

**BMO CAPITAL MARKETS LIMITED**  
**ANNUAL REPORT**

**For the year ended 31 October 2018**

**Registered Number 2928224**

**BMO**  **Capital Markets**  
Your ambition achieved.

**SATURDAY**



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COMPANIES HOUSE

# Annual Report

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# **BMO CAPITAL MARKETS LIMITED**

## **STRATEGIC REPORT**

### **Review of the Business**

This Strategic Report sets out an overview of BMO Capital Markets Limited's ("the Company" or "BMOCL") strategic objectives and the principal risks that could impact the Company's strategy.

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

#### **1. Global Equity Product ("GEP")**

##### **Cash Equity**

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

##### **Relative Value Europe**

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

##### **Global Equity Finance ("GEF")**

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

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

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

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

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

#### **3. Equity Research**

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

# BMO CAPITAL MARKETS LIMITED

## STRATEGIC REPORT (continued)

### Financial Performance

The Company had a less profitable year with profits before tax decreasing from £21,641,000 in 2017 to £12,245,000. ADR/Ord activity decreased as Brexit tempered exposure to UK equities and in preparation for the net stable funding ratio ("NSFR") regime. Overall, net trading income decreased despite the implementation of the new Relative Value Europe line of business.

Net fee and commission income decreased largely as a result of a decrease in external advisory fees earned by I&CB. The increase in expenses was mainly driven by an overall increase in salary expenses as well as severance costs. This was partly offset by a decrease in short term incentive pay.

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

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

	Year ended 31 October 2018 £'000	Year ended 31 October 2017 £'000
Total operating income	55,642	63,401
Profit before tax	12,245	21,641
Total shareholders' funds	143,348	113,946
Return on Assets	0.6%	0.9%
Return on capital employed	9%	19%

The return on capital employed is calculated by dividing profit before tax by total shareholders' funds. The non-consolidated statement of income can be seen on page 13.

During the current year, the Company received a capital injection of £19,500,000 from Bank of Montreal Capital Markets Holdings Limited, its parent, through an issue of 15,600,000 ordinary shares at a par value of £1.25 per share.

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

### Future Developments and Prospects

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

1. In Global Equity Products (covering Equity Sales & Trading, Global Equity Finance, ADR/Ord, Relative Value Europe and Equity Research), to be a preferred counterparty and advisor for our clients in Europe, the Middle East and Africa ("EMEA") markets by offering a client-centric platform that is differentiated by leading ideas, coverage and expansion. The following are key objectives:

# **BMO CAPITAL MARKETS LIMITED**

## **STRATEGIC REPORT (continued)**

### **Future Developments and Prospects**

- Post Brexit, drive increased activity around our core non-EU27 clients, including the Middle East and Asia, through a unified, cross-entity and cross-asset effort that is client centric;
  - Address market and product gaps by offering a broader product set in line with our peer group;
  - Improve balance sheet optimization capabilities in BMOCML;
  - Partner in the development of a best in class local Capital Markets regulatory architecture;
  - Maintain a strong 1st line risk management culture; and
  - Target segments focused on North American equities and securities lending, market making for ADR/Ord and Research specialising in Metal & Mining and Oil & Gas.
2. In I&CB, grow and diversify revenues and deepen client relationships by increasing lead advisory/execution roles and recurring revenue. The following are key objectives:
- Grow and diversify revenue by expanding / deepening client relationships in strategic sectors;
  - Target segments principally within the Natural Resources sector (Metal & Mining and Oil & Gas) with expanded coverage to Infrastructure. The growth in the Infrastructure business will include advisory mandates and Equity Capital Market ("ECM") revenue.
3. For BMOCML as a whole, build a strong risk and compliance structure to effectively manage the business while complying with risk and regulatory requirements. The following are key objectives:
- Implement a "best in class" Compliance Framework and Risk Management Framework to guide and secure the compliance of BMOCML with its requirements;
  - Develop a culture of compliance that is led from the top and understood by all and supported by clear local governance; and
  - Create strategic advantage in regulatory compliance and early response to emerging regulation.
4. Continue to evolve the culture to develop and retain the best talents across the region. The following are key objectives:
- Create BMOCML talent strategy to address hiring, mobility and retention challenges;
  - Deepen talent management practices including the earlier identification of talent, strengthening succession pipelines and promoting leadership development;
  - Continue to build manager capability in performance coaching, assessing potential, and developing talent and supporting employees with career management and professional development;
  - Assess new opportunities to apply best practices in performance management; and
  - Develop diversion and inclusion strategies.

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

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

# **BMO CAPITAL MARKETS LIMITED**

## **STRATEGIC REPORT (continued)**

### **Brexit**

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

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

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

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

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

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

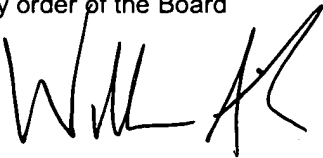
# **BMO CAPITAL MARKETS LIMITED**

## **STRATEGIC REPORT (continued)**

### **General**

The Company is authorised by the Financial Conduct Authority ("FCA") to conduct investment banking business. The ultimate parent company of BMO Capital Markets Limited is Bank of Montreal, a company incorporated in Canada. The immediate parent is Bank of Montreal Capital Markets (Holdings) Limited a company incorporated in the United Kingdom whose financial statements can be found at Companies House.

By order of the Board

A handwritten signature in black ink, appearing to read 'W. Smith', written over a horizontal line.

**William Smith**  
**Chief Executive Officer**

# **BMO CAPITAL MARKETS LIMITED**

## **DIRECTORS REPORT**

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

### **Results and dividends**

The profit for the year after taxation amounted to £9,902,000 (2017: £16,968,000). The Directors do not recommend the payment of a dividend (2017: £nil).

### **Directors**

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

Fuller R S (Independent Non-Executive) (Chair)	-appointed 14 February 2018
Matthews S J	
Smith W K S	
Dunn J	
Debost M P	
Couch J	
Child-Villiers K C (Independent Non-Executive)	
Cronin P P	-resigned 13 July 2018
Henderson I R (Independent Non-Executive)	
Yeung R A	
Gunderson K C	-appointed 04 December 2018

### **Employees**

The average numbers of persons employed during the period were 100 (2017: 100).

