BMO Harris Bank, N.A.

2022 IDI Resolution Plan
Public Section

BMO

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1.0 IDI RESOLUTION PLAN OVERVIEW

This Public Section provides an overview of BMO Harris Bank (BHB), a national bank headquartered in Chicago, Illinois and a wholly-owned, indirect subsidiary of Bank of Montreal (BMO).

The Federal Deposit Insurance Corporation (FDIC) adopted the Insured Depository Institution (IDI) Rule in January 2012 requiring IDIs with $100B or more in total assets to periodically submit to the FDIC a contingency plan for the resolution of that institution in the event of its failure. The IDI Rule requires a covered insured depository institution (CIDI) to submit a resolution plan (RP) that should enable the FDIC, as receiver, to resolve the institution under Sections 11 and 13 of the Federal Deposit Insurance Act (the FDIA), 12 U.S.C. 1821 and 1823, in a manner that ensures that depositors receive access to their insured deposits within one business day of the institution's failure (two business days if the failure occurs on a day other than Friday), maximizes the net present value return from the sale or disposition of its assets, and minimizes the amount of any loss to be realized by the institution's creditors. The resolution plan should also describe how the strategies for the separation of the CIDI and its subsidiaries from its parent company's organization and the sale or disposition of its deposit franchise, core business lines, and major assets can be demonstrated to be the least costly to the Deposit Insurance Fund (DIF) of all possible methods for resolving the CIDI. The IDI RP submitted by each CIDI is intended to help the FDIC evaluate potential loss severity and to enable the FDIC to perform its resolution functions most efficiently. Each IDI RP is intended to provide the FDIC with a comprehensive understanding of the structure, operations, business practices, financial responsibilities, and risk exposures of the CIDI.

BMO Harris Bank, as a CIDI, is submitting a resolution plan pursuant to the FDIC's rule requiring the preparation and submission of a resolution plan for IDIs with $100B or more in total assets, 12 C.F.R. Part 360.10 (the IDI Rule). The FDIC has, by rule and through the supervisory process, prescribed the assumptions, required approach, and scope for the resolution plan, and has required that certain information be included in a Public Section. BMO, on behalf of itself and its subsidiaries, submits this Public Section in compliance with the IDI Rule and related guidance.

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

1.1 Organization

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

BFC is a wholly-owned U.S. subsidiary of BMO and is regulated as a bank holding company by the Board of Governors of the Federal Reserve System (Federal Reserve). BFC is the direct parent of BHB and provides funding to BHB, primarily in the form of unsecured notes. It also provides critical services, including third-party contracts and technology platforms supporting these services.

Introduction to BMO Financial Group (BMOFG)

Established in 1817, BMO is a leading North American bank driven by a single purpose: to Boldly Grow the Good in business and life. Our Purpose informs our strategy, drives our ambition, and reinforces our commitments to progress: for a thriving economy, a sustainable future and an inclusive society. As the 8th largest bank in North America by assets, we provide personal and commercial banking, wealth management and investment services to more than 12 million customers.

With total assets of $1,068B (Canadian) as of July 31, 2022, and more than 46,414 employees, BMOFG provides products and services to its Canadian customers through its Canadian retail arm, BMO Bank of Montreal, and to retail, small business and commercial customers in the U.S. through BMO Harris Bank. BMOFG also serves customers through its wealth management businesses: BMO Nesbitt Burns, BMO InvestorLine, BMO Private Bank, BMO Global Asset Management and BMO Insurance. BMO Capital Markets provides a full suite of financial products and services to North American and international corporate, institutional and government clients through its Investment and Corporate Banking and Global Markets divisions.

