



**BMO Financial Group  
U.S. Resolution Plan**

**165(d)**

**PUBLIC SECTION**

**165(d) Resolution Plan - Public Section**

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## **1.0 Introduction**

Bank of Montreal (BMO) is a foreign bank, a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended. BMO uses a unified branding approach that links the organization's member companies under the brand "BMO Financial Group" (BMOFG). BMO's head office is in Montreal, Canada, with executive offices in Toronto, Canada, and it has U.S. branch offices in New York, New York, and Chicago, Illinois, as well as an agency office in Houston, Texas. BMO Financial Corp. (BFC), a Delaware corporation, bank holding company and financial holding company, is a wholly-owned subsidiary of BMO and is the top-tier U.S. holding company for most of BMO's U.S. subsidiaries, including two insured depository institutions (IDIs), BMO Harris Bank N.A. (BMO Harris Bank or BHB) and BMO Harris Central N.A. (BMO Harris Central), each a national bank.

BMO has in excess of \$250B in total consolidated assets and therefore would be considered a covered company under 12 C.F.R. Part 243 and 12 C.F.R. Part 381 (collectively, the 165(d) Rule). Under the 165(d) Rule, a covered company is required to submit a resolution plan to the Board of Governors of the Federal Reserve System (Federal Reserve) and the Federal Deposit Insurance Corporation (FDIC) that details a plan for the rapid and orderly resolution of the covered company in the event of failure. In addition, as a foreign banking organization that is not subject to Category II standards and has in excess of \$250B in average combined U.S. assets, BMO is a Category III, triennial full filer and is required to submit a resolution plan every three years, alternating between a full and a targeted plan.

BMO's 165(d) Resolution Plan (RP) contemplates a resolution strategy in which BMO's U.S. banking subsidiaries, BMO Harris Bank and BMO Harris Central, under a hypothetical resolution scenario, would be placed into FDIC receivership. Certain assets and liabilities would be transferred to a bridge bank that would, subject to various assumptions, be sold to a third party. BMO's other material U.S. entities would be wound down in an orderly manner, subject to certain assumptions. In addition, the 165(d) RP includes strategies designed to ensure continuity of certain businesses during the hypothetical resolution process. The strategies take into account the importance of continued access to services including, but not limited to, technology, employees, facilities, intellectual property and supplier relationships.

The FDIC and the Federal Reserve have, by rule and through the supervisory process, prescribed the assumptions, required approach, and scope for these resolution plans, and have required that certain information be included in a Public Section of the 165(d) RP. BMO, on behalf of itself and its subsidiaries, submits this Public Section in compliance with the 165(d) Rule and related guidance. BMO believes that the 165(d) RP would achieve a rapid and orderly resolution of its U.S. operations in a manner that would avoid serious adverse effects on the financial stability of the U.S. In addition, it would enable the FDIC, as receiver, to resolve BMO Harris Bank in a manner that would ensure that depositors receive access to their insured deposits within one business day if BMO Harris Bank were to fail, and would maximize the net present value return from the sale or disposition of its assets, and minimize the amount of any loss realized by BMO Harris Bank's creditors.

### Overview of BMOFG

Established in 1817, BMO Financial Group (BMO, Bank of Montreal, the bank) is a highly diversified provider of financial products and services based in North America. It is the eighth largest bank in North America by assets, with total assets of \$973 billion (Canadian) as of

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January 31, 2021 and has an engaged and diverse base of employees. BMO provides a broad range of personal and commercial banking, wealth management, global markets and investment banking products and services, conducting business through three operating groups: Personal and Commercial Banking, BMO Wealth Management and BMO Capital Markets.

The bank serves eight million customers across Canada through its Canadian personal and commercial banking segment, BMO Bank of Montreal. In the United States, the bank serves more than two million personal, business and commercial banking customers nationally through BMO Harris Bank, based in the U.S. Midwest. The bank also serves customers through its wealth management businesses – BMO Private Wealth, BMO InvestorLine, BMO Wealth Management U.S., BMO Global Asset Management and BMO Insurance. BMO Capital Markets provides a full suite of financial products and services to North American and international corporate, institutional and government clients through its Investment and Corporate Banking and Global Markets divisions.

Canadian Personal and Commercial Banking provides financial products and services to eight million customers. Personal Banking helps customers make real financial progress through a network of almost 900 branches, contact centres, digital banking platforms and more than 3,300 automated teller machines. Commercial Banking serves clients across Canada, and the bank's commercial bankers are trusted advisors and partners to their clients, offering sector and industry expertise, local presence and a comprehensive range of commercial products and services.

U.S. Personal and Commercial Banking serves more than two million customers by providing a banking experience with a human touch, while delivering a broad range of financial products and services. U.S. Personal Banking serves customers seamlessly across an extensive network of more than 520 branches, dedicated contact centres, digital banking platforms, and nationwide access to more than 40,000 automated teller machines. U.S. Commercial Banking serves clients across the United States, and commercial bankers are trusted advisors and partners to their clients, offering sector and industry expertise, local presence and a comprehensive range of commercial products and services.

BMO Wealth Management serves a full range of clients, from individuals and families to business owners and institutions, offering a wide spectrum of wealth, asset management and insurance products and services aimed at helping clients plan, grow, protect and transition their wealth. The asset management business is focused on making a positive impact and delivering innovative client solutions.