### **Registered Company Address**

95 Queen Victoria Street, London, EC4V 4HG

### **Liability Insurance**

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

### **Political and charitable contributions**

The Company made no political contributions during the period (2017: £nil). The Company made charitable donations of £1,398 during the period (2017: £5,660). Most of the charitable donations for the period for the Bank of Montreal UK entities were made out of Bank of Montreal London Branch.



# **BMO CAPITAL MARKETS LIMITED**

## **DIRECTORS REPORT (continued)**

### **Third Party indemnities**

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

### **Location of Pillar 3 disclosures**

Pillar 3 disclosures for the Company required by the Capital Requirements Directive are included in the parent entity, Bank of Montreal Capital Markets (Holdings) Limited's, disclosures. The Pillar 3 disclosures are available at Companies House, Crown Way, Cardiff, CF14 3UZ as an addendum to the Annual Report of the parent company. While the Pillar 3 disclosures can be found as an addendum to the Parent's Annual Report, they do not form part of the audited financial statements and are not subject to audit.

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

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

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

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

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

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

# **BMO CAPITAL MARKETS LIMITED**

## **DIRECTORS REPORT (continued)**

### **Disclosure of Information to Auditor**

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

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

### **Auditor**

A resolution for the appointment of KPMG LLP as auditor of the Company will be proposed at the BMO annual general meeting.

On behalf of the Board



**Director  
Scott Matthews**



**Director  
William Smith**

95 Queen Victoria Street  
London EC4V 4HG  
18th January 2019

Registered Company Number: 2928224

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BMO CAPITAL MARKETS LIMITED**

### **Opinion**

We have audited the financial statements of BMO Capital Markets Limited ("the Company") for the year ended 31 October 2018 which comprise the Non-Consolidated Statement of Income, Non-Consolidated Balance Sheet, Non-Consolidated Statement of Comprehensive Income, Non-Consolidated Statement of Changes in Equity, Non-Consolidated Cash Flow Statement and related notes, including the accounting policies in notes 1 and 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

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

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

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

### **Going concern**

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

### **Strategic report and directors' report**

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

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

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

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

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

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

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

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

*Richard Smith*

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

*18 January 2019*

## BMO CAPITAL MARKETS LIMITED

### Non-Consolidated Statement of Income

For the Years Ended 31 October

		2018	2017
		£'000	£'000
	Note *		
Interest income	5	28,031	14,397
Interest expense	5	(44,936)	(37,979)
<b>Net interest expense</b>		<b>(16,905)</b>	<b>(23,582)</b>
Fees and commission income	6	51,671	53,531
Fees and commission expense	6	(8,031)	(7,371)
<b>Net fees and commission income</b>		<b>43,640</b>	<b>46,160</b>
<b>Net trading income</b>	7	<b>28,907</b>	<b>36,716</b>
<b>Other income</b>	8	-	4,107
<b>Total operating income</b>		<b>55,642</b>	<b>63,401</b>
Employee compensation and benefits	9	(28,637)	(27,154)
Other operating expenses	10	(14,760)	(14,606)
<b>Total operating expenses</b>		<b>(43,397)</b>	<b>(41,760)</b>
<b>Profit before tax</b>		<b>12,245</b>	<b>21,641</b>
<b>Income tax expense</b>	11	<b>(2,343)</b>	<b>(4,673)</b>
<b>Profit after tax</b>		<b>9,902</b>	<b>16,968</b>

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

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

# BMO CAPITAL MARKETS LIMITED

## Non-Consolidated Balance Sheet

For the Years Ended 31 October

	Note *	2018 £'000	2017 £'000
<b>Assets</b>			
Cash and cash equivalents	2(j)	18,227	15,969
Securities	12		
Trading		992,465	1,260,598
Fair value through other comprehensive income **		106,794	92,932
		<b>1,117,486</b>	<b>1,369,499</b>
Securities borrowed or purchased under resale agreements	13	275,485	260,954
Due from banks and similar financial institutions	14	549	512
Derivative assets	15	-	8
Premises and equipment	16	1,018	1,348
Goodwill and other intangibles	17	864	864
Current tax assets	11	409	90
Deferred tax assets	18	407	1,066
Other assets	19	286,618	219,887
<b>Total Assets</b>		<b>1,682,836</b>	<b>1,854,228</b>
<b>Liabilities and Shareholder's Equity</b>			
<b>Liabilities</b>			
Securities sold but not yet purchased	20	989,270	1,253,666
Securities lent or sold under repurchase agreements	21	112,684	82,077
Due to banks and similar financial institutions	22	147,174	180,675
Current tax liability	11	2,104	4,051
Other liabilities	23	288,256	219,813
<b>Total Liabilities</b>		<b>1,539,488</b>	<b>1,740,282</b>
<b>Shareholder's Equity</b>			
Share capital	24	107,670	88,170
Retained earnings		35,688	25,786
Accumulated other comprehensive income		(10)	(10)
<b>Total Shareholder's Equity</b>		<b>143,348</b>	<b>113,946</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>1,682,836</b>	<b>1,854,228</b>

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

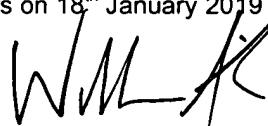
\*\*Disclosed as available for sale in prior years in terms of IAS 39.

