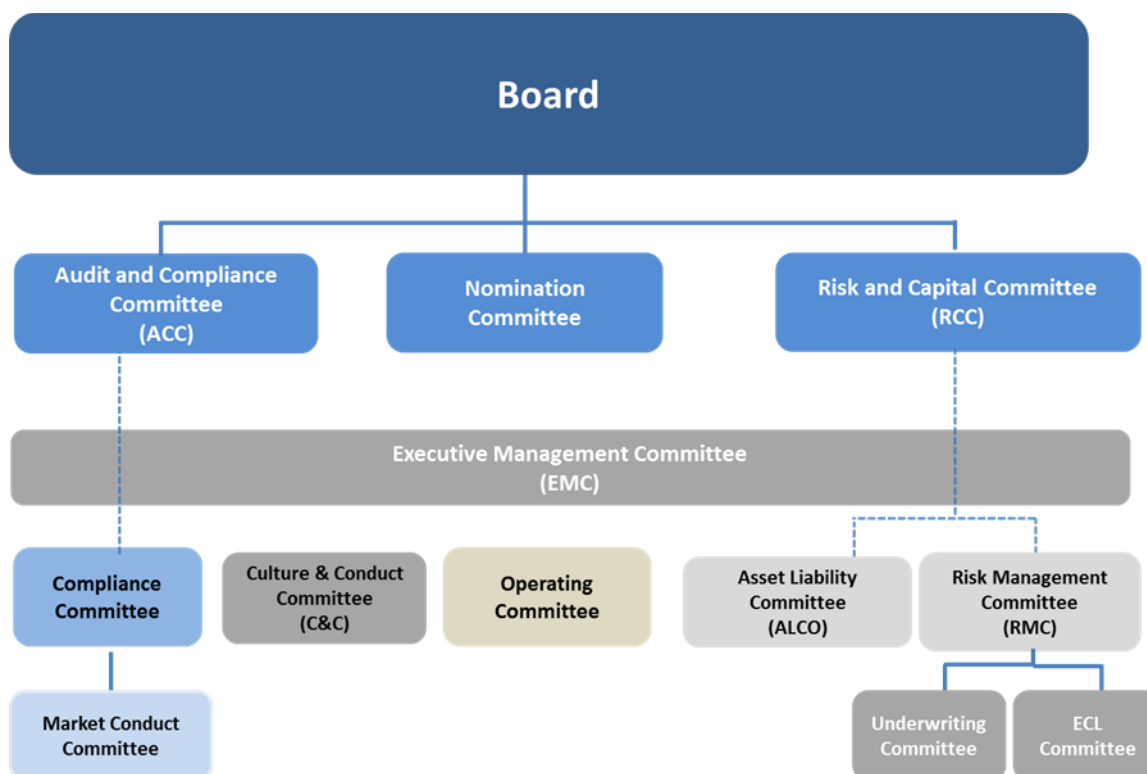
The Board Appointment Policy sets out the policy for appointments to the Board. The Board Suitability Policy ensures the suitability of all members of the Board, senior management and other “key function holders”. The Board Suitability Policy is aligned with the Company’s overall corporate governance framework, corporate culture and risk appetite. The Board Suitability Policy also establishes the process for the ongoing assessment of the individual and collective knowledge, skills and experience of the Board as well as the good repute, honesty and integrity, and independence of mind of its members. It also sets out the expectation that directors commit sufficient time to discharging their duties and that appropriate induction and training regimes are established to ensure the initial and ongoing suitability of Board members. All Board appointments will be made on merit, judged against a set of objective criteria with regard to the requirement for diversity on the Board.

The Board Diversity Policy applies to the recruitment of all directors of the Board. The Board believes that a board made up of highly qualified directors from diverse backgrounds who reflect the changing population demographics of the markets in which the Company operates, the talent available with the required expertise and the Company’s evolving customer and employee base, promotes better corporate governance. The Board aspires to have a Board composition in which each gender comprises at least one-third. Currently 43 percent of the Board is female.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

The Board is responsible for setting, approving and overseeing the Company's risk strategy and risk appetite, ensuring that it is aligned to the Company's strategic, capital and financial plans and remuneration practices. It is the responsibility of the Board to ensure that the Company's risk management function is properly resourced and carry out their responsibilities independently, objectively and efficiently. The Board met thirteen times in the 2020 fiscal year.

The Governance and Committee Structure in place during fiscal 2020 is depicted below:



In order to ensure all material risks are being appropriately monitored and managed the Board reviews the charters and mandates for the Company's Committees on an annual basis to ensure that the Committees in place remain fit for purpose in line with business environment developments.

The Audit and Compliance Committee ("ACC") is responsible for assisting the Board in fulfilling its oversight responsibility for the integrity of the Company's financial reporting, the effectiveness of internal controls, the performance of its corporate audit and independent audit function, the independent auditor's qualifications and independence, the Company's compliance with legal and regulatory requirements, transactions involving related parties, conflicts of interest and confidential information, and standards of business conduct and ethics. The ACC met five times in the 2020 fiscal year.

The Risk and Capital Committee ("RCC") is responsible for assisting the Board in fulfilling its responsibilities for oversight of the Company's risk management framework, including the policies and processes used to manage credit, market, capital management, funding and liquidity, operational and other relevant risks; and the Company's management of those risks. The RCC also advises the Board on the Company's risk appetite for future strategy (taking account of the Board's overall risk appetite), the Company's current capital position and the Company's capacity to manage and control risks within the agreed strategy. The RCC met six times in the 2020 fiscal year.

The RCC delegates responsibility for the monitoring and management of specific risks to management committees accountable to it. These management committees are the Risk Management Committee and the Asset and Liability Committee. The mandates for each of these management committees are reviewed regularly by the EMC.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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In the event of any perceived overlap between the ACC and the RCC, the respective committee chairs agree the most appropriate committee to consider the matter, or the chairs shall agree to hold a joint meeting of the two committees. The RCC & ACC did not meet jointly in the 2020 fiscal year.

The Nomination Committee is responsible for leading the process for appointments to the Board, ensuring the existence of a formal and transparent policy for the appointment of new Directors and that a robust fitness and probity framework is in place. The Nomination Committee is also responsible for reviewing the current structure, size, composition and performance of the Board and each of its committees. The Nomination Committee shall, annually, perform a Board collective suitability assessment to ensure that the Board possesses adequate knowledge, skills and experience to be able to understand the Company's activities, including the main risks to its business. The Nomination Committee is also responsible for performing an annual assessment of the continued independence of the Company's INEDs. The Nomination Committee met four times in the 2020 fiscal year.

The Executive Management Committee ("EMC") is the senior management committee, responsible for overseeing the day-to-day operations and control of the business of the Company in line with implemented policies and procedures. On a monthly basis, the EMC reviews the Company's business performance delivery against plans, new business opportunities, ensuring consistency with the Company's strategic goals, operating plans and values, and receives reports from the Company's Chief Financial Officer, Chief Risk Officer, Chief Operations Officer, Corporate Treasurer and Chief Compliance Officer.

The Risk Management Committee ("RMC") is accountable for oversight and governance of risk impacting the Company, including the major risk categories, credit, market, liquidity, operational and business risk. The RMC supports the RCC in fulfilling its responsibilities as set out in the RCC charter. The RMC accomplishes this by ensuring that material risks arising from Company's operations are appropriately identified, managed, measured, monitored and reported. The RMC meets at least ten times a year according to its mandate.

The Asset and Liability Committee ("ALCO") is responsible for assisting the RCC in fulfilling its oversight responsibilities with regard to the Company's balance sheet management including the policies and processes used to manage funding and liquidity, capital management, risks impacting those financial resources and controls to mitigate those risks. The ALCO meets monthly.

The Compliance Committee ("CC") is accountable for oversight and governance of compliance risk impacting the Company. The CC operates under delegated authority from the ACC and supports the ACC in fulfilling its responsibilities as set out in the ACC charter. The CC accomplishes this by ensuring that compliance risks arising from the Company's operations are appropriately identified, managed, measured, monitored and reported in line with the Company Compliance Framework. The CC meets monthly.

The Operating Committee ("OpCo") has been charged by the EMC to provide oversight in relation to Operations, Information Technology/Information Security, Outsourcing, Facilities and Business Continuity as well as the Company's Policy & Procedures Frameworks. The OpCo meets every two months.

The Culture & Conduct Committee ("C&C") has been charged by the EMC to provide oversight in relation to culture broadly and conduct issues specifically within the Company. The C&C meets quarterly.

There are a number of Management Committee sub-committees in the Company.

- The Market Conduct Committee is a committee chaired by the CCO, reporting into the CC to address any conduct risk and in particular market conduct risk issues that arise at BME.
- The Expected Credit Loss ("ECL") Committee is a committee chaired by the CRO, reporting to the RMC which meets at least on a quarterly basis to consider the appropriateness of the IFRS 9/ECL allowances which are included in BME's financial reporting.
- The Underwriting Committee has been established in anticipation of BME expanding in to Debt Capital Market activities. This Committee reports into the RMC.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### **Biographies of Board Members**

The Company recognises the importance of a Board with the appropriate balance of skills, experience and diversity, and the composition of the Board is reviewed annually by the Board Nominations Committee. The skills and experience of the Directors who held office during fiscal 2020 and the relevance for the Board are detailed below.

#### **Mark Caplan Executive Director**

Mark Caplan joined the Board on 20 August 2019 as an Executive Director and the Chief Executive Officer of the Company. He resigned from the Board on 31 October 2020.

Mark has over 30 years of experience in finance, with a breadth of experience in leading wholesale financial services businesses in Canada and internationally.

Most recently, Mark served as President of the Global Risk Institute in Financial Services, a public private not-for-profit aimed at strengthening risk management practices throughout the financial services industry globally. Mark was previously the Regional Head of Scotiabank's European operations. Prior to Scotiabank, he worked in a senior capacity for the Bank of Canada and is a former member of the Monetary Policy Review Committee and the Financial System Review Committee. He was also a longstanding executive at BMO Capital Markets.

Mark has significant European executive experience having spent 6 years at Scotiabank in London as The Bank of Nova Scotia's Managing Director and Head of Europe, Global Banking and Markets, as well as Chief Executive Officer, Scotiabank Europe plc, a PRA and FCA regulated financial services institution in the UK. In that role, Mr. Caplan gained significant experience in European banking regulations, including those issued by the European Banking Authority, the Basel III reforms, CRD IV, EMIR and MiFID II, as well as significant Europe-specific experience in strategy and strategic planning. In his capacity as CEO of Scotiabank Europe plc, he was an approved person by both the PRA and FCA, and subsequently became an SMF under the Senior Managers' Regime.

Mark holds an Honours Bachelor of Arts in Business Administration from the Richard Ivey School of Business. He is a Distinguished Fellow of the Munk School of Public Policy and Global Affairs at University of Toronto. Mark is Vice Chair of the Investment Committee of the Jewish Foundation of Greater Toronto and a member of the Investment Committee of the Perimeter Institute for Theoretical Physics.

Mark's key skills and experience includes Capital Markets, Governance, Strategy, Compliance, Risk Management, Capital, Funding and Liquidity Management, Financial Services Regulation, Operations, Executive Management Oversight.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### **Brian Hayes Independent Non-Executive Director**

Brian Hayes has been an independent Non-Executive Director since 2015. Brian is the current Chair of the Board, appointed on 20 June 2019 and the former Chair of the Risk & Capital Committee. Brian is currently a member of the Risk & Capital Committee and the Nomination Committee. Brian is a former member of the Audit & Compliance Committee.

Brian has significant experience in executive and non-executive functions at senior level over his career in financial services and in business. He was formerly a Managing Director and Board Director of Citibank Europe plc, was on the executive management committee and had a range of senior leadership positions. He was also Chair of an FS Governance, Risk and Compliance Technology Centre, Chair of a University Educational Trust and Chair of a payment technology solutions company. He recently joined the board of a property development and investment company. He is also a mentor to companies in Ireland.

Brian has worked as a Treasury/Capital markets executive originating and distributing debt instruments including CP, MTNs and structured financial engineering/structured products while at Citi, as well as being a lending officer and working on advisory mandates with customers. He has also led a transaction services business and the set-up of an FS innovation lab and its associated governance.

Brian has an M.Sc. in Investment and Treasury (MIT) Hons, from DCU and has also lectured part-time on this program to industry practitioners for 2 years. This academic training covered inter alia Capital markets, Fixed Income and Derivatives and pricing models, Corporate Finance, Portfolio Management / Asset Management and the associated derivative products and well as Real Estate Valuation and Management.

Brian's key skills and experience include Governance, Strategy, Treasury and Capital Markets, Compliance, Funding and Liquidity Management, Risk Management, Operations and Executive Management Oversight.

### **Michelle Liposky Non-Executive Director**

Michelle (Shelly) Liposky joined the Board on 5 April 2019 as a Non-Executive Director of the Company. Shelly is a member of the Risk & Capital Committee and the Audit & Compliance Committee.

Shelly is a Managing Director in BMO Capital Markets where she leads a global team responsible for the first line of defence including AML, Business Unit Compliance, Operational Risk, Continuity & Crisis Management and Algorithm Risk. The mandate includes preventing loss due to failure in process, people and systems and ensuring the execution of trading and investment banking businesses in compliance with applicable regulations.

In addition, she is focused on integrating data with machine learning and AI to enhance the way we work and make decisions and to focus on real versus perceived risk. She leverages similar technology applied in a different way to design process and organisational efficiencies, influencing across the organisation.

Previously, Shelly was the COO for US Trading Products where she was responsible for working across businesses and corporate areas on initiatives including the sale of GKST, US liquidity and funding reporting, funding and balance sheet management operating model, and Fed remediation.

Shelly has 25 years of experience across industries, most recently as a COO at Barclays with global responsibility across Capital Markets and Wealth businesses. She has a unique blend of experience in sell-side M&A, corporate infrastructure, Risk and in leading large scale regulatory, business and M&A transformations, including the integration of Lehman Brothers, sale of Barclays Global Investors, and efficiency initiatives such as offshoring and vendor consolidation.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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Shelly earned an MBA from Columbia Business School, an MS from Johns Hopkins University, and a BS from Penn State University. She holds FINRA Series 7 and 63 licenses.

Shelly's key skills and experience includes Capital Markets, Governance, Strategy, Compliance, Risk Management, Financial Services Regulation, Operations and Executive Management Oversight.

### **John McCormick Independent Non-Executive Director**

John McCormick joined the Board on 4 September 2019 as a Non-Executive Director of the Company. John was appointed Chair of the Risk & Capital Committee on 20 November 2019. John is also a member of the Audit & Compliance Committee and the Nomination Committee.

John was previously an independent non-executive director of National Bank of Greece. He chaired the Remuneration & Human Resources committee and was a member of the Strategy & Transformation committee, and also the Ethics & Culture committee.

John is also the former Chairman of Asia Pacific for Royal Bank of Scotland Group plc, and its former CEO of Global Banking & Markets. During a 35 year global banking career, he led businesses across multiple global and regional banking platforms, including retail, commercial and wholesale banking; investment banking, wealth management & private banking; merchant banking; trust and leasing companies. He has lived and operated on four continents, including Europe, USA, Asia Pacific & Middle East. John possesses very strong Asia Pacific experience (2005 – 2013) in Hong Kong, Singapore, India, Greater China, South East Asia, Japan and Australia.

John has retail banking experience, having led retail banks in 10 countries across Asia Pacific, and having sat on the Executive Committee of Coutts & Co. He also has strong wealth and asset management experience, through Coutts & Co. and RBS, which had multi-billion \$ AUM, and an Asia Pacific banking balance sheet of £160bn (\$230bn).

John is an experienced board director having served as the Senior Independent Director and Chair of the Audit Committee of AIM-listed Lombard Risk Management plc to March 2018. In March 2018, LRM plc was sold to Vermeg (French Private Equity firm) at a 72% premium to the volume weighted average share price when compared to the previous year.

As an Executive Business Coach, John coaches, mentors and facilitates senior executives including high level C Suite executive in financial services, public sector and general industries. He coaches in the UK, Ireland and Middle East. An Irish citizen, he holds a permanent residency permit for Hong Kong.

John's key skills and experience includes Capital Markets, Governance, Strategy, Compliance, Risk Management, Capital, Funding and Liquidity Management, Financial Services Regulation, Operations and Executive Management Oversight.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### **Jane Anne Negi Executive Director**

Jane Anne Negi joined the Board on 24 May 2019 as an Executive Director and was appointed Chief Executive Officer of the Company 18 September 2020 having previously been Deputy Chief Executive Officer of the Company.

Jane Anne previously worked as BMO Head of Strategic Initiatives EMEA where she was responsible for providing strategic and operational leadership on key governance and business initiatives. Jane Anne was responsible for the planning and execution of BMO's Brexit strategy.

Jane Anne has provided leadership and coordination for major business, legal and regulatory projects. She has held positions of responsibility on boards and senior management committees where she was responsible for developing and overseeing the execution of the business's local strategy and providing strong leadership and management. Most recently Jane Anne has been a member of the BMO London Management Committee, which has responsibility for the oversight and governance of BMO London Branch.

Jane Anne has 28 year of Financial Services experience, and has provided leadership and coordination for major business, legal and regulatory projects at several multinational banking institutions. She has held positions of responsibility on boards and both board and senior management committees where she has been responsible for developing and overseeing the execution of the business strategy and providing strong leadership and management.

Jane Anne is a qualified lawyer and has extensive experience of providing specialist technical advice on a variety of capital markets and banking transactions, including FICC, Equities, Structured Products and Corporate Lending and Investment Banking.

Jane Anne's key skills and experience includes Capital Markets, Governance, Strategy, Compliance, Risk Management, Financial Services Regulation, Operations and Executive Management Oversight.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### **Roslyn O'Shea Independent Non-Executive Director**

Roslyn ("Ros") O'Shea has been an Independent Non-Executive Director of the Board since 2017.

Ros is the current Chair of the Audit & Compliance Committee, a member of the Risk & Capital Committee and also chairs the Nomination Committee.

Ros joined the Board to enhance the Company's collective cultural development, compliance and governance skills, knowledge and experience. Ros was previously Head of Compliance and Ethics at CRH plc with responsibility for all aspects of Group compliance including the design, delivery and embedding of the Group compliance programme. Ros reported to the Audit Committee Chair and was an advisor to the Board on all aspects of corporate reputation and business ethics. She implemented a change management programme across Europe, the US and Asia, incorporating Business Conduct, Anti-Corruption, Anti-Fraud and Competition Law modules with related training for over 40,000 employees worldwide.

Ros also lectures on risk, governance and compliance for the UCD Smurfit Graduate School of Business and the Institute of Banking. She lectures on the Professional Diploma in Corporate Governance and in particular delivers the "Role of the Board and Culture and the Board" module. Since joining the Board Ros has been conferred with the Certified Bank Director designation from the IOB. These roles have given her key governance, risk management and compliance skills.

She is a partner in Acorn Governance Solutions, a consulting firm providing advice and leadership training on governance, risk, compliance and business ethics to clients in the private, public and the not-for-profit sectors. Ros also sits on the boards of BlackRock's funds in Ireland, the Food Safety Authority of Ireland and Pieta House, where she also chairs the Risk, Audit & Finance committee. She also chairs the PwC Ireland Alumni Association. Through her not-for-profit and consulting work, Ros has gained significant knowledge of the oversight of Executive Management and reputation management. She is also author of the book "Leading with Integrity – a Practical Guide to Business Ethics". She has developed a strong understanding of regulatory frameworks.

Ros' key skills and experience includes Governance, Internal Audit, Strategy, Compliance, Risk Management, Financial, Culture, Conduct and Executive Management Oversight.

### **Noel Reynolds Executive Director**

Noel Reynolds has been an Executive Director and Chief Financial Officer of the Company since 2015.

Before joining the Company, Noel was Chief Financial Officer and Executive Director with DEPFA BANK plc and prior to that he held a number of senior financial management positions in the DEPFA Group including Chief Operations Officer and Executive Director of DEPFA ACS BANK. He is a qualified accountant with over 20 years of banking experience at Board and senior management level. Noel is a Fellow of the Association of Chartered Certified Accountants, a member of the Institute of Banking and the Institute of Directors and is a Chartered Director since September 2014.

Noel has a comprehensive knowledge of financial reporting, management reporting, regulatory reporting, taxation and compliance. Through his positions on various boards he has a strong understanding of governance and ensuring effective frameworks for financial institutions.

As the Company's Chief Financial Officer, Noel is one of the senior executive responsible for developing the Company's strategy. He has a very good understanding of governance, strategic development and the management of financial and reputation risk.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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Since being designated as the Board director responsible for cybersecurity, Noel has attended a number of training sessions aimed at deepening his knowledge and understanding of IT Risk (including cybersecurity risk).

Having also previously held the position of Chief Operating Officer for the Company, Noel has significant experience of managing operational and settlement risk within the Company. Noel also had oversight over the Company's Outsourcing Framework and has a good understanding of managing outsourcing risk. He understands the Company's operations and, through his previous role as Chief Operating Officer of DEPFA BANK, has strong operations experience.

Noel's key skills and experience includes Capital Markets, Governance, Internal Audit, Strategy, Compliance, Financial, Capital, Funding and Liquidity Management, Technology and Operations.

### **William Smith Non-Executive Director**

William ("Bill") Smith has been a member of the Board since 2011 and is currently a Non-Executive Director and former Chair of the Board. Bill is also a member and former Chair of the Nomination Committee.

Bill is currently MD & Head of International Capital Markets which includes the EMEA and Asia regions. He is on the BMO CM Executive Committee, is Chair of BMO ChinaCo and maintains governance accountability for EMEA.

In his role as Head of International, Bill is responsible for BMO Group's businesses in the EMEA and Asia regions. He has overall responsibility for the delivery of the International Capital Markets strategy and, in his role on the Board, oversight of the execution of the Company's strategy. In the delivery of the EMEA Capital Markets strategy, he has a strong understanding of the various lines of business, including the new businesses that will be transferring to the Company.

Bill has sat on the boards of BMO's material European subsidiaries since 2011, gaining valuable governance and strategic experience. As Head of EMEA, Bill is responsible for overseeing the European senior management. Bill is the Chief Executive Officer of BMO Capital Markets Limited (UK Broker-Dealer regulated by the FCA) and the Chair of the London Branch Executive Committee, the management committee responsible for the oversight of Bank of Montreal, London Branch (regulated by the FCA and PRA).

In his role as Head of International he is also responsible for the oversight of the Company's senior management, including the CEO.

Prior to his current appointment, Bill was Head of Investment and Corporate Banking in London where he was responsible for a wide range of transactions in the EMEA region including M&A, strategic advisory, credit, equity and debt financing. He oversaw a team of 13 professionals responsible for business origination and execution. He has a detailed knowledge of trading products, corporate lending and investment banking.