BMO Capital Markets is a North American-based financial services provider offering a complete range of products and services to corporate, institutional and government clients. BMO Capital Markets has approximately 2,600 professionals in 32 locations around the world, including 18 offices in North America.

In addition, the Corporate Services consists of Corporate Units and Technology and Operations (T&O). Corporate Units provide enterprise-wide expertise, governance and support in a variety of areas, including strategic planning, risk management, treasury, finance, legal and regulatory compliance, human resources, communications, marketing, real estate and procurement. T&O develops, monitors, manages and maintains governance of information technology, including data and analytics, and provides cyber security and operations services.

## **1.1 BMO 165(d) Resolution Plan**

### **1.1.1 Overview of Resolution Plan**

BMO's 165(d) RP provides the Federal Reserve and the FDIC with a plan for the rapid and orderly resolution of BMO's U.S. operations in the event of material financial distress or failure of its five material entities (MEs) in the U.S., as they are defined and identified below in Section 1.1.2. The 165(d) RP provides information required in the 165(d) Rule with respect to BMO U.S. and its core business lines (CBLs) that are conducted in whole or material part in the U.S. These activities are conducted through BMO U.S.'s three Operating Groups, U.S. P&C, WM, and BMO Capital Markets, as described above in Section 1.0.

BMO's objective is to address any specific requirements in the different jurisdictions in which it operates and to satisfy the regulators' key goals for recovery and resolution planning. The RP presented here is focused only on planning for the resolution of BMO's U.S. operations; other plans exist, however, in other jurisdictions, which also contain strategies for the recovery or resolution of BMO entities according to the rules and laws in those jurisdictions. The definitions used for, and approach taken in, the RP presented here may, therefore, differ from those used in similar plans filed by BMO with non-U.S. regulators. Further, the CBLs identified in this RP are for consideration only with respect to BMO's U.S. operations and may not necessarily be considered CBLs in other jurisdictions.

### **1.1.2 Material Entities**

The 165(d) Rule defines a material entity (ME) as "a subsidiary or foreign office of the covered company that is significant to the activities of a critical operation or core business line."

The 165(d) RP identifies certain BMO subsidiaries and other entities as MEs for the purpose of resolution planning. The 165(d) RP includes an analysis of each ME and the resolution regime and strategy that would be applicable to each ME. One entity, BMO Harris Financing, Inc., which was designated a ME in the previously submitted 165(d) RP has been de-designated as a ME because it is no longer considered financially or operationally significant to the covered company's resolution strategy. There are in total five MEs.

#### **BMO Financial Corp.**

BMO Financial Corp. (BFC), a Delaware corporation, is a wholly-owned U.S. subsidiary of BMO. BFC is a holding company that provides commercial banking, investment banking, trust and other services domestically and internationally through two direct bank subsidiaries, BMO Harris Bank N.A. (BHB) and BMO Harris Central N.A. (BHCNA) and many direct and indirect non-bank subsidiaries.

#### **BMO Harris Bank N.A.**

BMO Harris Bank N.A (BHB) is a direct, wholly-owned subsidiary of BFC. Established in 1882 as Harris Bank, and owned by BMOFG since 1984, the Bank conducts business through two primary operating groups: U.S. Personal Banking and Commercial Banking, and U.S. Wealth Management serving personal, commercial and affluent customers. Additionally, certain Capital Markets (CM) activities are booked into BHB from the two CM related core business lines (CBLs): Global Markets (GM) and Investment and Corporate Banking (I&CB). The Bank provides a variety of banking and financial services to commercial and industrial companies,

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financial institutions, governmental units, not-for-profit organizations and individuals throughout the U.S., primarily the Midwest. Services rendered and products sold to customers include demand and time deposit accounts including certificates of deposit; various types of loans; sales and purchases of foreign currencies; interest rate management products; cash management services; investment banking services; financial consulting; and personal trust and trust related services.

**BMO Harris Central N.A.**

BMO Harris Central N.A. (BHCNA) is a direct, wholly-owned bank subsidiary of BFC, and operates as a national bank under a charter issued by the Office of the Comptroller of the Currency. Its headquarters is located in Roselle, Illinois. BHCNA is a special purpose bank whose sole business purpose and activity is to act as a disbursing bank in the delivery of controlled disbursement account services for corporate and commercial customers of BHB. It has no subsidiaries and does not generate any loan activity. The primary purpose for establishing a separate bank/legal entity for the controlled disbursement service is to allow the corporate customers to issue checks drawn on a smaller bank which, because of its size and location and separate routing number, receives limited check presentments from the Federal Reserve.

**BMO Capital Markets Corp.**

BMO Capital Markets Corp. (BMO CMC) is a wholly-owned subsidiary of BFC. Both CMC and BFC are incorporated under the laws of the State of Delaware. BFC, in turn, is a wholly-owned subsidiary of the Bank of Montreal (BMO or Parent Bank). CMC has a special purpose entity, KGS-Alpha Asset Acquisition, LLC, a Delaware limited liability company, which securitizes Confirmation of Originator Fee (COOF) assets for CMC. CMC is part of BMO's U.S. Operations.