The financial statements were approved by the Board of Directors on 18<sup>th</sup> January 2019 and were signed on its behalf by



Director

Registered Company Number: 2928224



Director

## BMO CAPITAL MARKETS LIMITED

### Non-Consolidated Statement of Comprehensive Income

For the Years Ended 31 October

	2018	2017
	£'000	£'000
Net profit after tax	9,902	16,968
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Unrealised gains on fair value through other comprehensive income securities*	150	736
Gains realised and reclassified to profit and loss	(150)	(4,107)
<b>Total comprehensive income wholly attributable to the parent company</b>	<b>9,902</b>	<b>13,597</b>

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

### Non-Consolidated Statement of Changes in Equity

For the Years Ended 31 October

	Share Capital	Accumulated other comprehensive income	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000
Balance at 1 November 2016	88,170	3,361	8,818	100,349
Net profit attributable to the owners of the parent company	-	-	16,968	16,968
Net change in unrealised gains on fair value through other comprehensive income securities *	-	736	-	736
Realised gains reclassified to profit and loss	-	(4,107)	-	(4,107)
<b>Balance at 31 October 2017</b>	<b>88,170</b>	<b>(10)</b>	<b>25,786</b>	<b>113,946</b>
Net profit attributable to the owners of the parent company	-	-	9,902	9,902
Net change in unrealised gains on fair value through other comprehensive income securities *	-	150	-	150
Realised gains reclassified to profit and loss	-	(150)	-	(150)
Allotment of ordinary share capital	19,500	-	-	19,500
<b>Balance at 31 October 2018</b>	<b>107,670</b>	<b>(10)</b>	<b>35,688</b>	<b>143,348</b>

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

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



# BMO CAPITAL MARKETS LIMITED

## Non-Consolidated Cashflow Statement

For the Years Ended 31 October

	2018	2017
	£'000	£'000
<b>Profit for the year</b>	<b>9,902</b>	<b>16,968</b>
Adjustments for		
Depreciation	531	520
Net gain on available for sale securities	-	976
Net change in available for sale shares	-	(4,227)
Deferred tax expense	659	(852)
<b>Changes in</b>		
Trading securities	268,133	(223,976)
Assets purchased under reverse repurchase agreements and securities borrowed	(14,531)	148,810
Due from banks and similar financial institutions	(37)	8,167
Current tax and other assets	(67,050)	(93,902)
Obligations related to securities sold short	(264,396)	209,924
Obligations related to assets sold under repurchase agreements and securities loaned	30,607	(189,896)
Derivative instruments	8	79
Due to banks and similar financial institutions	(33,501)	41,760
Current tax and other liabilities	66,496	91,387
Net cash provided by operating activities	<u>(3,179)</u>	<u>5,738</u>
<b>Cash flows from financing activities</b>		
Capital injection in the form of share capital	19,500	-
Net cash flow from financing activities	<u>19,500</u>	<u>-</u>
<b>Cash flows from investing activities</b>		
Net redemption of available for sale shares	-	4,107
Net acquisition of fair value through other comprehensive income government securities	(13,862)	(12,963)
Net acquisition of tangible fixed assets	(201)	(469)
Net cash provided by/(used in) investing activities	<u>(14,063)</u>	<u>(9,325)</u>
Net increase/(decrease) in cash and cash equivalents	<b>2,258</b>	<b>(3,587)</b>
Cash and cash equivalents as at 1 November	<u>15,969</u>	<u>19,556</u>
Cash and cash equivalents as at 31 October	<u>18,227</u>	<u>15,969</u>
Interest paid	(44,936)	(37,979)
Income tax paid	(5,153)	(1,733)
Income tax recovered	952	1,401

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

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**1 Accounting Policies**

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

**Basis of preparation**

- a) The financial statements comprise the non-consolidated financial results of BMO Capital Markets Limited ("the Company").
- b) The financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and as adopted by the EU and interpretations issued by the IFRS Interpretations Committee of the IASB. The financial statements have been prepared in accordance with all current IFRS issued and in effect as at 31 October 2018. The Company is incorporated in the UK and its financial statements are presented in compliance with the Companies Act 2006.
- c) The Company's financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:
  - Derivative financial instruments are measured at fair value;
  - Financial instruments at fair value through profit and loss are measured at fair value; and
  - Financial instruments at fair value through other comprehensive income are measured at fair value.
- d) These financial statements are presented in Sterling ("GBP"), the Company's functional currency, and all values are rounded to the nearest thousand except where otherwise indicated.
- e) Financial assets and financial liabilities are offset and the net amount is reported in the Non-Consolidated Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.
- f) Management conduct business in a variety of foreign currencies and report the Company financial statements in Sterling, which is our functional currency. Monetary assets and liabilities as well as non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are translated into Sterling at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities not measured at fair value are translated into sterling at historical rates. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the year.
- g) The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

**Notes to the Financial Statements**  
For the year ended 31 October 2018

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**2 Significant accounting policies and use of judgements and estimates****2.1 Use of judgements and estimates**

The preparation of the Company's financial statements requires management to use estimates and assumptions that affect the carrying amounts of certain assets and liabilities, certain amounts reported in net income and other related disclosures. The most significant instances for which estimates must be made include the impairment of goodwill (note 17), the recognition of deferred tax assets (note 18) and the calculation of allowance for credit losses.

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

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

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

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

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

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018**2.2 Changes in Accounting Policies*****Financial Instruments***

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

***Classification and Measurement***

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

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

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

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

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

The implementation of IFRS 9 did not result in any changes in the measurement basis of any of the financial assets on the Company's balance sheet. Securities which were previously presented as available for sale are now presented as fair value through other comprehensive income in line with the new IFRS 9 classification categories. These securities continue to be measured at fair value through other comprehensive income in line with prior years.

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

***Impairment***

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018***Impairment (continued)***

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

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

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

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

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

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

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

***Hedge Accounting***

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

**2.3 Significant accounting policies****a) Interest**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

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**b) Fees and commissions**

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

Other fees and commission income, including account servicing fees, sales commissions, placement fees, performance fees and advisory fees are recognised as the related services are performed.

**c) Net trading income**

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

**d) Dividends**

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

**e) Lease payments**

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

**f) Tax**

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

**i. Current tax**

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

**ii. Deferred tax**

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

**g) Financial instruments - recognition and measurement****Securities**

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

**i. Trading Securities**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

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**ii. FVOCI Securities**

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

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

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

**iii. Securities borrowed or purchased under resale agreements**

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

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

**Other assets**

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

**Derecognition**

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

**Trade date accounting**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018**h) Premises and equipment**

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

The estimated useful lives are as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

**i) Goodwill**

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

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

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

Changes in these assumptions may impact the amount of impairment loss recognised in other operating expenses.

