

BMO Financial Group's Response to the Carbon Disclosure Project (CDP4)

May 2006

Carbon Disclosure Project (CDP4) Greenhouse Gas Emissions Questionnaire

1. GENERAL

How does climate change represent commercial risks and/or opportunities for your company?

BMO Financial Group Response

Founded in 1817 as Bank of Montreal, today BMO Financial Group (BMOFG) is a highly diversified financial services provider. We offer clients a broad range of personal, commercial, corporate and institutional financial services across Canada and in the United States through BMO Bank of Montreal, BMO Nesbitt Burns, Harris Nesbitt and our Chicago-based subsidiary, Harris Bank.

As our clients are primarily North American based, our focus is on the impact of environmental changes to this area. However, BMO supports the principle of sustainable development and accountability for the environment. Accordingly, potential environmental impacts are reviewed as part of the overall risk assessment for any credit transaction. As well, for all project financings US\$10MM and over, BMO is guided by the Equator Principles and the standards contained therein.

Because we acknowledge the risks associated with this emerging issue, we participate as a stakeholder with the UNEP FI program and the Conference Board of Canada (on the CDP Advisory Board) to develop a better understanding of the issues, risks and possible solutions.

Changes to the regulatory environment flowing from the Kyoto Protocol and other legal changes (in the short term) and the ability of firms to cope with climate change (in the long term) will impact a number of our business clients. The potential exists for certain of our clients to have more environmental risks associated with their business, which in turn affects the Bank's risk assessment for lending. We treat each client on a case-by-case basis, so risks and opportunities for the Bank depend on the client.

As part of the exercise of collecting the data needed to respond to the questionnaire we are gaining a much better understanding about the quantitative impact our operations have on climate change, and how evaluating these impacts can lead to economic opportunities.

2. REGULATION

What are the financial and strategic impacts on your company of existing regulation of GHG emissions, and what do you estimate to be the impact of proposed future regulation?

BMO Financial Group Response

While, as a financial services firm, we do not anticipate that existing or proposed future regulation of GHG emissions will directly affect our company’s operations or profitability, we recognize that such regulation can have a significant impact on many of our clients. We anticipate the requirement to alter our products, services and risk assessments to reflect the changing international regulatory landscape.

3. PHYSICAL RISKS

How are your operations affected by extreme weather events, changes in weather patterns, rising temperatures, sea level rise and other related phenomena both now and in the future? What actions are you taking to adapt to these risks, and what are the associated financial implications?

BMO Financial Group Response

BMO units in a variety of locations are exposed to risks posed by extreme weather events. In those areas particularly, BMO has well defined contingency plans to ensure the safety of our employees, clients and assets. Examples of this program include Florida and China where weather updates are accessed daily during hurricane and typhoon season. We have standby contractors that will prepare and secure the physical location and procedures to ensure employees are not at risk.

We will continue to perform comprehensive risk assessments on our business clients as the physical risks to their operations may have associated financial implications to BMO.

4. INNOVATION

What technologies, products, processes or services has your company developed, or is developing, in response to climate change?

BMO Financial Group Response

In 2003, BMO introduced a number of expense management directives that are assisting us in reducing costs as well as developing a response to climate change. These directives or policies will help integrate awareness throughout BMO, particularly as we apply quantitative analysis to understand the impacts and benefits of these policies.

Travel Directive – Reduce travel by utilizing tools such as video-conferencing, web-cast and teleconferencing whenever possible.

As we collect better data, we can optimize our use of technology to realize significant economic and environmental benefits. To better understand the environmental

implications of this directive, we performed the following analysis on our data with these assumptions:

- Teleconference/web-cast meetings had 4 people
- 50% would have otherwise had to travel
- Primary city pairs where these meetings take place

GREENHOUSE GAS EMISSIONS AVOIDED tCO₂ e	
Toronto – Chicago	2,671
Toronto – Montreal	1,441
Chicago – New York	37
Toronto – Vancouver	3,751
Toronto – New York	328
Total	8,229

This is the equivalent of taking 1,800 passenger cars off the road each year or planting 213,000 tree seedlings and growing them for 10 years. Although a rough and incomplete analysis, it provides some perspective on our activities so that we may better articulate our goals going forward.