BMO Financial Group is comprised of three operating groups:

- **Personal and Commercial Banking** (P&C, including Canadian P&C and U.S. P&C) is a multi-channel business that offers a full range of financial solutions for everyday banking (i.e., deposit taking, payment and cash management services), mortgages and other personal lending, investing, credit cards and creditor insurance, as well as a full suite of integrated commercial and capital markets products and financial advisory services.
    - Canadian P&C provides financial products and services to eight million customers. Canadian P&C helps customers make the right financial decisions through an integrated network of over 900 BMO branches, contact centres, digital banking platforms, and over 3,300 automated teller machines. Commercial Banking serves clients across Canada, and our commercial bankers are trusted advisors and partners to their clients, offering sector and industry expertise, local presence and a comprehensive range of commercial products and services.
    - U.S. P&C serves more than two million customers by providing a banking experience with a human touch, while delivering a broad range of financial services. U.S. P&C serves personal banking customers seamlessly across an extensive network of more than 520 branches, dedicated call centres, digital banking platforms and nationwide access to more than 40,000 automated teller machines. U.S. Commercial Banking serves clients across the United States, and our commercial bankers are trusted advisors and partners to their clients, offering sector and industry expertise, local presence and a comprehensive range of commercial products and services.
- **BMO Wealth Management** serves a full range of clients, from individuals and families to business owners and institutions, offering a wide spectrum of wealth, asset management and insurance products and services aimed at helping clients plan, grow, protect and transition their wealth. Our asset management business is focused on making a positive impact and delivering innovative client solutions.

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

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

Overview of BMO Harris Bank

BMO Harris Bank N.A (BHB) is a direct, wholly-owned subsidiary of BFC. Established in 1882 as Harris Bank, and owned by BMOFG since 1984, the Bank conducts business through two primary operating groups: U.S. Personal and Commercial Banking, and U.S. Wealth Management serving personal, commercial and affluent customers. Additionally, certain Capital Markets (CM) activities are booked into BHB from the two CM-related business lines: Global Markets (GM) and Investment and Corporate Banking (I&CB). The Bank provides a variety of banking and financial services to commercial and industrial companies, financial institutions, governmental units, not-for-profit organizations and individuals throughout the U.S., primarily the Midwest. Services rendered and products sold to customers include demand and time deposit accounts including certificates of deposit; various types of loans; sales and purchases of foreign currencies; interest rate management products; cash management services; investment banking services; financial consulting; and personal trust and trust related services.

Per announcement made on December 20, 2021, BMO Harris Bank National Association (BHB) intends to acquire Bank of the West (BOTW), a regional financial services company, headquartered in San Francisco, California. As of November 28, 2022, the acquisition is pending regulatory approval.

1.2 Material Entities

The IDI Rule defines *Material Entity* (ME) as “a company that is significant to the activities of a critical service or core business line (CBL)". For example, the legal entity utilized by the CIDI as the contracting entity for a CBL would be a ME. Also, a subsidiary of the CIDI that provides a critical service would be a ME.

BHB's resolution plan identifies certain BHB affiliates as MEs for the purpose of resolution planning. One entity, BMO Harris Financing, Inc.,which was designated a ME in the previously submitted IDI resolution plan has been de-designated as a ME because it is no longer considered financially or operationally significant to the covered company's resolution strategy. The four MEs in the resolution plan are identified below.

BMO Financial Corp.

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

BMO Harris Central N.A.

BMO Harris Central N.A. (BHCNA) is a direct, wholly-owned bank subsidiary of BFC, and operates as a national bank under a charter issued by the Office of the Comptroller of the Currency. Its headquarters is located in Roselle, Illinois. BHCNA is a special purpose bank whose sole business purpose and activity is to act as a disbursing bank in the delivery of controlled disbursement account services for corporate and commercial customers of BHB. It has no subsidiaries and does not generate any loan activity.

The primary purpose for establishing a separate bank/legal entity for the controlled disbursement service is to allow the corporate customers to issue checks drawn on a smaller bank which, because of its size and location and separate routing number, receives limited check presentments from the Federal Reserve.

BMO Capital Markets Corp.