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



**Notes to the Financial Statements**  
For the year ended 31 October 2018

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**i) Goodwill (continued)**

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

**j) Cash and cash equivalents**

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

**k) Provisions**

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

**l) Employee benefits**

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

The major subsidiaries within the Bank of Montreal Capital Markets (Holdings) Limited group namely BMOCML and Pyrford International Ltd participate in the defined benefit plan as well as Bank of Montreal London Branch. The net benefit cost is recognised in the group financial statements of the Bank of Montreal who are legally the sponsoring employer in the plan. The relevant subsidiaries above recognise a cost equal to their contribution payable for the period. The Company's contribution to defined benefit plan is expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution. Defined contribution plan expense is included within employee compensation and benefit.

**3 Future Changes in Accounting Policies**

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

**(a) Revenue**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018**(a) Revenue (continued)**

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

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

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

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

**(b) Leases**

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

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

**(c) Share-based Payment**

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

**(d) Conceptual Framework**

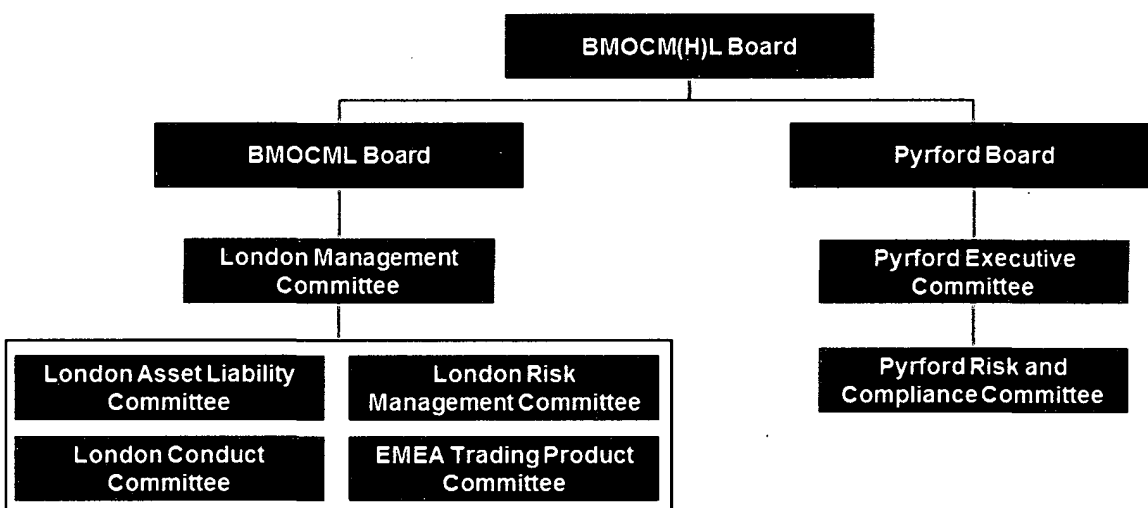
In March 2018, the IASB issued the revised conceptual Framework ("Framework"), which sets out the fundamental concepts of financial reporting to ensure consistency in standard setting decisions and treatment of similar transactions, so as to provide useful information to users of financial statements.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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**4 Financial and other risk management**

BMO CML is a wholly owned subsidiary of Bank of Montreal Capital Markets (Holdings) Ltd (“BMO CM(H)L”). The risk management frameworks for BMO CM(H)L and its subsidiaries are governed by and fall within BMO’s Enterprise policies and procedures. In addition, local policies driven by local regulatory requirements are approved by the BMO CM(H)L Board as necessary.

The Company’s risk management and governance structure is composed of several committees that have the responsibility for key risk management areas. Each committee has a defined mandate allocating their accountability and responsibility. An illustration of how these committees roll up to the Company Board as well as the BMO CM(H)L Board is provided below:



The BMO CML Board fulfil their responsibilities in relation to the identification and management of risk, establishment of risk appetite, adherence to either internal risk management policies and procedures or those promulgated by BMO. The BMO CML Board is responsible for adhering to local regulatory requirements and compliance with regulatory reporting. The Board meet at least quarterly.

**The London Management Committee (“LMC”)** is the senior collective management forum for the activities of Bank of Montreal, London Branch, BMO CM(H)L and BMO CML. The LMC is responsible for overseeing the activities of the businesses and support functions in London and, in particular, the risks attributable to the conduct of business in London in accordance with best principles of corporate governance, risk practice, law, regulation and the established policies, procedures and strategies of BMO.

**The Assets and Liabilities Committee (“ALCO”)** is a sub-committee of the London LMC and its mandate covers activities of Bank of Montreal, London Branch and BMO CML across all categories of balance sheet development, liquidity and funding management, treasury, tax review, strategies and efficient capital allocation. Its mandate is to provide appropriate financial oversight, especially for the balance sheet development and liquidity and funding management for BMO London activities, including ensuring that the financial procedures, liquidity management, policies and controls within BMO London are appropriate and effective.

**Notes to the Financial Statements**  
For the year ended 31 October 2018

The **London Risk Management Committee ("LRMC")** is a sub-committee of the LMC and consists of the senior administrative and risk executives of Bank of Montreal, London Branch and BMOCM(H)L and its subsidiaries. Within the context of BMO Risk Management Policy, the LRMC reviews and discusses all significant risk issues that arise in executing BMOCM(H)L and its subsidiaries' strategies. It serves as a forum to review, inform, consult and discuss significant risk issues and action plans addressing current and emerging risks that arise in the course of executing the business plans and day-to-day operations.

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

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

**a) Credit Risk**

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Management therefore carefully manages its exposure to credit risk in the banking and trading book, the management of which can be seen below.

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

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

**Credit risk management in the banking book**

The credit exposures in the banking book arise principally in the following areas:

- (i) UK Government Gilts (fair value through other comprehensive income securities);
- (ii) Nostros and Short term money market deposits; and
- (iii) Intercompany receivable balances (included within other assets)

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

The Company manages the risk of non-performance by banks by dealing only with those banks carrying an investment grade rating from Standard and Poor's and Moody's Investors Service. There were no impaired and past due loans as at 31 October 2018 and 31 October 2017.