Technology Replacement Directive for Personal Computing Devices

In 2004/2005 BMO replaced CRT monitors with significantly more energy efficient LCD monitors. Operationally, this will reduce the consumption of energy associated with these monitors by approximately 50% over their useful life. BMO will continue to replace older technology with more efficient options, to reduce energy demand, save on energy costs and minimize emissions. Again we have completed an analysis of this initiative to get a better understanding of our operational impacts.

MONITOR TYPES	# OF UNITS	CONSUMPTION kWh	EMISSIONS tCO₂ e
2004 CRT's	1,222	178,718	89
2005 LCD's	1,222	82,485	41
Savings		96,233	48

Fuel Efficiency Criteria in Fleet Replacement Program

In 2004/2005 BMO replaced our fleet of cars and assorted SUV's with more fuel efficient vehicles. As a result we saw our overall fleet fuel efficiency improve by 11.4%. Although the total km's travelled increased in 2005, the improved fuel efficiency reduced fuel consumption by 35,200 litres (relative to what the fuel consumption

would have been with the less efficient fleet). The emission reductions associated with this are 87 TCO₂e or the equivalent of growing 2,300 tree seedlings for 10 years.

In July 2006 BMOFG will be going out to all vehicle manufacturers for a bid process for BMOFG's 2007-2008 model year. The RFP will include a specific environmental section (ie: Hybrid, fuel efficiency and any other environment capabilities) to identify vehicles that will deliver both cost-savings and minimize environmental impact.

Real Estate Facilities Management

Routine Corporate Real Estate group activities include regular site reviews, training, and energy efficiency upgrade modifications including:

- Lighting retrofits with low mercury extended life T-5 or T-8 fluorescent tubes and new electric ballasts (consume less energy)
- Automation system upgrades to maintain heating, ventilation and air conditioning, maximizing building efficiencies
- Utilization of outside air for cooling to reduce the amount of electricity used for refrigeration equipment
- Lighting control systems
- Light emitting diodes (LEDs) on exit signs
- Task lighting
- Variable Frequency Drives (VFDs) installed on pumps, cooling towers and pressurization fans to improve motor efficiency with resultant energy savings

5. RESPONSIBILITY

Who at board level has specific responsibility for climate change related issues and who manages your company's climate change strategies?
How do you communicate the risks and opportunities from GHG emissions and climate change in your annual report and other communications channels?

BMO Financial Group Response

We have designated a Senior Vice President with accountability for Corporate Responsibility within the organization. This executive is mandated to provide leadership, expertise, guidance, and coordination for Corporate Responsibility matters which include climate change related issues. In addition, the Senior Vice-President, Corporate Real Estate & Strategic Sourcing is responsible for environmental issues related to our own operations; and the Executive Vice-President and Chief Risk Officer is responsible for all issues related to our lending portfolios. We report our environmental activities through our website and our Public Accountability Statement.

6. EMISSIONS

What is the quantity in tonnes CO₂ e of annual emissions of the six main GHG's produced by your owned and controlled facilities in the following areas, listing data by country?

BMO Financial Group Response

CORPORATE EMISSIONS tCO₂ e	
Gas	3,499
Electricity	11,867
Air Travel	9,896
Road Travel	676
Total	25,938

The energy consumption data covers the 2005 calendar year and represents about 67% of our owned/leased office towers and specialty buildings (e.g. computer processing centres) in Canada. We continue to gather data for 2004 and 2006 for all of our owned/leased office towers and specialty buildings in Canada as a priority, and will then move on to the branch and international locations. While complete data is not available for the current CDP submission, we expect to have a more accurate and robust evaluation of our total corporate emissions for the next iteration of the CDP questionnaire.

We have an excellent database of all corporate air travel and have calculated associated emissions using city-pair distances and emission factors for short, medium and long-haul flights provided by the World Resources Institute.

Vehicle emissions are derived from our corporate fleet database (annual km's) using an average national emission factor for fuel consumption from passenger vehicles. Vehicle emissions do not include personal miles driven.

