Pillar 3 Disclosures (as at 31 October 2015)

The F&C Group (part of the BMO Financial Group)

Purpose

This document sets out the F&C Group Pillar 3 disclosures as at 31 October 2015. The aim of Pillar 3 is to improve market discipline by requiring firms to publish certain details of their capital, risk exposures and management practices. Pillar 3 also requires firms to have a formal disclosure policy to assess the appropriateness, verification and frequency of disclosure. This document is F&C's response to the Pillar 3 requirements and, as such, constitutes the F&C Group Pillar 3 policy.

Background

Pillar 3 disclosures are provided to meet the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014. The disclosure requirements are set out in Part Eight of the CRR.

Pillar 3 disclosures are also provided to meet the regulatory disclosure requirements of the Capital Requirements Directive III (CRD III), still in effect, and as currently transposed into Chapter 11 of the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms.

Scope and Application of Disclosure Requirements

The disclosures in this document relate to the F&C Group ("F&C" or "the Group"), the parent of which, BMO Global Asset Management (Europe) Limited ("BMO GAM Europe"), is an unregulated holding company. BMO GAM Europe is ultimately a wholly owned subsidiary of the Bank of Montreal and therefore part of the Bank of Montreal Financial Group ("BMO Financial Group"). The F&C Group was purchased by the BMO Financial Group in May 2014.

The firms in the Group to which the Pillar 3 disclosure obligations apply, whether under CRD III or CRD IV, are:

F&C Group Company	Abbreviation	Country of incorporation	Prudential Regulator	CRD III / CRD IV
F&C Managers Limited	FCMGRS	England	FCA[3]	CRD III
BMO REP Asset Mgmt. plc	BMOREP	England	FCA	CRD III
Thames River Capital LLP	TRC	England	FCA	CRD III
Thames River Multi-Capital LLP	TRMC	England	FCA	CRD III
F&C Asset Managers Limited	F&CAM	England	FCA	CRD III
F&C Management Limited	FCM	England	FCA	CRD IV
F&C Netherlands B.V.	FCNL	Netherlands	DNB[1]	CRD IV
F&C Portugal S.A.	FCPGL	Portugal	BoP[2]	CRD IV

All firms detailed are consolidated into the Group for prudential and accounting purposes. There are additional regulated firms in the Group that have no disclosure requirement under the CRD III or CRD IV. These are however included in the accounting consolidation.

The Group currently operates under a waiver from the UK financial regulator[3] from meeting any minimum capital requirements under the consolidated supervision rules and consequently disclosures are made on an individual basis across all in-scope firms.

There are no known current or foreseen practical or legal impediments (other than those set out by law or in regulation) to the prompt transfer of capital resources or repayments of liabilities between parent and subsidiary undertakings and there are no subsidiary undertakings where actual capital resources are less than the required minimum, i.e. each regulated company within the Group currently holds a surplus of regulatory capital.

[1] De Nederlandsche Bank
[2] Banco de Portugal
[3] Financial Conduct Authority

Frequency and means of disclosure

The capital and risk disclosures required under Pillar 3 are required to be produced at least annually and published in conjunction with the date of publication of the Annual Report and Financial Statements. BMO GAM Europe has an accounting reference date of 31 October therefore, the financial year-end dates of the regulated firms is 31 October, except TRC and TRMC being 31 March. Where there is a mismatch between the year-end dates and prudential regulatory reporting dates, the regulatory capital submission reported closest to 31 October 2015 has been disclosed, which for most firms is as at 30 September 2015; F&C Managers Limited, BMO REP Asset Management plc and F&C Asset Managers Limited reported as at 31 October 2015.

None of the disclosures are subject to audit and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements.

These disclosures are published on the F&C Group corporate website (www.bmogam.com) and are referenced in the financial statements of all in-scope CRD III and IV firms.

Risk Management Objectives and Policies

The Group is a diversified asset management group focused on two core client segments: strategic partners and consumer & institutional clients. The Group manages investments from multiple investment centres including London, Edinburgh, Amsterdam and Lisbon.

Our risks are typical to those of investment managers and fall under the categories of financial risk, operational risk and strategic risk. It is important to note that all risks are monitored and managed as part of a governance and risk management framework which is consistently applied across all firms within the Group. Whilst the immediate parent of the Group is BMO GAM Europe, the overarching governance of the Group is implemented and overseen by the Board of F&C Asset Management plc ("FCAM"), a direct, and the sole subsidiary, of BMO GAM Europe. This uniformity has been applied as all Group firms are managed and operated to support the Group's objectives and strategies, and therefore the FCAM Board and Group Management provides oversight of all operations.