BMO Capital Markets Corp. (BMO CMC) is a wholly-owned subsidiary of BFC that is incorporated under the laws of the State of Delaware. BMO CMC operates as a self-clearing, institutional broker-dealer that mainly consists of RVP/DVP business and does not custody client assets. BMO CMC is registered with the U.S. Securities and Exchange Commission (SEC) as a U.S. securities broker-dealer and investment advisor, is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). BMO CMC is registered to do business in all 50 states, plus Virgin Islands, Puerto Rico, and Washington D.C. BMO CMC is a member of a number of fixed-income, equities and derivatives exchanges, and clearing organizations and is supervised and subject to examination by FINRA, its primary regulator, the Federal Reserve Banks (FRB) of Chicago & New York, and the SEC.

Bank of Montreal Chicago Branch

BMO Chicago Branch is a branch of Bank of Montreal, licensed to conduct business in the U.S. The primary purpose of BMO Chicago Branch is to serve as the booking location for BHB's business activities and as a funding entity. It also provides a U.S. platform to access BMO capital and, thereby, supplement the resources of BHB for specific trading, lending, and investment banking activities. BMO Chicago Branch is designated a primary dealer in U.S. Government securities by the Federal Reserve Bank of New York.

1.3 Core Business Lines

The IDI Rule defines *Core Business Lines (CBLs)* as "those business lines of the CIDI, including associated operations, services, functions and support, that, in the view of the CIDI, upon failure would result in a material loss of revenue, profit, or franchise value."

BMO has identified three CBLs based on the criteria of the IDI Rule that fall within two operating groups.

U.S. Personal & Commercial (U.S. P&C) is a multi-channel operating group that offers a full range of client banking solutions. Two of the CBLs reside within U.S. P&C.

- **U.S. Personal and Business Banking** (also referred to as U.S. P&BB within this Plan) is a unit within BMO Harris Bank N.A (BHB). BHB has approximately 506 retail branches in the U.S. across seven regions that cover eight states, including Arizona, Florida, Illinois, Indiana, Kansas, Minnesota, Missouri and Wisconsin. Retail products however, are offered in all 50 states.

  U.S. P&BB serves customers with a full suite of deposit, lending, and credit card products delivered through our branches, customer contact centers, online and mobile banking platforms and approximately 1,480 ATMs across eight states, plus a partnership with the Allpoint ATM network offering surcharge-free access to over 40,000 ATMs across the United States. U.S P&BB, with approximately $11.3B in loans and approximately $48.6B in deposits, serves approximately 1.7MM retail customers and approximately 130,000 small businesses. U.S. P&BB also has cross-referral synergies with BMO Private Wealth, and to a lesser extent other BMO lines of business.

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

Wealth Management (WM) is an operating group that serves a full range of client segments, from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and solutions. One of the CBLs resides within WM.

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

1.4 Summary Financial Information

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

1.4.1 Consolidated Balance Sheet

BMO Harris Bank N.A. (Consolidated)
Statement of Financial Condition
December 31, 2021
(In millions except share data)

Assets		
Cash and demand balances due from banks	$	1,221
Interest-bearing deposits at banks ($32.5 billion held at the Federal Reserve at December 31, 2021)		24,835
Federal funds sold and securities purchased under agreement to resell		192
Total cash and cash equivalents	$	26,248
Securities available-for-sale, at fair value		39,805
Securities held-to-maturity, at amortized cost		2,913
Trading account assets		313
Loans and leases, net of unearned income		87,824
Allowance for loan and lease losses		(885)
Net loans and leases	$	86,939
Loans held for sale		39
Premises and equipment, net		755
Equipment held for lease, net		246
Bank-owned life insurance		3,206
Goodwill and other intangible assets, net		3,126
Deferred tax asset, net		396
Other assets		2,667
Total Assets	$	166,653
Liabilities		
Deposits:		
Noninterest-bearing	$	41,682
Interest-bearing		96,135
Total deposits	$	137,817
Federal funds purchased and securities sold under agreement to repurchase		337
Short-term notes and other borrowings		736
Accrued expenses and other liabilities		1,811
Long-term notes		9,098
Total Liabilities	$	149,799
Equity		
Common stock ($10 par value); authorized 60,430,512 shares; issued and outstanding 51,018,512 at December 31, 2021	$	510
Surplus		11,525
Retained earnings		4,945
Accumulated other comprehensive loss		(126)
Total Equity	$	16,854
Total Liabilities and Equity	$	166,653

