

Pillar 3 Disclosures

BMO Global Asset Management
(Europe) Limited (part of the BMO
Financial Group)

Purpose

This document sets out the BMO Global Asset Management (Europe) Group's (the "Group") Pillar 3 disclosures as at 31 October 2019. The aim of Pillar 3 is to improve market discipline by requiring firms to publish certain details of their risks, regulatory capital, remuneration policy and risk management objectives and policies. Pillar 3 also requires firms to have a formal disclosure policy to assess the appropriateness, verification and frequency of disclosure. This document is the Group's response to the Pillar 3 requirements and, as such, constitutes the Group's 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. EU law continues to apply in the UK during the withdrawal implementation period, effective from when the UK left the EU on 31 January 2020.

Source: BMO Global Asset Management as at 31.10.2019.

Scope and application of disclosure requirements

The disclosures in this document relate to the BMO Global Asset Management (Europe) Group, ultimately a wholly owned subsidiary of the Bank of Montreal and therefore part of the Bank of Montreal Financial Group (“BMO Financial Group”). The Group is supervised on a consolidated basis in the UK, and its prudential regulator is the Financial Conduct Authority.

The prudential consolidated supervision group includes the following MiFID entities.

BMO GAM (Europe) Group Company	Country of incorporation	Prudential regulator
BMO REP Asset Management plc	England	Financial Conduct Authority
Thames River Capital LLP	England	Financial Conduct Authority
BMO AM Multi-Manager LLP	England	Financial Conduct Authority
BMO Asset Management Limited	England	Financial Conduct Authority
BMO Asset Management Netherlands B.V. ¹	The Netherlands	De Nederlandsche Bank
BMO Portugal S.A.	Portugal	Banco De Portugal

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 CRD IV. These are however included in the prudential and accounting consolidation. There are no differences in the basis of consolidation used for prudential and accounting purposes.

There are no known current or foreseen impediments (other than those set out by law or other 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. The Group and each regulated firm within the Group reported surpluses of regulatory capital to the respective regulators throughout the year ended 31 October 2019.

Source: BMO Global Asset Management as at 31.10.2019. ¹ An Alternative Investment Fund manager with MIFID Top-up permissions

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 publication of the Annual Report and Financial Statements. The Group has an accounting reference date of 31 October, however, its prudential regulatory reporting date is on a calendar quarterly basis, therefore, due to the non-alignment between the year-end date and the prudential regulatory reporting date, the Group's regulatory capital submission reported closest to 31 October 2019 has been disclosed i.e. 30 September 2019.

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

Risk management objectives and policies

As part of BMO Global Asset Management, the Group is a diversified asset management group focused on becoming a multi-asset class manager of global significance. The Group manages investments from multiple investment centres including London, Edinburgh, Amsterdam and Lisbon.

Our risks are typical to those of investment managers and primarily fall under the categories of financial risk, operational/business 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. The overarching governance of the Group is implemented and overseen by the Board of BMO Asset Management (Holdings) plc (BAMH plc), a direct, and the sole subsidiary of BMO Global Asset Management (Europe) Limited, the parent company of the Group. This uniformity has been applied as all Group firms are managed and operated to support the Group's objectives and strategies, and therefore the BAMH plc Board and Group Management provides oversight of all operations.

Source: BMO Global Asset Management as at 31.10.2019.

Control environment

The Group is committed to high standards of business conduct and seeks to maintain these together with an ethical culture across all areas of its business and in 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 which includes: Audit & Compliance Committee, Risk & Remuneration Committee and the BAMH plc Board which operate as an integral part of the broader Bank of Montreal Governance structure.

Operational responsibility for the control environment rests with the BMO GAM Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Executive Directors are, therefore, accountable for the operation of the systems of internal controls within the Group's business. The Group operates a three lines of defence model with independent risk, compliance and internal audit functions.

The Business Risk team supports the BAMH plc 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 BAMH plc 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.

Source: BMO Global Asset Management as at 31.10.2019.

The Group also has separate Compliance (including a first line business unit compliance office (BUCO) team) and Internal Audit functions. 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 Oversight 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. They investigate any breaches and report 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 an agreed plan.

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 report on internal controls is produced for clients providing assurance on both the design and the operating effectiveness of control procedures. The report follows the International Standard on Assurance Engagements (ISAE) No. 3402 as well as the Audit & Assurance Faculty ("AAF") guidelines established by the ICAEW.

Source: BMO Global Asset Management as at 31.10.2019.