Before joining BMO Capital Markets, Bill gained 17 years of investment banking experience working in London, Toronto and Tokyo for Royal Bank of Canada and Bayerische Hypo und Vereinsbank AG. On the trading products side, this work included fixed income, derivatives, foreign exchange and credit. In relation to investment banking and corporate lending, Bill was responsible for the origination and execution of mergers & acquisitions, advisory, equity and debt finance products to corporate and government clients. During this time, he also gained an excellent understanding of financial regulation and capital, funding and liquidity management.

## **ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)**

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Through his executive roles and his knowledge of BMO's business, Bill has a significant experience of managing strategic, market, credit and reputation risk.

Bill's key skills and experience include Capital Markets, Governance, Strategy, Compliance, Financial, Capital, Funding and Liquidity Management, Financial Services Regulation and Executive Management Oversight.

### Risk Governance

#### Overall Risk Profile associated with the business strategy

As the BMO Group's only fully licenced bank in Europe, the Company uniquely holds passporting rights to do business, including loans and derivatives, in all jurisdictions across the European Union ("EU"). As such, the Company is an integral part of the BMO Group's strategic and operating infrastructure, acting as the BMO Capital Markets ("BMO CM") European banking platform. The Company transacts on its own account, and within its own risk appetite, with local and franchise clients and counterparties in Europe, North America and Asia on a wide range of Fixed Income, Currency, Commodity, Equity and Corporate Banking products. As a licensed bank regulated by the CBI, the Company also has full access to the European Central Bank standing facilities and is therefore also uniquely placed within the BMO Group to perform Euro-area funding and liquidity management.

The BMO CM platform covers Corporate Banking and Global Markets activities.

The Company covers three lines of business: Fixed Income, Currency and Commodities ("FICC"), Global Equity Products ("GEP") and Corporate Banking ("CB"). The FICC and GEP lines of business are part of Global Market activities.

The Board ensures that the Company's business strategy is supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale, complexity and risk profile of its activities.

The Board reviews the Company's Risk Appetite Statement ("RAS") in parallel with the annual business strategy and Risk Materiality Assessment ("RMA") updates to ensure that it is aligned to the business strategy and that all material risks were adequately represented. Both the internal economic and regulatory normative perspectives of risk capacity are considered as part of this review.

The overall low risk profile of the Company is captured through key metrics contained in the RAS which is reviewed quarterly by Board. Red/Amber/Green thresholds are defined for each metric, in line with the Risk Appetite, to allow easy identification of elevated risk and for management actions to be implemented if required.

Key metrics in the RAS ensure that:

- The Company is well capitalised. The CET1 capital ratio which provides a measurement of tier 1 capital 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.
- The Company remains well-funded. The Liquidity Coverage Ratio, representing the minimum liquidity requirements as set by the CBI, remains comfortably above minimum thresholds.
- The Company is not exposed to significant market risk. It's 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.
- The Company is not exposed to significant levels of Credit Risk. Daily monitoring of exposures against approved limits, combined with daily collateral margin calls significantly mitigate counterparty credit risk. The pillar 2 assessment of Credit Risk, represented through the holding of risk capital, remains well within thresholds.
- The Company is not exposed to significant levels of Operational Risk. Operational Risk is measured using various inputs that include the ongoing consideration of the business environment and internal control framework, that includes examination of significant operational risk events and related root causes.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Risk Management

The Company's risk governance structure is set out in the Governance and Committee Structure described in the Corporate Governance section above.

The Company's risk management function is led by the Chief Risk Officer ("CRO") and operates under a clearly defined mandate, approved by the Board's RCC. The CRO reports directly to the Company's Chief Executive Officer and functionally to the BMO Group CRO EMEA. The CRO is accountable for the execution of the function's mandate and as such for prudent management of the Company's risks. The CRO is a member of the Company's management team and is the chair of the RMC. The CRO informs and advises the RCC and the Board periodically and as deemed necessary on risk-related topics and has direct access to the Chair of the Board.

Within the larger organisational governance framework, the RMC has a mandate to review all relevant risk related matters and decide on an appropriate course of action if required/within its remit. The committee is chaired by the CRO or delegate and meets at least monthly. The RCC is the most senior decision body on risk management related matters prior to the Board and is informed by the CRO. The Chair of the RCC provides updates to the Board on a quarterly basis.

Reporting to the CRO are specialist risk managers covering each major risk type – Credit, Market and Liquidity, Operational and Model Risk. The Risk Management team are part of a broader European Risk footprint under the leadership of the BMO Group CRO EMEA.

### Risk Framework and Culture

The Board is responsible for setting the risk appetite for the Company and ensuring it is consistent with the business strategy and risk capacity of the Company and also consistent with that of the BMO Group. Each year a RMA is performed which informs the selection and calibration of the RAS. Limits and Key Risk Indicators ("KRIs") are set to ensure that risks remain within the defined risk appetite tolerance and that the Board and senior management are aware of the risk profile.

Actions to be taken when stated risk limits are breached, including escalation procedures and Board notification, are codified in the Risk Appetite Framework ("RAF"). Communication and education about the risk management framework and the development of skilled, professional risk managers helps to create a strong and appropriate risk culture within the Company.

Underpinning all aspects of the Company's strategy and operations is the promotion of a culture of integrity and high ethical standards aimed at sustaining a strong self-governing culture based on the BMO Group's code of conduct and core values. The Company fosters an atmosphere where employees are comfortable with providing effective challenge and the self-identification of potential/actual issues and take proactive action to mitigate risk.

In addition, remuneration systems are designed to promote strong performance, embed acceptable risk-taking behaviour and reinforce the Company's operating and risk culture. The Board has overall responsibility for governance and corporate culture.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Risk Profile and Business Strategy

The Company's business strategy stems from the following four overarching objectives:

- Grow the client footprint. Increase the proportion of profit attributable to client activity.
- Implement and effectively integrate the identified new post-Brexit business and seek out new opportunities.
- Improve capital efficiency and availability.
- Effectively deploy our increased human capital while maintaining high standards of conduct and engagement.

The Company's Risk Management Framework is the framework through which the Board and senior management help to guide its strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure and manage risks. The Framework establishes the principles and standards, control structures and processes for managing and controlling risk to the Company's earnings, capital, liquidity and reputation arising from all activities.

The RAF provides the structure under which the RAS is produced. It enables the Company to better manage all major risk categories identified by facilitating the translation of risk metrics and methods into strategic choices, reporting, and day-to-day business decisions. The RAF consists of the following constituent parts:

- The Risk Register
- The Risk Materiality Assessment
- The Risk Appetite Statement and Dashboard

The RAF is a key component of aligning overall corporate strategy, capital allocation, and risk.

### Risk Appetite Statement

The RAS is the articulation of the aggregate level and types of risk that the Company 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 Company's RMA, strategic planning, capital, liquidity and financial planning processes. The RAS is reviewed and approved at least annually by the Board.

### Stress Testing

The Company applies a forward-looking risk management approach utilising stress testing to identify potential vulnerabilities, thus allowing the Company to take pre-emptive steps and adjust its business strategy, risk strategy and risk appetite as necessary. The Stress Testing Program ("STP") comprehensively describes the scope of stress testing and the associated infrastructure, processes and governance.

At the heart of the Company's STP is the Enterprise-wide Stress Test ("EWST"). This is a systemic scenario stress test conducted across risk types that examines the impact of severe (remote but plausible) scenarios on the Company's exposures and profitability. It is used in:

- determining the stress impact on the Company's capital and liquidity;
- identifying potential vulnerabilities and to allow for timely mitigating actions; and
- assessing if the scenarios continue to be fit for purpose in the longer term.

Results of these stress tests are reviewed quarterly by the RCC. In addition, the results of daily market and liquidity stress tests, including stressed VaR and hypothetical stress scenarios, are managed within the Company risk limit framework.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Risk Systems

The Company leverages BMO Group systems for the provision of risk metrics. All services provided by the BMO Group are managed via Service Level Agreements (“SLAs”) which are monitored and assessed on an ongoing basis.

### 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 Risk Management Corporate Policy.

The Company employs the three lines of defence operating model:

- The first Line of defence includes the Lines of Business who own the risks which are created in pursuit of their mandates and are responsible for ensuring these risks are within the Company’s risk appetite, and for appropriately assessing and effectively managing all of these risks to ensure they comply with and operate within limits. Corporate Support Areas may, when not acting as the second line of defence, be the first line of defence for risks inherent in or generated by the pursuit of their mandate.
- The second line of defence is provided by the Company’s Chief Risk Officer and the Risk Management team along with other Corporate Support Areas. These groups provide independent oversight, effective challenge and independent assessment of risk and risk-taking activities to ensure compliance and effective risk management. They establish corporate risk management policies, infrastructure, processes and practices that address all significant risks across the Company.
- The third line of defence is Corporate Audit, which monitors the efficiency and effectiveness of the Company’s internal controls, risk management systems and processes, including the first and second lines of defence, and the risk governance framework, thereby helping the Board and senior management protect the Company and its reputation.

### 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. The Company’s monitoring and reporting activities cover all risk types (including Market, Credit, Liquidity & Funding 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 RMC highlighting any material risk issues.
- Quarterly reports provided to the RCC and 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.
- 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.

## **ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)**

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### **Declaration by the management body on the adequacy of risk management arrangements**

The Board is satisfied that the Company's risk management arrangements are adequate and aligned to the Company's objectives, the risk management strategy and commensurate with the Company's risk appetite and current risk profile.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Capital Management

#### Supervision

The Company is supervised by the CBI and holds a full banking licence.

#### Capital – Key ratios

The Company's capital management policy ensures that the Company has sufficient capital to cover the risks of its business and support its strategy and complies with regulatory capital requirements. The Company's capital and key ratios are set out in the Financial Statements Note 26 Risk Management.

#### ICAAP

The Company's Internal Capital Adequacy Assessment Process ("ICAAP") is an on-going assessment of the risk and capital position of the Company. An understanding of the Company's risk profile and capital needs facilitates the articulation of the Company's risk appetite and tolerances and thereby informs the Company's capital and business strategy. The intent of the ICAAP is to ensure and demonstrate that the Company is adequately capitalised to support the strategic objectives and material risks under business as usual and stressed conditions.

The guiding principles of the Company's ICAAP are:

- **Proportionality:** It is proportionate to the risk level, complexity and scale of the Company's activities.
- **Forward-Looking:** It considers not only the existing risks faced but also the potential risks including those arising from Brexit 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 Company has robust risk management systems and possesses sufficient internal capital at all times.
- **Evolving-nature:** It is continuously monitored for its efficacy and need for improvement given changes in the risk profile and business plans.

As part of the ICAAP processes, the Company seeks to ensure that:

- All material risks faced by the Company 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 Company.
- All Regulatory Capital and Internal Capital demands are considered and compared to Available Capital, including under stress tests, when setting target capital ratios.
- The Company has sufficient Available Capital and identified practical management actions to assist it in withstanding severe but plausible stresses.
- The Company exceeds Regulatory Capital requirements and meets or exceeds target capital ratios.
- The outputs of the ICAAP process feed back into business strategy and capital planning and the Company's Recovery Plan.

The capital requirements for Pillar 1 and Pillar 2 are set out in the Capital Requirements Assessment section. Further detail on the Pillar 1 and Pillar 2 requirements are discussed in the following sections.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Regulatory Capital

The Company's own funds consist as at 31 October 2020 solely of CET1, which comprised equity share capital, audited profit and loss and other reserves which has been externally verified by the Company's auditors. The Company 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 statements. The table below outlines the component parts of regulatory capital with further details of capital instruments, adjustments, deductions and filters in line with the prescribed template provided in Article 4 of commission regulation (EU) No.1423/2013.

| Regulatory own funds disclosure. CRD IV, Annex IV - Reference        |   | 2020           | 2019           |
|--|---|----------------|----------------|
|  |   | US\$000's      | US\$000's      |
| <b>Common equity tier 1 (CET1) capital: Instruments and reserves</b> |   |                |                |
| 1  | Capital instruments and the related share premium accounts  | 10,051         | 10,049         |
|  | of which:   |                |                |
|  | Ordinary stock  | 10,051         | 10,049         |
|  | Deferred stock  | -              | -              |
|  | Treasury stock  | -              | -              |
|  | Share premium   | -              | -              |
| 2  | Retained earnings   | 278,217        | 274,549        |
| 3  | Accumulated other comprehensive income (and other reserves)   | 505,126        | 502,808        |
| 3a   | Funds for general banking risk  | -              | -              |
| 4  | Amount of qualifying items per Article 484 (3) and related share premium accounts subject to  | -              | -              |
| 5  | Minority interest (amounts allowed in consolidated CET 1)   | -              | -              |
| 5a   | Independently reviewed interim profits net of any foreseeable charge or dividend  | -              | -              |
| <b>6</b>   | <b>Common equity tier 1 (CET 1) capital before regulatory adjustments</b>   | <b>793,394</b> | <b>787,406</b> |
| <b>Common equity tier 1 (CET1) capital regulatory adjustments</b>    |   |                |                |
| 7  | Additional value adjustments /other   | (3,968)        | (3,040)        |
| 8  | Intangible assets (net of related tax liability)  | -              | -              |
| 9  | Empty set in the EU   | -              | -              |
| 10   | Deferred tax asset that rely on future profitability excluding those arising from temporary   | -              | -              |
| 11   | Fair value reserves related to gains or losses on cash flow hedges  | -              | -              |
| 12   | Negative amounts resulting from the calculation of expected loss amounts  | -              | -              |
| 13   | Any increase in equity that results from securitised assets (negative amount)   | -              | -              |
| 14   | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing   | -              | -              |
| 15   | Defined-benefit pension fund assets   | -              | -              |
| 16   | Direct and indirect holdings by an institution of own CET1 instruments  | -              | -              |
| 17   | Direct, Indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution                             | -              | -              |
| 18   | Direct, Indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) | -              | -              |
| 19   | Direct, Indirect and synthetic holdings by the institution of the CET1 Instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)           | -              | -              |
| 20   | Empty set in the EU   | -              | -              |
| 20a  | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative  | -              | -              |
| 20b  | of which: qualifying holdings outside the financial sector  | -              | -              |
| 20c  | of which: securitisation positions  | -              | -              |
| 20d  | of which: free deliveries   | -              | -              |
| 21   | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions of 38 (3) have been met.  | -              | -              |
| 22   | Amount exceeding the 15% threshold  | -              | -              |
| 23   | of which: direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities  | -              | -              |
| 24   | Empty set in the EU   | -              | -              |
| 25   | of which: deferred tax assets arising from temporary differences  | -              | -              |
| 25a  | Losses for the current financial year   | -              | -              |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

| Regulatory own funds disclosure. CRD IV, Annex IV - Reference  |   | 2020           | 2019           |
|--|---|----------------|----------------|
|  |   | US\$000's      | US\$000's      |
| 25b  | Foreseeable tax charges relating to CET1 items  | -              | -              |
| 26   | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subjects to pre CRR-treatment  | -              | -              |
| 26b  | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR   | -              | -              |
| 27   | Qualifying T2 deductions that exceed the T2 capital of the institution  | -              | -              |
|  | Adjustments under IFRS 9 Transitional arrangements  | -              | -              |
| <b>28</b>  | <b>Total regulatory adjustments to Common equity tier 1 (CET1)</b>  | <b>(3,968)</b> | <b>(3,040)</b> |
| <b>29</b>  | <b>Common equity tier 1 (CET1) capital</b>  | <b>789,426</b> | <b>784,366</b> |
| <b>Additional Tier 1 (AT1) Capital: instruments</b>            |   |                |                |
| 30   | Capital instruments and the relates share premium accounts  | -              | -              |
| 31   | of which; classified as equity under applicable accounting standards  | -              | -              |
| 32   | of which; classified as liabilities under applicable accounting standards   | -              | -              |
| 33   | Amount of qualifying items referred to in Articles 484 (4) and the related share premium accounts subject to phase out of the AT1   | -              | -              |
| 34   | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties   | -              | -              |
| 35   | of which; instruments issued by subsidiaries subject to phase out   | -              | -              |
| <b>36</b>  | <b>Additional Tier 1 (AT1) Capital before regulatory adjustments</b>  | <b>-</b>       | <b>-</b>       |
| <b>Additional Tier 1 (AT1) Capital: regulatory adjustments</b> |   |                |                |
| 37   | Direct and indirect holdings by an institution of own AT1 instruments (negative amount)   | -              | -              |
| 38   | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                        | -              | -              |
| 39   | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)               | -              | -              |
| 40   | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) negative (negative amount) | -              | -              |
| 41   | Empty set in the EU   | -              | -              |
| 42   | Qualifying T2 deductions that exceed the T2 capital of the institution  | -              | -              |
| <b>43</b>  | <b>Total regulatory adjustments to Additional tier 1 (AT1) Capital</b>  | <b>-</b>       | <b>-</b>       |
| <b>44</b>  | <b>Additional tier 1(AT1) capital</b>   | <b>-</b>       | <b>-</b>       |
| <b>45</b>  | <b>Tier 1 capital (T1 = CET 1 +AT1)</b>   | <b>789,426</b> | <b>784,366</b> |
| <b>Tier 2 (T2) Capital: instruments and provisions</b>         |   |                |                |
| 46   | Capital instruments and the related share premium accounts  | -              | -              |
| 47   | Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2   | -              | -              |
| 48   | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34 issued by subsidiaries and held by third parties   | -              | -              |
| 49   | of which; instruments issued by subsidiaries subject to phase out   | -              | -              |
| 50   | Credit Risk adjustments   | -              | -              |
| <b>51</b>  | <b>Tier 2 (T2) capital before regulatory adjustments</b>  | <b>-</b>       | <b>-</b>       |
| <b>Tier 2 (T2) capital: regulatory adjustments</b>             |   |                |                |
| 52   | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)   | -              | -              |
| 53   | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                                 | -              | -              |
| 54   | Direct and indirect holdings of the T2 instruments and subordinated loans of the financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net eligible short positions) (negative amount)       | -              | -              |
| 55   | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)  | -              | -              |
| 56   | Empty set in the EU   | -              | -              |
| <b>57</b>  | <b>Total regulatory adjustments to Tier 2 (T2) capital</b>  | <b>-</b>       | <b>-</b>       |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

| Regulatory own funds disclosure. CRD IV, Annex IV - Reference  |   | 2020             | 2019             |
|--|---|------------------|------------------|
|  |   | US\$000's        | US\$000's        |
| <b>58</b>  | <b>Tier 2 (T2) Capital</b>  | -                | -                |
| <b>59</b>  | <b>Total Capital (TC = T1+T2)</b>   | <b>789,426</b>   | <b>784,366</b>   |
| <b>60</b>  | <b>Total risk weighted assets</b>   | <b>1,175,360</b> | <b>1,032,612</b> |
| <b>Capital Ratios and buffers</b>  |   |                  |                  |
| 61   | Common equity tier 1 (as a percentage of total risk exposure amount)  | 67.16%           | 75.96%           |
| 62   | Tier 1 (as a percentage of total risk exposure amount)  | 67.16%           | 75.96%           |
| 63   | Total capital (as a percentage of total risk exposure amount)   | 67.16%           | 75.96%           |
| 64   | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) | 2.57%            | 2.67%            |
| 65   | of which; capital conservation buffer requirement   | 2.50%            | 2.50%            |
| 66   | of which; countercyclical buffer requirement  | 0.07%            | 0.17%            |
| 67   | of which; systemic risk buffer requirement  | 0.00%            | 0.00%            |
| 67a  | of which; Global Systemically Important institution (G-SII) or Other Systemically Important Institution (O-SII) buffer  | 0.00%            | 0.00%            |
| 68   | Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)  | 62.66%           | 71.46%           |
| 69   | Non Relevant in EU regulation   | -                | -                |
| 70   | Non Relevant in EU regulation   | -                | -                |
| 71   | Non Relevant in EU regulation   | -                | -                |
| <b>Amounts below the threshold for deduction (before risk weighting)</b>   |   |                  |                  |
| 72   | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net eligible short positions).  | -                | -                |
| 73   | Direct and indirect holdings by the institution of the CET 1 instruments of financials sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)  | -                | -                |
| 74   | Empty set in the EU   | -                | -                |
| 75   | Deferred tax assets arising from temporary difference (amount below 10% threshold, net of related tax liability where the conditions on Article 38(3) are met)  | -                | -                |
| <b>Applicable cap on the inclusion of provisions in Tier 2</b>   |   |                  |                  |
| 76   | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)   | -                | -                |
| 77   | Cap on inclusion of credit risk adjustments in T2 under standardised approach   | -                | -                |
| 78   | Credit Risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)   | -                | -                |
| 79   | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach  | -                | -                |
| <b>Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b> |   |                  |                  |
| 80   | Current Cap on CET 1 Instruments subject to phase out arrangements  | -                | -                |
| 81   | Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)  | -                | -                |
| 82   | Current cap on AT1 instruments subject to phase out arrangements  | -                | -                |
| 83   | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)  | -                | -                |
| 84   | Current cap on T2 instruments subject to phase out arrangements   | -                | -                |
| 85   | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)   | -                | -                |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Regulatory Capital (continued)

#### Own Funds - reconciliation of IFRS equity to own funds

| (US\$ in thousands)             | Year Ended 31 October |                |
|---------------------------------|-----------------------|----------------|
|                                 | 2020                  | 2019           |
| IFRS equity                     | 793,394               | 787,406        |
| Prudential valuation adjustment | (3,968)               | (3,040)        |
| <b>Total own funds</b>          | <b>789,426</b>        | <b>784,366</b> |

The prudential valuation adjustment ("PVA") is applied to ensure that the prudent valuation of the Company's positions achieves an appropriate degree of certainty having regard to the dynamic nature of the positions, the demands of prudential soundness and the mode of operation and purpose of capital requirement in respect of positions.

A detailed breakdown of the Company's Equity is provided in the Statement of Changes in Shareholders' Equity on page 26.

