

“Walking the Talk: Putting Commitment into Action”



BMO Financial Group's Environmental Policy and Action Plan

April 2008

Introduction

BMO Financial Group (BMO) is committed to the principles of sustainable development and, in particular, to the belief that the quality of our lives improves when economic growth is integrated with respect for the environment. This means that we are committed to minimizing the impact of our operations on the environment and to demonstrating leadership by integrating environmental considerations into our business practices. This commitment lies at the heart of our environmental policy, which we recently reviewed and updated as part of our endeavour to pursue continual environmental improvement.

We also realize that any commitment is meaningless without concrete action. Accordingly, this document sets out our plan to "walk the talk" and put our environmental commitment into action. It follows the following format:

1. Our environmental policy
2. Our environmental impacts and opportunities
3. Our approach to managing the company's operational footprint
4. Our approach to the environmental aspects of lending and project financing
5. Our approach to new products and services
6. Our approach to community donations and sponsorships
7. Governance, stakeholder engagement and reporting

1. BMO Financial Group: Our Environmental Policy

BMO Financial Group is committed to the principles of sustainable development and, in particular, to the belief that the quality of our lives improves when economic growth is integrated with respect for the environment.

As a North American financial services company, we acknowledge that our actions affect the environment directly in terms of our own operations, and indirectly through our procurement practices and the products and services we provide to our customers. We are committed to minimizing the impact of our operations on the environment and to demonstrating leadership by integrating environmental considerations into our business practices.

This Policy sets out our approach to ensure we honour this commitment.

Scope

This Policy applies to our global business operations and, specifically to the environmental impacts arising from:

1. Our business operations;
2. Our procurement of products and services; and
3. The design and provision of our own products and services.

Policy Content

Specifically, we commit to:

- Ensure that we are compliant with all environmental legal requirements pertaining to the countries in which we operate;

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- Conform to the standards set out in the Equator Principles (www.equator-principles.com), the United Nations Environment Programme "Statement by Financial Institutions on the Environment and Sustainable Development" (www.unepfi.org) and any other environmental standards to which we subscribe;
 - Minimize the environmental impacts of our business operations through best practice management of our use of energy, transportation, material consumption, water use, waste, emissions and effluent;
 - Consider the environmental performance of our suppliers and the environmental attributes of products and services during the procurement process;
 - Ensure that in the lending process, environmental risks associated with credit and counterparty transactions are identified, analyzed, managed and mitigated to the extent reasonably possible. This is taken into account before lending approval and is underpinned by internal policies and guidelines. Where appropriate, specific measures to manage or mitigate environmental risks may be required as a condition of lending;
 - Investigate and pursue opportunities to develop new products and services that may help to achieve the objective of sustainable development;
 - Establish, and periodically review objectives and targets in the pursuit of continual improvement in our environmental performance and ongoing prevention of pollution;
 - Raise employee awareness and engage employee creativity and enthusiasm with respect to implementing and enhancing our environmental policies, guidelines, programs and initiatives;
 - Maintain open lines of communication with our stakeholders with respect to environmental issues and take into consideration their concerns and suggestions;
 - Support, through community donations and sponsorships, the promotion of environmental initiatives undertaken by external groups and organizations;
 - Conduct periodic audits, both internally and externally, to ensure adherence to our established environmental processes; and

- Report publicly on our environmental performance through ongoing channels, such as the company website (www.bmo.com), and on an annual basis within our Corporate Responsibility Report and Public Accountability Statement, and Annual Report.

Policy Governance

President & Chief Executive Officer, and Senior Executive Team will:

- Endorse this Policy and related implementation procedures; and
- Review progress and achievement with respect to environmental performance.

Head of Corporate Responsibility will:

- Coordinate the development and maintenance of an enterprise-wide strategy to fulfill BMO's overarching environmental responsibilities; and
- Assist in the coordination of communication with, and reporting to, BMO's stakeholders on matters relating to environmental performance.