Control Environment

The Group is committed to high standards of business conduct and seeks to maintain these across all areas of its business and all jurisdictions in which it operates. The Group has procedures for reporting and resolving matters that do not meet the required standards of business conduct.

The Group has an appropriate organisational structure for planning, executing, managing and monitoring business operations in order to achieve its objectives. This structure is designed to provide clear responsibilities and a control framework for key areas of the Group's business.

A Governance structure is in place to manage and escalate risks throughout F&C to include: Executive Management Committee, Audit & Compliance Committee, Risk & Remuneration and the FCAM Board which reports directly into the Bank of Montreal Governance structure.

Operational responsibility for the control environment rests with the F&C Group Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Members of the Executive Management Committee are, therefore, accountable for the operation of the systems of internal controls within the Group's business.

The Business Risk team supports the F&C Board and Bank of Montreal in discharging their duty to ensure that effective systems and controls are in place. The Business Risk team operates independently of any other business line, investment team or function. The key objective of the Business Risk team is to assist in developing and implementing a robust risk and control framework, as approved by the FCAM Board and BMO, which will enable risks to be identified and assessed across the Group, managed within acceptable tolerance levels, monitored on a regular basis and reported to management in a timely manner.

The Group also has separate Compliance and Internal Audit functions and operates a three lines of defence model. On a day-to-day basis the risk framework is owned by the Business Risk function and the risk processes are managed via the Business Risk and Compliance teams. Investment risk is managed at the individual investment desk level with oversight from a dedicated Investment Risk function. Internal Audit provides independent, objective assurance on the control framework.

The Mandate Compliance function is responsible for the coding of investment restrictions within the order management system for pre and post trade compliance monitoring and investigates any breaches and reports accordingly to senior management.

The Investment Risk Oversight team is responsible for assessing and challenging Group-wide activities that give rise to investment risk. The team's remit is to provide independent oversight on the effectiveness of all fund managers in managing the investment risk in their portfolios.

Monitoring and Corrective Action

Compliance and Internal Audit conduct regular monitoring of various business areas and control procedures in line with a plan agreed quarterly.

Any issues of significance are brought to the attention of the Audit & Compliance Committee (ACC) through the regular reporting process. Planned corrective actions are independently monitored for timely completion and reviewed by the ACC.

A formal annual internal control report is produced for clients providing assurance on both the design and the operating effectiveness of control procedures. The report follows the Audit & Assurance Faculty ("AAF") guidelines established by the ICAEW.

Approach to Operational and Strategic Risk

The identification of major operational and strategic risks is carried out by the FCAM Board in conjunction with management, and procedures to manage these risks, where possible, are reviewed and agreed.

Business Risk produce regular reporting to the relevant Boards and Committees which have been reviewed by the appropriate business units. These will highlight any changes to the risk ratings and significant risk events. All significant items are identified and reported to the Board on a regular basis.

The Business Risk function facilitates the identification and documentation of risk in the business and helps the business identify mitigating actions in accordance with the Group Risk Management Corporate Policy and Risk Appetite Statement. In addition, any business incidents, including mandate breaches, are reported by the business to the risk team and they are recorded and actively monitored until resolved.

Approach to Financial Risk

The Group's risk management objectives and policies applicable to this disclosure and with specific regard to counterparty credit risk, liquidity risk and market risk are summarised below.

The Group adopts a low risk approach to treasury management and seeks to ensure that its capital is preserved and financial risks are managed appropriately.

The Group's corporate treasury activities are managed by the Finance function within parameters defined by the Board. The regulatory capital positions of the Group are reported to the Board on a regular basis.

Counterparty Risk manages new counterparty / broker requests, undertaking both quantitative and qualitative assessments and due diligence and making appropriate recommendations for approval / rejection and reports directly to the Counterparty Credit Committee (CCC) which reports directly to the Executive Management Committee.

The Group is exposed to a number of financial risks in the normal course of its business. The associated risk management processes have been designed to manage these risks and recognise that treasury management operations are specifically not treated as a profit centre. The key aspects are detailed below:

- The Board Reserved List prohibits the establishment of borrowing facilities without the prior approval of the Board.
- Placing of funds on deposit is short term only (maximum term 90 days) – unless approved by Group Management.
- Deposits may only be placed with counterparties approved by the CCC, and the Board sets the appropriate limit of exposure to any one counterparty.
- Foreign currency exposure is managed to reduce the risk and impact of movements in exchange rates by the repatriation of surplus foreign currency to Sterling. Surplus currency balances are defined as being the level of cash which exceeds the regulatory, legal and working capital requirements of the relevant firms.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial assets, but benefits from the certainty of fixed interest rates on its issued debt.