BMO CMC operates as a self-clearing, institutional broker-dealer that mainly conducts Receive Versus Payment and Delivery Versus Payment (RVP/DVP) business and does not custody client assets. BMO CMC offers a variety of advisory and execution services across a number of product categories, including debt and equity capital markets underwriting, government sponsored enterprise (GSE) debt and non-GSE debt underwriting, treasury and equity finance services. BMO CMC also provides execution services across equities, fixed income and convertible securities, and equity derivatives, and delivers focused research products across debt and equity strategies, sectors, and companies. BMO CMC focuses on mid and large-sized institutional clients, large financial sponsors (>\$500MM AUM), and mid-cap and growth companies (enterprise value \$200MM-\$5B) while leveraging the strength and size of the Parent Bank.

BMO CMC is registered with the U.S. Securities and Exchange Commission (SEC) as a U.S. securities broker-dealer and investment advisor, is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC) and is a designated Primary Dealer with the Federal Reserve Bank of New York. BMO CMC is registered to do business in all 50 states, plus Virgin Islands, Puerto Rico, and Washington D.C. BMO CMC is a member of a number of fixed-income, equities and derivatives exchanges, and clearing organizations and is supervised and subject to examination by FINRA, its primary regulator, the Federal Reserve Banks (FRB) of Chicago and New York, and the SEC.

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### **Bank of Montreal Chicago Branch**

The Bank of Montreal Chicago Branch (BMO Chicago Branch) is an Illinois state-licensed branch office of BMO. It is a legal and operational extension of BMO and is not a separate legal entity.

The presence of Bank of Montreal in Chicago dates back to 1861 when an office was established to facilitate the cross border grain trade. The current legal structure of the BMO Chicago Branch as a State of Illinois licensed foreign banking office of Bank of Montreal was effective as of August 20, 1984. The physical location of the BMO Chicago Branch at 111 W. Monroe St., Floor 4 East, Chicago, IL 60603, is based on where the Chicago Branch management team is located. The Chicago Branch is customer facing through the lines of business booking through the Branch. The organizational structure of and governance over the Chicago Branch is dependent on interconnections with both business groups and support functions guided by centralized oversight provided by the Chicago Branch management team.

Operating Groups that book to or through the Chicago Branch are Capital Markets, both Global Markets and Investment & Corporate Banking (I&CB), along with North American Commercial Lending both U.S. and Canada.

The Branch management team includes three employees filling the roles of Branch Manager, Branch Operating Officer, and Branch Risk Officer. Additionally, there is a Branch Chief Financial Officer, who is also the U.S. Controller and Chief Accountant. The Branch management team was established in September 2006 to facilitate day-to-day governance oversight, supported by a management committee and key support functions, including Finance, Legal, Risk Management, Compliance, Anti-Money Laundering Office and Audit. The Branch relies on BMO, BHB, CMC and BFC to provide business, operational, regulatory, and administrative services, subject to various service agreements. However, the BMO Chicago Branch also facilitates the payroll for certain BMO employees working in the U.S. which includes both lines of business and support function areas. There are service agreements between the Branch and other entities whereby the Branch serves as a provider to allocate the payroll costs and associated expenses appropriately.

### **1.1.3 Core Business Lines**

The 165(d) Rule defines Core Business Lines as “those business lines of the covered company, including associated operations, services, functions and support, that, in the view of the covered company, upon failure would result in a material loss of revenue, profit, or franchise value.”

BMO has identified five CBLs based on the criteria of the 165(d) Rule that fall within BMO’s three Operating Groups.

U.S. P&C is a multi-channel Operating Group that offers a full range of client banking solutions. Two of the five CBLs reside within U.S. P&C.

- U.S. P&BB serves customers with a full suite of deposit, lending, and credit card products delivered through our branches, customer contact centers, online and mobile banking platforms and approximately 1,600 ATMs across eight states, plus a partnership with the Allpoint ATM network offering surcharge-free access to over 40,000 ATMs across the United States. U.S P&BB, with approximately \$15.1B in loans and approximately \$47B in deposits, serves approximately 1.7MM retail customers and

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approximately 130,000 small businesses. U.S. P&BB also has cross-referral synergies with BMO Private Wealth, and to a lesser extent other BMO lines of business.

- U.S. Commercial Banking operates primarily within BMO Harris Bank (BHB) and BMO Chicago Branch, and is headquartered in Chicago, IL. U.S. Commercial Banking serves clients through a combination of sector expertise, local knowledge and mid-market focus across the U.S. In addition to the BHB retail branch footprint, U.S. Commercial Banking has commercial banking offices in Atlanta, Dallas, Fort Worth, Denver, Los Angeles, Irvine, CA and Columbus, OH. U.S. Commercial Banking serves clients with annual revenues of \$5MM or more. The business also partners closely with BMO Private Bank and BMO Capital Markets to bring the full strength of BMO to every client relationship.

Wealth Management is an Operating Group that serves a full range of client segments, from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and solutions. Among its U.S. activities, one has been identified as a CBL.

- In the U.S., BMO Private Bank is a brand name used primarily by BHB and includes the activities conducted under BHB (Personal Trust Administration, Personal Investment Management, and Private Banking). The activities conducted by non-bank legal entities that provide advisory services to the High Net Worth and Ultra-High Net worth clients support and are often associated with activities conducted through BHB. Accordingly, although these non-bank entities are not part of the BHB legal entity, they are included under the BMO Private Bank umbrella of product and service offerings. Thus, non-bank businesses Stoker Ostler and Family Office are reflected in this overview.