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Credit risk management in the trading book**

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

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

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

**Offsetting financial assets and financial liabilities**

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

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

**b) Market risk**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Management of market risk**

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

**Exposure to market risks**

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

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

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

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

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

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

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

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Exposure to market risks (continued)**

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

**c) Foreign exchange risk**

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

**Exposure to foreign exchange risk- non trading portfolio**

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

- Revenues related to commissions that are received in non GBP;
- Foreign currency payments to and from other BMO entities; and
- Foreign currency deposits which are subject to foreign exchange risk

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

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

	2018	2017
	£'000	£'000
United States dollars	20,302	17,313
Canadian dollars	(15,778)	(14,509)
Euro	(47,189)	(12,285)
Australian Dollar	(88)	(1,555)
Other	(979)	(5,203)
	<u>(43,732)</u>	<u>(16,239)</u>

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Exposure to foreign exchange risk- trading portfolio (continued)**

	2018	2017
	£'000	£'000
United States dollars	2,030	1,731
Canadian dollars	(1,578)	(1,451)
Euro	(4,719)	(1,228)
Australian Dollar	(9)	(156)
Other	(98)	(520)
	<u>(4,374)</u>	<u>(1,624)</u>

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

**d) Interest rate risk**

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

**e) Liquidity Risk**

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

**FCA liquidity regulation**

The Company is subject to qualitative and quantitative liquidity regulation by the FCA. The Company has been in receipt of an intra-company liquidity modification from the FCA under its BIPRU 12 rules to create a Defined Liquidity Group ("DLG") in which BMOCML can rely for liquidity support on its parent BMO as an overseas entity.

The DLG consists of BMOCML and BMO. As part of the modification BMOCML as a non-UK DLG may not include liquidity resources that can be made available by other members of its company other than specific liquidity resources made available by BMO.



**Notes to the Financial Statements**  
For the year ended 31 October 2018**Liquidity risk management process**

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

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

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

BMO's liquidity risk is managed by financing its securities lending activities through the use of a USD 1 billion uncommitted loan facility as well as a USD 200 million committed facility with BMO.

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**Liquidity Table**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Liquidity Table (continued)**

**Liquidity table as at 31 October 2018**

	£'000	£'000	£'000	£'000	£'000
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
<b>Assets held for liquidity purposes</b>					
Cash and cash equivalents	18,227	-	-	-	18,227
Fair value through other comprehensive income securities	15,600	7,400	83,794	-	106,794
Securities borrowed or purchased under resale agreements	275,485	-	-	-	275,485
Other assets	276,747	-	-	-	276,747
Trading securities	992,465	-	-	-	992,465
	<b>1,578,524</b>	<b>7,400</b>	<b>83,794</b>	<b>-</b>	<b>1,669,718</b>
<b>Liabilities</b>					
Securities sold but not yet purchased	989,270	-	-	-	989,270
Securities lent or sold under repurchase agreements	112,684	-	-	-	112,684
Due to banks and similar financial institutions	147,174	-	-	-	147,174
Other liabilities	274,288	-	-	-	274,288
<b>Total liabilities</b>	<b>1,523,416</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,523,416</b>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Liquidity Table (continued)**

**Liquidity table as at 31 October 2017**

	£'000 Less than 1 month	£'000 1 to 3 months	£'000 3 months to 1 year	£'000 More than 1 year	£'000 Total
<b>Assets held for liquidity purposes</b>					
Cash and cash equivalents	15,969	-	-	-	15,969
Fair value through other comprehensive income securities	-	55,000	37,932	-	92,932
Securities borrowed or purchased under resale agreements	260,954	-	-	-	260,954
Other assets	211,227	-	-	-	211,227
Trading securities	1,260,598	-	-	-	1,260,598
	<b>1,748,748</b>	<b>55,000</b>	<b>37,932</b>	<b>-</b>	<b>1,841,681</b>
<b>Liabilities</b>					
Securities sold but not yet purchased	1,253,666	-	-	-	1,253,666
agreements	82,077	-	-	-	82,077
Due to banks and similar financial institutions	180,675	-	-	-	180,675
Other liabilities	204,983	-	-	-	204,983
<b>Total liabilities</b>	<b>1,721,401</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,721,401</b>

**f) Regulatory capital**

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

The Company's regulatory capital consists of Tier 1 capital which includes ordinary shares and audited retained earnings. Relevant deductions are made to the capital resources where appropriate, in the Company's case this relates to Goodwill and the prudential valuation adjustment.

The FCA required the Company to submit a series of regulatory returns for capital monitoring and measurement of risk. During 2018, the Company fully complied with its internal and external requirements.

The Company conducts an annual assessment of the adequacy of its capital resource requirements as part of the ICAAP review process.

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**g) Classification of Financial Assets and Liabilities**

The below tables show the carrying amounts of the Company's financial instruments classified in the categories as per the requirements of IFRS 9.

**Assets as at 31 October 2018**

	Fair value through P&L £'000	Fair value through OCI £'000	Amortised cost £'000	Total carrying amount £'000
<b>Assets</b>				
Cash and cash equivalents	-	-	18,227	18,227
Securities				-
Trading	992,465	-	-	992,465
Fair value through other comprehensive income	-	106,794	-	106,794
Derivatives	-	-	-	-
Securities borrowed or purchased under resale agreements	-	-	275,485	275,485
Due from banks and similar financial institutions	-	-	549	549
Other Assets	-	-	276,747	276,747
<b>Total Assets</b>	<b>992,465</b>	<b>106,794</b>	<b>571,008</b>	<b>1,670,267</b>

**Liabilities as at 31 October 2018**

	£'000	£'000	£'000	£'000
<b>Liabilities and Shareholder's Equity</b>				
<b>Liabilities</b>				
Securities sold but not yet purchased	989,270	-	-	989,270
Securities lent or sold under repurchase agreements	-	-	112,684	112,684
Due to banks and similar financial institutions	-	-	147,174	147,174
Other Liabilities	-	-	274,288	274,288
<b>Total Liabilities</b>	<b>989,270</b>	<b>-</b>	<b>534,146</b>	<b>1,523,416</b>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Classification of Financial Assets and Liabilities (continued)**