Remuneration

The Group has been subject, on a consolidated basis, since 1 January 2014 to the requirements of the revised FCA Remuneration Code ("the Code") applying in respect of remuneration paid to CRD IV categorised code staff ("Code Staff"). A key objective of the Code is to ensure remuneration policies promote effective risk management and that the pay practices within firms do not encourage inappropriate risk taking by staff or result in an inappropriate quantum of incentives being distributed relative to the company's capital base.

The FCA has adopted a proportionate approach to the implementation of its Remuneration Code (SYSC 19A) in respect of how firms may apply the Code in a proportionate manner based on their risk profile. The general guidance issued by the FCA confirms its view that it will normally be appropriate for a firm categorised as "level three" to dis-apply the pay-out process rules imposed under CRD IV in respect of variable remuneration. These are the rules relating to payment of remuneration in retained shares or other instruments, deferral, ratio of variable remuneration to fixed remuneration, and post-award performance adjustment. The Group has been categorised as being a level three firm for the purpose of the Code and so consequently has determined that it is appropriate to dis-apply the pay-out process rules to its Code Staff. However, the Group must still comply with all other requirements within the Code in respect of its remuneration practices and the governance thereof. It is recognised by the Group that its ability to dis-apply the aforementioned pay-out process rules on grounds of proportionality may be removed in due course.

Decision-making process for remuneration policy

The F&C Board has formed the F&C Risk & Remuneration Committee (the "Committee") composed of four of its non-executive directors, three of whom are independent non-executive directors. The Committee is required to meet not less than four times a year. The Committee's responsibilities include: ensuring that the remuneration policies, procedures and practices operated by the Group adhere to the requirements of the Code, are consistent with and promote sound and effective risk management and the achievement of fair outcomes for all customers of the Group; do not incentivise risk-taking that exceeds the approved risk appetite of the F&C Group or any of its entities or the risk appetite, governing terms and investment strategy of any of the investment mandates or investment funds operated by the Group; are aligned with the business strategy, objectives, values and long-term interests of the Group itself and those of its customers and its shareholder; the quantum of total variable remuneration does not limit the ability of F&C to safeguard and, where required, strengthen its capital base.

The Group has prepared and maintains the F&C Remuneration Policy (the "Policy"). This is reviewed and approved annually by the Committee. Its purpose is to facilitate achievement of the business objectives and corporate values of the Company, with the primary focus on clients, whilst ensuring that F&C is able to attract, retain and motivate the key talent required to achieve these business objectives and corporate values without incentivizing excessive or inappropriate risk.

General Principles

The Policy is based on and is consistent with the following general principles:

a) Remuneration policies, procedures and practices are consistent with and promote sound and effective risk management and the achievement of fair outcomes for all customers of the F&C Group. The Policy does not incentivise risk-taking that exceeds the approved risk appetite of the F&C Group or of any of its entities including the AIFMs, or the risk appetite, governing terms and investment strategy of any of the investment mandates or investment funds operated by the Group.

b) The Remuneration Policy is aligned with the business strategy, objectives, values and long-term interests of the F&C Group itself and those of its customers and its shareholder.

c) The quantum of total variable remuneration does not limit the ability of F&C to safeguard and, where required, strengthen its capital base.

d) The quantum of total variable remuneration reflects the overall performance of the Company relative to financial, non-financial and risk-based criteria, as well as current skills market considerations.

e) Fixed and variable remuneration practices operated by the Company will be consistent with the application of legal and regulatory standards in each of the national jurisdictions in which the Company operates.

The management and operation of the Remuneration Policy

Fixed remuneration is set at a level that is sufficient to attract and retain high calibre staff as well as to permit the operation of a fully-flexible variable remuneration approach (including the possibility of a staff member receiving reduced or no variable remuneration in a particular year). The Committee keeps the balance between fixed and variable remuneration under review.

Variable incentives may be awarded to eligible employees where the performance of both the Company and the employee substantiate the award of variable incentives. Variable incentives may be awarded in a combination of cash and deferred instruments. Deferred instruments are incorporated into the variable incentive offering to align the long term interests of designated employees with those of the customer and Shareholder. Where offered, deferred instruments cliff-vest over a three year withholding period. Unvested variable remuneration with regard to any employee may be reduced, at the absolute discretion of the Committee, if significant financial re-statement, conduct and control issues are subsequently identified post award.