Head of Environmental Sustainability will:

- Establish meaningful environmental programs, objectives and targets with respect to business operations; and
- Coordinate the development and maintenance of an environmental management system to manage the environmental impacts arising from BMO's operations;

Operating Groups will:

- Ensure that appropriate operating procedures are in place to support the requirements of this Policy and associated implementation activities.

Procurement and Strategic Sourcing will:

- Coordinate the implementation of sustainable procurement practices.

Corporate Real Estate will:

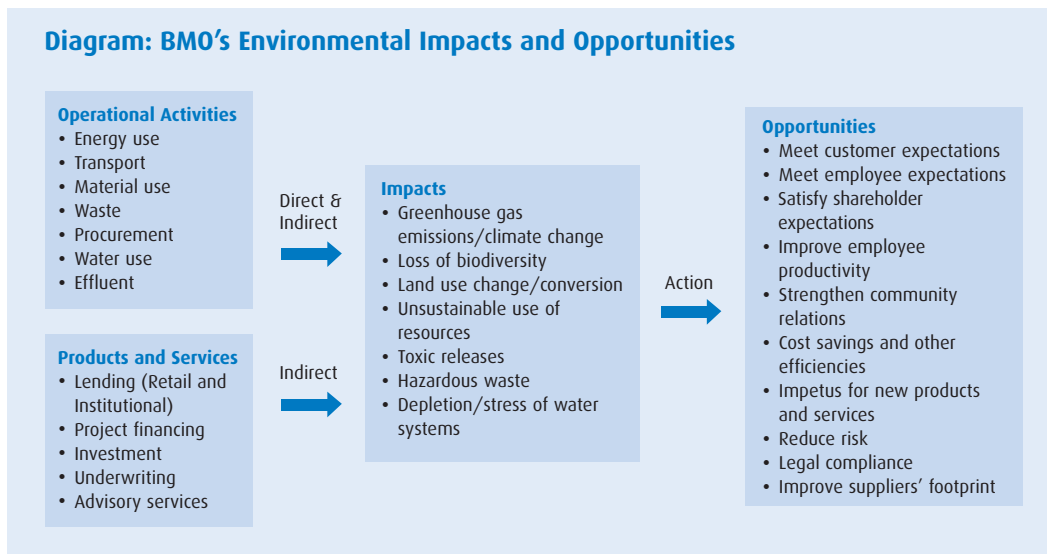
- Coordinate the implementation of environmental programs, objectives and targets specific to BMO's physical premises.

Corporate Responsibility Committee will:

- Act as a cross-organizational consultative body on matters relating to environmental performance and the setting of new objectives and targets.

2. Our Environmental Impacts and Opportunities

We acknowledge our activities have an impact on the environment, both directly and indirectly. In our efforts to minimize these impacts and integrate environmental considerations into our business practices, we also realize that there are significant opportunities to create value for our shareholders, employees, customers, business partners and the communities in which we operate. Set out below is a diagram depiction of how we conceive our environmental impacts and the opportunities arising from taking mitigating action.



The environmental impacts, as well as the opportunities, cover a wide spectrum. However, while we are mindful of and committed to mitigating all of our environmental impacts, we are particularly concerned by the enormity of the problems posed by climate change. We agree with the conclusions of Sir Nicholas Stern in his review, *The Economics of Climate Change* that “climate change will affect the basic elements of life for people around the world” while also having “very serious impacts on growth and development.” BMO accepts the call from Nicholas Stern “for prompt and strong action” on this important global issue.

3. Managing Our Operational Footprint

3.1 Introducing the *BMO ECO⁵ Strategy*

In 2007, we carried out a strategic environmental review of our operational impacts. During this review we identified five key BMO operational activities that have the potential to significantly impact the environment and, as such, should be addressed as a priority by BMO. These included: **Energy Consumption, Transportation, Material Consumption, Waste Generation, and Procurement.**