BMO CM is an Operating Group that provides corporate, institutional and government clients with a full range of products and services. These include equity and debt underwriting, corporate lending and project financing, mergers and acquisitions advisory services, securitization, treasury management, market risk management, debt and equity research and institutional sales and trading. Among its U.S. activities, two have been identified as CBLs.

- U.S. Investment and Corporate Banking (I&CB U.S.) is the U.S. division of the Global I&CB business of BMO Capital Markets. I&CB U.S. comprises two complementary businesses:
  - The Investment Banking (IB) business provides advisory services (mergers, acquisitions, or divestitures) and capital raising services (debt and equity underwriting, private placements, syndicated loans) through a combination of its coverage sector teams and its product teams: Mergers & Acquisitions (M&A), Leveraged Finance (LF), Investment Grade Debt Capital Markets (IG DCM), and Equity Capital Markets (ECM) groups.
  - The Global Corporate Banking (CB) business is comprised of Corporate Banking, Global Transaction Banking and Global Banks to provide a wide range of product solutions including: Corporate Lending (ranging from traditional loans to complex structure financing), Liquidity & Cash Management, Risk Management, and Trade Finance including Supply Chain financing.
- BMO Capital Markets' Global Markets (GM) business delivers a comprehensive integrated trading and distribution platform, capable of meeting the needs of core

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Canadian dollar and U.S. dollar issuers, as well as a broad base of North American and select global investors. Global Markets offers access to exchange-traded and over-the-counter marketplaces for institutional, corporate and government clients through an integrated suite of sales and trading solutions that include debt, foreign exchange, interest rate, credit, equity, securitization and commodities. Global Markets offers new product development and origination services as well as risk management (derivatives) advice and services to hedge against price fluctuations on a variety of key inputs. In addition, GM provides funding and liquidity management to clients, and also performs activities on behalf of other parts of the broader BMO organization. Business within BMO is conducted primarily with MEs: BHB, BMO CMC, and BMO Chicago Branch.

**1.1.4 Summary Financial Information**

The following summary financial information for BMO was prepared in accordance with International Financial Reporting Standards (IFRS) as of and for BMO's fiscal quarter ended January 31, 2021. This information is taken from the unaudited consolidated financial statements included in BMO's quarterly financial information.

**1.1.4.1 Balance Sheet**
**Figure 1.1.4.1-1 BMO Financial Group Balance Sheet**

<b>BMO Financial Group</b>		
<b>Consolidated Balance Sheet</b>		<b>2021</b>
(C\$ millions)		Q1
<b>As At Balances</b>		
Cash and Cash Equivalents	\$	73,091
Interest Bearing Deposits with Banks		8,376
Securities		233,190
Securities Borrowed or Purchased Under Resale Agreements		121,573
Loans		
Residential mortgages		128,170
Non-residential mortgages		16,316
Consumer installment and other personal		70,780
Credit cards		7,342
Businesses and government		232,436
		<u>455,044</u>
Allowance for credit losses		<u>(3,188)</u>
Total net loans		<u>451,856</u>
Other Assets		
Derivative instruments		34,054
Customers' liability under acceptances		11,878
Premises and equipment		4,202
Goodwill		6,365
Intangible assets		2,388
Other		26,238
<b>Total Assets</b>	<b>\$</b>	<b><u>973,211</u></b>
Deposits		
Banks	\$	34,646
Businesses and government		420,261

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**Figure 1.1.4.1-1 BMO Financial Group Balance Sheet**

<b>BMO Financial Group</b>	
<b>Consolidated Balance Sheet</b>	
(C\$ millions)	<b>2021</b> Q1
Individuals	217,593
Total Deposits	<u>672,500</u>
Other Liabilities	
Derivative instruments	29,430
Acceptances	11,878
Securities sold but not yet purchased	34,164
Securities lent or sold under repurchase agreements	99,892
Securitization and structured entities' liabilities	25,610
Other	36,313
Subordinated Debt	7,276
Share Capital	
Preferred shares	5,848
Common shares	13,501
Contributed surplus	309
Retained earnings	32,012
Accumulated other comprehensive income	4,478
Total shareholder's equity	<u>\$ 56,148</u>
Non-controlling interest in subsidiaries	
<b>Total Liabilities and Equity</b>	<u><b>\$ 973,211</b></u>

Source: BMO Financial Group 2021 Q1 Financial Results

The following financial information is provided for BMO's material entities for the purposes of resolution planning. As required by U.S. regulatory filing requirements, the following information is provided in U.S. dollars on a standalone basis, unless otherwise noted, as of December 31, 2020.

BMO Financial Corp. had total assets of \$26.8B, of which \$24.8B related to investments in subsidiaries, and total liabilities of \$5.4B. [Source FR Y-9LP]

BMO Harris Bank N.A., on a consolidated basis, had total assets of \$153.8B and total liabilities of \$135.7B. [Source FFIEC 031]

BMO Harris Central N.A. had total assets of \$8.0M and total liabilities of \$1.0M. [Source: FFIEC 041]

BMO Capital Markets Corp. had total assets of \$37.2B and total liabilities of \$35.2B. [Source: Audited Financial Statements]

Bank of Montreal Chicago Branch had total assets of \$85.1B and total liabilities of \$80.1B. [Source: FFIEC 002]

### 1.1.4.2 Major Funding Sources

Managing liquidity and funding risk is integral to maintaining enterprise soundness and safety, depositor confidence and earnings stability. The Bank maintains adequate liquid assets and funding capacity to meet its financial commitments, even in times of stress.