Source: BMO Harris Bank N.A. December 31, 2021 audited financial statements

1.4.2 Major Funding Sources

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

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

BHB's largest source of funding is its customer deposit base which includes retail and commercial deposits. Along with a strong capital base, customer deposits provide BHB with a significant source of relatively stable, low-cost funding. BHB's total customer deposits were $137.8B December 31, 2021, on a consolidated basis. Other major sources of funding include FHLB advances, long-term borrowings, and brokered certificates of deposit (CDs) that were $3.0B, $6.1B, and $3.4B respectively as of that same date. FHLB advances are fully collateralized obligations drawn from the Federal Home Loan Bank Chicago, a member owned and capitalized institution. Long-term borrowings are greater than one year, in the form of senior and subordinated loans from affiliates. Brokered CDs are deposits sold through third-party agents where the bank does not maintain a relationship with the investor. Additionally, BHB maintains a de minimis short-term wholesale funding program which is primarily composed of Institutional CDs. Together funding sources discussed above represent 99% of the total liabilities and equity of BHB. Remaining liabilities include trading account liabilities, accrued expenses and other liabilities. In line with BMO's funding philosophy, long-term funding is utilized to support loans and less liquid assets to better match the duration of these assets.

1.4.3 Capital

BMO Harris Bank's objective is to hold adequate capital to support its risk-taking activities and financial and corporate strategies, as well as to protect the viability of the company in the event of financial loss resulting from the material risks to which it is exposed. To achieve this objective, BMO Harris Bank has implemented capital management processes that:

- Continue to lend and profitably grow business without interruption, consistent with its business strategies;
- Maintain regulator confidence;
- Maintain customer and counterparty confidence;
- Raise new Capital from investors;
- Attract funding at a reasonable cost;
- Provide a risk-adjusted return to its shareholder(s) that is equal to or greater than the cost of Capital and commensurate with the return available on investment alternatives; and
- Ensure the ability to realize its medium and long term growth objectives.

BHB has been subject to the U.S. Basel III standardized approach risk-based capital requirements (i.e., non-advanced approaches) from January 1, 2015. As a result it is required to maintain minimum Capital levels with respect to Common Equity Tier 1 Capital ratio, Tier 1 Capital ratio, Total Capital ratio and Tier 1 Leverage ratio as mandated by Title 12 Parts 3 & 6 in the Code of Federal Regulations.

Figure 1.4.3-1 BMO Harris Bank's Capital Ratios

	Adequately Capitalized Levels	Well Capitalized Levels	December 31, 2021
Common Equity Tier 1	4.50%	6.50%	11.76%
Tier 1 Capital Ratio	6.00%	8.00%	11.76%
Total Capital Ratio	8.00%	10.00%	13.05%
Tier 1 Leverage Ratio	4.00%	5.00%	8.46%

BHB has been subject to the requirements of the Capital Conservation Buffer since January 1, 2016. Capital distributions and discretionary bonus payments are based on BHB's ability to meet certain minimum transitional Capital ratios. BHB continues to be well capitalized and expects to have no issues in meeting the Capital Conservation Buffer requirements.

1.5 Derivative and Hedging Activities

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial indices. Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. The Bank uses various derivative financial instruments, primarily interest rate and foreign exchange derivative contracts, as part of its trading activities or in the management of its risk strategy.

The Bank enters into derivative contracts with BMO to facilitate a more efficient use of combined resources and to better serve customers.

Types of derivatives

Swaps are contractual agreements between two parties to exchange a series of cash flows. The various swap agreements that the Bank may enter into are as follows:

Interest rate swaps – counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. Certain interest rate swaps are cleared through a central counterparty and are subject to daily cash margining.

Cross-currency swaps- fixed rate interest payments and principal amounts are exchanged in different currencies. Cross-currency interest rate swaps - fixed and floating rate interest payments and principal amounts are exchanged in different currencies.

Equity swaps - counterparties exchange the return on an equity security or a group of equity securities for the return based on a fixed or floating interest rate or the return on another equity security or a group of equity securities.