Approach to Operational/Business and Strategic Risk

The identification of major operational/business and strategic risks is carried out by management, and procedures to manage and monitor these risks, against the Board's approved risk appetite statements, are reviewed and agreed.

Business Risk produce regular reporting to the relevant Boards and Committees. These highlight changes to risk ratings and significant risk events. All significant items are identified and reported to the BAMH plc 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 BMO Financial Group Risk Management Corporate Policy and Risk Appetite Statement. In addition, any business incidents, including investment 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 and the Counterparty Credit Committee (CCC).

The regulatory capital positions of the Group are reported to the Board on a regular basis.

The Counterparty Risk Team (CRT) manage new counterparty / broker requests, undertaking both quantitative and qualitative assessments and due diligence before making appropriate recommendations for approval / rejection by the CCC. The CRT also undertake daily monitoring and conduct formal annual reviews of all money market counterparties.

Source: BMO Global Asset Management as at 31.10.2019.

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:

- Board policy prohibits the establishment of borrowing facilities without the prior approval of the Board. The Group currently has no debt.
- Placing of funds on deposit is short term only (maximum term 90 days) – unless approved by the Chief Operating Officer or Chief Executive Officer.
- Deposits may only be placed with counterparties approved by the CCC, and the Board sets the appropriate limit of exposure to any one counterparty.
- Board policy prohibits the use of derivatives including futures, options and forward contracts, without prior Board approval.
- Foreign currency exposure is managed to reduce the risk and impact of movements in exchange rates, where possible, by the repatriation of surplus foreign currency into 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.

Source: BMO Global Asset Management as at 31.10.2019.

Remuneration disclosures

Decision making process for remuneration policy

The Human Resources Committee (“HR Committee”), on behalf of the BMO Group Board of Directors, establishes and oversees Human Resources strategies, including compensation and talent management, which support the Bank’s vision to be the bank that defines great customer experience. We aim to deliver top-tier total shareholder return as we balance our commitments to our customers and employees, the environment and the communities where we live and work. Our vision and brand inspire what we do every day. The HR Committee’s oversight responsibilities include the BMO Global Asset Management (Europe) Group.

The HR Committee met seven times during 2019. The HR Committee’s mandate is contained in its charter at <http://www.bmo.com/home/about/banking/corporate-governance/board-committees/human-resources>.

The members of the HR Committee are all independent.

Source: BMO Global Asset Management as at 31.10.2019.

External consultants

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

The HR Committee has retained an advisor on compensation issues. They are an independent and unaffiliated executive compensation advisory firm that works exclusively under the direction of the HR Committee and does not do any work for management.

The Bank also retained independent governance advisors to complete an extensive, periodic independent review of BMO's material compensation plans, which includes the Global Asset Management incentive plan, to ensure the soundness of the Bank's compensation policies and decision-making processes. Their review included:

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

They noted that the Bank has maintained its leadership position with respect to compliance with FSB Principles and Guidance and applicable regulatory requirements.

In addition to the external consultants, the HR Committee has a formal process for overseeing risks associated with the Bank's compensation policies and practices. Key to risk oversight is the Enterprise Compensation Oversight Committee, which comprises the Bank's Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer, General Counsel and senior leaders from Human Resources, along with the Bank's Chief Auditor as an observer. The Compensation Oversight Committee met six times throughout 2019. 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 Group. No individual is involved in decisions relating to his or her own compensation.

Source: BMO Global Asset Management as at 31.10.2019.

Role of the relevant stakeholders

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

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

The BMO Asset Management (Holdings) plc Risk & Remuneration Committee undertakes annual reviews of the implementation of their compensation policies to ensure that they comply with the FCA UK Remuneration Code.

Code Staff Criteria

BMO incorporates the FCA Remuneration Code (SYSC 19A) on its identification framework to identify Code Staff whose professional activities have a material impact on the risk profile of the firm. The criteria comprise the following categories:

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

Source: BMO Global Asset Management as at 31.10.2019.

Design and structure of compensation and link to performance for Code Staff

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

- Link compensation to BMO Group performance: Remuneration design and implementation, as implemented by the Company, aligns with the BMO Group strategy and links to both BMO Group and operating group performance;
- Attract and retain talent: Compensation helps attract and retain talented people and motivates them to excel to achieve objectives;
- Align with prudent risk-taking: Compensation structure does not encourage excessive risk-taking and rewards appropriate use of capital; and
- Encourage a long-term view to increase shareholder value.

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

- Using risk performance metrics when determining funding for variable compensation;
- Establishing the incentive pool using business results which reflect provisions for credit, market liquidity and other risks;
- Depending on role and function, a significant portion of variable compensation is equity-based and there are share ownership requirements; and
- Having leadership and professionals in human resources, risk, compliance and finance review variable incentive pools throughout the year and before finalising.