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BMO's funding strategy requires that funding tenor is aligned with the liquidity of the assets being funded. Consequently, a mix of longer term secured and unsecured wholesale funding and stable deposits, is used to fund loans and other structural assets, to support the effective term to maturity of these assets. Additionally, the supplemental liquidity pools (SLP) to manage contingent funding risk are also funded largely with longer term funding. Secured and unsecured wholesale funding for liquid trading assets is largely shorter term (maturing in one year or less), is aligned with the liquidity of the assets being funded, and is subject to a comprehensive limit structure.

Diversification of the wholesale funding sources is another important element of liquidity management strategy. The Bank's funding activities are well-diversified by investors, instrument type maturity profile and jurisdiction. The Bank has an adequate amount of term funding to support structural activities.

Total secured and unsecured wholesale funding outstanding, which largely consists of negotiable marketable securities, was \$195.3 billion as at January 31, 2021, with \$54.8 billion sourced as secured funding and \$140.4 billion sourced as unsecured funding.

BMO maintains a large and stable base of customer deposits that, in combination with the bank's strong capital base, is a source of strength. This supports the maintenance of a sound liquidity position and reduces reliance on wholesale funding. Customer deposits totaled \$472.0 billion as at January 31, 2021, with strong growth across both retail and commercial deposits. The bank also receives non-marketable deposits from corporate and institutional customers in support of certain trading activities. These deposits totaled \$25.6 billion as at January 31, 2021.

BMO maintains a sizeable portfolio of unencumbered liquid assets, totaling \$311.6 billion as at January 31, 2021, that can be monetized to meet potential funding requirements. The Bank runs internal and regulatory stress tests to determine whether the liquid assets portfolio is adequate to meet contractual and contingent liquidity outflows. Stress testing results are evaluated against the Bank's stated risk tolerance and are considered in management decisions on sizing the SLP portfolio, setting limits and internal liquidity transfer pricing.

### 1.1.4.3 Capital

BMO's capital ratios at January 31, 2021 were strong and exceeded regulatory requirements. BMO's Common Equity Tier 1 (CET1) Ratio, Tier 1 Capital Ratio, Total Capital Ratio and Leverage Ratio at January 31, 2021 were 12.4%, 14.2%, 16.6% and 4.8%, respectively.

Regulatory capital requirements for BMO are determined in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI), which are based on the Basel III framework developed by the Basel Committee on Banking Supervision (BCBS). The minimum risk-based capital ratios set out in OSFI's Capital Adequacy Requirements (CAR) Guideline are a 4.5% Common Equity Tier 1 (CET1) Ratio, 6% Tier 1 Capital Ratio and 8% Total Capital Ratio. In addition to the minimum capital requirements, OSFI also expects domestic systemically important banks (D-SIBs), including BMO, to hold Pillar 1 and Pillar 2 buffers, which are meant to be used as a normal first step in periods of stress. The Pillar 1 buffers include a Capital Conservation Buffer of 2.5%, a D-SIB Common Equity Tier 1 surcharge of 1%, and the Countercyclical Buffer (which can range from 0% to 2.5%, depending on the bank's exposure to jurisdictions that have activated the buffer). The Domestic Stability Buffer (DSB), which is a Pillar 2 buffer that can range from 0% to 2.5%, was 1.0% in fiscal 2020 and will increase to 2.5% effective October 31, 2021.

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OSFI's CAR Guideline implemented the non-viability contingent capital (NVCC) provisions set out by the BCBS, which require the conversion of certain capital instruments into a variable number of common shares in the event that OSFI announces that a bank is, or is about to become, non-viable, or if a federal or provincial government in Canada publicly announces that the bank has accepted, or agreed to accept, a capital injection, or equivalent support, to avoid non-viability. Under OSFI's CAR Guideline, non-common share capital instruments that do not meet Basel III requirements, including NVCC requirements, will be fully phased out by 2022. The impact on the bank will be nominal. Under Canada's Bank Recapitalization (Bail-In) Regime, eligible senior debt issued on or after September 23, 2018 is subject to statutory conversion requirements. Canada Deposit Insurance Corporation has the power to trigger the conversion of bail-in debt into common shares. This statutory conversion supplements NVCC securities, which must be converted, in full, prior to the conversion of bail-in debt. The prospective minimum requirements for Total Loss Absorbing Capacity (TLAC) are set at a risk-based TLAC ratio of 24.0% of RWA, including a 2.5% DSB, and a TLAC leverage ratio of 6.75%, and the bank expects to meet the minimum requirements when they come into effect on November 1, 2021. As at January 31, 2021, BMO's TLAC ratio was 24.6% and its TLAC leverage ratio was 8.4%.

### **1.1.5 Derivative and Hedging Activities**

Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. BMO uses these instruments for trading purposes, as well as to manage exposures, mainly to foreign currency and interest rate fluctuations, as part of its asset/liability management program.

#### ***Trading Derivatives***

Trading derivatives include derivatives entered into with customers to accommodate their risk management needs, market-making to facilitate customer-driven demand for derivatives, derivatives transacted on a limited basis to generate trading income from the bank's principal trading positions, and certain derivatives that the bank enters into as part of its risk management strategy that do not qualify as hedges for accounting purposes ("economic hedges").