Credit default swaps - one counterparty agrees to pay the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or failure to pay.

Total return swaps - one counterparty agrees to pay or receive from the other cash amounts based on changes in the value of a reference asset or group of assets, including any returns such as interest earned on these assets, in exchange for amounts that are based on prevailing market funding rates.

Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified amount of a currency, interest-rate sensitive financial instrument or security at a specific price and at a specific future date. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Options

Options are contractual agreements that convey to the buyer the right but not the obligation to either buy or sell a specified amount of a currency, interest-rate-sensitive financial instrument or security at a fixed future date or within a fixed future period. As a writer of options, the Bank receives a premium from the purchaser for accepting market risk. As a purchaser of options, the Bank pays a premium for the right to exercise the option. Since the Bank has no obligation to exercise the option, its primary exposure to risk is the potential credit risk if the writer of an over-the-counter contract fails to meet the terms of the contract.

Caps, collars and floors are specialized types of written and purchased options. They are contractual agreements where the writer agrees to pay the purchaser, based on a specified notional amount, the difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

The main risks associated with these derivative instruments are related to exposure to movements in interest rates, foreign exchange rates, credit quality, or value of the underlying financial instrument, as applicable, and the possible inability of counterparties to meet the terms of the contracts.

Derivative-related risks

Over-the-counter derivative instruments are subject to credit risk arising from the possibility that counterparties may default on their obligations. The credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts generally expose the Bank to potential credit loss if changes in market rates affect the counterparty’s position unfavorably and the counterparty defaults on payment. Credit risk is represented by the positive fair value of the derivative instrument. Replacement risk, the primary component of credit risk, is the risk of loss should a counterparty default following unfavorable market movements and represents the Bank’s cost of replacing contracts that have a positive fair value using current market rates. The Bank strives to limit credit risk by dealing with counterparties that are considered to be creditworthy, and by managing credit risk for derivatives using the same credit risk process that is applied to loans and other credit assets. The Bank also pursues opportunities to reduce its exposure to credit losses on derivative instruments, including through collateral and by entering into master netting agreements with counterparties. Netting agreements provide for netting of contractual receivables and payables and apply to situations where the Bank is engaged in more than one outstanding derivative transaction with the same counterparty and also has a legally enforceable master netting agreement with that counterparty. Netting agreements also provide for the application of cash collateral received or paid against derivative assets or liabilities. The Bank’s derivative contracts with BMO are transacted under the terms of a master netting agreement. Derivative assets and liabilities recorded in the Bank's Consolidated Balance Sheets were each reduced by $154 million and $72 million as of December 31, 2021 and 2020, respectively, as a result of master netting agreements in place. Exchange-traded derivatives have no potential for credit exposure as they are settled net with each exchange.

Derivative instruments are subject to market risk. Market risk arises from the potential for loss due to adverse changes in the value of derivative instruments as a result of changes in certain market variables. These variables include interest rates, foreign exchange rates and equity prices and their implied volatilities, as well as credit spreads, credit migration and default. The Bank strives to limit market risk by employing comprehensive governance and management processes for all market risk-taking activities.

Uses of derivatives

Trading derivatives

Trading derivatives include derivatives entered into with customers to accommodate their risk management needs, derivatives transacted to generate trading income from the Bank's trading positions, and derivatives used in the management of BMO Harris Bank's risk strategy that do not qualify as hedges for accounting purposes (economic hedges).

BMO Harris Bank and BMO perform their U.S. foreign exchange activities jointly. Under this arrangement, foreign exchange net profit is shared by BMO Harris Bank and BMO.

Certain customers enter into lending transactions and derivative transactions with BMO Harris Bank, and BMO Harris Bank enters into offsetting transactions with BMO. As the counterparty, BMO bears the risk of loss associated with the derivative obligations of those customers in the event of default.

BMO Harris Bank has issued certain financial instruments containing embedded derivatives. Embedded derivatives in certain of BMO Harris Bank equity linked certificates of deposit are accounted for separately from the host instruments.