7. PRODUCTS AND SERVICES

What are your estimated emissions in tonnes CO₂e associated with the following areas and please explain the calculation methodology employed.

- > Use and disposal of your products and services?
- > Your supply chain?

BMO Financial Group Response

Our records management contractor provides us with metrics that help us understand the benefits of recycling in terms of water reductions, landfill material reductions, landfill emission reductions, fossil fuel consumption and resource (trees) consumption. In 2005 BMO recycled 1,517 metric tonnes of office paper at our US and Canadian operations, resulting in associated greenhouse gas emission reductions from:

28,378	TREES SAVED
3,422	TONNES OF CO ₂ EQUIVALENT REDUCED
2,906,138	LITRES OF OIL NOT USED

The contractor's explanations about how recycling impacts the various components of the supply chain provide us with a much better understanding about impacts from our various initiatives.

As a financial institution, we observe the environmental behaviours of both current and potential lending clients, along with outside suppliers. These observations are done on a case-by-case basis, so no standardized measures are in place. However, we would like to draw your attention to our environmental policy, which makes the following statements on outside suppliers and lending clients:

External Impacts: We strive to minimize health and safety risks to our employees and our communities and to prevent unlawful discharges into the environment from our operations. We support business relationships with suppliers and subcontractors who share our commitment to respect and protect the environment.

Lending: In conducting our business, we use sound risk management practices to identify, evaluate and monitor environmental impacts. We strive to provide credit to borrowers in a manner that respects environmental protection and sustainable development, through the implementation of comprehensive risk management standards.

We ensure to the best of our abilities that we lend to environmentally responsible borrowers by taking precautions including assessing whether borrowers comply with all environmental laws and regulations applicable to them.

Our lending processes assess a borrower’s existing or potential exposure to environmental liability, the impact of its environmental requirements and the magnitude of any potential adverse impact of environmental risks and requirements on security values and the borrower’s financial capacity.

Our lending processes for real estate and for environmentally sensitive industries include a detailed evaluation or audit of all relevant operations and property, current environmental liability exposures and the soundness of a borrower’s environmental management practices.

At the present time we do not evaluate the emissions associated with our supply chain but refer back to policies that will form the foundation of future initiatives; fuel efficiency criteria for fleet replacement and expense management directives. We anticipate continual improvement of our programs that encourage the efficient and economically beneficial use of resources.

8. EMISSIONS REDUCTION

What is your firm’s current emissions reduction strategy? How much investment have you committed to its implementation, what are the costs/profits, what are your emissions reduction targets and time-frames to achieve them?

BMO Financial Group Response

In partnership with our property manager and an energy consultant, we have conducted energy audits on 84% of office tower/special purpose facilities (e.g. computer processing centres) owned by BMO Financial Group. We will be assessing baseline data gathered, recommendations and next steps (including targets as appropriate).

We also support recycling programs for paper, cardboard, aluminum cans, glass bottles and printer toner cartridges across the enterprise.

Once we have collected more robust data from all corporate sources, we anticipate developing and emissions baseline against which targets may be set and future performance compared using the appropriate metrics.

9. EMISSIONS TRADING

What is your firm’s strategy for, and expected cost/profit from trading in the EU Emissions Trading Scheme, CDM/JI projects and other trading systems, where relevant?

BMO Financial Group Response

As a financial services firm we do not expect to have any active involvement in emissions trading from an operational perspective however, carbon credits, cap and trade regulations and general emissions trading may have a significant impact on our business clients’ balance sheets. As rules and regulations for regional, national and international markets emerge, we anticipate the need to have a greater understanding of the exposure our business clients might have in emissions commodities markets and new regulatory regimes.

10. ENERGY COSTS:

What are the total costs of your energy consumption, e.g. fossil fuels and electric power? Please quantify the potential impact on profitability from changes in energy prices and consumption.

BMO Financial Group Response

In Fiscal 2005, the costs of fossil fuels and electric power represented less than 1% (0.33%) of total revenue and therefore energy price volatility does not directly have a noticeable impact on total revenue. However we understand that energy prices may have a significant effect on our clients, particularly business clients.