### Capital Requirements: Overview of RWA's

**Template 4: EU OV1 - The following table summarises RWAs and minimum capital requirements<sup>(1)</sup> ("MCRs") by risk type:**

| (US\$ in thousands)                   | RWA              |                  | MCR           |               |
|---------------------------------------|------------------|------------------|---------------|---------------|
|                                       | 2020             | 2019             | 2020          | 2019          |
| <b>1 Credit risk (excluding CCR)</b>  | <b>787,002</b>   | <b>582,169</b>   | <b>62,960</b> | <b>46,574</b> |
| 2 Of which the standardised approach  | 787,002          | 582,169          | 62,960        | 46,574        |
| <b>6 CCR</b>                          | <b>266,388</b>   | <b>320,989</b>   | <b>21,311</b> | <b>25,678</b> |
| 7 Of which mark to market             | -                | 104,327          | -             | 8,345         |
| 9 Of which the standardised approach  | 173,073          | 107,779          | 13,846        | 8,622         |
| 12 Of which CVA                       | 93,315           | 108,883          | 7,465         | 8,711         |
| <b>19 Market risk</b>                 | <b>14,038</b>    | <b>363</b>       | <b>1,123</b>  | <b>29</b>     |
| 20 Of which the standardised approach | 14,038           | 363              | 1,123         | 29            |
| <b>22 Large exposures</b>             | <b>-</b>         | <b>15,606</b>    | <b>-</b>      | <b>1,249</b>  |
| <b>23 Operational risk</b>            | <b>107,932</b>   | <b>113,485</b>   | <b>8,635</b>  | <b>9,079</b>  |
| 25 Of which standardised approach     | 107,932          | 113,485          | 8,635         | 9,079         |
| <b>29 Total</b>                       | <b>1,175,360</b> | <b>1,032,613</b> | <b>94,029</b> | <b>82,609</b> |

<sup>(1)</sup> Minimum capital requirements are calculated as 8% of risk weighted assets.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Leverage

The CRD IV requires credit institutions to calculate report and monitor their leverage ratios. The leverage ratio is a supplementary non-risk based measure to contain the build-up of leverage (i.e. create a backstop on the degree to which a banking firm can leverage its capital base). It is calculated as a percentage of Tier 1 capital versus the total on and off balance sheet exposure (not risk weighted). A risk appetite target for the Leverage Ratio is approved each year by the Board. The actual leverage ratio is reported quarterly to the RCC so that they can monitor actuals to the risk appetite and take any necessary actions. The Leverage ratio has remained relatively constant throughout the year, 7.09% at 31 October 2020 compared to 7.75% at 31 October 2019, fluctuations in the leverage ratio in the period were driven by variations in the exposure treated as sovereigns.

### Excess Leverage Risk

#### ***LRQua: Description of the processes used to manage the risk of excessive leverage.***

Leverage Risk refers to risks resulting from the Company's vulnerability due to leverage that may require corrective measures which could impact earnings. The Company monitors this risk using the regulatory leverage ratio which is the ratio of the Company's core capital to total assets.

There is a specific RAS metric to limit leverage. Historically, the company has operated well above this limit and this is not anticipated to change.

In accordance with Articles 429 and 499 of the CRR, the tables below outline the leverage ratio calculated.

#### ***LRSum: Summary reconciliation of accounting assets and leverage ratio exposures***

| (US\$ in thousands)   | Applicable<br>Amount<br>2020 | Applicable<br>Amount<br>2019 |
|---|------------------------------|------------------------------|
| 1 Total assets as per published financial statements  | 9,749,325                    | 9,639,942                    |
| 2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation  | -                            | -                            |
| 3 (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | -                            | -                            |
| 4 Adjustments for derivative financial instruments  | 77,421                       | 226,334                      |
| 5 Adjustment for securities financing transactions (SFTs)   | 637,433                      | 76,584                       |
| 6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)  | 301,765                      | 176,562                      |
| EU- (Adjustment for intragroup exposures excluded from the leverage ratio total exposure  |                              |                              |
| 6a measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)  | -                            | -                            |
| EU- (Adjustment for exposures excluded from the leverage ratio total exposure measure in  |                              |                              |
| 6b accordance with Article 429(14) of Regulation (EU) No 575/2013)  | -                            | -                            |
| 7 Other adjustments   | 362,054                      | (3,040)                      |
| <b>8 Leverage ratio total exposure measure</b>  | <b>11,127,998</b>            | <b>10,116,382</b>            |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### LRCOM: Leverage ratio common disclosure

| (US\$ in thousands)  |   | CRR leverage ratio exposures |                   |
|--|---|------------------------------|-------------------|
|  |   | 2020                         | 2019              |
| <b>On-balance sheet exposures (excluding derivatives and SFTs)</b>   |   |                              |                   |
| 1  | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)                                       | 6,249,705                    | 6,341,563         |
| 2  | (Asset amounts deducted in determining Tier 1 capital)  | (3,968)                      | (3,040)           |
| <b>3</b>   | <b>Total on-balance sheet exposures (excl derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>                              | <b>6,245,737</b>             | <b>6,338,523</b>  |
| <b>Derivative Exposures</b>  |   |                              |                   |
| 4  | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)                                | 21,417                       | 58,503            |
| 5  | Add-on amounts for PFE associated with all derivatives transactions (mark- to- market method)   | 148,082                      | 226,334           |
| EU-5a  | Exposure determined under Original Exposure Method  | -                            | -                 |
| 6  | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | -                            | -                 |
| 7  | (Deductions of receivables assets for cash variation margin provided in derivatives transactions)   | -                            | -                 |
| 8  | (Exempted CCP leg of client-cleared trade exposures)  | -                            | -                 |
| 9  | Adjusted effective notional amount of written credit derivatives  | -                            | -                 |
| 10   | (Adjusted effective notional offsets and add-on deductions for written credit derivatives)  | -                            | -                 |
| <b>11</b>  | <b>Total derivatives exposures (sum of lines 4 to 10)</b>   | <b>169,499</b>               | <b>284,837</b>    |
| <b>SFT exposures</b>   |   |                              |                   |
| 12   | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions                                      | 4,370,992                    | 3,239,876         |
| 13   | (Netted amounts of cash payables and cash receivables of gross SFT assets)  | -                            | -                 |
| 14   | Counterparty credit risk exposure for SFT assets  | 40,005                       | 76,584            |
| EU-14a   | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013         | -                            | -                 |
| 15   | Agent transaction exposures   | -                            | -                 |
| EU-15a   | (Exempted CCP leg of client-cleared SFT exposure)   | -                            | -                 |
| <b>16</b>  | <b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>  | <b>4,410,997</b>             | <b>3,316,460</b>  |
| <b>Other off-balance sheet exposures</b>   |   |                              |                   |
| 17   | Off-balance sheet exposures at gross notional amount  | 657,464                      | 495,235           |
| 18   | (Adjustments for conversion to credit equivalent amounts)   | (355,699)                    | (318,673)         |
| <b>19</b>  | <b>Other off-balance sheet exposures (sum of lines 17 and 18)</b>   | <b>301,765</b>               | <b>176,562</b>    |
| <b>Exempted exposures in accordance with Article 429(7) &amp; (14) of Regulation (EU) No 575/2013 (on and off balance sheet)</b> |   |                              |                   |
| EU-19a   | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))  | -                            | -                 |
| EU-19b   | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))                        | -                            | -                 |
| <b>Capital and total exposure measure</b>  |   |                              |                   |
| <b>20</b>  | <b>Tier 1 capital</b>   | <b>789,426</b>               | <b>784,366</b>    |
| <b>21</b>  | <b>Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>  | <b>11,127,998</b>            | <b>10,116,382</b> |
| <b>Leverage ratio</b>  |   |                              |                   |
| <b>22</b>  | <b>Leverage ratio</b>   | <b>7.09%</b>                 | <b>7.75%</b>      |
| <b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>  |   |                              |                   |
| EU-23  | Choice on transitional arrangements for the definition of the capital measure   | -                            | -                 |
| EU-24  | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013                                  | -                            | -                 |

### LRSpl: Split-up of on balance sheet exposures (excl derivatives, SFTs and exempted exposures)

| (US\$ in thousands) |  | CRR leverage ratio exposures |                  |
|---------------------|--|------------------------------|------------------|
|                     |  | 2020                         | 2019             |
| <b>EU-1</b>         | <b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b> | <b>6,249,705</b>             | <b>6,341,563</b> |
| EU-2                | Trading book exposures   | 365,942                      | 544,378          |
| EU-3                | Banking book exposures, of which:  | 5,883,763                    | 5,797,185        |
| EU-4                | Covered bonds  | 17,775                       | -                |
| EU-5                | Exposures treated as sovereigns  | 4,867,810                    | 4,876,976        |
| EU-6                | Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns    | -                            | -                |
| EU-7                | Institutions   | 664,377                      | 671,239          |
| EU-8                | Secured by mortgages of immovable properties   | -                            | -                |
| EU-9                | Retail exposures   | -                            | -                |
| EU-10               | Corporate  | 267,199                      | 187,909          |
| EU-11               | Exposures in default   | 33,500                       | 42,993           |
| EU-12               | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)                   | 33,102                       | 18,068           |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Credit Risk

Credit Risk is the potential for loss due to the failure of a borrower, endorser, guarantor, obligor or counterparty to repay a loan or honour another pre-determined financial obligation (also known as counterparty risk). The definition also includes Credit Valuation Adjustment ("CVA") which covers losses from derivatives mark-to-market. Sub-categories of Credit Risk include but are not limited to Country Risk, Loan Loss Risk, Replacement Risk and Settlement risk.

The Company's Credit Risk Management Framework operates under the three lines of defence operating model approach to manage credit risk:

- As the first Line of Defence, lines of business under delegated limits, are accountable for a) recommending credit decisions based on the completion of appropriate due diligence on an entity/connection and they assume ownership of the risk and b) assessing whether credit assets are impaired or where there has been a significant increase in credit risk.
- As the second Line of Defence, Risk Management under delegated limits, approve credit decisions and are a) accountable for providing independent oversight of the risks assumed by the Lines of Business and b) assessing the identification of the indicators for impairment or where there has been a significant increase in Credit Risk.
- As the third Line of Defence, Corporate Audit reviews and tests management processes and controls and samples credit transactions for adherence to credit terms and conditions, as well as to governing policies, standards and procedures.

Compliance is another second Line of Defence function and part of its responsibilities is to ensure identification of and compliance with regulatory requirements.

All Credit risks to which the Company is exposed are assessed, approved, monitored, managed and reported, including resulting country risk profile (for Global Markets this is performed daily, for Corporate Banking this is performed monthly). The most significant Credit Risk in the Company arises from its "on-demand" and syndicate lending activities to Corporates. Credit Risk is mitigated via security arrangements, loan covenants and triggers, etc associated with each lending facility. Credit Risk also arises through the use of cash placements and through the Company's debt security portfolio.

The Company manages and reports its Credit Risk exposures under frameworks outlined in local policies as well as in the BMO Group Corporate Policies and Corporate Standards. Policies include limits, by counterparty/connection/country, to which the relevant lines of business must adhere. Any excesses or violations of limits are dealt with in line with the local policy and may lead to disciplinary action. Exposures are monitored against limit and reported daily.

The Company takes a prudent approach in granting credit to its customers and uses an effective grading system which is a) consistently applied; b) identifies differing risk characteristics; c) quantifies credit risk issues reliably and in a timely manner and d) prompts appropriate action.

Counterparty credit risk exposure ("CCR") arises from the Company's direct activity in derivatives and securities financing transactions ("SFT"). It is calculated in both the trading and non-trading books and is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. The Company includes CCR and CVA losses in its Credit Risk Stress Testing methodology. CCR arises from the Securities Financing business where the counterparty exposure is derived from the net unsecured position of cash advances and the potential future market value of the securities received as collateral. The Company uses its concept of replacement risk to determine counterparty exposure, which is based conservatively on stressed 'potential future exposure' (i.e. replacement risk) rather than point-in-time valuations.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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The Company applies the same expected loss methodology for CCR stress testing as for borrower/issuer default credit risk stress testing, where counterparty PDs increase in line with the rating migration commensurate with the stress scenario. Additionally, the potential future exposure is re-evaluated based on the development of relevant risk factors in the stress scenario i.e. replacement risk is also subject to stress.

Capital measurement approaches and capital standards for credit risk are stated within CRD IV. CRD IV details two approaches for the calculation of minimum regulatory capital requirements for Credit Risk:

- Standardised approach; and
- Internal Ratings Based ("IRB") approach.

The Standardised approach involves the application of prescribed regulatory risk weights to credit exposures to calculate the capital requirements. The IRB approach allows banks, subject to the approval of their regulator, to use their internal credit risk measurement models combined, where appropriate, with regulatory rules (including regulatory floors or minimum values for certain model outputs), to calculate their regulatory capital requirements. The Company use the standardised approach for regulatory credit risk capital calculation purposes. Under the Standardised Approach, risk weightings for rated counterparties are determined on the basis of the external credit rating assigned to the counterparty. For non-rated counterparties and certain other types of exposure, regulatory-determined standardised risk weightings are used.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Exposure to Credit Risk

**Template 7: EU CRB-B** - The table below provides the total year-end and the average<sup>(1)</sup> net exposures over the period by exposure class

| (US\$ in thousands)                             | Net value of exposures at the end of the period 2020 | Average net exposures over the period 2020 | Net value of exposures at the end of the period 2019 | Average net exposures over the period 2019 |
|---|--|--|--|--|
| <b>15 Total IRB approach</b>                    | -  | -  | -  | -  |
| 16 Central governments or central banks         | 3,059,377  | 4,517,379                                  | 3,442,840  | 5,916,428                                  |
| 18 Public sector entities                       | 590,744  | 600,551                                    | 516,056  | 600,871                                    |
| 19 Multilateral development banks               | 1,186,826  | 998,139                                    | 918,080  | 811,665                                    |
| 21 Institutions                                 | 5,234,671  | 4,184,300                                  | 4,254,954  | 4,178,271                                  |
| 22 Corporates                                   | 797,605  | 582,001                                    | 516,788  | 792,754                                    |
| 28 Exposures in default                         | 33,500   | 52,095                                     | 65,350   | 65,350                                     |
| 29 Items associated with particularly high risk | 114,950  | 122,793                                    | 84,996   | 84,996                                     |
| 33 Equity exposures                             | -  | 863,046                                    | 544,378  | 1,549,200                                  |
| 34 Other exposures                              | 63,965   | 37,367                                     | 18,068   | 5,279                                      |
| <b>35 Total standardised approach</b>           | <b>11,081,638</b>                                    | <b>11,957,671</b>                          | <b>10,361,510</b>                                    | <b>14,004,814</b>                          |
| <b>36 Total</b>                                 | <b>11,081,638</b>                                    | <b>11,957,671</b>                          | <b>10,361,510</b>                                    | <b>14,004,814</b>                          |

<sup>(1)</sup> Average net exposures are calculated based on quarterly averages.

**Template 10: EU CRB-E** – The table below provides a breakdown of net exposures by contractual residual maturity and exposure classes

| (US\$ in thousands)                             | Net exposure value |                  |                     |                |                    | Total             |
|---|--------------------|------------------|---------------------|----------------|--------------------|-------------------|
|   | On demand          | <= 1 year        | > 1 year <= 5 years | > 5 years      | No stated maturity |                   |
| <b>31 October 2020</b>                          |                    |                  |                     |                |                    |                   |
| <b>6 Total IRB approach</b>                     | -                  | -                | -                   | -              | -                  | -                 |
| 7 Central governments or central banks          | -                  | 2,161,305        | 898,072             | -              | -                  | 3,059,377         |
| 9 Public sector entities                        | -                  | -                | 431,848             | 158,896        | -                  | 590,744           |
| 10 Multilateral development banks               | -                  | -                | 686,016             | 500,810        | -                  | 1,186,826         |
| 12 Institutions                                 | -                  | 1,477,883        | 603,792             | 82,056         | 3,070,940          | 5,234,671         |
| 13 Corporates                                   | -                  | 104,888          | 568,741             | 68,485         | 55,491             | 797,605           |
| 16 Exposures in default                         | -                  | -                | 33,500              | -              | -                  | 33,500            |
| 17 Items associated with particularly high risk | -                  | 7,036            | -                   | 37,174         | 70,740             | 114,950           |
| 21 Equity exposures                             | -                  | -                | -                   | -              | -                  | -                 |
| 22 Other exposures                              | -                  | -                | -                   | -              | 63,965             | 63,965            |
| <b>23 Total standardised approach</b>           | <b>-</b>           | <b>3,751,112</b> | <b>3,221,969</b>    | <b>847,421</b> | <b>3,261,136</b>   | <b>11,081,638</b> |
| <b>24 Total</b>                                 | <b>-</b>           | <b>3,751,112</b> | <b>3,221,969</b>    | <b>847,421</b> | <b>3,261,136</b>   | <b>11,081,638</b> |
| <b>31 October 2019</b>                          |                    |                  |                     |                |                    |                   |
| <b>6 Total IRB approach</b>                     | -                  | -                | -                   | -              | -                  | -                 |
| 7 Central governments or central banks          | -                  | 3,421,219        | 21,621              | -              | -                  | 3,442,840         |
| 9 Public sector entities                        | -                  | -                | 516,056             | -              | -                  | 516,056           |
| 10 Multilateral development banks               | -                  | 100,421          | 782,493             | 35,166         | -                  | 918,080           |
| 12 Institutions                                 | -                  | 1,613,688        | 626,481             | 22,868         | 1,991,917          | 4,254,954         |
| 13 Corporates                                   | -                  | 17,438           | 380,196             | 42,536         | 76,618             | 516,788           |
| 16 Exposures in default                         | -                  | -                | 65,350              | -              | -                  | 65,350            |
| 17 Items associated with particularly high risk | -                  | -                | -                   | -              | 84,996             | 84,996            |
| 21 Equity exposures                             | -                  | 544,378          | -                   | -              | -                  | 544,378           |
| 22 Other exposures                              | -                  | -                | -                   | -              | 18,068             | 18,068            |
| <b>23 Total standardised approach</b>           | <b>-</b>           | <b>5,697,144</b> | <b>2,392,197</b>    | <b>100,570</b> | <b>2,171,599</b>   | <b>10,361,510</b> |
| <b>24 Total</b>                                 | <b>-</b>           | <b>5,697,144</b> | <b>2,392,197</b>    | <b>100,570</b> | <b>2,171,599</b>   | <b>10,361,510</b> |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

Template 8: EU CRB-C – The table below provides a breakdown of exposures by geographical areas and exposure classes

| 31 October 2020     |  | Net value      |                  |                |                  |                |                |                |                |                |                  |                |                  |                   |
|---------------------|--|----------------|------------------|----------------|------------------|----------------|----------------|----------------|----------------|----------------|------------------|----------------|------------------|-------------------|
| (US\$ in thousands) |  | Canada         | France           | Germany        | Ireland          | Japan          | Luxembourg     | Netherlands    | Denmark        | Sweden         | United Kingdom   | United States  | Other            | Total             |
| <b>6</b>            | <b>Total IRB approach</b>                    | -              | -                | -              | -                | -              | -              | -              | -              | -              | -                | -              | -                | -                 |
| 7                   | Central governments or central banks         | -              | 264,615          | -              | 2,161,305        | 296,245        | -              | -              | 106,864        | 27,143         | 63,831           | -              | 139,374          | 3,059,377         |
| 9                   | Public sector entities                       | -              | 113,648          | 333,085        | -                | -              | -              | -              | 71,363         | -              | -                | -              | 72,648           | 590,744           |
| 10                  | Multilateral development banks               | -              | -                | -              | -                | 66,899         | -              | -              | -              | -              | -                | -              | 1,119,927        | 1,186,826         |
| 12                  | Institutions                                 | 686,831        | 536,221          | 149,997        | 145,325          | 46,412         | 50,000         | 304,490        | 24,820         | 186,972        | 1,801,804        | 467,052        | 834,747          | 5,234,671         |
| 13                  | Corporates                                   | -              | 203,303          | 46,570         | 56,319           | -              | 213,916        | 198,596        | -              | -              | -                | 24,901         | 54,000           | 797,605           |
| 16                  | Exposures in default                         | -              | 33,500           | -              | -                | -              | -              | -              | -              | -              | -                | -              | -                | 33,500            |
| 17                  | Items associated with particularly high risk | -              | -                | -              | -                | -              | 53,333         | -              | -              | -              | -                | 44,161         | 17,456           | 114,950           |
| 21                  | Equity exposures                             | -              | -                | -              | -                | -              | -              | -              | -              | -              | -                | -              | -                | -                 |
| 22                  | Other exposures                              | -              | -                | -              | 8,784            | -              | -              | -              | -              | -              | -                | -              | 55,181           | 63,965            |
| <b>23</b>           | <b>Total standardised approach</b>           | <b>686,831</b> | <b>1,151,287</b> | <b>529,652</b> | <b>2,371,733</b> | <b>409,556</b> | <b>317,249</b> | <b>503,086</b> | <b>203,047</b> | <b>214,115</b> | <b>1,865,635</b> | <b>536,114</b> | <b>2,293,333</b> | <b>11,081,638</b> |
| <b>24</b>           | <b>Total</b>                                 | <b>686,831</b> | <b>1,151,287</b> | <b>529,652</b> | <b>2,371,733</b> | <b>409,556</b> | <b>317,249</b> | <b>503,086</b> | <b>203,047</b> | <b>214,115</b> | <b>1,865,635</b> | <b>536,114</b> | <b>2,293,333</b> | <b>11,081,638</b> |

| 31 October 2019     |  | Net value      |                  |                |                  |                |                |               |                |                  |                |                  |                   |           |
|---------------------|--|----------------|------------------|----------------|------------------|----------------|----------------|---------------|----------------|------------------|----------------|------------------|-------------------|-----------|
| (US\$ in thousands) |  | Canada         | France           | Germany        | Ireland          | Luxembourg     | Netherlands    | Denmark       | Sweden         | United Kingdom   | United States  | Other            | Total             |           |
| <b>6</b>            | <b>Total IRB approach</b>                    | -              | -                | -              | -                | -              | -              | -             | -              | -                | -              | -                | -                 |           |
| 7                   | Central governments or central banks         | -              | -                | -              | 3,421,219        | -              | -              | -             | 21,621         | -                | -              | -                | -                 | 3,442,840 |
| 9                   | Public sector entities                       | -              | 42,919           | 220,249        | -                | -              | 84,212         | 97,479        | -              | -                | -              | 71,197           | 516,056           |           |
| 10                  | Multilateral development banks               | -              | -                | -              | -                | -              | -              | -             | -              | -                | -              | 918,080          | 918,080           |           |
| 12                  | Institutions                                 | 299,655        | 834,723          | 251,695        | 158,624          | -              | 283,836        | -             | 137,455        | 1,631,189        | 433,396        | 224,381          | 4,254,954         |           |
| 13                  | Corporates                                   | 17,438         | 164,696          | 33,091         | 39,094           | 92,264         | 36,674         | -             | -              | -                | 39,531         | 94,000           | 516,788           |           |
| 16                  | Exposures in default                         | -              | 65,350           | -              | -                | -              | -              | -             | -              | -                | -              | -                | 65,350            |           |
| 17                  | Items associated with particularly high risk | -              | -                | -              | -                | 56,320         | -              | -             | -              | -                | 28,676         | -                | 84,996            |           |
| 21                  | Equity exposures                             | -              | -                | -              | 39,639           | -              | -              | -             | -              | 150,418          | 354,321        | -                | 544,378           |           |
| 22                  | Other exposures                              | -              | -                | -              | 5,478            | -              | -              | -             | -              | -                | -              | 12,590           | 18,068            |           |
| <b>23</b>           | <b>Total standardised approach</b>           | <b>317,093</b> | <b>1,107,688</b> | <b>505,035</b> | <b>3,664,054</b> | <b>148,584</b> | <b>404,722</b> | <b>97,479</b> | <b>159,076</b> | <b>1,781,607</b> | <b>855,924</b> | <b>1,320,248</b> | <b>10,361,510</b> |           |
| <b>24</b>           | <b>Total</b>                                 | <b>317,093</b> | <b>1,107,688</b> | <b>505,035</b> | <b>3,664,054</b> | <b>148,584</b> | <b>404,722</b> | <b>97,479</b> | <b>159,076</b> | <b>1,781,607</b> | <b>855,924</b> | <b>1,320,248</b> | <b>10,361,510</b> |           |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