The following derivatives are used as economic hedges:

BMO Harris Bank has qualifying mortgage loan commitments that are intended to be sold in the secondary market. These loan commitments are derivatives and are recorded at fair value. BMO Harris Bank enters into forward sales of mortgage-backed securities to minimize its exposure to interest rate volatility. These forward sales of mortgage-backed securities are also derivatives.

BMO Harris Bank uses total return swaps to minimize exposure to currency exchange rate and equity price fluctuations associated with certain obligations under the mid-term incentive plan, which is a stock-based compensation plan.

BMO Harris Bank issues certificates of deposit that have structured interest rate, equity-linked, foreign currency-linked, debt-linked and commodity-linked features and are accounted for under the fair value option. BMO Harris Bank enters into interest rate, equity and foreign exchange derivatives to manage exposure to changes in the fair value of such structured certificates of deposit.

Hedging accounting

In accordance with its risk management strategy, BMO Harris Bank enters into various derivative contracts to hedge its interest rate exposures.

BMO Harris Bank uses interest rate contracts, primarily swaps, to reduce the level of financial risk inherent in mismatches between the interest rate sensitivities of certain assets and liabilities. The risk management strategy incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that may be caused by interest rate volatility. BMO Harris Bank manages interest rate sensitivity by modifying the re-pricing or maturity characteristics of certain assets and liabilities so that net interest margin is not adversely affected, on a material basis, by movements in interest rates. As a result of interest rate fluctuations, fixed rate assets will appreciate or depreciate in market value. The effect of the unrealized appreciation or depreciation will generally be offset by the gains or losses on the derivative instruments.

Cash flow hedges

BMO Harris Bank's cash flow hedges are hedges of floating rate loans..

Fair value hedges

BMO Harris Bank's fair value hedges include hedges of fixed rate available-for-sale securities and brokered certificates of deposit.

1.6 Memberships in Material Payment, Clearing and Settlement Systems

BMO Harris Bank is a member of the following material payment, clearing, and settlement systems:

Figure 1.6-1 Material Payment, Clearing and Settlement Systems

Payment, Clearing, Settlement System	Description
The Depository Trust Company (DTC)	Clearing and settlement and depository services for securities and derivatives
Federal Reserve Wire Network (Fedwire Funds / Fedline Advantage) / FedACH	Wire transfer and electronic payment processing, and cash and securities settlement services
LCH Ltd	Clearing services for OTC interested rate swaps and depository services for commodities, equities, fixed income, swaps and Forex contracts

1.7 Foreign Operations

Currently BHB does not have any foreign operations.

1.8 Material Supervisory Authorities

Figure 1.8-1 Material Supervisory Authorities

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

1.9 Principal Officers

The table below identifies BMO Harris Bank's Principal Officers, all of which are Executive Officers:

Figure 1.9-1 BMO Harris Bank Principal Officers

Name	Role/Title
David R. Casper	President and Chief Executive Officer, BMO U.S.
Carolyn Booth	Executive Vice-President and Head, Distribution, U.S. Personal and Business Banking
Daniel P. Byrne	Senior Vice President, U.S Treasurer and Global Head, Structural Market Risk
Sidney Deloatch	Executive Vice President and Chief Information & Operating Officer, North American Commercial Banking
Sri Dronamraju	Executive Vice President and U.S. Chief Information Security Officer
Donald Erickson	Senior Vice President and U.S. Chief Auditor
Darrel Hackett	Executive Vice President and Head, U.S. Wealth Management
William Jacobsen	Vice President and U.S. Chief Regulatory Officer
Erminia Johannson	Executive Vice President and Group Head, North American Personal & Business Banking
Suresh Krishnasamy	Executive Vice President and Chief Operating Officer, North American Personal & Business Banking
Daniel Marszalek	Executive Vice President and Co-Head, U.S. Commercial Banking
Mathew Mehrotra	Executive Vice President and Chief Digital Officer, North American Personal & Business Banking and Wealth Management
Larissa Chaikowsky	Senior Vice President and U.S. Chief Human Resources & Head Talent Reskilling & Acceleration
Lori Bieda	Executive Vice President and Chief Data and Analytics Officer, North American Personal & Business Banking
Timothy Cox	Senior Vice President, U.S. General Counsel
Pamela C. Piarowski	Senior Vice President, U.S. Controller and Chief Accountant
Brett Pitts	Executive Vice President and Head, North American Treasury and Payment Solutions
Arshad (Ash) Khan	Executive Vice President and Head, Enterprise Fraud Management
Rahul Nalgirkar	Executive Vice President and U.S. Chief Financial Officer
Stephen R. Taylor	Executive Vice President and Head, Integration Management Office
Victor Tung	Executive Vice President and U.S. Chief Technology & Operations Officer
Ronald Twersky	Managing Director, Corporate Investigations and Chief Security Officer, U.S.
George Walz	Senior Vice President and Chief Compliance Officer
Raymond C. Whitacre	Executive Vice President and Co-Head, U.S. Commercial Banking
Ann Marie Wright	Executive Vice President and U.S. Chief Risk Officer