Source: BMO Global Asset Management as at 31.10.2019.

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

Code Staff are eligible to participate in the Global Asset Management (“GAM”) incentive-based compensation plan, which has two components: 1) upfront compensation, and 2) deferred compensation. The proportion of incentive-based compensation deferred into equity is determined by a deferral grid; generally higher rates of deferral apply for higher levels of incentive. The minimum deferral level is based on the employee’s total incentive compensation. Share-linked awards are designed to promote a greater alignment of interest between employees and shareholders of the Bank. The incentive plan funding is based on business performance and is subject to adjustments for Total Bank performance, and risk management considerations.

Individual award allocations are based on achieving business and individual performance goals that are designed to reinforce the Bank and the operating group’s strategic priorities and values, qualitative measures used to assess how results were achieved and adherence to risk management, compliance requirements and to the BMO Code of Conduct. All Code Staff are eligible to participate in deferred compensation. Up to 50% of the total incentive award may be deferred over a period of three years under the mid-term equity incentive plan and/or mid-term cash plan based on the employee’s level of total variable compensation. The mid-term equity incentive plan is designed to promote a greater alignment of interest between employees and shareholders of BMO and to risk over the medium to long-term. Pay-out is based on the performance of the Bank’s common shares.

Source: BMO Global Asset Management as at 31.10.2019.

Control Functions

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

These employees have independent reporting lines from the business they support and the success or final performance of business areas they support or monitor does not directly impact the assessment of their performance or compensation. This independence mitigates risk and encourages these employees to maintain their focus on the Bank's overall success.

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

Funding of the upfront compensation incentive pool is based on BMO's performance against annual targets set on business measures aligned to the Bank's strategic priorities. Funding also takes into account a risk review.

Individual award allocations are based on achieving individual performance goals that are designed to reinforce the Bank and operating group's strategic priorities and values, qualitative measures used to assess how results were achieved and adherence to risk management, compliance requirements and to the BMO Code of Conduct.

A significant portion of an employee's incentive award is deferred over a period of between three and seven years. Share-linked awards are designed to promote a greater alignment of interest between employees and shareholders of the Bank.

Clawback and forfeitures

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

For all Code Staff, the HR Committee may, in its sole discretion, reduce or forfeit unvested deferred incentive awards depending on the severity of a risk event's impact on Bank, operating group or line of business financial performance or reputation, and individual accountability. The HR Committee evaluates risk events (for example, audit findings, credit losses, financial losses and key indicators of operational, market compliance, poor conduct behaviours and reputational risk) when determining whether to use its discretion to reduce pay-outs from the awarded compensation.

Source: BMO Global Asset Management as at 31.10.2019.

Remuneration Tables for Code Staff

The following tables show the remuneration awards made in respect of the 2019 performance year. The disclosures are made in accordance with Article 450 of the Capital Requirements Regulation, the Basel Committee on Banking Supervision (BCBS) Pillar 3 disclosure requirements standard and the EBA Guidelines on sound remuneration policies to the extent applicable to the 2019 performance year.

Remuneration for the financial year ^{1,2}		
	Senior management	Other Code Staff
Number of individuals	26	37
Fixed remuneration (£m)	4.21	4.24
Variable remuneration (£m)	14.00	6.09
Total remuneration (£m)	18.21	10.33
Variable remuneration in Cash	6.37	3.69
Variable remuneration in Share Linked instruments	7.63	2.40
Variable remuneration in other types of instruments	0.00	0.00
Outstanding vested deferred remuneration	0	0
Outstanding unvested deferred remuneration	22.73	7.73

¹ "Senior Management" means the Executive and Non-Executive Directors and Group Management Team members of BMO Global Asset Management, in accordance with Article 3(9) of the Capital Requirements Directive. "Other Code Staff" includes all other identified Code staff in business areas, internal control functions and corporate functions.

² The table is prepared in accordance with Article 450 of the Capital Requirements Regulation. Data has been converted into GBP using the rates published by the European Commission for financial programming and budget for December of the reported year.

Source: BMO Global Asset Management as at 31.10.2019.

- No sign-on payments have been made to newly hired Code Staff during the 2019 performance year.
- No severance payment has been made to Code Staff during the 2019 performance year.

Of the individuals above, 12 received remuneration of over EUR 1 million. This can be broken down as follows:

Remuneration (million)	Number of individuals
€1 to €1.5	6
€1.5 to €2	2
€2 to €2.5	2
€3.5 to €4	1
€4.5 to €5	1

Source: BMO Global Asset Management as at 31.10.2019.