Template 9: EU CRB-D – The table below provides a breakdown of exposures by industry or counterparty types and exposure classes

| 31 October 2020<br>(US\$ in thousands) |  | Net value            |                |   |                            |                               |                                    |                        |                                      |                                   |  |                | Total    |                   |
|--|--|----------------------|----------------|---|----------------------------|-------------------------------|------------------------------------|------------------------|--------------------------------------|-----------------------------------|--|----------------|----------|-------------------|
|  |  | Mining and quarrying | Manufacturing  | Electricity, gas, steam and air conditioning supply | Wholesale and retail trade | Information and communication | Financial and Insurance activities | Real estate activities | Central governments or central banks | Public Administration and Defence | Extra-Territorial Organisations and Bodies | Other services |          |                   |
| <b>6</b>                               | <b>Total IRB approach</b>                    | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | -  | -              | -        | -                 |
| 7                                      | Central governments or central banks         | -                    | -              | -   | -                          | -                             | -                                  | -                      | 3,059,377                            | -                                 | -  | -              | -        | 3,059,377         |
| 9                                      | Public sector entities                       | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | 590,744                           | -  | -              | -        | 590,744           |
| 10                                     | Multilateral development banks               | -                    | -              | -   | -                          | -                             | 66,899                             | -                      | -                                    | 48,018                            | 1,071,909                                  | -              | -        | 1,186,826         |
| 12                                     | Institutions                                 | -                    | -              | -   | -                          | -                             | 5,234,671                          | -                      | -                                    | -                                 | -  | -              | -        | 5,234,671         |
| 13                                     | Corporates                                   | 131,081              | 234,045        | 8,692   | -                          | 15,708                        | 322,031                            | -                      | -                                    | -                                 | -  | -              | 86,048   | 797,605           |
| 16                                     | Exposures in default                         | -                    | 33,500         | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | -  | -              | -        | 33,500            |
| 17                                     | Items associated with particularly high risk | -                    | -              | -   | -                          | -                             | 114,950                            | -                      | -                                    | -                                 | -  | -              | -        | 114,950           |
| 21                                     | Equity exposures                             | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | -  | -              | -        | -                 |
| 22                                     | Other exposures                              | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | 30,863                                     | 33,102         | -        | 63,965            |
| <b>23</b>                              | <b>Total standardised approach</b>           | <b>131,081</b>       | <b>267,545</b> | <b>8,692</b>  | <b>-</b>                   | <b>15,708</b>                 | <b>5,738,551</b>                   | <b>-</b>               | <b>3,059,377</b>                     | <b>638,762</b>                    | <b>1,102,772</b>                           | <b>119,150</b> | <b>-</b> | <b>11,081,638</b> |
| <b>24</b>                              | <b>Total</b>                                 | <b>131,081</b>       | <b>267,545</b> | <b>8,692</b>  | <b>-</b>                   | <b>15,708</b>                 | <b>5,738,551</b>                   | <b>-</b>               | <b>3,059,377</b>                     | <b>638,762</b>                    | <b>1,102,772</b>                           | <b>119,150</b> | <b>-</b> | <b>11,081,638</b> |

| 31 October 2019<br>(US\$ in thousands) |  | Net value            |                |   |                            |                               |                                    |                        |                                      |                                   |  |                | Total    |                   |
|--|--|----------------------|----------------|---|----------------------------|-------------------------------|------------------------------------|------------------------|--------------------------------------|-----------------------------------|--|----------------|----------|-------------------|
|  |  | Mining and quarrying | Manufacturing  | Electricity, gas, steam and air conditioning supply | Wholesale and retail trade | Information and communication | Financial and Insurance activities | Real estate activities | Central governments or central banks | Public Administration and Defence | Extra-Territorial Organisations and Bodies | Other services |          |                   |
| 6                                      | Total IRB approach                           | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | -  | -              | -        | -                 |
| 7                                      | Central governments or central banks         | -                    | -              | -   | -                          | -                             | -                                  | -                      | 3,442,840                            | -                                 | -  | -              | -        | 3,442,840         |
| 9                                      | Public sector entities                       | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | 516,056                           | -  | -              | -        | 516,056           |
| 10                                     | Multilateral development banks               | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | 918,080                                    | -              | -        | 918,080           |
| 12                                     | Institutions                                 | -                    | -              | -   | -                          | -                             | 4,254,954                          | -                      | -                                    | -                                 | -  | -              | -        | 4,254,954         |
| 13                                     | Corporates                                   | 147,635              | 182,727        | 3,758   | 38,413                     | -                             | 144,255                            | -                      | -                                    | -                                 | -  | -              | -        | 516,788           |
| 16                                     | Exposures in default                         | -                    | 65,350         | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | -  | -              | -        | 65,350            |
| 17                                     | Items associated with particularly high risk | -                    | -              | -   | 56,320                     | -                             | 28,676                             | -                      | -                                    | -                                 | -  | -              | -        | 84,996            |
| 21                                     | Equity exposures                             | 8,033                | 72,361         | 7,676   | 229,521                    | 112,278                       | 39,639                             | 7,893                  | -                                    | -                                 | -  | -              | -        | 544,378           |
| 22                                     | Other exposures                              | -                    | -              | -   | -                          | -                             | -                                  | -                      | -                                    | -                                 | -  | -              | -        | 18,068            |
| 23                                     | Total standardised approach                  | 155,668              | 320,438        | 11,434  | 324,254                    | 112,278                       | 4,467,524                          | 7,893                  | 3,442,840                            | 516,056                           | 918,080                                    | 85,045         | -        | 10,361,510        |
| <b>24</b>                              | <b>Total</b>                                 | <b>155,668</b>       | <b>320,438</b> | <b>11,434</b>                                       | <b>324,254</b>             | <b>112,278</b>                | <b>4,467,524</b>                   | <b>7,893</b>           | <b>3,442,840</b>                     | <b>516,056</b>                    | <b>918,080</b>                             | <b>85,045</b>  | <b>-</b> | <b>10,361,510</b> |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

Template 11: EU CR1-A – The table below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by exposure class

| 31 October 2020     |  | Gross carrying value of |                         | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values        |
|---------------------|--|-------------------------|-------------------------|---------------------------------|--------------------------------|------------------------|--|-------------------|
| (US\$ in thousands) |  | Defaulted exposures     | Non-defaulted exposures |                                 |                                |                        |  |                   |
| <b>15</b>           | <b>Total IRB approach</b>                    | -                       | -                       | -                               | -                              | -                      | -  | -                 |
| 16                  | Central governments or central banks         | -                       | 3,059,424               | -                               | 47                             | -                      | -  | 3,059,377         |
| 18                  | Public sector entities                       | -                       | 590,764                 | -                               | 20                             | -                      | -  | 590,744           |
| 19                  | Multilateral development banks               | -                       | 1,186,895               | -                               | 69                             | -                      | -  | 1,186,826         |
| 21                  | Institutions                                 | -                       | 5,234,796               | -                               | 125                            | -                      | -  | 5,234,671         |
| 22                  | Corporates                                   | -                       | 798,656                 | -                               | 1,051                          | -                      | -  | 797,605           |
| 28                  | Exposures in default                         | 39,889                  | -                       | 6,389                           | -                              | -                      | -  | 33,500            |
| 29                  | Items associated with particularly high risk | -                       | 115,073                 | -                               | 123                            | -                      | -  | 114,950           |
| 33                  | Equity exposures                             | -                       | -                       | -                               | -                              | -                      | -  | -                 |
| 34                  | Other exposures                              | -                       | 63,967                  | -                               | 2                              | -                      | -  | 63,965            |
| <b>35</b>           | <b>Total standardised approach</b>           | <b>39,889</b>           | <b>11,049,575</b>       | <b>6,389</b>                    | <b>1,437</b>                   | -                      | -  | <b>11,081,638</b> |
| <b>36</b>           | <b>Total</b>                                 | <b>39,889</b>           | <b>11,049,575</b>       | <b>6,389</b>                    | <b>1,437</b>                   | -                      | -  | <b>11,081,638</b> |
| 37                  | Of which: Loans                              | 39,889                  | 4,066,919               | 6,389                           | 751                            | -                      | -  | 4,099,668         |
| 38                  | Of which: Debt securities                    | -                       | 3,396,812               | -                               | 141                            | -                      | -  | 3,396,671         |
| 39                  | Of which: Off- balance-sheet exposures       | -                       | 1,255,404               | -                               | 512                            | -                      | -  | 1,254,892         |
| 31 October 2019     |  | Gross carrying value of |                         | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values        |
| (US\$ in thousands) |  | Defaulted exposures     | Non-defaulted exposures |                                 |                                |                        |  |                   |
| 15                  | Total IRB approach                           | -                       | -                       | -                               | -                              | -                      | -  | -                 |
| 16                  | Central governments or central banks         | -                       | 3,442,845               | -                               | 5                              | -                      | -  | 3,442,840         |
| 18                  | Public sector entities                       | -                       | 516,071                 | -                               | 15                             | -                      | -  | 516,056           |
| 19                  | Multilateral development banks               | -                       | 918,126                 | -                               | 46                             | -                      | -  | 918,080           |
| 21                  | Institutions                                 | -                       | 4,255,023               | -                               | 69                             | -                      | -  | 4,254,954         |
| 22                  | Corporates                                   | -                       | 517,069                 | -                               | 281                            | -                      | -  | 516,788           |
| 28                  | Exposures in default                         | 69,748                  | -                       | 4,398                           | -                              | -                      | -  | 65,350            |
| 29                  | Items associated with particularly high risk | -                       | 85,058                  | -                               | 62                             | -                      | -  | 84,996            |
| 33                  | Equity exposures                             | -                       | 544,378                 | -                               | -                              | -                      | -  | 544,378           |
| 34                  | Other exposures                              | -                       | 18,068                  | -                               | -                              | -                      | -  | 18,068            |
| 35                  | Total standardised approach                  | 69,748                  | 10,296,638              | 4,398                           | 478                            | -                      | -  | 10,361,510        |
| 36                  | Total  | 69,748                  | 10,296,638              | 4,398                           | 478                            | -                      | -  | 10,361,510        |
| 37                  | Of which: Loans                              | 47,391                  | 3,517,415               | 4,398                           | 177                            | -                      | -  | 3,560,231         |
| 38                  | Of which: Debt securities                    | -                       | 2,080,638               | -                               | 101                            | -                      | -  | 2,080,537         |
| 39                  | Of which: Off- balance-sheet exposures       | 22,357                  | 699,212                 | -                               | 195                            | -                      | -  | 721,374           |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

Template 12: EU CR1-B – The table below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by industry

| 31 October 2020<br>(US\$ in thousands)              | Gross carrying value of |                         | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values        |
|---|-------------------------|-------------------------|---------------------------------|--------------------------------|------------------------|--|-------------------|
|   | Defaulted exposures     | Non-defaulted exposures |                                 |                                |                        |  |                   |
| <b>Total IRB approach</b>                           | -                       | -                       | -                               | -                              | -                      | -  | -                 |
| Mining and quarrying                                | -                       | 131,407                 | -                               | 326                            | -                      | -  | 131,081           |
| Manufacturing                                       | 39,889                  | 234,628                 | 6,389                           | 583                            | -                      | -  | 267,545           |
| Electricity, gas, steam and air conditioning supply | -                       | 8,692                   | -                               | -                              | -                      | -  | 8,692             |
| Wholesale and retail trade                          | -                       | 55                      | -                               | 55                             | -                      | -  | -                 |
| Information and communication                       | -                       | 15,708                  | -                               | -                              | -                      | -  | 15,708            |
| Financial and Insurance activities                  | -                       | 5,738,955               | -                               | 404                            | -                      | -  | 5,738,551         |
| Real estate activities                              | -                       | -                       | -                               | -                              | -                      | -  | -                 |
| Central governments or central banks                | -                       | 3,059,446               | -                               | 69                             | -                      | -  | 3,059,377         |
| Public Administration and Defence                   | -                       | 638,762                 | -                               | -                              | -                      | -  | 638,762           |
| Extra-Territorial Organisations and Bodies          | -                       | 1,102,772               | -                               | -                              | -                      | -  | 1,102,772         |
| Other services                                      | -                       | 119,150                 | -                               | -                              | -                      | -  | 119,150           |
| <b>Total standardised approach</b>                  | <b>39,889</b>           | <b>11,049,575</b>       | <b>6,389</b>                    | <b>1,437</b>                   | -                      | -  | <b>11,081,638</b> |
| <b>Total</b>  | <b>39,889</b>           | <b>11,049,575</b>       | <b>6,389</b>                    | <b>1,437</b>                   | -                      | -  | <b>11,081,638</b> |

| 31 October 2019<br>(US\$ in thousands)              | Gross carrying value of |                         | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|-------------------------|-------------------------|---------------------------------|--------------------------------|------------------------|--|------------|
|   | Defaulted exposures     | Non-defaulted exposures |                                 |                                |                        |  |            |
| Total IRB approach                                  | -                       | -                       | -                               | -                              | -                      | -  | -          |
| Mining and quarrying                                | -                       | 155,825                 | -                               | 157                            | -                      | -  | 155,668    |
| Manufacturing                                       | 69,748                  | 255,165                 | 4,398                           | 77                             | -                      | -  | 320,438    |
| Electricity, gas, steam and air conditioning supply | -                       | 11,434                  | -                               | -                              | -                      | -  | 11,434     |
| Wholesale and retail trade                          | -                       | 324,265                 | -                               | 11                             | -                      | -  | 324,254    |
| Information and communication                       | -                       | 112,278                 | -                               | -                              | -                      | -  | 112,278    |
| Financial and Insurance activities                  | -                       | 4,467,737               | -                               | 213                            | -                      | -  | 4,467,524  |
| Real estate activities                              | -                       | 7,893                   | -                               | -                              | -                      | -  | 7,893      |
| Central governments or central banks                | -                       | 3,442,845               | -                               | 5                              | -                      | -  | 3,442,840  |
| Public Administration and Defence                   | -                       | 516,071                 | -                               | 15                             | -                      | -  | 516,056    |
| Extra-Territorial Organisations and Bodies          | -                       | 918,080                 | -                               | -                              | -                      | -  | 918,080    |
| Other services                                      | -                       | 85,045                  | -                               | -                              | -                      | -  | 85,045     |
| Total standardised approach                         | 69,748                  | 10,296,638              | 4,398                           | 478                            | -                      | -  | 10,361,510 |
| Total   | 69,748                  | 10,296,638              | 4,398                           | 478                            | -                      | -  | 10,361,510 |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

Template 13: EU CR1-C – The table below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by geography

| 31 October 2020                    |                     | Gross carrying value of |              | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|------------------------------------|---------------------|-------------------------|--------------|---------------------------------|--------------------------------|------------------------|--|------------|
| (US\$ in thousands)                | Defaulted exposures | Non-defaulted exposures |              |                                 |                                |                        |  |            |
| <b>Total IRB approach</b>          | -                   | -                       | -            | -                               | -                              | -                      | -  | -          |
| Canada                             | -                   | 686,854                 | -            | 23                              | -                              | -                      | 686,831                                      |            |
| Denmark                            | -                   | 203,062                 | -            | 15                              | -                              | -                      | 203,047                                      |            |
| France                             | 39,889              | 1,118,551               | 6,389        | 764                             | -                              | -                      | 1,151,287                                    |            |
| Germany                            | -                   | 529,670                 | -            | 18                              | -                              | -                      | 529,652                                      |            |
| Ireland                            | -                   | 2,371,914               | -            | 181                             | -                              | -                      | 2,371,733                                    |            |
| Japan                              | -                   | 409,558                 | -            | 2                               | -                              | -                      | 409,556                                      |            |
| Luxembourg                         | -                   | 317,360                 | -            | 111                             | -                              | -                      | 317,249                                      |            |
| Netherlands                        | -                   | 503,159                 | -            | 73                              | -                              | -                      | 503,086                                      |            |
| Sweden                             | -                   | 214,122                 | -            | 7                               | -                              | -                      | 214,115                                      |            |
| United Kingdom                     | -                   | 1,865,635               | -            | -                               | -                              | -                      | 1,865,635                                    |            |
| United States                      | -                   | 536,221                 | -            | 107                             | -                              | -                      | 536,114                                      |            |
| Other                              | -                   | 2,293,469               | -            | 136                             | -                              | -                      | 2,293,333                                    |            |
| <b>Total standardised approach</b> | <b>39,889</b>       | <b>11,049,575</b>       | <b>6,389</b> | <b>1,437</b>                    | -                              | -                      | <b>11,081,638</b>                            |            |
| <b>Total</b>                       | <b>39,889</b>       | <b>11,049,575</b>       | <b>6,389</b> | <b>1,437</b>                    | -                              | -                      | <b>11,081,638</b>                            |            |
| 31 October 2019                    |                     | Gross carrying value of |              | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
| (US\$ in thousands)                | Defaulted exposures | Non-defaulted exposures |              |                                 |                                |                        |  |            |
| Total IRB approach                 | -                   | -                       | -            | -                               | -                              | -                      | -  | -          |
| Canada                             | -                   | 317,127                 | -            | 34                              | -                              | -                      | 317,093                                      |            |
| France                             | 69,748              | 1,042,504               | 4,398        | 166                             | -                              | -                      | 1,107,688                                    |            |
| Germany                            | -                   | 505,046                 | -            | 11                              | -                              | -                      | 505,035                                      |            |
| Ireland                            | -                   | 3,664,072               | -            | 18                              | -                              | -                      | 3,664,054                                    |            |
| Luxembourg                         | -                   | 148,664                 | -            | 80                              | -                              | -                      | 148,584                                      |            |
| Netherlands                        | -                   | 404,745                 | -            | 25                              | -                              | -                      | 404,720                                      |            |
| Spain                              | -                   | 97,485                  | -            | 6                               | -                              | -                      | 97,479                                       |            |
| Sweden                             | -                   | 159,078                 | -            | 2                               | -                              | -                      | 159,076                                      |            |
| United Kingdom                     | -                   | 1,781,607               | -            | -                               | -                              | -                      | 1,781,607                                    |            |
| United States                      | -                   | 855,951                 | -            | 25                              | -                              | -                      | 855,926                                      |            |
| Other                              | -                   | 1,320,359               | -            | 111                             | -                              | -                      | 1,320,248                                    |            |
| Total standardised approach        | 69,748              | 10,296,638              | 4,398        | 478                             | -                              | -                      | 10,361,510                                   |            |
| Total                              | 69,748              | 10,296,638              | 4,398        | 478                             | -                              | -                      | 10,361,510                                   |            |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

**Table 3: The table below presents the credit quality of performing and non-performing exposures by past due days**

| 31 October 2020<br>(US\$ in thousands) | Gross carrying amount/nominal amount |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
|--|--------------------------------------|------------------------------|---|--------------------------|------------------------------|-----------------------------|------------------------------|------------------------------|--------------------|--|--------------------|
|  | Performing exposures                 |                              | Non-performing exposures  |                          |                              |                             |                              |                              |                    |  | Of which defaulted |
|  | Not past due or past due ≤ 30 days   | Past due > 30 days ≤ 90 days | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years |  |                    |
| <b>1 Loans and advances</b>            | <b>4,179,205</b>                     |                              | <b>39,889</b>   |                          |                              |                             |                              |                              |                    |  | <b>39,889</b>      |
| 2 <i>Central banks</i>                 |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 3 <i>General governments</i>           |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 4 <i>Credit institutions</i>           | 1,583,080                            |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 5 <i>Other financial corporations</i>  | 2,353,167                            |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 6 <i>Non-financial corporations</i>    | 242,958                              |                              | 39,889  |                          |                              |                             |                              |                              |                    |  | 39,889             |
| 7 <i>Of which SMEs</i>                 |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 8 <i>Households</i>                    |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| <b>9 Debt securities</b>               | <b>3,396,813</b>                     |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 10 <i>Central banks</i>                |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 11 <i>General governments</i>          | 1,519,717                            |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 12 <i>Credit institutions</i>          | 1,852,194                            |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 13 <i>Other financial corporations</i> |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 14 <i>Non-financial corporations</i>   | 24,902                               |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| <b>15 Off-balance-sheet exposures</b>  | <b>656,952</b>                       |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 16 <i>Central banks</i>                |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 17 <i>General governments</i>          |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 18 <i>Credit institutions</i>          | 50,000                               |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 19 <i>Other financial corporations</i> | 283,726                              |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 20 <i>Non-financial corporations</i>   | 323,226                              |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| 21 <i>Households</i>                   |                                      |                              |   |                          |                              |                             |                              |                              |                    |  |                    |
| <b>22 Total</b>                        | <b>8,232,970</b>                     |                              | <b>39,889</b>   |                          |                              |                             |                              |                              |                    |  | <b>39,889</b>      |

No comparative period required as this is the first year that this table is included.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