1.10 Corporate Governance Structure and Processes Related to Resolution Planning

Governance Structure

BMO has established an integrated and comprehensive approach to corporate, risk and financial crisis management governance. Our prescriptive governance structures stem from our overall risk appetite and risk cultures which are both critical to supporting a safe and sound BMO operation. The alignment of these structures ensures appropriate linkages and continuity across risk management, capital, funding and liquidity, recovery and resolution planning at the Enterprise and U.S. levels. Within the U.S., BMO has a robust corporate governance structure to direct its legal entities, lines of business, and corporate services. At BMO, U.S. Governance is the management of rights, authorities, and control through defined checks and balances. The governance structure provides oversight, in which leadership ensures clear accountability, establishes transparency, streamlines decisions, and promotes and maintains a disciplined and unified culture.

The U.S. Financial Crisis Management Committee (U.S. FCMC) has been formally established to ensure that management is positioned (resources, processes and execution) to meet expectations for recovery and resolution planning. U.S. FCMC is a sub-committee of the U.S. Risk Management Committee.

The U.S. Risk Management Committee (U.S. RMC) is responsible for risk activities for all BMO operations, activities, and transactions in the U.S. across all business lines and legal entities, including, but not limited to BMO Financial Corp. (BFC) and its subsidiaries (such as BMO Harris Bank N.A. "BHB"), and the BMO U.S. Chicago and New York branches and agencies (U.S. Operations). The U.S. RMC is accountable for oversight over Credit Risk, Liquidity and Funding Risk, Market Risk, Model Risk, Business Risk, Reputational Risk, Strategic Risk and Operational Risk across the business lines and legal entities operating in the U.S. Other risk categories are also recognized within these governing frameworks. The U.S. RMC has established subcommittees to facilitate certain risk oversight activities.

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

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

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

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

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

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

Day-to-day resolution plan activities and deliverables are managed by the FCM team. FCM leads the day-to-day governance, analysis, data elicitation and content development representing: foundational elements; BMO U.S. business overviews; operational and financial interconnections; strategic analysis and funding and liquidity; enterprise-wide functions; and supervisory and regulatory contact information. In addition, FCM manages regulatory interaction concerning resolution planning.

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

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

Additionally:

- Weekly: FCM Team;
- As needed: Touch-points with the Accountable Executives;

- As needed: One-on-one Senior Management and SME working group meetings with respective FCM team members;
- Periodically: BMO CFO updates

Processes and Support Structures for Resolution Planning - Reviews and Approvals

The approval of the IDI Resolution Plan is based on a robust review, certification and approval process of stakeholders representing the in scope MEs, CBLs, and CSAs (to ensure consistency and accuracy of information contained within the Resolution Plan). The IDI Resolution Plan is subject to review and recommendation for approval by:

- BFC Board of Directors (for review);
- BHB Board of Directors (for approval);
- U.S. RMC;
- U.S. FCMC;
- Accountable Executives;
- Executives responsible for each relevant ME, CBL, and FC CBLs, and CSA groups; and
- Managing Director, FCM.