Variable incentive award recommendations for employees are developed by line managers by reference to factors including the employee performance appraisal process and reflect individual achievements during the performance years relative to pre-agreed objectives. Objectives include financial and non-financial goals (including the achievement of fair customer outcomes), compliance with the Group's policies and procedures, and adherence to risk management obligations. The process requires formal sign-off by the employee and their manager including confirmation of continuing competence and demonstration of risk management and compliance with the Group's policies and procedures.

Determination of Code Staff

The Committee determines those employees whose roles and responsibilities meet the definition of CRD Code Staff. The list of employees who are designated as CRD Code Staff is maintained by the HR department. An annual review of the list of designated staff is completed by the Committee.

43 individuals have been identified as Code Staff, of whom 18 are classified as Senior Management. The remainder have been identified as members of staff whose actions have a material impact on the risk profile of the F&C Group. The remuneration paid to Code Staff is:

	Senior management (£'000)	Remainder (£'000)
Fixed remuneration	3,992	4,821
Variable remuneration	11,829	19,263
Total remuneration	**15,821**	**24,084**
Variable rem. in Cash	5,525	15,492
Variable rem. in Share Linked instruments	5,854	3,771
Variable rem. In other types of instruments	450	0
Outstanding vested deferred remuneration	80	0
Outstanding unvested deferred remuneration	34,302	11,463

- Fixed remuneration includes employer pension contributions and Independent Non-Executive Director fees.
- Variable remuneration includes cash bonus awards, BMO Restricted Share Unit awards and BMO REP LTRP awards for the 2015 performance year.
- No sign-on payments have been made to newly hired Code Staff during the 2015 performance year.
- Two severance payments totalling £0.31m have been awarded to Code Staff during the 2015 performance year, the highest of these being £0.16m.

Of the individuals above 18 received remuneration of over EUR 1 million. This can be broken down as follows:

Remuneration (million)	Number of individuals
€1 to €1.5	5
€1.5 to €2	7
€2 to €2.5	1
€2.5 to €3	3
€4.5 to €5	1
€8 to €9	1

Capital Resources

As a result of the accounting reference dates for most firms being 31 October (Thames River Capital LLP and Thames River Multi-Capital LLP being 31 March) and CRD IV firms being required to report capital adequacy on a calendar quarter basis, the most recently reported regulatory capital submission as at 31 October 2015 is disclosed. For the CRD III firms, this is as at 31 October 2015, apart from Thames River Capital LLP and Thames River Multi-Capital LLP, both of which most recently reported as at 30 September 2015, as did the CRD IV firms. The capital resources disclosures, where the latest reported regulatory capital submission is as at 30 September 2015, will therefore differ from the total of the relevant balance sheet items in the firms' published financial statements as at 31 October 2015.

The tier 1 capital resources of each firm consist of share capital (or members' capital for Thames River Capital LLP and Thames River Multi-Capital LLP), share premium and profit & loss account and other reserves. Share capital relates to ordinary shares in each firm that are allotted, called up and fully paid. F&C Asset Managers Limited was regulated under CRD IV rules at 31 October 2014, however, due to a change in its regulatory permissions in November 2014, the firm is now required to maintain pillar 1 requirements on a CRD III basis.

Latest reported Capital Resources Position	CRD III FCMGRS £'000	CRD III BMOREP £'000	CRD III TRC £'000	CRD III TRMC £'000	CRD III F&CAM £'000	CRD IV FCM[4] £'000	CRD IV FCNL[5] €'000	CRD IV FCPGL[6] €'000
Tier 1:								
Share Capital / LLP Capital	500	1,000	7,000	3,260	16,000	32,332	209	1,000
Share Premium	-	-	-	-	-	42,197	112,927	-
Profit & loss and other reserves[7]	21,482	3,638	(10)	201	552	6,965	(96,072)	9,503
Total Tier 1 Capital	21,982	4,638	6,990	3,461	16,552	81,494	17,064	10,503
Deductions from Tier 1:								
Defined benefit pension fund assets	-	-	-	-	-	-	-	(14)
Deferred tax assets that rely on future profitability	-	-	-	-	-	-	(545)	-
Tier 1 capital after deductions	21,982	4,638	6,990	3,461	16,552	81,494	16,519	10,489
Tier 2 capital	-	-	-	-	-	-	-	9
Deductions from total capital[8]	(12,554)	(154)	(12)	-	(32)	-	-	-
Total regulatory capital resources	**9,428**	**4,484**	**6,978**	**3,461**	**16,520**	**81,494**	**16,519**	**10,498**