**Table 4: The table below presents the performing and non-performing exposures and related provisions**

| 31 October 2020<br><br>(US\$ in thousands) | Gross carrying amount/nominal amount |                  |               |                          |                  |               | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions |                  |           |   |                  |              | Accumulated partial write-off | Collateral and financial guarantees received |                             |
|--|--------------------------------------|------------------|---------------|--------------------------|------------------|---------------|--|------------------|-----------|---|------------------|--------------|-------------------------------|--|-----------------------------|
|  | Performing exposures                 |                  |               | Non-performing exposures |                  |               | Performing exposures – accumulated impairment and provisions   |                  |           | Non-performing exposures – accumulated negative changes in fair value due to credit risk and provisions |                  |              |                               | On performing exposures                      | On non-performing exposures |
|  | Of which stage 1                     | Of which stage 2 |               | Of which stage 2         | Of which stage 3 |               | Of which stage 1   | Of which stage 2 |           | Of which stage 2  | Of which stage 3 |              |                               |  |                             |
| <b>1 Loans and advances</b>                | <b>4,179,205</b>                     | <b>4,176,744</b> | <b>2,461</b>  | <b>39,889</b>            | <b>-</b>         | <b>39,889</b> | <b>740</b>   | <b>704</b>       | <b>36</b> | <b>6,390</b>  | <b>-</b>         | <b>6,390</b> |                               |  |                             |
| 2 Central banks                            |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 3 General governments                      |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 4 Credit institutions                      | 1,583,080                            | 1,583,080        |               |                          |                  |               | 13   | 13               |           |   |                  |              |                               |  |                             |
| 5 Other financial corporations             | 2,353,167                            | 2,353,167        |               |                          |                  |               | 217  | 217              |           |   |                  |              |                               |  |                             |
| 6 Non-financial corporations               | 242,958                              | 240,497          | 2,461         | 39,889                   |                  | 39,889        | 510  | 474              | 36        | 6,390   |                  | 6,390        |                               |  |                             |
| 7 Of which SMEs                            |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 8 Households                               |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| <b>9 Debt securities</b>                   | <b>3,396,813</b>                     | <b>3,396,813</b> |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 10 Central banks                           |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 11 General governments                     | 1,519,717                            | 1,519,717        |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 12 Credit institutions                     | 1,852,194                            | 1,852,194        |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 13 Other financial corporations            |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 14 Non-financial corporations              | 24,902                               | 24,902           |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| <b>15 Off-balance-sheet exposures</b>      | <b>656,952</b>                       | <b>50,000</b>    |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 16 Central banks                           |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 17 General governments                     |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 18 Credit institutions                     | 50,000                               | 50,000           |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 19 Other financial corporations            | 283,726                              | 283,726          |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 20 Non-financial corporations              | 323,226                              | 315,687          | 7,539         |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| 21 Households                              |                                      |                  |               |                          |                  |               |  |                  |           |   |                  |              |                               |  |                             |
| <b>22 Total</b>                            | <b>8,232,970</b>                     | <b>8,222,970</b> | <b>10,000</b> | <b>39,889</b>            | <b>-</b>         | <b>39,889</b> | <b>740</b>   | <b>704</b>       | <b>36</b> | <b>6,390</b>  | <b>-</b>         | <b>6,390</b> |                               |  |                             |

No comparative period required as this is the first year that this table is included.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

**Template 16: EU CR2-A – The table below presents changes in the stock of general and specific credit risk adjustments**

|   | 31 October 2020<br>(US\$ in thousands) | Accumulated specific<br>credit risk adjustment | Accumulated general<br>credit risk adjustment |
|---|--|--|---|
| <b>1 Opening balance</b>  |  | <b>4,398</b>                                   | <b>478</b>                                    |
| 2 Increases due to amounts set aside for estimated loan losses during the period              |  | 1,991  | 1,088   |
| 3 Decreases due to amounts reversed for estimated loan losses during the period               |  | -  | (129)   |
| 4 Decreases due to amounts taken against accumulated credit risk adjustments                  |  | -  | -   |
| 5 Transfers between credit risk adjustments   |  | -  | -   |
| 6 Impact of exchange rate differences   |  | -  | -   |
| 7 Business combinations, including acquisitions and disposals of subsidiaries                 |  | -  | -   |
| 8 Other adjustments   |  | -  | -   |
| <b>9 Closing balance</b>  |  | <b>6,389</b>                                   | <b>1,437</b>                                  |
| 10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss |  | -  | -   |
| 11 Specific credit risk adjustments directly recorded to the statement of profit or loss      |  | -  | -   |
|   | 31 October 2019<br>(US\$ in thousands) | Accumulated specific<br>credit risk adjustment | Accumulated general<br>credit risk adjustment |
| 1 Opening balance   |  | -  | <b>255</b>                                    |
| 2 Increases due to amounts set aside for estimated loan losses during the period              |  | 4,398  | 316   |
| 3 Decreases due to amounts reversed for estimated loan losses during the period               |  | -  | (93)  |
| 4 Decreases due to amounts taken against accumulated credit risk adjustments                  |  | -  | -   |
| 5 Transfers between credit risk adjustments   |  | -  | -   |
| 6 Impact of exchange rate differences   |  | -  | -   |
| 7 Business combinations, including acquisitions and disposals of subsidiaries                 |  | -  | -   |
| 8 Other adjustments   |  | -  | -   |
| <b>9 Closing balance</b>  |  | <b>4,398</b>                                   | <b>478</b>                                    |
| 10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss |  | -  | -   |
| 11 Specific credit risk adjustments directly recorded to the statement of profit or loss      |  | -  | -   |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

| (US\$ in thousands)   | Gross carrying value defaulted exposures 2020 | Gross carrying value defaulted exposures 2019 |
|---|---|---|
| 1 <b>Opening balance</b>  | 47,391  | -   |
| 2 Loans and debt securities that have defaulted or impaired since the last reporting period | -   | 47,391  |
| 3 Returned to non-defaulted status  | -   | -   |
| 4 Amounts written off   | -   | -   |
| 5 Other changes   | (7,501)                                       | -   |
| 6 <b>Closing balance</b>  | <b>39,890</b>                                 | <b>47,391</b>                                 |

### Template 18: EU CR3 – CRM techniques – Overview

| 31 October 2020<br>(US\$ in thousands) | Exposures unsecured – Carrying amount | Exposures secured – Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|--|---------------------------------------|-------------------------------------|---------------------------------|---|---|
| 1 <b>Total loans</b>                   | 292,684                               | 3,773,484                           | 3,310,385                       | -   | -                                       |
| 2 <b>Total debt securities</b>         | 3,396,671                             | -                                   | -                               | -   | -                                       |
| 3 <b>Total exposures</b>               | <b>3,689,355</b>                      | <b>3,773,484</b>                    | <b>3,310,385</b>                | -   | -                                       |
| 4 <b>Of which defaulted</b>            | 33,500                                | -                                   | -                               | -   | -                                       |

| 31 October 2019<br>(US\$ in thousands) | Exposures unsecured – Carrying amount | Exposures secured – Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|--|---------------------------------------|-------------------------------------|---------------------------------|---|---|
| 1 <b>Total loans</b>                   | 277,363                               | 3,239,876                           | 2,700,982                       | -   | -                                       |
| 2 <b>Total debt securities</b>         | 2,080,534                             | -                                   | -                               | -   | -                                       |
| 3 <b>Total exposures</b>               | <b>2,357,897</b>                      | <b>3,239,876</b>                    | <b>2,700,982</b>                | -   | -                                       |
| 4 <b>Of which defaulted</b>            | 42,993                                | -                                   | -                               | -   | -                                       |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects

| 31 October 2020<br>(US\$ in thousands) |  | Exposures before CCF and CRM |                          | Exposures post CCF and CRM |                          | RWAs and RWA density |               |
|--|--|------------------------------|--------------------------|----------------------------|--------------------------|----------------------|---------------|
|  |  | On-balance-sheet amount      | Off-balance-sheet amount | On-balance-sheet amount    | Off-balance-sheet amount | RWAs                 | RWA density   |
| 1                                      | Central governments or central banks             | 3,059,377                    | -                        | 3,059,377                  | -                        | 59,249               | 1.94%         |
| 3                                      | Public sector entities                           | 590,744                      | -                        | 590,744                    | -                        | -                    | 0.00%         |
| 4                                      | Multilateral development banks                   | 1,186,826                    | -                        | 1,186,826                  | -                        | 7,799                | 0.66%         |
| 6                                      | Institutions                                     | 682,152                      | 50,000                   | 682,152                    | 25,000                   | 107,504              | 15.20%        |
| 7                                      | Corporates                                       | 218,244                      | 541,469                  | 218,244                    | 264,129                  | 462,452              | 95.87%        |
| 10                                     | Exposures in default                             | 33,500                       | -                        | 33,500                     | -                        | 50,250               | 150.00%       |
| 11                                     | Exposures associated with particularly high risk | 48,955                       | 65,996                   | 48,955                     | 9,430                    | 87,578               | 150.00%       |
| 16                                     | Other items                                      | 63,965                       | -                        | 63,965                     | -                        | 12,169               | 19.02%        |
| <b>17</b>                              | <b>Total</b>                                     | <b>5,883,763</b>             | <b>657,465</b>           | <b>5,883,763</b>           | <b>298,559</b>           | <b>787,001</b>       | <b>12.73%</b> |

| 31 October 2019<br>(US\$ in thousands) |  | Exposures before CCF and CRM |                          | Exposures post CCF and CRM |                          | RWAs and RWA density |              |
|--|--|------------------------------|--------------------------|----------------------------|--------------------------|----------------------|--------------|
|  |  | On-balance-sheet amount      | Off-balance-sheet amount | On-balance-sheet amount    | Off-balance-sheet amount | RWAs                 | RWA density  |
| 1                                      | Central governments or central banks             | 3,442,840                    | -                        | 3,442,840                  | -                        | -                    | 0.00%        |
| 3                                      | Public sector entities                           | 516,056                      | -                        | 516,056                    | -                        | -                    | 0.00%        |
| 4                                      | Multilateral development banks                   | 918,082                      | -                        | 918,082                    | -                        | 10,993               | 1.20%        |
| 6                                      | Institutions                                     | 671,234                      | -                        | 671,234                    | -                        | 99,743               | 14.86%       |
| 7                                      | Corporates                                       | 102,915                      | 346,495                  | 102,915                    | 171,828                  | 274,753              | 100.00%      |
| 10                                     | Exposures in default                             | 42,993                       | -                        | 42,993                     | -                        | 64,490               | 150.00%      |
| 11                                     | Exposures associated with particularly high risk | 84,996                       | 44,510                   | 84,996                     | -                        | 127,495              | 150.00%      |
| 16                                     | Other items                                      | 18,068                       | -                        | 18,068                     | -                        | 4,696                | 25.99%       |
| <b>17</b>                              | <b>Total</b>                                     | <b>5,797,184</b>             | <b>391,005</b>           | <b>5,797,184</b>           | <b>171,828</b>           | <b>582,170</b>       | <b>9.75%</b> |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

**Template 20: EU CR5 – Standardised approach – The table below analyses exposures at default under the Standardised Approach by risk weight, split by exposure class**

| 31 October 2020<br>(US\$ in thousands) |  | Risk weight      |               |          |               |                  |          |          |          |          |                |               |          |          |          |          | Total    | Of which<br>unrated |                     |
|--|--|------------------|---------------|----------|---------------|------------------|----------|----------|----------|----------|----------------|---------------|----------|----------|----------|----------|----------|---------------------|---------------------|
|  |  | 0%               | 2%            | 4%       | 10%           | 20%              | 35%      | 50%      | 70%      | 75%      | 100%           | 150%          | 250%     | 370%     | 1250%    | Others   |          |                     | Deducted            |
| Exposure classes                       |  | 0%               | 2%            | 4%       | 10%           | 20%              | 35%      | 50%      | 70%      | 75%      | 100%           | 150%          | 250%     | 370%     | 1250%    | Others   | Deducted | Total               | Of which<br>unrated |
| 1                                      | Central governments or central banks             | 2,763,132        | -             | -        | -             | 296,245          | -        | -        | -        | -        | -              | -             | -        | -        | -        | -        | -        | 3,059,377           | -                   |
| 3                                      | Public sector entities                           | 590,744          | -             | -        | -             | -                | -        | -        | -        | -        | -              | -             | -        | -        | -        | -        | -        | 590,744             | -                   |
| 4                                      | Multilateral development banks                   | 1,147,832        | -             | -        | -             | 38,994           | -        | -        | -        | -        | -              | -             | -        | -        | -        | -        | -        | 1,186,826           | -                   |
| 5                                      | International                                    | 30,863           | -             | -        | -             | -                | -        | -        | -        | -        | -              | -             | -        | -        | -        | -        | -        | 30,863              | -                   |
| 6                                      | Institutions                                     | 160,756          | 19,918        | -        | -             | 1,202,575        | -        | -        | -        | -        | -              | -             | -        | -        | -        | -        | -        | 1,383,249           | -                   |
| 7                                      | Corporates                                       | -                | -             | -        | -             | 24,901           | -        | -        | -        | -        | 495,364        | -             | -        | -        | -        | -        | -        | 520,265             | 495,364             |
| 10                                     | Exposures in default                             | -                | -             | -        | -             | -                | -        | -        | -        | -        | -              | 33,500        | -        | -        | -        | -        | -        | 33,500              | 33,500              |
| 11                                     | Exposures associated with particularly high risk | -                | -             | -        | -             | -                | -        | -        | -        | -        | -              | 58,385        | -        | -        | -        | -        | -        | 58,385              | 58,385              |
| 12                                     | Covered Bonds                                    | -                | -             | -        | 17,775        | -                | -        | -        | -        | -        | -              | -             | -        | -        | -        | -        | -        | 17,775              | -                   |
| 16                                     | Other items                                      | -                | -             | -        | -             | 26,166           | -        | -        | -        | -        | 6,936          | -             | -        | -        | -        | -        | -        | 33,102              | -                   |
| <b>17</b>                              | <b>Total</b>                                     | <b>4,693,327</b> | <b>19,918</b> | <b>-</b> | <b>17,775</b> | <b>1,588,881</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>502,300</b> | <b>91,885</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>6,914,086</b>    | <b>587,249</b>      |

| 31 October 2019<br>(US\$ in thousands) |  | Risk weight      |          |          |          |                  |          |          |          |          |                |                |          |          |          |          | Total    | Of which<br>unrated |                     |
|--|--|------------------|----------|----------|----------|------------------|----------|----------|----------|----------|----------------|----------------|----------|----------|----------|----------|----------|---------------------|---------------------|
|  |  | 0%               | 2%       | 4%       | 10%      | 20%              | 35%      | 50%      | 70%      | 75%      | 100%           | 150%           | 250%     | 370%     | 1250%    | Others   |          |                     | Deducted            |
| Exposure classes                       |  | 0%               | 2%       | 4%       | 10%      | 20%              | 35%      | 50%      | 70%      | 75%      | 100%           | 150%           | 250%     | 370%     | 1250%    | Others   | Deducted | Total               | Of which<br>unrated |
| 1                                      | Central governments or central banks             | 3,442,840        | -        | -        | -        | -                | -        | -        | -        | -        | -              | -              | -        | -        | -        | -        | -        | 3,442,840           | -                   |
| 3                                      | Public sector entities                           | 516,056          | -        | -        | -        | -                | -        | -        | -        | -        | -              | -              | -        | -        | -        | -        | -        | 516,056             | -                   |
| 4                                      | Multilateral development banks                   | 863,114          | -        | -        | -        | 54,966           | -        | -        | -        | -        | -              | -              | -        | -        | -        | -        | -        | 918,080             | -                   |
| 6                                      | Institutions                                     | 172,466          | -        | -        | -        | 1,277,214        | -        | -        | -        | -        | -              | -              | -        | -        | -        | -        | -        | 1,449,680           | -                   |
| 7                                      | Corporates                                       | -                | -        | -        | -        | -                | -        | -        | -        | -        | 297,624        | -              | -        | -        | -        | -        | -        | 297,624             | 297,624             |
| 10                                     | Exposures in default                             | -                | -        | -        | -        | -                | -        | -        | -        | -        | -              | 65,350         | -        | -        | -        | -        | -        | 65,350              | 65,350              |
| 11                                     | Exposures associated with particularly high risk | -                | -        | -        | -        | -                | -        | -        | -        | -        | -              | 84,996         | -        | -        | -        | -        | -        | 84,996              | 84,996              |
| 16                                     | Other items                                      | -                | -        | -        | -        | 16,715           | -        | -        | -        | -        | 1,353          | -              | -        | -        | -        | -        | -        | 18,068              | -                   |
| <b>17</b>                              | <b>Total</b>                                     | <b>4,994,476</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>1,348,895</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>298,977</b> | <b>150,346</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>6,792,694</b>    | <b>447,970</b>      |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Use of ECAIs

Under CRD IV, institutions are permitted to determine the risk weight of an exposure with reference to the credit assessments of External Credit Assessment Institutions ("ECAIs"). The Company uses a combination of the credit weightings assigned by the ECAIs and mapping guidelines issued by the CBI to map the exposures to the appropriate credit quality assessment step. Where there are no available credit assessments to map to a credit quality assessment step, the Company assigns risk weights to these exposures in accordance with the CRD IV requirements for unrated exposures.

#### Total exposures split by external rating and credit quality assessment step

| 31 October 2020<br>(US\$ in thousands)<br>Exposure classes | Standard and Poor's<br>(ECAI 1) | Moody's (ECAI 2) | Fitch (ECAI 3)   | Credit quality<br>assessment step | Total rated      | Total unrated    | Total             |
|--|---------------------------------|------------------|------------------|-----------------------------------|------------------|------------------|-------------------|
| Central governments or central banks                       | 3,059,377                       | 898,072          | 898,072          | 3,059,377                         | 3,059,377        |                  | 3,059,377         |
| Public sector entities                                     | 590,744                         | 590,744          | 590,744          | 590,744                           | 590,744          | -                | 590,744           |
| Multilateral development banks                             | 1,186,826                       | 1,186,826        | 1,186,826        | 1,186,826                         | 1,186,826        | -                | 1,186,826         |
| Institutions   | 2,991,936                       | 873,299          | 2,815,619        | 2,991,936                         | 2,991,936        | 2,242,735        | 5,234,671         |
| Corporates   | 53,903                          | 24,901           | 24,901           | 53,903                            | 53,903           | 892,152          | 946,055           |
| Equity   | -                               | -                | -                | -                                 | -                | -                | -                 |
| Other items  | 30,863                          | 30,863           | 30,863           | 30,863                            | 30,863           | 33,102           | 63,965            |
| <b>Total</b>   | <b>7,913,649</b>                | <b>3,604,705</b> | <b>5,547,025</b> | <b>7,913,649</b>                  | <b>7,913,649</b> | <b>3,167,989</b> | <b>11,081,638</b> |

| 31 October 2019<br>(US\$ in thousands)<br>Exposure classes | Standard and Poor's<br>(ECAI 1) | Moody's (ECAI 2) | Fitch (ECAI 3)   | Credit quality<br>assessment step | Total rated      | Total unrated    | Total             |
|--|---------------------------------|------------------|------------------|-----------------------------------|------------------|------------------|-------------------|
| Central governments or central banks                       | 3,442,840                       | 21,621           | -                | 3,442,840                         | 3,442,840        | -                | 3,442,840         |
| Public sector entities                                     | 483,773                         | 120,387          | 347,380          | 516,056                           | 516,056          | -                | 516,056           |
| Multilateral development banks                             | 897,454                         | 918,082          | 786,254          | 918,082                           | 918,082          | -                | 918,082           |
| Institutions   | 2,977,384                       | 1,749,910        | 1,945,383        | 2,977,384                         | 2,977,384        | 1,277,566        | 4,254,950         |
| Corporates   | -                               | -                | -                | -                                 | -                | 667,136          | 667,136           |
| Equity   | -                               | -                | -                | -                                 | -                | 544,378          | 544,378           |
| Other items  | -                               | -                | -                | -                                 | -                | 18,068           | 18,068            |
| <b>Total</b>   | <b>7,801,451</b>                | <b>2,810,000</b> | <b>3,079,017</b> | <b>7,854,362</b>                  | <b>7,854,362</b> | <b>2,507,148</b> | <b>10,361,510</b> |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Total exposures split by credit quality assessment step<sup>12</sup> – Standardised Approach

31 October 2020

(US\$ in thousands)

| Exposure classes                     | Step 1           | Step 2           | Step 3         | Step 4        | Step 5   | Step 6   | Total rated      | Total unrated    | Total             |
|--------------------------------------|------------------|------------------|----------------|---------------|----------|----------|------------------|------------------|-------------------|
| Central governments or central banks | 2,763,132        | 296,245          | -              | -             | -        | -        | 3,059,377        | -                | 3,059,377         |
| Public sector entities               | 590,744          | -                | -              | -             | -        | -        | 590,744          | -                | 590,744           |
| Multilateral development banks       | 1,186,826        | -                | -              | -             | -        | -        | 1,186,826        | -                | 1,186,826         |
| Institutions                         | 1,226,942        | 1,614,997        | 149,997        | -             | -        | -        | 2,991,936        | 2,242,735        | 5,234,671         |
| Corporates                           | 24,901           | -                | 11,532         | 17,470        | -        | -        | 53,903           | 892,152          | 946,055           |
| Equity                               | -                | -                | -              | -             | -        | -        | -                | -                | -                 |
| Other items                          | 30,863           | -                | -              | -             | -        | -        | 30,863           | 33,102           | 63,965            |
| <b>Total</b>                         | <b>5,823,408</b> | <b>1,911,242</b> | <b>161,529</b> | <b>17,470</b> | <b>-</b> | <b>-</b> | <b>7,913,649</b> | <b>3,167,989</b> | <b>11,081,638</b> |

31 October 2019

(US\$ in thousands)

| Exposure classes                     | Step 1           | Step 2        | Step 3   | Step 4   | Step 5   | Step 6   | Total rated      | Total unrated    | Total             |
|--------------------------------------|------------------|---------------|----------|----------|----------|----------|------------------|------------------|-------------------|
| Central governments or central banks | 3,442,840        | -             | -        | -        | -        | -        | 3,442,840        | -                | 3,442,840         |
| Public sector entities               | 516,056          | -             | -        | -        | -        | -        | 516,056          | -                | 516,056           |
| Multilateral development banks       | 918,082          | -             | -        | -        | -        | -        | 918,082          | -                | 918,082           |
| Institutions                         | 2,932,241        | 45,143        | -        | -        | -        | -        | 2,977,384        | 1,277,566        | 4,254,950         |
| Corporates                           | -                | -             | -        | -        | -        | -        | -                | 667,136          | 667,136           |
| Equity                               | -                | -             | -        | -        | -        | -        | -                | 544,378          | 544,378           |
| Other items                          | -                | -             | -        | -        | -        | -        | -                | 18,068           | 18,068            |
| <b>Total</b>                         | <b>7,809,219</b> | <b>45,143</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>7,854,362</b> | <b>2,507,148</b> | <b>10,361,510</b> |

<sup>12</sup> The following ratings apply to the credit quality assessment steps:

Credit quality assessment step 1: AAA to AA (S&P/ Fitch / DBRS); Aaa to Aa3 (Moody's)

Credit quality assessment step 2: A+ to A- (S&P/ Fitch / DBRS); A1 to A3 (Moody's)

Credit quality assessment step 3: BBB+ to BBB- (S&P/ Fitch / DBRS); Baa1 to Baa3 (Moody's)

Credit quality assessment step 4: BB+ to BB- (S&P/ Fitch / DBRS); Ba1 to Ba3 (Moody's)

Credit quality assessment step 5: B+ to B- (S&P/ Fitch / DBRS); B1 to B3 (Moody's)

Credit quality assessment step 6: CCC+ and below (S&P/ Fitch / DBRS); Caa1 and below (Moody's)