It is now our intention to view these significant operational activities as "focus areas" and to address them in an overarching strategy. To that end, we have designed a framework titled, the *BMO ECO⁵ Strategy*, on the basis that it identifies five environmental "focus areas" each of which will be addressed by a corresponding environmental program as set out below:

| Environmental Focus Areas | Corresponding Program |
|---------------------------------------|---|
| 1. Energy Consumption | BMO Energy Reduction and Efficiency Program |
| 2. Transportation | BMO Sustainable Transport Program |
| 3. Material Consumption (focus paper) | BMO Sustainable Material Program |
| 4. Waste Generation | BMO Waste Management Program |
| 5. Procurement | BMO Sustainable Procurement Program |

The *BMO ECO⁵ Strategy* enables us to focus on the company's operational activities that have the potential to significantly impact the environment and to address them in a coordinated and consistent fashion. The five programs will be documented, managed and periodically reviewed through BMO's Environmental Management System. The programs are not designed to be static in nature but will continuously evolve to accommodate new ideas and meet any new challenges which we might face. Some of our environmental initiatives, such as those relating to water conservation and effluent, fall outside of the five focus areas but will continue to be addressed within the framework of BMO's Environmental Management System.

The five focus areas/programs also provide an organizational framework through which to report on our environmental (operational) performance in our annual Corporate Responsibility Report and Public Accountability Statement, and Annual Report, as well as to provide continual disclosure through bmo.com. **Finally, the execution of this new strategy will enable us to measure our company-wide greenhouse gas (GHG) emissions and achieve emissions reductions.**

Set out below is a statement of the overarching purpose of the *BMO ECO⁵ Strategy* with an overview of each program.

3.2 The *BMO ECO⁵ Strategy*: Purpose

- To provide an organizing framework to facilitate our efforts in the reduction of environmental impacts flowing from our operational activities;
- To enable us to measure our company-wide GHG emissions and to achieve emissions reductions;
- To realize cost savings;
- To provide an improved structure to gather environmental performance data and publicly report on performance; and
- To achieve continual improvement.

3.3 The *BMO ECO⁵ Strategy: Summary of Five Programs*

Note. The following summary depicts only the "highlights" of the five programs. The program activities are more extensive than those described. For more detail, please visit www.bmo.com.

Focus Area 1: Energy Consumption

Program Name: *BMO Energy Reduction and Efficiency Program*

Overarching Objective: *To realize optimal energy consumption reductions and efficiencies.*

Program Highlights

- The purchase of 5,000 MWh of green power from Bullfrog Power¹ for use in Ontario and Alberta (flagship locations/new branches).
- The building of two LEED² certified branches in Canada (Greater Toronto Area) with an additional location under construction in Winnipeg, Manitoba and two more in the United States (Chicago).
- Work with our office tower landlords/facilities managers to achieve BOMA Go Green³ certification, a national environmental recognition and certification program for commercial buildings.
- The engagement of external consultants to assist with the calculation of our enterprise-wide energy consumption. When completed, the calculations will form the base-line data for an enterprise-wide energy reduction target.

Focus Area 2: Transportation

Program Name: *BMO Sustainable Transport Program*

Overarching Objective: *To minimize the environmental impacts flowing from transport use during BMO related activities.*

Program Highlights

- Support and encourage employees in their use of environmentally-friendly public transportation. For example, in the Toronto area BMO has enrolled in the *Toronto Transit Commission (TTC) VIP "Green" Metropass Program*. In Vancouver, a similar program exists for BMO employees, as offered by TransLink, the South Coast British Columbia Transportation Authority.
- Convert service vehicles to increasingly more energy efficient alternatives (e.g. hybrids).
- Reduce commercial air travel for non-customer facing meetings.

¹ Bullfrog Power is a leading provider of 100% green electricity, with service available to Ontario and Alberta residents and businesses (www.bullfrogpower.com)

² LEED is a third party certification program and the nationally accepted benchmark for the design, construction and operation of high performance green buildings. In Canada (www.cagbc.org/) and in the United States (www.usgbc.org/LEED).

³ BOMA Go Green is a national environmental recognition and certification program for existing commercial buildings (www.bomagogreen.com).