The bank may also economically hedge a portion of its U.S. dollar earnings through forward foreign exchange contracts and/or options to minimize fluctuations in its consolidated net income due to the translation of its U.S. dollar earnings.

#### ***Risks Hedging***

BMO manages interest rate risk through interest rate futures, interest rate swaps and options, which are linked to and adjust the interest rate sensitivity of a specific asset, liability, forecasted transaction or firm commitment, or a specific pool of transactions with similar risk characteristics.

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BMO manages foreign currency risk through currency futures, foreign currency options, cross-currency swaps, foreign exchange spot transactions, forward contracts and deposits denominated in foreign currencies.

BMO manages equity price risk through total return swaps

**Derivatives Used in 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, liability or cash flow being hedged, as well as how effectiveness is to be 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. BMO 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. B

- **Cash Flow Hedges** - Cash flow hedges modify exposure to variability in cash flows for variable interest rate bearing instruments, foreign currency denominated assets and liabilities and certain cash-settled share-based payment grants subject to equity price risk.
- **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 assets and liabilities to floating rate. BMO uses cross-currency swaps, interest rate swaps, and bond futures to hedge interest rate risk, including benchmark interest rates, inherent in fixed rate securities, a portfolio of mortgages, deposits and subordinated debt and other liabilities.
- **Net Investment Hedges** - Net investment hedges mitigate the bank's exposure to foreign currency exchange rate fluctuations related to its net investment in foreign operations.

**1.1.6 Memberships in Material Payment, Clearing and Settlement Systems**

BMO uses a wide array of memberships in Payment, Clearing and Settlement Systems (PCSS), including payment systems, clearinghouses, securities depositories, and central counterparties. The following table enumerates material PCSS memberships used by BMO's U.S. operations:

**Figure 1.1.6-1 Material Payment, Clearing and Settlement Systems**

Payment/ Clearing/ Settlement System	Description
Canadian Derivatives Clearing Corporation (CDCC)	Clearing and settlement services for exchange-traded derivative products (options, futures) and OTC instruments (fixed income, Forex) in Canada
CDS Clearing and Depository Services Inc. (CDS/ CDSX)	Major fixed income and equity clearing and depository organization in Canada
CLS Bank	Clearing for FX spot, swap and forward agreements

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**Figure 1.1.6-1 Material Payment, Clearing and Settlement Systems**

Payment/ Clearing/ Settlement System	Description
CME Group	Clearing and settlement services for futures, options and OTC derivatives. (BMO CMC – Futures membership, BMO – OTC Membership)
The Depository Trust Company (DTC)	Clearing and settlement and depository services for securities and derivatives
Federal Reserve Wire Network (Fedwire Funds / Fedline Advantage) / FedACH	Wire transfer and electronic payment processing, and cash and securities settlement services
Fixed Income Clearing Corporation (FICC)	Clearing organization for U.S. treasury securities
LCH Ltd	Clearing services for OTC interested rate swaps and depository services for commodities, equities, fixed income, swaps and Forex contracts
National Securities Clearing Corporation (NSCC)	Clearing and settlement for equities, corporate and municipal debt, ADRs, ETFs and UITs
Options Clearing Corporation (OCC)	Clearing and settlement services for equity, index, foreign exchange, interest rate derivatives and equity futures
Society of Worldwide Interbank Financial Telecommunications (SWIFT)	Interbank financial telecommunications and messaging between financial institutions, FMUs and businesses

### 1.1.7 Foreign Operations

BMO is a leading North American provider of financial services, with select services provided through offices in multiple jurisdictions outside of the U.S. BMO employs approximately 42,900 people and its services are delivered through the Operating Groups of Personal and Commercial Banking (Canada and U.S.), BMO CM and Wealth Management. Canadian P&C is the largest Operating Group in terms of employees and revenues, and operates throughout Canada, offering banking, financing, and investing solutions, as well as card and payment services. BMO Capital Markets is the largest Operating Group in terms of assets, and provides capital raising, investing, advisory, treasury and research services to corporate, institutional, and government clients in Canada, the U.S., South America, Europe, Asia and Australia. WM, BMO's wealth management business, serves a full range of client segments from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and solutions including insurance products; WM operates in both Canada and the U.S., as well as in Asia and Europe.

As of January 31, 2021, Canadian and other non-U.S. operations represented 63% of total average assets and 57% of reported net income; U.S. operations represented 37% and 43%, respectively. Of its total workforce, BMO had approximately 29,000 full-time equivalent employees in Canada, 12,300 in the U.S., and 1,600 in other jurisdictions as of January 31, 2021.

### 1.1.8 Material Supervisory Authorities

The Office of the Superintendent of Financial Institutions (OSFI) is the prudential supervisor of the Canadian-based covered company, the Bank of Montreal (BMO). As such, OSFI is the umbrella supervisor for BMO and its operations. The table below includes material U.S. supervisory authorities related to the MEs identified in the 165(d) RP.