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Counterparty Credit Risk

**Template 25: EU CCR1 – Analysis of CCR exposure by approach – The table below sets out the methods used to calculate CCR regulatory requirements and the resultant RWAs**

|           | 31 October 2020<br>(US\$ in thousands)                           | Notional   | Replacement<br>cost/current<br>market value | Potential<br>future<br>credit<br>exposure | EEPE | Multiplier | EAD post<br>CRM | RWAs           |
|-----------|--|------------|---|---|------|------------|-----------------|----------------|
| 1         | Mark to market   |            | 21,417                                      | -   |      |            | 21,417          | 9,405          |
| 2         | Original exposure  | 16,555,795 |   |   |      |            | -               | -              |
| 3         | Standardised approach  |            | 148,082                                     |   |      | -          | 148,082         | 51,223         |
| 4         | IMM (for derivatives and   |            |   |   | -    | -          | -               | -              |
| 5         | <i>Of which securities<br/>financing transactions</i>            |            |   |   | -    | -          | -               | -              |
| 6         | <i>Of which derivatives and<br/>long settlement transactions</i> |            |   |   | -    | -          | -               | -              |
| 7         | <i>Of which from contractual<br/>cross-product netting</i>       |            |   |   | -    | -          | -               | -              |
| 8         | Financial collateral simple<br>method (for SFTs)                 |            |   |   |      |            | -               | -              |
| 9         | Financial collateral<br>comprehensive method (for<br>SFTs)       |            |   |   |      |            | 562,219         | 112,444        |
| 10        | VaR for SFTs   |            |   |   |      |            | -               | -              |
| <b>11</b> | <b>Total</b>   |            |   |   |      |            |                 | <b>173,072</b> |

|           | 31 October 2019<br>(US\$ in thousands)                           | Notional   | Replacement<br>cost/current<br>market value | Potential<br>future<br>credit<br>exposure | EEPE | Multiplier | EAD post<br>CRM | RWAs           |
|-----------|--|------------|---|---|------|------------|-----------------|----------------|
| 1         | Mark to market   |            | 58,503                                      | -   |      |            | 58,503          | 15,644         |
| 2         | Original exposure  | 14,938,048 |   |   |      |            | -               | -              |
| 3         | Standardised approach  |            | 226,334                                     |   |      | -          | 226,334         | 88,683         |
| 4         | IMM (for derivatives and SFTs)                                   |            |   |   | -    | -          | -               | -              |
| 5         | <i>Of which securities financing<br/>transactions</i>            |            |   |   | -    | -          | -               | -              |
| 6         | <i>Of which derivatives and long<br/>settlement transactions</i> |            |   |   | -    | -          | -               | -              |
| 7         | <i>Of which from contractual cross-<br/>product netting</i>      |            |   |   | -    | -          | -               | -              |
| 8         | Financial collateral simple method<br>(for SFTs)                 |            |   |   |      |            | -               | -              |
| 9         | Financial collateral comprehensive<br>method (for SFTs)          |            |   |   |      |            | 538,590         | 76,584         |
| 10        | VaR for SFTs   |            |   |   |      |            | -               | -              |
| <b>11</b> | <b>Total</b>   |            |   |   |      |            |                 | <b>180,911</b> |

**Template 26: EU CCR2 – CVA capital charge – The table below presents the CVA charge broken down by approach**

| (US\$ in thousands) | Exposure<br>value<br>2020                      | RWAs<br>2020   | Exposure<br>value<br>2019 | RWAs<br>2019   |
|---------------------|--|----------------|---------------------------|----------------|
| 1                   | Total portfolios subject to the advanced       | -              | -                         | -              |
| 2                   | (i) VaR component (including the 3×            |                |                           | -              |
| 3                   | (ii) SVaR component (including the 3×          |                |                           | -              |
| 4                   | All portfolios subject to the standardised     | 673,909        | 93,315                    | 823,730        |
| EU4                 | Based on the original exposure method          | -              | -                         | -              |
| <b>5</b>            | <b>Total subject to the CVA capital charge</b> | <b>673,909</b> | <b>93,315</b>             | <b>823,730</b> |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Template 28: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

| 31 October 2020     |             |               |          |                  |          |          |          |               |          |          |          | Total            | Of which unrated |
|---------------------|-------------|---------------|----------|------------------|----------|----------|----------|---------------|----------|----------|----------|------------------|------------------|
| (US\$ in thousands) |             |               |          |                  |          |          |          |               |          |          |          |                  |                  |
| Exposure classes    | Risk weight |               |          |                  |          |          |          |               |          |          | Total    | Of which unrated |                  |
|                     | 0%          | 2%            | 10%      | 20%              | 50%      | 70%      | 75%      | 100%          | 150%     | Others   |          |                  |                  |
| 6 Institutions      | -           | 19,918        | -        | 4,502,493        | -        | -        | -        | -             | -        | -        | -        | 4,522,411        | 2,175,849        |
| 7 Corporates        | -           | -             | -        | -                | -        | -        | -        | 37,892        | -        | -        | -        | 37,892           | 8,890            |
| <b>17 Total</b>     | <b>-</b>    | <b>19,918</b> | <b>-</b> | <b>4,502,493</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>37,892</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>4,560,303</b> | <b>2,184,739</b> |

| 31 October 2019     |             |          |          |                |          |          |          |               |               |          |          | Total            | Of which unrated |
|---------------------|-------------|----------|----------|----------------|----------|----------|----------|---------------|---------------|----------|----------|------------------|------------------|
| (US\$ in thousands) |             |          |          |                |          |          |          |               |               |          |          |                  |                  |
| Exposure classes    | Risk weight |          |          |                |          |          |          |               |               |          | Total    | Of which unrated |                  |
|                     | 0%          | 2%       | 10%      | 20%            | 50%      | 70%      | 75%      | 100%          | 150%          | Others   |          |                  |                  |
| 6 Institutions      | -           | -        | -        | 882,733        | -        | -        | -        | -             | -             | -        | -        | 882,733          | -                |
| 7 Corporates        | -           | -        | -        | -              | -        | -        | -        | 22,871        | 22,357        | -        | -        | 45,228           | 45,228           |
| <b>17 Total</b>     | <b>-</b>    | <b>-</b> | <b>-</b> | <b>882,733</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>22,871</b> | <b>22,357</b> | <b>-</b> | <b>-</b> | <b>927,961</b>   | <b>45,228</b>    |

### Template 31: EU CCR5-A – Impact of netting and collateral held on exposure values

| 31 October 2020<br>(US\$ in thousands) |                       | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held  | Net credit exposure |
|--|-----------------------|--|------------------|--------------------------------|------------------|---------------------|
| 1                                      | Derivatives           | 360,442  | 190,943          | 169,499                        | -                | 169,499             |
| 2                                      | SFTs                  | 4,370,912  | -                | 4,370,912                      | 3,808,773        | 562,139             |
| 3                                      | Cross-product netting | -  | -                | -                              | -                | -                   |
| <b>4</b>                               | <b>Total</b>          | <b>4,731,354</b>                                 | <b>190,943</b>   | <b>4,540,411</b>               | <b>3,808,773</b> | <b>731,638</b>      |

| 31 October 2019<br>(US\$ in thousands) |                       | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held  | Net credit exposure |
|--|-----------------------|--|------------------|--------------------------------|------------------|---------------------|
| 1                                      | Derivatives           | 284,837  | -                | 284,837                        | -                | 284,837             |
| 2                                      | SFTs                  | 3,344,106  | -                | 3,344,106                      | 2,700,982        | 643,124             |
| 3                                      | Cross-product netting | -  | -                | -                              | -                | -                   |
| <b>4</b>                               | <b>Total</b>          | <b>3,628,943</b>                                 | <b>-</b>         | <b>3,628,943</b>               | <b>2,700,982</b> | <b>927,961</b>      |

### Template 32: EU CCR5-B – Composition of collateral for exposures to CCR - The table below provides a breakdown of all types of collateral posted or received to support or reduce CCR exposures related to derivative transactions and to SFTs.

| 31 October 2020     |                           | Collateral used in derivative transactions |                |                                 |                | Collateral used in SFTs           |                                 |
|---------------------|---------------------------|--|----------------|---------------------------------|----------------|-----------------------------------|---------------------------------|
| (US\$ in thousands) |                           | Fair value of collateral received          |                | Fair value of posted collateral |                | Fair value of collateral received | Fair value of posted collateral |
|                     |                           | Segregated                                 | Unsegregated   | Segregated                      | Unsegregated   |                                   |                                 |
|                     | Cash                      | -  | 12,027         | -                               | -              | 3,808,773                         | -                               |
|                     | Corporate bonds           | -  | 50,000         | -                               | -              | -                                 | -                               |
|                     | Sovereign Debt Securities | -  | 87,685         | -                               | 159,521        | -                                 | -                               |
|                     | <b>Total</b>              | <b>-</b>                                   | <b>149,712</b> | <b>-</b>                        | <b>159,521</b> | <b>3,808,773</b>                  | <b>-</b>                        |

| 31 October 2019     |              | Collateral used in derivative transactions |              |                                 |              | Collateral used in SFTs           |                                 |
|---------------------|--------------|--|--------------|---------------------------------|--------------|-----------------------------------|---------------------------------|
| (US\$ in thousands) |              | Fair value of collateral received          |              | Fair value of posted collateral |              | Fair value of collateral received | Fair value of posted collateral |
|                     |              | Segregated                                 | Unsegregated | Segregated                      | Unsegregated |                                   |                                 |
|                     | Equity       | -  | -            | -                               | -            | 2,700,982                         | -                               |
|                     | <b>Total</b> | <b>-</b>                                   | <b>-</b>     | <b>-</b>                        | <b>-</b>     | <b>2,700,982</b>                  | <b>-</b>                        |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Funding and Liquidity Risk

The Company's Liquidity and Funding Risk Management Framework is defined and managed under Board-approved policies and management-approved standards. Funding and Liquidity Risk is managed as part of the management of the overall risk profile of the Company. These policies and standards outline key management principles, liquidity and funding management metrics and related limits and guidelines, as well as roles and responsibilities for the management of liquidity and funding risk. The Company is integrated into the BMO Groups limits and guidelines, which are in place to manage liquidity and funding risk. The Company has a Liquidity and Funding Contingency Plan that will facilitate effective management through a disruption. Early warning indicators identified in the contingency funding plan are regularly monitored to identify early signs of liquidity risk in the market or specific to the Company.

With the Capital Requirements Regulation (EU) No 575 /2013 and the Delegated Act 2015, the European Commission introduced the Liquidity Coverage Ratio ("LCR") which financial institutions were obliged to calculate, monitor and report from 2015. During 2020 the Company maintained an LCR ratio in excess of 100%. The LCR is designed to promote short term resilience ensuring that a financial institution has sufficient high quality liquid assets to survive a significant stress scenario lasting one month.

|                                     | Year Ended 31 October |                |
|-------------------------------------|-----------------------|----------------|
|                                     | 2020                  | 2019           |
| Liquidity buffer                    | 4,559,088             | 5,253,114      |
| Total net cash outflows             | 1,702,942             | 1,831,191      |
| <b>Liquidity Coverage Ratio (%)</b> | <b>267.72%</b>        | <b>286.87%</b> |

The Company's Internal Liquidity Adequacy Assessment Process ("ILAAP") comprises an ongoing assessment of the liquidity and funding position against regulatory requirements and the Company's internal limits. The intent of the ILAAP is to demonstrate that the Company is able to determine and maintain the level of liquidity required to support the strategic objectives, considering the risks it is exposed to under normal and stressed conditions. The Board has oversight of, and confidence in, the ILAAP process as a means of assessing the adequacy of and the management of liquidity.

The guiding principles of Liquidity Risk Management and by extension the Company's ILAAP are:

- **Proportionality:** It is proportionate to the risk level, complexity and scale of the Company's activities.
- **Forward-Looking:** It considers not only the existing risks faced but also the potential risks and future business strategies.
- **Ongoing:** It is not a static one-time process but rather a dynamic and continuous exercise to ensure that the Company has robust liquidity and funding risk management systems and possesses sufficient access to contingent liquidity at all times under both normal and stressed conditions.
- **Evolving-nature:** It is continuously reviewed for its efficacy and need to improve, especially against the backdrop of changes in the risk profile, regulation and business plans.

As part of the ILAAP processes, the Company seeks to ensure that:

- All material funding and liquidity risks faced by the Company are identified and have sufficient risk management and controls around them.
- The overall liquidity of the Company is adequate under stressed conditions, taking into account severe yet plausible idiosyncratic and market-wide stress scenarios.
- The Board of Directors is informed about ongoing identification, assessment and management of the Company's funding and liquidity risks.
- The Company has a detailed understanding of the relevant mitigation actions and the available contingent funding sources as set out in the Liquidity and Funding Contingency Plan.
- The outputs of the ILAAP feed back into business strategy and liquidity planning.
- The ILAAP process is closely aligned to the ICAAP process.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Asset Encumbrance

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

Encumbered and unencumbered assets as at 31 October 2020 are based on the requirement in Part 8 of the CRR, Commission Delegated Regulated (EU) 2017/2295 and in the related guidelines issued by the EBA.

### Template A - Encumbered and unencumbered assets held by the Company

| 31 October 2020     |  | Encumbered assets                    |   |                                 |   | Unencumbered assets                    |                         |                                   |                         |
|---------------------|--|--------------------------------------|---|---------------------------------|---|--|-------------------------|-----------------------------------|-------------------------|
|                     |  | Carrying amount of encumbered assets | of which notionally eligible EHQLA and HQLA | Fair value of encumbered assets | of which notionally eligible EHQLA and HQLA | Carrying amount of unencumbered assets | of which EHQLA and HQLA | Fair value of unencumbered assets | of which EHQLA and HQLA |
| (US\$ in thousands) |  |                                      |   |                                 |   |  |                         |                                   |                         |
| 010                 | <b>Assets of the reporting institution</b> | <b>641,456</b>                       | <b>641,456</b>                              | <b>641,456</b>                  | <b>641,456</b>                              | <b>9,749,325</b>                       | <b>4,916,520</b>        | <b>9,749,325</b>                  | <b>4,916,520</b>        |
| 030                 | Equity instruments                         | -                                    | -   | -                               | -   | -                                      | -                       | -                                 | -                       |
| 040                 | Debt securities                            | 641,456                              | 641,456                                     | 641,456                         | 641,456                                     | 2,755,215                              | 2,755,215               | 2,755,215                         | 2,755,215               |
| 070                 | of which: issued by general governments    | 446,089                              | 446,089                                     | 446,089                         | 446,089                                     | 1,042,727                              | 1,042,727               | 1,042,727                         | 1,042,727               |
| 080                 | of which: issued by financial corporations | 195,368                              | 195,368                                     | 195,368                         | 195,368                                     | 1,656,723                              | 1,656,723               | 1,656,723                         | 1,656,723               |
| 120                 | Other assets                               | -                                    | -   | -                               | -   | 6,994,110                              | 2,161,305               | 6,994,110                         | 2,161,305               |

| 31 October 2019     |  | Encumbered assets                    |   |                                 |   | Unencumbered assets                    |                         |                                   |                         |
|---------------------|--|--------------------------------------|---|---------------------------------|---|--|-------------------------|-----------------------------------|-------------------------|
|                     |  | Carrying amount of encumbered assets | of which notionally eligible EHQLA and HQLA | Fair value of encumbered assets | of which notionally eligible EHQLA and HQLA | Carrying amount of unencumbered assets | of which EHQLA and HQLA | Fair value of unencumbered assets | of which EHQLA and HQLA |
| (US\$ in thousands) |  |                                      |   |                                 |   |  |                         |                                   |                         |
| 010                 | Assets of the reporting institution        | 320,585                              | 304,310                                     | 320,585                         | 133,946                                     | 9,639,942                              | 5,480,755               | 9,639,942                         | 5,480,755               |
| 030                 | Equity instruments                         | 186,639                              | 170,364                                     | 186,639                         | -   | 357,739                                | 112,947                 | 357,739                           | 112,947                 |
| 040                 | Debt securities                            | 133,946                              | 133,946                                     | 133,946                         | 133,946                                     | 1,946,589                              | 1,946,589               | 1,946,589                         | 1,946,589               |
| 070                 | of which: issued by general governments    | 71,519                               | 71,519                                      | 71,519                          | 71,519                                      | 466,159                                | 466,159                 | 466,159                           | 466,159                 |
| 080                 | of which: issued by financial corporations | 62,427                               | 62,427                                      | 62,427                          | 62,427                                      | 1,480,430                              | 1,480,430               | 1,480,430                         | 1,480,430               |
| 120                 | Other assets                               | -                                    | -   | -                               | -   | 7,335,614                              | 3,421,219               | 7,335,614                         | 3,421,219               |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Template B - Encumbered and unencumbered collateral received

| 31 October 2020     |  | Fair value of encumbered collateral received or own debt securities issued | of which notionally eligible EHQLA and HQLA | Fair value of collateral received or own debt securities issued available for encumbrance | of which notionally eligible EHQLA and HQLA |
|---------------------|--|--|---|---|---|
| (US\$ in thousands) |  |  |   |   |   |
| 130                 | <b>Collateral received by the reporting institution</b>      | <b>1,101,714</b>   | -   | <b>2,707,059</b>  | -   |
| 220                 | Loans and advances other than loans on demand                | 1,101,714  | -   | 2,707,059   | -   |
| <b>250</b>          | <b>Total assets, collateral received and debt securities</b> | <b>1,101,714</b>   | -   | <b>2,707,059</b>  | -   |

| 31 October 2019     |  | Fair value of encumbered collateral received or own debt securities issued | of which notionally eligible EHQLA and HQLA | Fair value of collateral received or own debt securities issued available for encumbrance | of which notionally eligible EHQLA and HQLA |
|---------------------|--|--|---|---|---|
| (US\$ in thousands) |  |  |   |   |   |
| 130                 | Collateral received by the reporting institution             | 782,096  | -   | 2,332,808   | -   |
| 220                 | Loans and advances other than loans on demand                | 782,096  | -   | 2,332,808   | -   |
|                     | Total assets, collateral received and debt securities issued | 782,096  | -   | 2,332,808   | -   |

### Template C - Encumbered assets/collateral received and associated liabilities

| 31 October 2020     |  | Matching liabilities, contingent liabilities, or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---------------------|--|--|---|
| (US\$ in thousands) |  |  |   |
| 010                 | <b>Carrying amount of selected financial liabilities</b> | -  | -   |

| 31 October 2019     |   | Matching liabilities, contingent liabilities, or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---------------------|---|--|---|
| (US\$ in thousands) |   |  |   |
| 010                 | Carrying amount of selected financial liabilities | -  | -   |

### Template D – Accompanying narrative information on encumbrance

- The Company engages in activities that result in certain assets being encumbered.
- The majority of encumbrance arises from assets being pledged as collateral under capital market transactions including securities borrowing/lending and Over the Counter ("OTC") derivatives.
- The Company primarily collateralises based on industry standard contractual agreements including ISDA Credit Support Agreements ("CSA"), Global Master Securities Lending Agreements ("GMSLA") and Global Master Repurchase Agreements ("GMRA").

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Market Risk

Market Risk is the potential for on and off balance sheet exposures to cause losses due to adverse changes in the underlying variables of interest, foreign exchange, equity, commodity, and credit market factors.

Market Risk applies mainly to risk exposures in the Trading Book portfolios, namely equity risk from the Linear Equity line of business and interest rate risk. Market Risk also arises in the form of Foreign Exchange Risk from structural balance sheet positions.

- **Equity Risk:** The Linear Equity business line makes a market in equity total return swaps where the Company pays/receives the return on a stock or basket of stocks against the payment of a fixed or floating interest rate. The Trading Desk hedges the equity risk from the equity leg of the swap tightly by taking an offsetting long or short position in the underlying equities in the basket. Residual equity risk is subject to market risk limits as outlined in the specific limit letter for this Trading Desk.
- **Interest Rate Risk:** The interest rate leg in equity total return swap transaction combined with the funding required/received for hedging the equity leg results in interest rate risk, which is subject to market risk limits as outlined in the specific limit letter for this Trading Desk.
- **Foreign Exchange Risk:** This arises largely from transactions denominated in currencies other than the entity's reporting currency, resulting in a number of net balance sheet FX positions.

Market Risk is subject to local policies as well as to the BMO Group 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 Trading Desks must adhere.

#### **Template 34: EU MR1 – Market risk under the standardised approach**

| (US\$ in thousands)                         | As at 31 October 2020 |                      | As at 31 October 2019 |                      |
|---|-----------------------|----------------------|-----------------------|----------------------|
|   | RWAs                  | Capital requirements | RWAs                  | Capital requirements |
| <b>Outright products</b>                    |                       |                      |                       |                      |
| 1 Interest rate risk (general and specific) | 11,638                | 931                  | -                     | -                    |
| 2 Equity risk (general and specific)        | 2,400                 | 192                  | 363                   | 29                   |
| 3 Foreign exchange risk                     | -                     | -                    | -                     | -                    |
| 4 Commodity risk                            | -                     | -                    | -                     | -                    |
| <b>Options</b>                              |                       |                      |                       |                      |
| 5 Simplified approach                       | -                     | -                    | -                     | -                    |
| 6 Delta-plus method                         | -                     | -                    | -                     | -                    |
| 7 Scenario approach                         | -                     | -                    | -                     | -                    |
| 8 Securitisation (specific risk)            | -                     | -                    | -                     | -                    |
| <b>9 Total</b>                              | <b>14,038</b>         | <b>1,123</b>         | <b>363</b>            | <b>29</b>            |

Interest Rate Risk in the Banking Book ("IRRBB") is defined as the current or prospective risk to both the earnings and the economic value of the Company arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk, credit spread risk, basis risk and option risk. IRRBB encompasses interest rate risk as well as Credit Spread Risk in the Banking Book ("CSRBB") in the Company's Banking Book operations. IRRBB results mainly from the structural balance sheet duration profile stemming from mismatches in the interest rate repricing dates of assets, liabilities and off-balance sheet items from non-trading activities. The Company's non-complex balance-sheet structure results in an IRRBB exposure which is very amenable to standardisation. The Company does not have any non-maturity deposits. IRRBB exposure from corporate lending is predominantly based on floating interest rates, which results in very limited prepayment risk.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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IRRBB is managed under the Market Risk Framework and delegated limit controls. Limits for IRRBB are expressed in terms of Economic Value of Equity (“EVE”) and Net Interest Income (“NII”) sensitivities and are measured monthly. EVE and NII sensitivities are determined both on parallel interest rate shocks of positive and negative 200 basis points. As at 31 October 2020 the EVE sensitivity of +/- US\$0.7 million while the NII sensitivity of +/- US\$14.4 million using a 200 basis points shock. The lack of optionality features and the short interest rate duration of the Company’s banking book positions produce immaterial convexity effects, resulting in a symmetrical risk profile of positive and negative interest rate scenarios. These Limits are defined and detailed in the Company’s Risk Appetite Statement which is reviewed and approved by the Board of Directors on an annual basis. The Company measures monitors and reports IRRBB on a monthly basis and does not apply any behavioural assumptions.