**Assets as at 31 October 2017**

	Fair value through P&L £'000	Fair value through OCI £'000	Amortised cost £'000	Total carrying amount £'000
<b>Assets</b>				
Cash and cash equivalents	-	-	15,969	15,969
<b>Securities</b>				
Trading	1,260,598	-	-	1,260,598
Fair value through other comprehensive income	-	92,932	-	92,932
Derivatives	8	-	-	8
Securities borrowed or purchased under resale agreements	-	-	260,954	260,954
Due from banks and similar financial institutions	-	-	512	512
Other Assets	-	-	211,227	211,227
<b>Total Assets</b>	<b>1,260,606</b>	<b>92,932</b>	<b>488,662</b>	<b>1,842,200</b>

**Liabilities as at 31 October 2018**

	£'000	£'000	£'000	£'000
<b>Liabilities and Shareholder's Equity</b>				
<b>Liabilities</b>				
Securities sold but not yet purchased	1,253,666	-	-	1,253,666
Securities lent or sold under repurchase agreements	-	-	82,077	82,077
Due to banks and similar financial institutions	-	-	180,675	180,675
Other Liabilities	-	-	204,983	204,983
<b>Total Liabilities</b>	<b>1,253,666</b>	<b>-</b>	<b>467,735</b>	<b>1,721,401</b>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**5 Net interest income**

	2018	2017
	£'000	£'000
<b>Interest Income includes amounts earned on:</b>		
Cash and cash equivalents	26	-
Securities		
Fair value through other comprehensive income	424	71
Securities borrowed or purchased under resale agreements	27,266	14,179
Due from banks and similar financial institutions	282	125
Other	33	22
	<u>28,031</u>	<u>14,397</u>
Including interest income received from related parties		
BMO Nesbitt Burns Inc	202	142
BMO London Branch	-	-
Bank of Montreal Ireland plc	20	24
BMO Capital Markets Corp	6,480	4,264
	<u>6,702</u>	<u>4,430</u>
<b>Interest expense includes amounts paid on:</b>		
Securities lent or sold under repurchase agreements	(44,733)	(37,803)
Due to banks and similar financial institutions	(203)	(176)
	<u>(44,936)</u>	<u>(37,979)</u>
Including interest expense paid to related parties		
BMO Nesbitt Burns Inc	(597)	(1,068)
BMO London Branch	(3,776)	(1,483)
Bank of Montreal Ireland plc	(128)	(24)
Bank of Montreal	-	(1)
BMO Capital Markets Corp	(13,472)	(19,954)
	<u>(17,973)</u>	<u>(22,530)</u>

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**6 Net fee and commission income**

	2018	2017
	£'000	£'000
<b>Fee and commission income</b>		
Brokerage fees	21,484	20,815
Securities lending fees	4,422	3,511
Advisory fees	25,765	29,205
<b>Total fee and commission income</b>	<b>51,671</b>	<b>53,531</b>

Including fee and commission income received from related parties

BMO Nesbitt Burns Inc	18,540	18,965
BMO London Branch	60	60
Bank of Montreal Ireland plc	431	-
BMO Capital Markets Corp	3,977	3,313
	<b>23,008</b>	<b>22,338</b>

**Fee and commission expense**

Fee and commission expense	(7,275)	(6,581)
Brokerage and other	(756)	(790)
<b>Total fee and commission expense</b>	<b>(8,031)</b>	<b>(7,371)</b>

Including fee and commission expense paid to related parties

BMO Nesbitt Burns Inc	(205)	(215)
Bank of Montreal	(950)	(964)
BMO London Branch	(4,943)	(4,366)
BMO Capital Markets Corp	(1,933)	(1,826)
	<b>(8,031)</b>	<b>(7,371)</b>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**7 Net trading income**

	2018	2017
	£'000	£'000
Derivatives	(7)	(80)
Securities	29,051	36,414
Other	(137)	382
<b>Total net trading income</b>	<b>28,907</b>	<b>36,716</b>
Including net trading income with related parties		
BMO Capital Markets Corp	<b>66,023</b>	103,950

**8 Other income**

	2018	2017
	£'000	£'000
Gains and losses transferred to profit and loss	-	4,107

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



**Notes to the Financial Statements**  
For the year ended 31 October 2018

**9 Employee compensation and benefits**

The average number of people employed by the Company during the year was 100 (2017: 100). Their aggregate remuneration comprised:

	2018	2017
	£'000	£'000
Wages and salaries	(23,109)	(22,100)
Social security costs	(3,341)	(3,244)
Defined contribution pension costs	(1,097)	(1,053)
Defined benefit pension costs	(72)	108
Other	(1,018)	(865)
<b>Total employee compensation and benefits</b>	<b>(28,637)</b>	<b>(27,154)</b>

**Including related party expenses**

Defined benefit pension costs	<u>(72)</u>	<u>108</u>
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The related party expenses comprise of the contributions payable to non-contributory pension scheme.

As the Bank of Montreal is the sponsoring employer, the Company's financial statements recognise a cost equal to their contribution for the period. The Bank of Montreal financial statements include the net defined benefit cost of the plan.

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**9 Employee compensation and benefits (continued)**

The emoluments of Directors are set out below:

	<b>2018</b>	2017
	<b>£'000</b>	£'000
Aggregate emoluments excluding pension contributions paid to or receivable by Directors in the year	<b>3,177</b>	3,332
Aggregate amount of Company contributions to defined benefit pension and money purchase schemes in respect of Directors in the year	<b>80</b>	140
Emoluments excluding pension contributions paid to or receivable by the highest paid Director in the year	<b>1,149</b>	1,229
Amount of Company contributions to defined benefit pension scheme or money purchase scheme in respect of the highest paid Director in the year	<b>38</b>	37
Amount payable to Directors relating to long term incentive scheme	<b>1,076</b>	1,131
Number of Directors to whom benefits are accruing under defined benefit pension schemes	<b>3</b>	3
Aggregate value of accrued pensions of Directors under the defined benefit pension scheme	<b>74</b>	55