**Figure 1.1.8-1 Material Supervisory Authorities**

<b>Material Entity</b>	<b>Regulatory Agency</b>
BMO Financial Corp.	Federal Reserve Bank of Chicago
BMO Harris Bank N.A.	Office of the Comptroller of the Currency
	Federal Deposit Insurance Corp.
	Consumer Financial Protection Bureau
BMO Harris Central N.A.	Office of the Comptroller of the Currency
	Federal Deposit Insurance Corp.
	Consumer Financial Protection Bureau
BMO Capital Markets Corp.	Securities and Exchange Commission
	Financial Industry Regulatory Authority
	Commodity Futures Trading Commission
BMO Chicago Branch	Illinois Department of Financial and Professional Regulation
	Federal Reserve Bank of Chicago

**1.1.9 Principal Officers**

The table below identifies BMO’s Principal Officers, all of which are members of the BMO Executive Committee:

**Figure 1.1.9-1 BMO's Principal Officers**

<b>BMO Executive Committee</b>	
<b>Name</b>	<b>Role/Title</b>
Darryl White	Chief Executive Officer, BMOFG
Dan Barclay	Chief Executive Officer & Group Head, BMO Capital Markets
David R. Casper	U.S. Chief Executive Officer, BMOFG
Patrick Cronin	Chief Risk Officer, BMOFG
Cameron Fowler	President, North American Personal & Business Banking, BMOFG
Sharon Haward-Laird	General Counsel, BMOFG
Ernie Johannson	Group Head, North American Personal and Business Banking, BMOFG
Deland Kamanga	Group Head, Wealth Management
Mona Malone	Chief Human Resources Officer and Head of People & Culture, BMOFG
Steve Tennyson	Chief Technology & Operations Officer, BMOFG
Tayfun Tuzun	Chief Financial Officer, BMOFG

**1.1.10 Corporate Governance Structure and Processes Related to Resolution Planning**

**Governance Structure**

Within the U.S., BMO has a robust corporate governance structure to direct its legal entities, lines of business, critical operation, and corporate services. As BMO's U.S. operations have grown, representing approximately one third of the Bank of Montreal's group of

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companies' (BMOFG) total revenue, BMO's U.S. governance structure has continued to mature. At BMO, U.S. Governance is the management of rights, authorities, and control through defined checks and balances. The governance structure provides oversight, in which leadership ensures clear accountability, establishes transparency, streamlines decisions, and promotes and maintains a disciplined and unified culture.

BMO U.S. further aligned and integrated its U.S. resolution efforts with the formal (BAU) U.S. governance model by establishing and approving the U.S. Financial Crisis Management Committee (U.S. FCMC) as a sub-committee of the U.S. Risk Management Committee (U.S. RMC).

The U.S. RMC is responsible for risk activities for all BMO operations, activities, and transactions in the U.S. across all business lines and legal entities, including, but not limited to BMO Financial Corp. (BFC) and its subsidiaries (such as BMO Harris Bank N.A. "BHB"), and the BMO U.S. Chicago and New York branches and agencies (U.S. Operations). The U.S. RMC is accountable for oversight over Credit Risk, Liquidity and Funding Risk, Market Risk, Model Risk, Business Risk, Reputational Risk, Strategic Risk and Operational Risk across the business lines and legal entities operating in the U.S.

The purpose of the U.S. FCMC is to ensure that management is positioned (resources, processes and execution) to meet expectations for resolution planning. U.S. FCMC effectively supports new and amended guidance from U.S. regulators and their impacts to U.S. resolution planning. Additionally, the U.S. FCMC ensures that impediments and/or obstacles identified during resolution planning are efficiently and effectively addressed. Its membership includes senior leaders from the material entities (MEs), core business lines (CBLs), and corporate services.

The U.S. FCMC is responsible for overseeing the implementation of and sustainability of actions required to address U.S. regulatory concerns, guidance and expectations regarding U.S. resolution planning. This includes adherence to established governance concerning continual plan improvements, any new content development and the ongoing maintenance of resolution plans. It is established by the Managing Director; Financial Crisis Management (MD FCM) through authorities delegated by the U.S. RMC. The U.S. FCMC meets regularly throughout the year. In addition, FCM provides periodic resolution plan updates to the Boards, the U.S. Management Committee, and the U.S. Risk Management Committee.

The following senior officers are designated as primary executives for U.S. Resolution Plans:

- U.S. Chief Financial Officer (main point of contact for the IDI and 165(d) Resolution Plans); and
- U.S. Treasurer.

As accountable executives, they are responsible for overseeing the Resolution Plans, which includes ensuring BMO U.S. complies with the regulatory rules governing resolution plans and their required filing deadlines.

The Managing Director of Financial Crisis Management (FCM) leads Financial Crisis Management in the U.S. and Enterprise.

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**Processes and Support Structures for Resolution Planning - Day-to-Day**

Day-to-day resolution plan activities and deliverables are managed by the FCM team who is responsible for coordinating the analysis, planning, content development, reporting, quality assurance/validation, sign-offs/approvals and file submissions for the 165(d) and IDI Resolution Plans. The FCM team works in alignment with the BMO U.S. governance framework, industry and program management best practices and regulatory expectations. In the context of an actual financial or economic crisis (and in collaboration with applicable BMO Committees and Working Groups), FCM provides operational support to the key U.S. Management Committees responsible for acting, in accordance with the expectations documented in the 165(d) RP.