Capital resources

As a result of the accounting reference date of the Group being 31 October and the CRD IV requirement to report capital adequacy on a calendar quarter basis, the most recently reported regulatory capital submission as at 30 September 2019 is disclosed. The capital resources disclosures will therefore differ from the total of the relevant balance sheet items in the Group's financial statements as at 31 October 2019.

The Group's regulatory capital consists entirely of Common Equity Tier 1 (CET1) capital, the highest-ranking form of Tier 1 capital. Share capital relates to 1,061,737 ordinary shares of £1 each, which are allotted, called up and fully paid. CET1 capital includes share premium, being the value of share capital issued in excess of par value, retained profits and other reserves.

Regulatory deductions to CET1 capital for the Group's intangible assets, net of deferred tax, includes £695.6m of goodwill. The deduction for deferred tax assets that rely on future profitability arises due to temporary differences, the amount being above the required threshold for deduction.

Source: BMO Global Asset Management as at 31.10.2019.

Capital Resources of the BMO GAM (Europe) Group as at September 2019	
	£m
Common Equity Tier 1 capital: Instruments and reserves	
Share Capital	1.1
Share Premium	1,055.0
Retained earnings	23.4
Other reserves	6.6
Common Equity Tier 1 capital before regulatory deductions	1,086.1
CET1 capital: regulatory deductions	
Intangible assets (net of related tax liability)	(818.7)
Defined-benefit pension fund assets (net of related tax liability)	(76.5)
Deferred tax assets that rely on future profitability	(27.8)
Losses for the current financial year	(7.5)
Total regulatory deductions	(930.5)
Common Equity Tier 1 capital	155.6
Additional Tier 1 capital	0
Tier 1 Capital	155.6
Tier 2 Capital	0
Total Capital Resources	155.6

Capital resource requirements

The Group's Pillar 1 capital requirement is calculated as the higher of: (a) Base capital requirement of €125,000 (£0.1m); (b) the sum of the credit risk capital requirement and the market risk capital requirement; and (c) the fixed overheads requirement. The Group is not required to calculate or include an operational risk requirement under Pillar 1.

Currently, the Group's Fixed Overhead Requirement of £51.9m establishes its Pillar 1 capital requirement, being higher than the base capital requirement of £0.1m (€125,000) and the sum of the credit risk and market risk capital requirement at £20.2m.

The Group calculates the Pillar 1 credit risk capital requirement in accordance with the standardised approach.

The Group is also required to maintain a CET1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a Total capital ratio of 8%. Capital ratios are calculated using total exposure values, which for the Group is the Pillar 1 requirement multiplied by 12.5. As the Group's total regulatory capital consists entirely of CET1 capital, the CET1, Tier 1 and Total capital ratios are the same. The Group reported capital ratios of 24.00% as at 30 September 2019; the surplus of total capital was £103.7m

Source: BMO Global Asset Management as at 31.10.2019.

Consolidated capital requirements as at September 2019	
	£m
Base Own Funds requirement of €125,000	0.1
Total risk weighted exposure amounts	191.4
Credit risk capital requirement at 8%	15.3
Total risk exposure for market risk	61.4
Market risk capital requirement at 8%	4.9
Fixed Overhead Requirement	51.9
Pillar 1 Requirement	51.9

Credit Risk Exposure classes	
	£m
Institutions	44.9
Items associated with high risk	5.6
Equity	2.8
Other Items	138.1
Total risk weighted exposure amounts	191.4
Credit risk capital requirement at 8%	15.3
Market risk	4.9
In respect of foreign exchange	58.6
In respect of equity	2.8
Total risk exposure amount for market risk	61.4
Market risk capital requirement at 8%	4.9

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 objective of this process is to ensure that firms have adequate capital to enable them to manage risks not deemed to be adequately covered under the Pillar 1 minimum requirements. This is a forward-looking exercise with the level of capital required by the Group being 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 ICAAP is updated and formally reviewed, challenged and approved by the BAMH plc Board on an annual basis, or more frequently if fundamental changes to the business require it.

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 Board of BAMH plc, and the Boards of subsidiaries as appropriate.

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

Source: BMO Global Asset Management as at 31.10.2019.

Disclaimer

Classification: Public

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any products that may be mentioned.

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Extensive worldwide investment capabilities

- Total focus on clients
- Comprehensive range of products and solutions
- Defined expertise – including a suite of specialist investment boutiques



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