1.11 Material Management Information Systems (MIS)

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

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

In a time of crisis, knowledge about MIS will help in assuring that necessary technical and operational infrastructure are immediately identified and made available so that analytical and reporting processes may provide management with adequate information for decision-making. This would allow, for example, the identification of staff to be put on alert as a crisis evolves and the need for ad hoc updated information becomes critical.

Reports identified that are manually created by a business or support area are expected to have regularly reviewed and updated procedures to ensure availability of reporting. Automated reports are generated via system applications that may be managed by technology, business or serviced by 3rd party relationships.

Capabilities

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

Governance

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

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

Franchise Components Analysis

Franchise Component Pre-Requisite Actions

Each of the Franchise Components has its own set of prerequisite actions that need to be addressed for a divestiture transaction. While many of the identified actions are common to all Franchise Components, there are others that are specific to each Franchise Component.

The most obvious benefit of generating a list of actions is that they can be incorporated into an in-crisis work plan quicker than otherwise during a period when resources and time may be constrained. More broadly, conducting this "pre-work" accelerates information gathering and decision-making. Acknowledging that a list of activities may only be entirely accurate or relevant at the point in time it is published, starting with something that has been thoughtfully prepared is still a superior option than waiting to consider required actions until after a financial crisis begins. Perhaps just as beneficial to an organization, however, is the utility that a list of activities has prior to a financial crisis in establishing the proper level of preparedness/readiness. An organization can compare the activities that would be required against current capabilities and address any gaps that exist. This can be done multiple ways including, but not limited to, the inclusion of certain elements into the resolution planning testing program.

Divestiture transactions can be structured many ways, have varying degrees of complexity, can include a wide range of assets and liabilities, etc. The specific details associated with a particular divestiture transaction will ultimately dictate the actions that are required.

Franchise Component Separability

In assessing the separability of BHB's Franchise Components, we first focused primarily on the operational interconnection categories (such as personnel and systems), but also acknowledged that non-operational connections categories (such as legal or regulatory matters) could be possible.

For each of the operational interconnections and other topics, we then determined what was most likely to be included within a stand-alone divestiture transaction and noted any corresponding observations about what would be included or excluded. Finally, we reviewed those observations and subjectively assessed whether they would be limiting from a separability perspective.

Each Franchise Component is separable and no separability obstacles/impediments currently exist. While a number of the Franchise Components would have operational challenges that need to be addressed in a divestiture transaction, none of the challenges are deemed significant enough to warrant designation as an obstacle/impediment to separability.

Franchise Component Value Maximization

The highest value creating combination is Core Personal + Core Commercial + BMO Private Bank + Corporate Banking. This combination captures the synergies that exist between these Franchise Components from shared services, funding, and cross-selling perspectives, especially Core Personal and Core Commercial together. It also avoids the potentially significant challenges and value erosion associated with timing a stand-alone divestiture of Core Commercial and/or BMO Private Bank after a divestiture of Core Personal and the possibility of an assets only loan sale by Corporate Banking. Finally, it is the largest transaction in terms of scale, which may be desirable to both an acquirer and an in-resolution BHB.

Franchise Components

The FDIC has defined *Franchise Components* as "major asset categories, core business lines, or other key components of franchise value". Based on this criteria, BMO has identified 11 Franchise Components. Cumulatively, they represent a substantial portion of BHB. The 11 Franchise Components identified by management represent (as of December 31, 2021) approximately 58.73% of BHB total assets; approximately 95.20% of BHB total revenue; approximately 85.79% of 2021 BHB total net income; and approximately 96.98% BHB total deposits. The Franchise Components in this resolution plan are:

1. Core Personal (which includes retail deposit taking, mortgage and home equity lending, and business banking),
2. Indirect Auto,
3. Personal Credit Cards,
4. Core Commercial Lending,
5. Transportation Finance,
6. Dealer Finance,
7. Financial Institutions Group (FIG),
8. Franchise Finance,
9. Equipment Finance,
10. BMO Private Bank, and
11. U.S. Investment & Corporate Banking (I&CB).