[4] F&C Management Limited capital resources include a £50k equity holding in a subsidiary financial sector entity, not deducted due to CRD IV transitional provisions, and a deferred tax asset of £4,759k which is below the threshold for deduction from capital resources under CRD IV rules

[5] F&C Netherlands BV holds a deferred tax asset of €5,446k, of which only €545k deducted from capital resources due to transitional provisions

[6] F&C Portugal SA holds defined benefit pension fund assets of €35k, of which only €14k deducted from capital resources due to transitional provisions. Tier 2 capital in F&C Portugal SA relates to eligible credit risk adjustments

[7] CRD III firms: excludes current period non-material losses or unaudited profits, whichever is applicable. CRD IV firms: includes deduction for unaudited losses or excludes unaudited profits, whichever is applicable

[8] Deduction for illiquid assets relevant for CRD III firms.

Capital Resource Requirements

All firms are required to calculate Pillar 1 capital requirements, irrespective of being on a CRD III or CRD IV basis, as the higher of: (a) the sum of the credit risk capital requirement and the market risk capital requirement; and (b) the fixed overheads requirement. The firms are not required to calculate or include an operational risk requirement under Pillar 1.

Latest reported Capital Resource Requirements	**CRD III FCMGRS** £'000	**CRD III BMOREP** £'000	**CRD III TRC** £'000	**CRD III TRMC** £'000	**CRD III F&CAM** £'000	**CRD IV FCM** £'000	**CRD IV FCNL** €'000	**CRD IV FCPGL** €'000
Credit risk capital requirement	822	828	237	561	323	7,753	1,644	322
Market risk capital requirement	-	40	108	1	-	1,356	174	-
Fixed overheads requirement	1,043	798	853	640	3,284	14,984	6,757	1,540
Total Pillar 1 Requirement	**1,043**	**868**	**853**	**640**	**3,284**	**14,984**	**6,757**	**1,540**

The Group calculates the Pillar 1 credit risk capital requirement for each firm in accordance with the standardised approach. Further disclosures relating to the credit risk capital component have in most cases been considered immaterial as the capital requirement for most firms is the fixed overhead requirement. The following table shows the credit risk exposure class for BMO REP Asset Management plc where the capital resource requirement is not the fixed overhead requirement. The market risk for this firm relates to foreign exchange.

Credit risk exposure class	**CRD III BMOREP** £'000
Institutions	215
Other items	613
Total credit risk capital requirement	828

Capital Adequacy Ratios

CRD IV firms are required to maintain a minimum total capital ratio of 8%, calculated using total exposure values, which for each firm is the Pillar 1 requirement times 12.5. The surplus of total capital is the surplus of capital resources over the pillar 1 capital requirement.

	FCM	**FCNL**	**FCPGL**
Latest reported Common Equity Tier 1 and Total Capital ratios for CRD IV firms at 31 October 2015	43.5%	19.6%	54.5%
	£'000	€'000	€'000
Surplus of total capital	66,510	9,762	8,958

Compliance with the Pillar 2 Rule Requirements

The adequacy of capital to support current and future activities is monitored in the Internal Capital Adequacy Assessment Process ("ICAAP"). The level of capital required has been assessed through reviewing a number of scenarios and comparing them with the base case scenario of our budgeted business plan. This approach identifies the timescale and extent of possible capital deficiencies should an adverse scenario arise. The additional level of capital required to cover the Group against such a scenario can then be assessed and / or the mitigating actions identified which are required to ensure a continued capital surplus.

The latest Board approved ICAAP has been prepared as at 31 October 2014, with actual results to this date and forecasts for a three-year time span to 31 October 2017. This time span is deemed appropriate as it shows both a short-term view of any adverse scenarios and also an impact over the medium-term during which actions would be taken if continued deterioration were to occur. The 2015 ICAAP is currently being finalised and will contain similar three-year forecasts.

Verification, Frequency and Ongoing Review of the Disclosures

The disclosures detailed in this document are updated in conjunction with the ICAAP, and generally on an annual basis, unless there is a significant event which would detrimentally impact the capital and risk position of the Group.

The disclosures detailed in the ICAAP are reviewed and formally adopted by the Executive Management Committee and the Board of FCAM, and the Board of each requisite firm.

The Pillar 3 disclosure document is reviewed and approved by the Group Chief Operating Officer.

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