**Notes to the Financial Statements**  
For the year ended 31 October 2018**10 Other operating expenses**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable to the Company's auditor for the audit of the company's annual accounts	<b>(56)</b>	(56)
Fees payable to the Company's auditor for other services	<b>(21)</b>	(21)
Amortisation and depreciation	<b>(531)</b>	(520)
Occupancy	<b>(2,053)</b>	(2,106)
Communications	<b>(3,565)</b>	(2,947)
Trading related expenses	<b>(1,676)</b>	(2,507)
Other expenses	<b>(6,858)</b>	(6,449)
	<b><u>(14,760)</u></b>	<b><u>(14,606)</u></b>
Including amounts due from related parties		
BMO Nesbitt Burns Inc	<b><u>(44)</u></b>	<b><u>(422)</u></b>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**11 Income tax**

	2018	2017
	£'000	£'000
<b>Current Tax:</b>		
<i>United Kingdom:</i>		
UK tax before double tax relief	(2,543)	(4,434)
Double tax relief	-	-
UK corporation tax on income for the year	<u>(2,543)</u>	<u>(4,434)</u>
<i>Foreign Tax:</i>		
Foreign tax on income for the year	(72)	(681)
Foreign tax relief/other relief	87	681
Adjustment in respect of prior period	844	(281)
<b>Total current tax charge</b>	<u>(1,684)</u>	<u>(4,715)</u>
<b>Deferred Tax:</b>		
Deferred tax credit/(charge) on temporary differences	(53)	2
Change in tax rates	(21)	(59)
Adjustment in respect of prior years	(585)	99
<b>Total tax credit for the year</b>	<u>(2,343)</u>	<u>(4,673)</u>
Profit before taxation	12,245	21,641
Total tax charge	<u>(2,343)</u>	<u>(4,673)</u>
<b>Effective tax rate</b>	<u>19.1%</u>	<u>21.6%</u>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**11 Income tax (continued)**

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

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	<u>12,245</u>	<u>21,641</u>
Tax charge at standard rate of UK corporation tax of 19% (2017: 19.41%)	(2,327)	(4,201)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	(268)	(275)
Change in tax rates	(21)	(59)
Income not taxable	-	835
Higher tax rates on overseas earnings	14	1
Adjustments to tax in respect of previous periods	259	(182)
Tax on sale of shares	-	(792)
<b>Total tax charge for the year</b>	<u>(2,343)</u>	<u>(4,673)</u>

	2018 £'000	2017 £'000
<b>Current Tax Asset</b>		
Group relief debtor	392	-
Foreign tax debtor	17	90
	<u>409</u>	<u>90</u>

	2018 £'000	2017 £'000
<b>Current Tax Liability</b>		
UK Corporation tax creditor	2,104	2,582
Group relief creditor	-	1,469
	<u>2,104</u>	<u>4,051</u>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**12 Securities**

	2018	2017
	£'000	£'000
<b>Trading</b>		
Common stock	992,465	1,260,598
<b>Fair value through other comprehensive income</b>		
Government securities	106,794	92,932
	<u>1,099,259</u>	<u>1,353,530</u>

**13 Securities borrowed or purchased under resale agreements**

	2018	2017
	£'000	£'000
One month or less	275,485	260,954
	<u>275,485</u>	<u>260,954</u>
<b>Including amounts due from related parties</b>		
BMO Nesbitt Burns Inc	6,016	18
BMO Capital Markets Corp	165,867	230,709
	<u>171,883</u>	<u>230,727</u>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**14 Due from banks and similar financial institutions**

	2018 £'000	2017 £'000
One month or less	549	512
	<u>549</u>	<u>512</u>
Including amounts due from related parties		
BMO London Branch	-	14
Bank of Montreal	51	1
	<u>51</u>	<u>15</u>

**15 Derivatives**

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

**As at 31 October 2018**

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

**As at 31 October 2017**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**16 Premises and Equipment**

	Fixtures & Fittings	Computers	Software	Leasehold Improvements	Total
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1st November 2017	551	842	178	2,178	3,749
Additions	-	15	7	180	202
Disposals	-	(1)	-	-	(1)
At 31st October 2018	<u>551</u>	<u>856</u>	<u>185</u>	<u>2,358</u>	<u>3,950</u>
<b>Depreciation</b>					
At 1st November 2017	385	433	112	1,471	2,401
Charge for the year	59	133	62	277	531
On disposals	-	-	-	-	-
At 31st October 2018	<u>444</u>	<u>566</u>	<u>174</u>	<u>1,748</u>	<u>2,932</u>
<b>Net Book Value</b>					
At 31st October 2018	107	290	11	610	1,018
At 31st October 2017	166	409	66	707	1,348

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

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



**Notes to the Financial Statements**  
For the year ended 31 October 2018

**17 Goodwill**

Goodwill includes goodwill arising from business combinations.

The following table presents changes in the carrying amount of goodwill by Cash Generating Unit ("CGU") for the year ended 31 October 2018 and 31 October 2017. There were no write-downs of goodwill due to impairment and no impairment losses during the years ended 31 October 2018 and 2017.

	<b>Paloma</b> <b>£'000</b>
<b>Cost</b>	
Balance at 31 October 2017	864
Balance at 1 November 2017	864
Foreign exchange movements	-
Acquisitions	-
Balance at 31 October 2018	<b>864</b>
<b>Carrying amount</b>	
Balance at 31 October 2017	864
<b>Balance at 31 October 2018</b>	<b>864</b>

**Key inputs and assumptions**

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

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**17 Goodwill (continued)**

The strategic five year plan provides a good foundation for the DCF because senior management is committed to achieving the forecasted results and their performance will be evaluated against the strategic plans. The DCF is applied to the free cash flow which is the net income adjusted for items like the cost of equity and the incremental financing charges. A terminal value is then applied to the free cash after year ten. The recoverable amount of the CGU which is then computed by summing the present value ("PV") of the 10 year cash flows and the PV of the terminal value and this is compared to the carrying value. Impairment occurs if the carrying value is greater than the calculated recoverable amount.

A perpetuity value was used in the DCF valuations based on the CGU's 2028 net income, specific perpetuity growth rate and discount rate. The perpetuity formula yielded a terminal value of 11.5 times (2017: 10.4 times) which can be seen in the table below.