Regular meetings are scheduled with a broad range of executives, which include discussing materials that are informative and necessitate decision-making. Updates on the FCM program, including the Resolution Plans, are provided as needed. The regularly scheduled meetings are as follows:

- Quarterly: Board of Directors BHB and BFC;
- Quarterly: U.S. Risk Management Committee;
- Bi-monthly: U.S. Financial Crisis Management Committee;

Additionally:

- Weekly: FCM Team;
- As needed: Touch-points with the Accountable Executives;
- As needed: One-on-one Senior Management and SME working group meetings with respective FCM team members;
- Periodically: BMO CFO updates

**Processes and Support Structures for Resolution Planning - Reviews and Approvals**

The approval of the 165(d) Resolution Plan is based on a robust review and certification process. The 165(d) Resolution Plan is subject to review and recommendation for approval by:

- BFC Board of Directors;
- U.S. RMC;
- U.S. FCMC;
- Accountable Executives;
- Executives responsible for each relevant ME, CBL, CO and CS; and
- Managing Director, FCM

The BMO Board of Directors, as the Board of Directors of the Covered Company, delegated approval authority of the 165(d) Resolution Plan to the BFC CEO.

### **1.1.11 Material Management Information Systems**

Access to relevant data at the appropriate frequency is important to being able to successfully resolve or restructure in the event of failure. Within BMO U.S., this data typically resides on MIS that are collectively designed to pull information from source systems, feed into analytical systems and produce specified outputs.

BMO's MIS Management Reporting enable users to aggregate data at the level of product or operational process, business line or function, or legal entity. The majority of the key MIS applications are vendor provided solutions with hosting either in-house or outsourced to the vendor. They are highly automated and are used for risk management, accounting / financial, regulatory and management reporting.

#### **Capabilities**

Approximately 38% of all the key systems are vendor-provided solutions with hosting either in-house or outsourced to the vendor. In general, software ownership / licensee rights are held by one legal entity that serves as the main relationship manager for that contract. The standard used when negotiating material software license agreements with software suppliers is to establish an enterprise-wide agreement with BMO or BHB as signatory, and participation agreements for subsidiaries or other jurisdictions. This standard entitles all business lines and legal entities to share the software without the need to negotiate a new agreement. When enterprise agreements are negotiated with these software suppliers, transfer rights are included in the discussion. The discussion traditionally has focused on the ability of the contract signatories to transfer the contract to another entity or buyer in case of a sale.

#### **Technology Governance**

The objective of the Information Risk and Technology Risk Management Corporate Standard is to establish the framework for managing and safeguarding Information and Technology Assets throughout their Life-Cycles within the Enterprise Information Risk Appetite and Technology Risk Appetite. This Standard is aligned with the Operational Risk Management Framework and defines the principles, framework, and roles and responsibilities for identifying, measuring, managing, monitoring and reporting Information Management Risks, Information Security Risks and Technology Risks across the Enterprise, including at suppliers.

The Policy sets expectations that information is a corporate asset and must be identified, classified, protected, used and managed consistently throughout its Life-Cycle, commensurate to its value and risk, and at a minimum, to support compliance with applicable legal, regulatory, industry, association and standards requirements, including meeting required levels of Information Quality.

### **1.1.12 Resolution Strategy**

Consistent with the requirements outlined in the 165(d) Rule, BMO has prepared a strategic analysis consisting of resolution strategies for its MEs, CBLs and CO in the event of the failure of BMO and its MEs.

The strategic analysis has been developed under the assumptions required by the Federal Reserve and the FDIC. This strategy addresses how the U.S. operations of BMO may undergo

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an orderly resolution that minimizes any market disruptions and occurs without recourse to any assistance from U.S. taxpayers.

The 165(d) RP provides a detailed analysis of how BMO's material operations in the U.S. could be resolved in a rapid and orderly manner that would not create serious adverse effects on U.S. financial stability and that would otherwise meet the requirements of the 165(d) Rule. The strategy to resolve BMO's operations in the U.S. is organized around the resolution of the MEs – BFC, BMO Harris Bank, BMO CMC, BMO Chicago Branch, and BMO Harris Central. The resolution of the CBLs and CO would occur through the MEs in which they operate. The MEs would be resolved as follows:

- BMO Harris Bank and BMO Harris Central would be resolved under the Federal Deposit Insurance Act by the FDIC, following its appointment as receiver. While BMO believes this can best be accomplished through either an immediate whole bank purchase and assumption (P&A) transaction transferring their respective operations to another bank, or through a transfer to a bridge bank and a subsequent P&A transaction to another bank, we acknowledge that other options are available to the Federal Reserve and the FDIC.
- The assets of BMO Chicago Branch would be resolved by the Superintendent of the Illinois Department of Financial and Professional Regulation, which would then commence liquidation.
- BMO CMC would be wound down after the initiation of a Securities Investor Protection Act proceeding by a trustee appointed by Securities Investor Protection Corporation (the SIPC Trustee). The SIPC Trustee would transfer customer accounts to a solvent broker dealer and transfer Futures Clearing Merchant (FCM) customer accounts to a solvent FCM. The SIPC Trustee would then liquidate the remainder of BMO CMC's broker dealer business.
- BFC would be resolved under Chapter 11 of the U.S. Bankruptcy Code. The limited amount of services that flow through BFC are likely to continue to be provided by BFC to the other MEs in insolvency on a cost-plus basis under inter-affiliate service agreements subject to BFC continuing to be paid for such services by the relevant ME (or their successors).