### Other Risks

#### Credit Concentration Risk

Credit Concentration Risk is the risk is the risk from exposure(s) (on or off balance sheet) that may arise within or across different risk categories throughout the Company with the potential to produce losses in its portfolio that are: (i) large enough to threaten the Company’s financial health or ability to maintain its core operations; or (ii) result in a material change in the Company’s risk profile. Credit Concentration Risk is the risk arising from a dominant share or overexposure in an institution’s risk bearing positions or exposures (assets or liabilities, on or off balance sheet) carrying common risk characteristics and which are sensitive to the same risk drivers. Such positions or exposures, in a risk event, may lead to a material loss jeopardizing the institutions earnings, capital or liquidity position and hence putting the institution at risk.

Credit Concentration Risk is the Company’s primary type of concentration risk. Others are dealt with later in this section.

The Company received approval from the CBI on 19 November 2019 to apply contractual netting to exposures from a specified list of counterparties in respect of determining regulatory large exposure to counterparties.

Credit concentrations indicate a related sensitivity of the Company’s performance to developments affecting a particular counterparty, industry or geographic location. These limits are set in the context of the Company’s risk appetite and risk bearing capacity of the Company’s capital structure.

Credit Concentration risks can occur as traditional intra-risk concentration, e.g. within a credit risk portfolio, or inter-risk concentration, concentration risk between or across different risk types. The Company has set a broad range of limits to mitigate credit concentration risk, focusing on single name/connection, settlement, industry and geographic concentration. Adherence to limits, the composition of the portfolios and potential concentrations are reported monthly to the RMC and reported quarterly to the RCC.

#### Concentration Risk (excluding Credit Concentration Risk)

Concentration Risk is identified, managed, monitored and reported by the Company in accordance with its Concentration Risk Management Policy and applicable regulatory guidelines.

In addition to the assessment of credit concentration risk as described earlier, the Company produces an assessment on concentration risk in other aspects of its business as part of its annual ICAAP process. This assessment specifically considers the following areas; business strategy, collateral, market, liquidity and operations. This assessment quantifies concentration risk in each of these areas and provides an assessment on whether internal capital as a mitigant to the risk should be allocated.

In the concentration risk assessment for 2020, it was concluded that internal capital as a mitigant was only recommended for Credit Concentration Risk. Concentration Risk in all other areas was assessed as adequately managed without the need for internal capital as a mitigant.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Operational Risk

Operational Risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events.

A risk based methodology has been adopted by the Company to conduct its own assessment of operational economic risk capital. The Company uses a 99.95% confidence interval for internal capital calculations which corresponds to a '1-in-2000 year' loss event within operational risk. In order to calculate the appropriate level of internal capital to be held for such an operational risk event, the Company uses an expert-led, scenario-based approach that leverages input from experts across the Company.

The Company recognises the benefits of using scenario analysis to assess and manage the exposure to high severity, low frequency events in order to determine the nature of operational risk losses which could potentially arise in the Company's future, and then to also determine the appropriate capital requirements. In order to determine the appropriate level of operational risk capital to be held, analysis and discussions along the seven Basel event-type categories are performed by experts across the Company.

This analysis is then used to define operational risk loss scenarios for each Basel risk type that are then extrapolated to calculate the internal capital requirement at a 99.95% confidence interval.

In addition to the holding of capital to mitigate the impact of operational risk issues, the Company applies a risk management framework to manage and mitigate risk, including internal controls, limits and governance processes. This framework incorporates the regular review of top and emerging risks to ensure they are managed appropriately within the Company's risk appetite. A three lines of defence approach to managing Operational Risk is applied, where operational risk is managed by the business and corporate functions as the first line of defence and overseen by the second line of defence risk management function. Governance comprises a robust committee structure and a comprehensive risk management framework. Key programs in the ongoing review of the Company's risk profile include the Risk & Control Self-Assessment ("RCSA"), an established process used by our business function to identify the key risks associate with their business activities and the controls required for risk mitigation. The RCSA process provides a forward-looking view on the Company's risk profile, enabling proactive prevention, mitigation and management of risk.

### Currency Risk

The Company does not maintain material open currency positions. The Company manages foreign currency risk through cross-currency swaps and foreign exchange forward and spot transactions along with deposits denominated in foreign currencies. The table in section e) of Note 26 to the Financial Statements shows the Company's transactional exposures that give rise to net currency gains and losses recognised in the Statement of Comprehensive Income. Such exposures comprise the assets and liabilities that are not denominated in the operating currency of the Company.

### Governance Risk

Governance Risk is the potential for deficiency in the overall oversight and internal control mechanisms which the Company has in place to ensure that it is soundly and prudently managed, referring in particular to processes, structures and information flows which are used to allow the Board and senior management to satisfy themselves that effective internal control mechanisms are in place to protect all stakeholders.

The Board of Directors is responsible for the effective, prudent and ethical oversight of the Company. It is responsible for approving the business strategy and its implementation, within the approved risk appetite, and ensuring that the Company has an effective internal control framework. The effectiveness of the Board of Directors in carrying out its oversight function is a critical component of the Company's overall internal governance framework.

The Board of Directors annually reviews and approves the Risk Management, Compliance and Corporate Audit Frameworks. This ensures that the Company has robust second and third lines of defence. The obligation for these lines of defence to report to the Board, or one of its committees, is set out in the relevant framework.

The Company monitors governance risk as part of its risk register, acknowledging it as a key risk.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Conduct Risk

Conduct Risk within the Company is defined as the risk that behavior in the Company falls short of the BMO Groups “Being BMO” values and regulatory expectations, resulting in harm to customers, the Company and/or the financial markets.

A taxonomy of applicable conduct risks has been developed and is updated at least annually. Sources of Conduct Risk within the Company include breaches of or a failure to report breaches of the Code of Conduct, breaches of relevant policies, procedures and limits, unreported conflicts of interest, internal fraud, failure to adhere to Personal Trading Account requirements, leaking of confidential information, market abuse, mis-selling products to clients outside target markets, unclear or misleading communications with clients and treating clients unfairly.

The Company manages Conduct Risk through a framework that promotes sound corporate governance and appropriate employee conduct in the execution of its business strategy, the protection of its reputation and maintenance of the trust of its stakeholders and the broader market. The framework outlines the processes by which the Company identifies, assesses, and monitors conduct risk to ensure risks are appropriately managed and mitigated. The Company’s approach to Conduct Risk management is integrated in its Risk Management Framework and Compliance Management Framework and is consistent with its three lines of defence model. The objective of the Framework is to ensure that the Company has an effective approach to:

- Identifying and measuring conduct risk.
- Maintaining a current and accurate inventory of conduct risks inherent in the Company’s business model, booking models and activities.
- Providing guidance regarding conduct-related issues consistent with internal policies, directives and procedures.
- Reinforcing adherence to the Company’s values and behaviours.
- Conducting conduct risk monitoring and testing.
- Ensuring timely and effective remediation of identified issues.
- Coordinating and delivering conduct-related training.
- Developing and maintaining conduct related policies, directives and procedures.

### Business & Strategic Risk

Business & Strategic Risk is the potential for loss due to fluctuations in the external business environment and/or failure to properly respond to these fluctuations due to inaction, ineffective strategies or poor implementation of strategies.

Business & Strategic Risk arises from two sources: external risks inherent in the business environment and the risk of potential loss if those external risks are not dealt with effectively. While external strategic risks – including economic, political, regulatory, technological, social and competitive risks – cannot be controlled, the likelihood and magnitude of their impact can be mitigated through an effective strategic management framework.

The Company’s Business Strategy is reviewed by the Board annually in interactive sessions designed to challenge assumptions and strategies in the context of current and potential future business environments. Performance objectives established through the strategic management process are regularly monitored and reported. The Company faces many risks that are similar to those faced by non-financial firms; principally that profitability may be eroded by changes in the business environment or by failures of strategy or execution. Sources of these risks include, but are not limited to, changing client expectations, adverse business developments and ineffective responses to industry changes.

The Company’s senior management is responsible for overseeing the activities of the businesses and support functions and, in particular, the risks attributable to the implementation of strategy, conduct of business, best risk practice, law, regulation and the established policies, procedures and strategies of the BMO Group.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Reputational Risk

Reputational Risk is the risk of negative impacts on the Company resulting from the deterioration of the Company's or the BMO Group's reputation with key stakeholders.

The Company recognises that its reputation is one of the most valuable and fragile assets. As such reputation risk management is an extremely important process for the Company and includes the forecasting and evaluation of reputational risks across existing and new business, together with the identification of procedures to avoid or minimize their impact.

The Company's Conduct Risk framework, Business Strategy planning process and Climate Change Risk management assist it in the effective management of reputational risk. These elements assist the Company to shape public perception of its products, services, and brand in ways that foster public and consumer trust. The Company's senior management is responsible for overseeing the day-to-day operations and control of the business in line with the implemented policies and procedures.

### Climate Change Risk

Climate Change Risk relates to the impact from the structural change towards a low-carbon economy and the related impact on the financial system. The European Central Bank defines two components of Climate Change Risk:

- Physical risk refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation; and
- Transition risk refers to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy.

Physical risks to the Company's tangible assets are considered limited due to their concentration in Dublin and Paris. There are no concentrated exposures to countries at significant physical Climate Change Risk. Climate Change Risk has been deemed relevant due to the focus of the BMO Group on the natural resources/ mining industry and the increased regulatory expectations on financial institutions in this space.

The Company is involved in climate change working groups within the BMO Group and at local industry level. Climate change is already considered by the Company in credit decisions and Board training was provided in 2020. The Company plans to integrate Climate Change Risk more fully into its overall strategy and Risk Management Framework in 2021.

### Return on assets

The return on assets of the Company for 2020 was 0.04% (2019: 0.13%).

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Countercyclical Capital Buffer

The Company is required to maintain an institution specific countercyclical buffer ("CCyB"). The CCyB was introduced under CRD IV. The CCyB could require institutions to hold up to 2.5% additional CET 1 capital and is effective from 1 January 2016. National designated authorities will deploy CCyB rates when excessive credit growth is determined to be connected with a build-up of system-wide risk.

*The table below shows the Geographical distribution of credit exposures relevant for the calculation of the CCyB.*

| 31 October 2020             | General credit exposures |                    | Trading book exposure                          |  | Securitisation exposure |                        | Own funds requirements             |                                  |                                    |               | Own funds requirement weights | Countercyclical capital buffer rate |
|-----------------------------|--------------------------|--------------------|--|--|-------------------------|------------------------|------------------------------------|----------------------------------|------------------------------------|---------------|-------------------------------|-------------------------------------|
|                             | Exposure value for SA    | Exposure value IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA   | Exposure value for IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total         |                               |                                     |
| (US\$ in thousands)         | 010                      | 020                | 030  | 040  | 050                     | 060                    | 070                                | 080                              | 090                                | 100           | 110                           | 120                                 |
| <b>Breakdown by country</b> |                          |                    |  |  |                         |                        |                                    |                                  |                                    |               |                               |                                     |
| Cayman Islands              | 17,463                   | -                  | -  | -  | -                       | -                      | 2,096                              | -                                | -                                  | 2,096         |                               |                                     |
| France                      | 168,273                  | -                  | -  | -  | -                       | -                      | 14,802                             | -                                | -                                  | 14,802        |                               |                                     |
| Germany                     | 29,072                   | -                  | -  | -  | -                       | -                      | 2,326                              | -                                | -                                  | 2,326         |                               |                                     |
| Ireland                     | 48,648                   | -                  | -  | -  | -                       | -                      | 3,892                              | -                                | -                                  | 3,892         |                               |                                     |
| Luxembourg                  | 174,858                  | -                  | -  | -  | -                       | -                      | 14,235                             | -                                | -                                  | 14,235        | 0.00000070                    | 0.25%                               |
| Netherlands                 | 100,982                  | -                  | -  | -  | -                       | -                      | 8,079                              | -                                | -                                  | 8,079         |                               |                                     |
| Spain                       | 27,000                   | -                  | -  | -  | -                       | -                      | 2,160                              | -                                | -                                  | 2,160         |                               |                                     |
| USA                         | 25,190                   | -                  | -  | -  | -                       | -                      | 3,023                              | -                                | -                                  | 3,023         |                               |                                     |
| <b>Overall total</b>        | <b>591,486</b>           | <b>-</b>           | <b>-</b>                                       | <b>-</b>   | <b>-</b>                | <b>-</b>               | <b>50,613</b>                      | <b>-</b>                         | <b>-</b>                           | <b>50,613</b> | <b>0.00000070</b>             | <b>-</b>                            |

#### Amount of institution-specific countercyclical capital buffer

Total Risk Exposure amount

Institution specific countercyclical capital buffer

Institution specific countercyclical capital buffer requirement

US\$' 000

**1,175,360**

**0.0703%**

**826**

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Countercyclical Capital Buffer (continued)

Geographical distribution of credit exposures relevant for the calculation of the CCyB

31 October 2019

|                             | General credit exposures |                    | Trading book exposure                          |  | Securitisation exposure |                        | Own funds requirements             |                                  |                                    |        | Own funds requirement weights | Countercyclical capital buffer rate |
|-----------------------------|--------------------------|--------------------|--|--|-------------------------|------------------------|------------------------------------|----------------------------------|------------------------------------|--------|-------------------------------|-------------------------------------|
|                             | Exposure value for SA    | Exposure value IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA   | Exposure value for IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total  |                               |                                     |
| (US\$ in thousands)         | 010                      | 020                | 030  | 040  | 050                     | 060                    | 070                                | 080                              | 090                                | 100    | 110                           | 120                                 |
| <b>Breakdown by country</b> |                          |                    |  |  |                         |                        |                                    |                                  |                                    |        |                               |                                     |
| France                      | 165,712                  | -                  | -  | -  | -                       | -                      | 13,258                             | -                                | -                                  | 13,258 | 0.00000087                    | 0.25%                               |
| Germany                     | 21,528                   | -                  | -  | -  | -                       | -                      | 1,722                              | -                                | -                                  | 1,722  |                               |                                     |
| Ireland                     | 39,006                   | -                  | -  | -  | -                       | -                      | 3,120                              | -                                | -                                  | 3,120  | 0.00000082                    | 1.00%                               |
| Luxembourg                  | 113,099                  | -                  | -  | -  | -                       | -                      | 11,302                             | -                                | -                                  | 11,302 |                               |                                     |
| Netherlands                 | 19,174                   | -                  | -  | -  | -                       | -                      | 1,534                              | -                                | -                                  | 1,534  |                               |                                     |
| Poland                      | 20,000                   | -                  | -  | -  | -                       | -                      | 1,600                              | -                                | -                                  | 1,600  |                               |                                     |
| Spain                       | 27,000                   | -                  | -  | -  | -                       | -                      | 2,160                              | -                                | -                                  | 2,160  |                               |                                     |
| USA                         | 28,624                   | -                  | -  | -  | -                       | -                      | 3,435                              | -                                | -                                  | 3,435  |                               |                                     |
| Overall total               | 434,143                  | -                  | -  | -  | -                       | -                      | 38,131                             | -                                | -                                  | 38,131 | 0.0000017                     | -                                   |

Amount of institution-specific countercyclical capital buffer

Total Risk Exposure amount

Institution specific countercyclical capital buffer

Institution specific countercyclical capital buffer requirement

US\$' 000

1,032,612

0.1688%

1,743

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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### Remuneration Disclosures

#### Decision making process for remuneration policy

BMO Group remuneration is governed by Bank of Montreal's ("the BMO Group") Human Resources Committee ("HR Committee"). The 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 BMO Group's vision to be the bank that defines great customer experience. BMO Group aims to deliver top-tier total shareholder return as it balances its commitments to its customers and employees, the environment and the communities where it lives and works. Its vision and brand inspire what it does every day. The HR Committee's oversight responsibilities include Bank of Montreal Europe plc.

The Board is accountable for adopting a remuneration policy that is in line with Irish statutory requirements and with the supervisory requirements of the CBI. The BMO Group's Overarching Compensation Framework ("Framework") describes the remuneration practices operating within the BMO Group. The Board has approved the Framework along with Company specific Implementing Procedures; these Implementing Procedures supplement the Framework in order to comply with local requirements.

The HR Committee met eight times during 2020. 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>.

Updates to the Framework and related practices set by the HR Committee are communicated to the Board by Human Resources on an annual basis.

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 senior management.

The BMO Group also retained Global Governance Advisors ("GGA") to complete an extensive independent review of the BMO Group's material compensation plans, which includes the Bank of Montreal Europe plc incentive plans, to ensure the soundness of the BMO Group's compensation policies and decision-making processes. The GGA 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 BMO Group corporate and business unit results.

GGA noted that the BMO Group has maintained its leadership position with respect to compliance with FSB Principles and applicable regulatory requirements.

In addition to the external consultants, the HR Committee has a formal process for overseeing risks associated with the BMO Group compensation policies and practices. Key to risk oversight is the BMO Group Compensation Oversight Committee, which is comprised of the BMO Group Chief Risk Officer, the BMO Group Chief Financial Officer, the BMO Group Chief Compliance Officer, the BMO Group General Counsel and senior leaders from the BMO Group Human Resources area, along with the BMO Group Chief Auditor as an observer. The BMO Group Compensation Oversight Committee met six times throughout 2020. 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 the Company. No individual is involved in decisions relating to his or her own compensation.

## **ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)**

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

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

The Board undertakes annual reviews of the implementation of their compensation policies to ensure that they comply with Statutory Instrument No. 158 of 2014 pertaining to the CRD IV Regulations.

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

### **Identified Staff Criteria**

The BMO Group and the Company incorporates the European Banking Authority regulatory technical standards in 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.

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 Company whose impact on the Company's 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 Identified Staff.

### **Design and structure of compensation and link to performance for Identified 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 the BMO Group performance: Remuneration design and implementation, as implemented by the Company, aligns with the BMO Group strategy and links to both the 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.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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

- Using risk performance metrics when determining funding for variable compensation;
- Establishing the incentive pool based on performance against strategic objectives and annual financial goals which reflect provisions for credit, market liquidity and other risks;
- Depending on role and function, a significant portion of variable compensation is equity-based and there 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, mid-term and long-term incentives). The performance-related pay is designed to reward the achievement of the Company, business and individual performance targets while managing risk.

### Identified Staff

#### Front Office Identified Staff

Front Office staff are eligible to participate in the BMO Group Capital Markets incentive-based compensation plan which has two components: 1) upfront compensation, and 2) deferred compensation, both equally split in cash and share-linked awards. The incentive plan funding is based on actual BMO Group Capital Markets business performance including risk management considerations. The pool also includes a modifier for BMO Group Capital Markets Return on Equity and Total BMO Group performance.

Individual award allocations are based on achieving business and individual performance goals that are designed to reinforce the Company 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 BMO Group.

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

#### Control Functions

Compensation for Identified Staff in control functions is tied to overall BMO Group and Company 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 BMO Group and the Company's overall success.

Identified 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 the BMO Group and Company performance against annual targets set on business measures aligned to the BMO Group and Company strategic priorities. Funding also takes into account a risk review.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

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Individual award allocations are based on achieving individual performance goals that are designed to reinforce the BMO Group, Company 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 Group Code of Conduct.

A minimum portion of 40% or 60% of an employee's incentive award is deferred over a period of between three years to seven years. Share-linked awards are designed to promote a greater alignment of interest between employees and shareholders of the BMO Group.

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

### Clawback and forfeitures

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

For all Identified 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 the BMO Group, the Company, operating group or line of business financial performance or reputation, and individual accountability. For all Identified Staff and BMO Capital Markets employees at the Managing Director level and above the HR Committee further maintains the discretion to seek recoupment of awards paid over a period of three years preceding the date upon which the HR Committee makes its determination that an event of financial restatement, or misconduct or negligence in the management of risk which contributed or could have contributed to significant financial or reputational harm to the BMO Group or to the Company, has occurred.

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 Identified Staff, the HR Committee may also, in their sole discretion have the ability to claw back all or a portion of variable compensation paid.

Other than at the discretion of the HR Committee, as outlined above, there are no additional performance conditions attached to the vesting of deferred incentive awards.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Remuneration Tables for Identified Staff

The following tables show the remuneration awards made in respect of the 2020 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 (EBA/GL/2015/22) to the extent applicable to the 2020 performance year for the Company as a business area of the Capital Markets Operating Group of the BMO Group.

### Remuneration for the financial year

| (US\$ in thousands)       | Senior <sup>13</sup><br>Management<br>2020 | Other <sup>14</sup><br>Identified<br>Staff<br>2020 | Senior<br>Management<br>2019 | Other<br>Identified<br>Staff<br>2019 |
|---------------------------|--|--|------------------------------|--------------------------------------|
| Number of individuals     | 8  | 21   | 8                            | 18                                   |
| Fixed remuneration        | 1,706                                      | 3,827  | 1,005                        | 3,382                                |
| Variable remuneration     | 957  | 1,652  | 462                          | 1,255                                |
| <b>Total remuneration</b> | <b>2,663</b>                               | <b>5,479</b>                                       | 1,467                        | 4,637                                |

<sup>13</sup> Senior Management" mean members of the Board in accordance with Article 3(1)(9) of the Capital Requirements Directive 2013/36/EU.