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

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

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

**Sensitivity**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**18 Deferred tax**

	2018	2017
	£'000	£'000
<b>Deferred tax asset</b>	<b>407</b>	<b>1,066</b>

The deferred tax asset arises from:

Deferred capital allowances	95	138
Other temporary differences	312	928
	<u>407</u>	<u>1,066</u>

Reconciliation of deferred tax assets:

At beginning of year	1,066	1,024
Deferred tax charged to profit and loss	(74)	(57)
Adjustment in respect of prior years	(585)	99
At year end	<u>407</u>	<u>1,066</u>

	2018	2017
	£'000	£'000
<b>Deferred tax liability</b>		

The deferred tax liability arises from:

Other temporary differences	-	-
	<u>-</u>	<u>-</u>

Reconciliation of deferred tax liabilities:

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**18 Deferred tax (continued)**

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

**19 Other assets**

	2018	2017
	£'000	£'000
Prepayments	710	638
Settlement accounts and trade debtors	276,747	211,227
Other assets	9,161	8,022
	<u>286,618</u>	<u>219,887</u>
 Including amounts due from related parties		
BMO Nesbitt Burns Inc	3,117	3,671
Bank of Montreal Ireland plc	332	-
BMO Capital Markets Corp	1,606	417
	<u>5,055</u>	<u>4,088</u>

**20 Securities sold but not yet purchased**

	2018	2017
	£'000	£'000
Equity shares	<u>989,270</u>	<u>1,253,666</u>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**21 Securities lent or sold under repurchase agreements**

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

**22 Due to Banks and similar financial institutions**

	2018 £'000	2017 £'000
One month or less	147,174	180,675
	<u>147,174</u>	<u>180,675</u>
Including amounts due to related parties		
BMO London Branch	143,259	180,675
BMO Chicago Branch	3,915	-
	<u>147,174</u>	<u>180,675</u>

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**23 Other Liabilities**

	2018 £'000	2017 £'000
Settlement accounts and trade creditors	274,288	204,983
Accruals and deferred income	13,968	14,830
	<u>288,256</u>	<u>219,813</u>
Including amounts due from related parties		
BMO Nesbitt Burns Inc	58	79
	<u>58</u>	<u>79</u>

**24 Share Capital**

	2018 £'000	2017 £'000
<b>Allotted, called up and fully paid</b>		
75,300,000 Ordinary shares of £1.25 each	94,125	74,625
24,565,000 Ordinary shares of £0.55139 each	13,545	13,545
	<u>107,670</u>	<u>88,170</u>

During the current period the company issued an additional 15,600,000 shares at a par value of £1.25 per share.

**Notes to the Financial Statements**  
For the year ended 31 October 2018**25 Investments**

The Company has the following subsidiary undertaking, which has share capital of £100 and is 100% owned by the Company at 31 October 2018.

	<b>Nature of business</b>	<b>Accounting year end</b>	<b>Country of registration</b>
BMO Capital Markets (Nominees) Limited	Nominee company	31 October	England

The registered company address of the subsidiary is 95 Queen Victoria Street, London, EC4V 4HG.

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

**26 Pension**

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

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

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

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

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018**26 Pension (continued)**

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

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

Details of the Company's contribution to the Plan can be seen in note 9.

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

**27 Related Parties**

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

**Transaction with other company entities**

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

**Compensation of key management personnel**

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



**Notes to the Financial Statements**  
For the year ended 31 October 2018

**28 Related Parties (continued)**

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

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

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

We offer senior executives preferential market interest rates on credit card balances, a fee-based subsidy on annual credit card fees, and a select suite of customer loan and mortgage products at rates normally accorded to preferred customers. At October 31, 2018 loans to key management personnel totalled CAD15,881 (CAD 9,669 in 2017).

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

**29 Fair Value of Financial Instruments**

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

**Governance over the determination of fair value**

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

We establish and regularly update valuation methodologies for each financial instrument that is required to be measured at fair value. The application of valuation models for products or portfolios is subject to independent approval to ensure only validated models are used. The impact of known limitations of models and data inputs is also monitored on an ongoing basis. IPV is a process that regularly and independently verifies the accuracy and appropriateness of market prices or model inputs used in the valuation of financial instruments.

**Notes to the Financial Statements**  
For the year ended 31 October 2018

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**Governance over the determination of fair value (continued)**

This process assesses fair values using a variety of different approaches to verify and validate the valuations. PAA is a daily process used by management to identify and explain changes in fair value positions across all operating lines of business within BMO Capital Markets. This process works in concert with other processes to ensure that the fair values being reported are reasonable and appropriate.

**Securities**

For traded securities, quoted market value is considered to be fair value. Quoted market value is based on bid or ask prices, depending on which is the most appropriate to measure fair value. Securities for which no active market exists are valued using all reasonably available market information.

**Securities sold but not yet purchased**

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

**Government Securities**

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

**Financial Instruments with a Carrying Value Approximating Fair Value*****Short-term Financial Instruments***

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

***Other Financial Instruments***

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

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

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

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**Fair Value Hierarchy**

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

**Financial Assets at fair value as at 31 October 2018**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Securities				
Trading	992,465	-	-	992,465
Fair value through other comprehensive income	-	106,794	-	106,794
Derivative Instruments	-	-	-	-
	<b>992,465</b>	<b>106,794</b>	<b>-</b>	<b>1,099,259</b>

**Financial Liabilities at fair value as at 31 October 2018**

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

**Financial Assets at fair value as at 31 October 2017**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Securities				
Trading	1,260,598	-	-	1,260,598
Fair value through other comprehensive income	-	92,932	-	92,932
Derivative instruments	-	8	-	8
	<b>1,260,598</b>	<b>92,940</b>	<b>-</b>	<b>1,353,538</b>

**Financial Liabilities at fair value as at 31 October 2017**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

**30 Transition to IFRS 9**

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

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

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

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

**30 Events after the Reporting Period**

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

**Notes to the Financial Statements**  
For the year ended 31 October 2018

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**31 Going Concern**

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

**32 Ultimate Holding Company**

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

The Company's immediate parent undertaking, Bank of Montreal Capital Markets (Holdings) Limited, produces consolidated financial accounts into which the results of the Company are also consolidated. The consolidated accounts of the immediate parent are available at Companies House, Crown Way, Cardiff, CF14 3UZ. The registered address of the immediate parent is 95 Queen Victoria Street, London, EC4V 4HG.