<sup>14</sup> Other Identified Staff" includes all other identified staff in business areas, internal control functions and corporate functions.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Remuneration for the financial year (continued)

| (US\$ in thousands)  | Senior <sup>15</sup><br>Management | Other <sup>16</sup><br>Identified<br>Staff | Senior<br>Management | Other<br>Identified<br>Staff |
|--|------------------------------------|--|----------------------|------------------------------|
|  | 2020                               | 2020                                       | 2019                 | 2019                         |
| <b>Fixed remuneration</b>                                      |                                    |  |                      |                              |
| Total fixed remuneration                                       | 1,706                              | 3,827                                      | 1,005                | 3,382                        |
| Fixed cash remuneration  | 1,706                              | 3,827                                      | 1,005                | 3,382                        |
| Fixed remuneration in equity                                   | -                                  | -  | -                    | -                            |
| of which subject to holding period                             | -                                  | -  | -                    | -                            |
| <b>Variable remuneration</b>                                   |                                    |  |                      |                              |
| Total variable remuneration                                    | 957                                | 1,652                                      | 462                  | 1,255                        |
| Total cash bonus   | 489                                | 832  | 241                  | 612                          |
| of which deferred  | 196                                | 322  | 115                  | 235                          |
| Total equity bonus   | 468                                | 820  | 221                  | 643                          |
| of which deferred or subject to holding period                 | 468                                | 820  | 221                  | 643                          |
| Long-term incentive award                                      | -                                  | -  | -                    | -                            |
| <b>Total remuneration</b>                                      | <b>2,663</b>                       | <b>5,479</b>                               | <b>1,467</b>         | <b>4,637</b>                 |
| <b>Deferred remuneration</b>                                   |                                    |  |                      |                              |
| <b>Outstanding deferred remuneration</b>                       | 756                                | 1,644                                      | 741                  | 1,610                        |
| Vested at performance year end                                 | 322                                | 831  | 284                  | 802                          |
| Unvested at performance year end                               | 434                                | 813  | 457                  | 808                          |
| <b>Awarded deferred remuneration at performance year end</b>   | 417                                | 681  | 239                  | 526                          |
| Cash remuneration  | 203                                | 333  | 115                  | 235                          |
| Equity remuneration  | 214                                | 348  | 124                  | 291                          |
| <b>Adjusted/Reduced deferred remuneration from prior Years</b> | -                                  | -  | -                    | -                            |
| <b>Joining and severance payments and awards</b>               |                                    |  |                      |                              |
| <b>Sign-on awards</b>  |                                    |  |                      |                              |
| Number of beneficiaries  | 0                                  | 0  | 0                    | 0                            |
| Made during the year   | -                                  | -  | -                    | -                            |
| <b>Buy-out awards</b>  |                                    |  |                      |                              |
| Number of beneficiaries  | 0                                  | 0  | 0                    | 0                            |
| Made during the year   | -                                  | -  | -                    | -                            |
| <b>Severance awards</b>  |                                    |  |                      |                              |
| Number of beneficiaries  | 0                                  | 0  | 0                    | 1                            |
| Made during the year   | -                                  | -  | -                    | 40                           |
| of which paid during the year                                  | -                                  | -  | -                    | 40                           |
| of which deferred  | -                                  | -  | -                    | -                            |
| Highest individual award                                       | -                                  | -  | -                    | 40                           |

<sup>15</sup> Senior Management" mean members of the Board in accordance with Article 3(1)(9) of the Capital Requirements Directive 2013/36/EU.

<sup>16</sup> Other Identified Staff" includes all other identified staff in business areas, internal control functions and corporate functions.

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Identified Staff by Remuneration Band

| Number of Identified Staff being remunerated EUR 1 million or more in performance year | Bank of Montreal Europe plc |
|--|-----------------------------|
|  | Number of Identified Staff  |
| €1,000,001 to €1,500,000   | n/a                         |
| €1,500,001 to €2,000,000   | n/a                         |
| €2,000,001 to €2,500,000   | n/a                         |
| €2,500,001 to €3,000,000   | n/a                         |
| €3,000,001 to €3,500,000   | n/a                         |
| €3,500,001 to €4,000,000   | n/a                         |
| €4,000,001 to €4,500,000   | n/a                         |
| €4,500,001 to €5,000,000   | n/a                         |

No Identified Staff were remunerated above EUR 1 million during the 2020 performance year.

### Pillar 3 Non Applicable Templates

| Template No. | Template Name  | Non Applicable rationale     |
|--------------|--|------------------------------|
| 3            | EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)  | Consolidation not applicable |
| 5            | EU CR10 – IRB (specialised lending and equities)   | Activity not in scope        |
| 6            | EU INS1 – Non-deducted participations in insurance undertakings  | Activity not in scope        |
| 14           | EU CR1-D – Ageing of past-due exposures replaced by new EBA/GL/2018/10 Guidelines on disclosure of non-performing and forborne exposures.          | Replaced by new guidelines   |
| 15           | EU CR1-E – Non-performing and forborne exposures replaced by new EBA/GL/2018/10 Guidelines on disclosure of non-performing and forborne exposures. | Replaced by new guidelines   |
| 21           | EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range   | IRB not in scope             |
| 22           | EU CR7 – IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques  | IRB not in scope             |
| 23           | EU CR8 – RWA flow statements of credit risk exposures under the IRB approach   | IRB not in scope             |
| 24           | EU CR9 – IRB approach – Backtesting of PD per exposure class   | IRB not in scope             |
| 27           | EU CCR8 – Exposures to CCPs  | Activity not in scope        |
| 29           | EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale   | IRB not in scope             |
| 30           | EU CCR7 – RWA flow statements of CCR exposures under the IMM   | IRB not in scope             |
| 33           | EU CCR6 – Credit derivatives exposures<br>Notional value of credit derivative hedges and current credit exposure by type of exposure.              | Activity not in scope        |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Appendix 1 - Disclosure Index for Part Eight of the CRR

| CRR reference                                  | High Level Summary  | Compliance Reference   | Page                   |
|--|---|--|------------------------|
| <b>Return on Assets</b>                        |   |  |                        |
| 90 (CRD)                                       | Public disclosure of return on assets   | Yes  | 141                    |
| <b>Scope of disclosure requirements</b>        |   |  |                        |
| 431(1)   | Institutions shall publish Pillar 3 disclosures.  | Published annually in conjunction with financial statements.   | 90                     |
| 431(2)   | "Firms with permission to use specific operational risk methodologies must disclose operational risk information.   | Not Applicable   |                        |
| 431(3)   | "Institutions shall have a <b>policy to comply with disclosure requirements</b> and have policies for assessing the appropriateness of their disclosures, including their verification and frequency. Institutions shall also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants. | Reference to Disclosures Policy is made in <b>Purpose of Disclosures</b> section   | 90                     |
| <b>Means of disclosures</b>                    |   |  |                        |
| 434(1)   | Disclosures should be provided in one medium or location with clear cross references if necessary.  | Published annually in conjunction with financial statements.   | 90                     |
| 434(2)   | Disclosure made for accounting requirements can be used for Pillar 3 Disclosure purposed if appropriate.  | Index prepared   | 151                    |
| <b>Risk management objectives and policies</b> |   |  |                        |
| 435(1)(a)                                      | The strategies and processes to manage risks.   | Risk Governance / Risk Framework and Culture section   | 105                    |
| 435(1)(b)                                      | Structure and organisation of risk management function.   | Risk Governance / Risk Management section. Additional detail for each risk type in Pillar III Disclosure   | 105                    |
| 435(1)(c)                                      | Risk reporting and measurement systems.   | Risk Governance / Risk Appetite / Risk Systems / Monitoring and Reporting of Risks sections  | 106/<br>107            |
| 435(1)(d)                                      | Hedging and mitigating risk – policies and processes.   | Risk Governance / Risk Management section. Additional detail in Notes to Financial Statements Note 26 Risk management.   | 105                    |
| 435(1)(e)                                      | A declaration of adequacy of risk management arrangements approved by the Board.  | Risk Governance /Declaration by the management body on the adequacy of risk management systems section   | 108                    |
| 435(1)(f)                                      | Concise risk statement approved by the Board.   | Risk Governance / Overall Risk Profile associated with the business strategy section   | 104                    |
| 435(2)(a)                                      | Number of directorships held by Board members.  | Corporate Governance Section   | 94                     |
| 435(2)(b)                                      | Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.  | Corporate Governance Section   | 94                     |
| 435(2)(c)                                      | Policy on diversity of Board membership and results against targets.  | Corporate Governance Section   | 94                     |
| 435(2)(d)                                      | Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.  | Corporate Governance Section   | 95                     |
| 435(2)(e)                                      | Description of information flow on risk to Board.   | Corporate Governance Section   | 95                     |
| <b>Scope of application</b>                    |   |  |                        |
| 436(a)   | Name of institution   | Scope of Application section   | 91                     |
| <b>Own funds</b>                               |   |  |                        |
| 437(1)   | Institutions shall disclose the following information;  |  |                        |
| 437(1)(a)                                      | A full reconciliation of Common equity tier 1 items, Additional tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution.  | Scope of Application Template 1: EU LI1<br>Template 2 EU LI2<br>Regulatory own funds disclosure. CRD IV, Annex IV<br>Capital Requirements: Overview of RWAs Template 4: EU OV1 | 91<br>93<br>110<br>113 |
| <b>Capital requirements</b>                    |   |  |                        |
| 438(a)   | Summary of institution's approach to assessing adequacy of capital levels.  | Capital Management / ICAAP section   | 109                    |
| 438(b)   | Result of ICAAP on demand from authorities.   | Addressed in Notes to Financial Statements. Note 26 Risk management / Capital management/ Capital requirements   | 76                     |
| 438(c)   | Capital requirements for each Standardised approach credit risk exposure class.   | Capital Requirements: Overview of RWAs Template 4: EU OV1  | 113                    |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Appendix 1 - Disclosure Index for Part Eight of the CRR (continued)

| CRR reference                               | High Level Summary  | Compliance Reference   | Page                     |
|---|---|--|--------------------------|
| 438(e)                                      | Capital requirements for market risk or settlement risk.  | Capital Requirements: Overview of RWAs<br>Capital requirements / RWA Template 4: EU OV1  | 113                      |
| 438(f)                                      | Capital requirements for operational risk   | Capital Requirements: Overview of RWAs<br>Capital requirements / RWA Template 4: EU OV1  | 113                      |
| <b>Exposure to counterparty credit risk</b> |   |  |                          |
| 439(a)                                      | Description of process to assign internal capital and credit limits to CCR exposures.   | Credit Risk Section  | 116                      |
| 439(b)                                      | Discussion of policies for securing collateral and establishing credit reserves.  | Addressed in Notes to Financial Statements. Note 26 Risk management<br>Collateral<br>Allowance for Credit Losses   | 70<br>62                 |
| 439(c)                                      | Discussion of management of wrong-way risk exposures.   | Addressed in Notes to Financial Statements. Note 26 Risk management (b) Credit Risk  | 58                       |
| 439(d)                                      | Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.   | Addressed in Notes to Financial Statements Note 26 Risk management (b) Credit Risk Management  | 58                       |
| 439(e)                                      | Derivation of net derivative credit exposure.   | Credit Risk Section / Counterparty Credit Risk<br>Template 25: EU CCR1 – Analysis of CCR exposure by approach<br>Template 26: EU CCR2 – CVA capital charge<br>Template 31: EU CCR5-A – Impact of netting and collateral held on exposure values<br>Template 32: EU CCR5-B – Composition of collateral for exposures to CCR                                     | 132<br>132<br>133<br>133 |
| 439(f)                                      | Exposure values for mark-to-market, original exposure, Standardised and internal model methods.                                     | Credit Risk Section / Counterparty Credit Risk<br>Template 28: EU CCR3 – standardised approach – CCR exposures by regulatory portfolio and risk  | 133                      |
| <b>Capital buffers</b>                      |   |  |                          |
| 440(1)(a)                                   | Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.                           | Countercyclical capital Buffer   | 142                      |
| 440(1)(b)                                   | Amount of the institution specific countercyclical capital buffer.  | Countercyclical capital Buffer   | 142                      |
| <b>Credit risk adjustments</b>              |   |  |                          |
| 442(a)                                      | Disclosure of bank's definitions of past due and impaired.  | Notes to Financial Statements.<br>Note 3 Accounting Policies Identification and measurement of impairment and<br>Changes in accounting policies<br>Note 26 Risk management Allowance on impaired financial assets  | 28<br>38<br>63           |
| 442(b)                                      | Approaches for calculating specific and general credit risk adjustments.  | Notes to Financial Statements.<br>Note 26 Risk management Allowance for Credit Losses<br>Template 18: EU CR3 – CRM Techniques overview   | 62<br>127                |
| 442(c)                                      | Disclosure of pre-CRM EAD by exposure class.  | Credit Risk Section / Exposure to Credit Risk.<br>Template 7: EU CRB-B – Total and average net amount of exposures   | 118                      |
| 442(d)                                      | Disclosure of pre-CRM EAD by geography and exposure class.  | Credit Risk Section / Exposure to Credit Risk.<br>Template 8: EU CRB-C – Geographical breakdown of exposures   | 119                      |
| 442(e)                                      | Disclosure of pre-CRM EAD by industry and exposure class.   | Credit Risk Section / Exposure to Credit Risk.<br>Template 9: EU CRB-D – Concentration of exposures by industry or counterparty types and exposure classes   | 120                      |
| 442(f)                                      | Disclosure of pre-CRM EAD by residual maturity and exposure class.  | Credit Risk Section / Exposure to Credit Risk.<br>Template 10: EU CRB-E – Maturity of exposures  | 118                      |
| 442(g)                                      | "Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry. | Credit Risk Section / Exposure to Credit Risk.<br>Template 11: EU CR1-A – Overview of the credit quality of on-balance sheet and off-balance sheet exposures by exposure class<br>Template 12: EU CR1-B – Credit quality of exposures by industry or counterparty types<br>Table 3: Credit quality of performing and non-performing exposures by past due days | 121<br>122<br>124        |
| 442(h)                                      | Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.              | Credit Risk Section / Exposure to Credit Risk.<br>Template 13: EU CR1-C – Credit quality of on-balance sheet and off-balance sheet exposures by geography<br>Table 4: Performing and non-performing exposures and related provisions   | 123<br>125               |

## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Appendix 1 - Disclosure Index for Part Eight of the CRR (continued)

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|--|---|--|------|
| 442(i)   | Reconciliation of changes in specific and general credit risk adjustments.  | Credit Risk Section / Exposure to Credit Risk.   | 126  |
|  |   | Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments<br>Documented in Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities | 127  |
| <b>Unencumbered assets</b>   |   |  |      |
| 443  | Unencumbered assets   | Template A – Encumbered and unencumbered assets held by the Company  | 135  |
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| <b>Use of ECAIs</b>  |   |  |      |
| 444(a)   | Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes.   | Use of ECAIs   | 130  |
| 444(b)   | Exposure classes associated with each ECAI.   | Use of ECAIs   | 130  |
| 444(c)   | Description of the process used to transfer credit assessments to non-trading book items.   | Use of ECAIs   | 130  |
| 444(d)   | Mapping of external rating to Credit Quality Step (CQS).  | Use of ECAIs/ Foot note 12   | 131  |
| 444(e)   | Exposure value pre and post-credit risk mitigation, by Credit Quality Step (CQS).   | Exposure to Credit Risk<br>Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects  | 128  |
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| 445  | Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.   | Market Risk Section<br>Template 34: EU MR1 – Market risk under the Standardised approach   | 137  |
| <b>Operational risk</b>  |   |  |      |
| 446  | Scope of approaches used to calculate operational risk.   | Operational Risk Section   | 139  |
| <b>Exposures to interest rate risk on positions not included in the trading book</b> |   |  |      |
| 448(a)   | Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk.   | Market Risk Section / IRRBB  | 137  |
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| <b>Remuneration</b>  |   |  |      |
| 450(1)(a)  | Information concerning decision making process.   | Remuneration Section   | 144  |
| 450(1)(b)  | Information on link between pay and performance.  | Remuneration Section   | 145  |
| 450(1)(c)  | Information on criteria for performance measurement and risk adjustment, deferral and vesting criteria.   | Remuneration Section   | 146  |
| 450(1)(d)  | Ratios between fixed and variable remuneration  | Remuneration Section   | 146  |
| 450(1)(e)  | Information on performance criteria on which entitlement to shares, options or variable components based  | Remuneration Section   | 146  |
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| 450(1)(f)  | Main parameters and rationale for any variable component scheme, and other non-cash benefits.   | Remuneration Section   | 146  |
| 450(1)(g)  | Aggregate quantitative information on remuneration, broken down by business area.   | Remuneration Section   | 149  |
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## ADDITIONAL PILLAR 3 DISCLOSURES – UNAUDITED (CONTINUED)

### Appendix 1 - Disclosure Index for Part Eight of the CRR (continued)

| CRR reference                                   | High Level Summary   | Compliance Reference   | Page              |
|---|--|--|-------------------|
| <b>Leverage</b>                                 |  |  |                   |
| 451(1)(a)                                       | Leverage ratio, and how the institution applies Article 499(2) and (3)                                     | Leverage Section   | 114               |
| 451(1)(b)                                       | Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements. | Leverage Section<br>LRSum Table<br>LRCom Table / LRSpl Table   | 114<br>114<br>115 |
| 451(1)(d)                                       | Description of the processes used to manage the risk of excessive leverage.                                | Leverage Section<br>Excess Leverage Risk LRQua   | 114               |
| 451(1)(e)                                       | Description of the factors that had an impact on the leverage ratio during the period.                     | Leverage Section LRQua   | 114               |
| <b>Use of credit risk mitigation techniques</b> |  |  |                   |
| 453(a)  | Use of on and off-balance sheet netting.   | Notes to the Financial Statements Note 30 Offsetting financial assets and liabilities<br>Template 31: EU CCR5-A - Impact of netting and collateral held on exposures.<br>Template 32: EU CCR5-B Composition of collateral for exposures to CCR | 85<br>133<br>133  |
| 453(b)  | How collateral valuation is managed.   | Notes to the Financial Statements<br>Note 26 Risk management b) Credit risk<br>Note 26 Risk management Collateral  | 58<br>70          |
| 453(c)  | Description of types of collateral used by the institution.  | Notes to the Financial Statements<br>Note 26 Risk management Collateral  | 70                |
| 453(e)  | Market or credit risk concentrations within risk mitigation exposures.                                     | Notes to the Financial Statements<br>Note 4 Net Interest Income<br>Note 26 Risk management c) Credit Concentration Risk<br>Note 32 Related Party Disclosures   | 41<br>67<br>88    |
| 453(f)  | Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.                    | Exposure to Credit Risk<br>Template 19: EU CR4 Standardised Approach – Credit risk Exposure and CRM effects  | 128               |
| 453(g)  | Exposures covered by guarantees or credit derivatives.   | N/A for the Company in 2020  |                   |

# INDEPENDENT AUDITORS' REPORT IN CONNECTION WITH THE COUNTRY BY COUNTRY REPORTING SCHEDULE FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2020

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## Opinion

We have audited the accompanying Country-by-Country (or "CBC") financial information of Bank of Montreal Europe plc (or the "Company"), for the financial year ended 31 October 2020 pursuant to Regulation 77 of Statutory Instrument 158 of 2014, the European Union (Capital Requirements) Regulations 2014 (or the "Regulations").

The financial reporting framework that has been applied in the preparation of the CBC financial information is Irish law and International Financial Reporting Standards as adopted by the European Union (or "IFRS").

In our opinion, the Company's CBC financial information:

- Is prepared in all material respects in accordance with the Basis of preparation set out on page 157 in line with the requirements of the Regulations; and
- Discloses the items of CBC financial information required to be published by Regulation 77 of the European Union (Capital Requirements) Regulations 2014.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (or "ISAs (Ireland)") including ISA (Ireland) 800 and ISA (Ireland) 805. Our responsibilities under those standards are further described in the 'Responsibilities of the auditor for the audit of the CBC Report' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the CBC Report in Ireland, namely the Irish Auditing and Accounting Supervisory Authority (or "IAASA") Ethical Standard concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by Chartered Accountants Ireland, applied as determined to be appropriate in the circumstances for the entity. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter – Basis of preparation

In forming our opinion on the CBC financial information, which is not modified, we draw attention to the Basis of preparation included on page 157 of the CBC Report. Regulation 77 of the European Union (Capital Requirements) Regulations 2014 does not set out definitions of the items of CBC financial information to be disclosed. The Company has applied definitions to the items of CBC financial information which, other than as set out in the Basis of preparation, are consistent with the definitions of those items in accordance with IFRS and of those items in the Company's annual statutory financial statements. The CBC Report is prepared to assist the Company in meeting the requirements of the Regulations. As a result, the CBC Report may not be suitable for another purpose.

## Responsibilities of directors and those charged with governance for the CBC financial information

The directors are responsible for the preparation and fair presentation of the CBC financial information, in accordance with the Basis of preparation as disclosed on page 157 of the CBC Report, for determining the appropriateness of the Basis of preparation and for such internal control as they determine necessary to enable the preparation of the CBC financial information that is free from material misstatement, whether due to fraud or error.

## Responsibilities of the auditor for the audit of the CBC Report

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

## INDEPENDENT AUDITORS' REPORT IN CONNECTION WITH THE COUNTRY BY COUNTRY REPORTING SCHEDULE FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2020 (CONTINUED)

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### Responsibilities of the auditor for the audit of the CBC Report (continued)

As part of an audit in accordance with ISAs (Ireland), the auditor will exercise professional judgment and maintain professional scepticism throughout the audit. The auditor will also:

- Identify and assess the risks of material misstatement of the CBC Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the CBC Report, including the disclosures, and whether the CBC Report represent the underlying transactions and events in a manner that achieves a fair presentation.

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

This report is made solely to the Company's Directors, as a body, in accordance with our engagement letter to provide a report pursuant to the requirements of Regulation 77 of Statutory Instrument 158 of 2014, the European Union (Capital Requirements) Regulations 2014.

Our audit work has been undertaken so that we might state to the Company's Directors 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 Directors as a body, for our audit work, for this report, or for the opinions we have formed.



Colin Feely  
For and on behalf of  
**Grant Thornton**  
Chartered Accountants, Statutory Audit Firm  
13-18 City Quay  
Dublin 2  
D02 ED70  
Ireland

29 January 2021

## BANK OF MONTREAL EUROPE PLC COUNTRY BY COUNTRY REPORTING

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### Introduction

In accordance with **S.I. No. 158 of 2014**, EUROPEAN UNION (CAPITAL REQUIREMENTS) REGULATIONS 2014, Bank of Montreal Europe plc presents the required information in respect of Country-by-country reporting.

### Required information

The reference date for this information is the year ended 31 October 2020, the date of the most recently available audited financial statements. Comparatives are for the year ended 31 October 2019.

### Country – Ireland

a) *Name, nature of activities and geographical location*

Bank of Montreal Europe plc, is engaged in the business of banking including the provision of financial services. The Company is incorporated in the Republic of Ireland, Registered Number 255687.

b) *Turnover (US\$ in thousands)*

|   | <b>2020</b>     | 2019     |
|---|-----------------|----------|
| Operating income from the Statement of Comprehensive Income         | <b>\$32,937</b> | \$40,603 |
| c) <i>Number of employees on a full time equivalent basis</i>       | <b>63</b>       | 48       |
| d) <i>Profit /loss before tax (US\$ in thousands)</i>               |                 |          |
| Profit before income tax from the Statement of Comprehensive Income | <b>\$4,011</b>  | \$13,629 |
| e) <i>Tax on profit or loss (US\$ in thousands)</i>                 |                 |          |
| Income tax expense from the Statement of Comprehensive Income       | <b>\$343</b>    | \$641    |
| f) <i>Public subsidies received (US\$ in thousands)</i>             | <b>Nil</b>      | Nil      |

### Basis of preparation

The amounts presented above have been, where relevant, extracted from the Directors' Report and Financial Statements Year Ended 31 October 2020. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 2014.

### Audit

The required information presented above has been audited in accordance with Directive 2006/43/EC.