Focus Area 3: Material Consumption

Program Name: *BMO Sustainable Material Program*

Overarching Objective: *To reduce unnecessary material use while improving efficiency in the use of materials. Note: Materials captured by this program include, among others, paper (primary focus), office supplies, IT hardware and building materials.*

Program Highlights

- Introduction of paper reduction initiatives. Examples include: duplex printing; migration to electronic pay slips where employees have access online; electronic faxes; use of recycled content paper; and an employee awareness initiative to encourage reduced printing in general and to invite paper saving suggestions.
- Introduction of an online customer statement option for current and future products.
- Increased utilization of building products containing recycled content.

Focus Area 4: Waste Generation

Program Name: *BMO Waste Management Program*

Overarching Objective: *To realize a reduction in waste going to landfill and promote recycling.*

Program Highlights

- Strengthen BMO's waste reduction programs already in place:
 - *Technology disposal program;*
 - *Paper shredding and recycling;*
 - *Minimum waste initiatives;*
 - *Recycling initiatives;* and
 - *Hazardous waste initiatives.*
- Expand data collection capabilities for recycling and waste going to landfill.

Focus Area 5: Procurement

Program Name: *BMO Sustainable Procurement Program*

Overarching Objective: *To employ a rigorous process that will ensure BMO takes into account environmental and social considerations during the procurement process. Note: The program takes a wider view of the concept of sustainability to include social concerns (e.g. labour practices and human rights) in addition to environmental issues.*

Program Highlights

- Adopt BMO's new sustainable procurement questionnaire and criteria in all future Request for Information (RFI) and Request for Proposal (RFP) offerings. The questionnaire and criteria are available at www.bmo.com.
- Introduction of category specific standard for purchase of office paper from certified "sustainably managed" forests. Opportunities for other category standards will also be explored.
- Work with key suppliers to communicate requirements and means of meeting BMO's new procurement criteria.

4. Our Approach to Lending and Project Financing

4.1 Lending

As lenders, we use sound risk management practices to identify, evaluate and mitigate to the extent practical, the environmental impacts on credit facilities provided. It is BMO's intent to avoid dealing with borrowers who have a poor environmental risk management track record.

Risk Guidelines

Environmental risk is one of the many factors considered during the credit assessment process that results in the decision to accept or reject a loan application. All eligible borrowers for commercial and corporate loans are subject to our environmental risk assessment process.

For several years now, our commercial lenders have followed detailed guidelines with respect to the criteria for and methodology employed in the assessment of environmental risk. The guidelines identify over fifty industries that are considered environmentally sensitive and which require a heightened level of screening. Additionally, our lending officers are provided with training on how to recognize environmental risks as part of their credit risk skills development program.

Depending on the degree of investigation and the potential for environmental risk, BMO may employ in its evaluation (individually or in combination) questionnaires, checklists, Phase I Assessments, Phase II Assessments and/or specialized Environmental Impact Assessments. Environmental Assessments are conducted by qualified external professionals and conform to standards established by the Canadian Standards Association or equivalent bodies.

Standard areas investigated during the assessment process include, among other things:

- The nature of the environmental risks faced by the borrower;
- The adequacy of the borrower's corporate policies and procedures designed to address the environmental risks;
- The amount of capital expenditures planned for environmental compliance and rehabilitation; and
- Whether the borrower complies with all environmental laws and regulations applicable to them.

Clarifying Environmental Risks

Environmental risks cover a broad spectrum of issues. These might include risks in such areas as climate change, biodiversity and ecosystem health, unsustainable resource use, pollution, waste and water. As detailed below, we have updated our lending guidelines to provide more specificity to the task of identifying and evaluating environmental risks relating to climate change and forest biodiversity. Should the need arise, guidance in other environmental risk areas will also be developed.

Climate Change: During the lending process, BMO will develop an understanding of the nature and degree of potential risks posed by climate change. When assessing the eligibility of borrowers, particularly those that fall into the category of significant emitters of greenhouse gases⁴, we will assess:

- Whether the borrower monitors and reports their greenhouse gas emissions, as well as the extent and quality of such monitoring and reporting;
- The actual extent of the borrower's overall greenhouse gas emissions;
- Whether the borrower has a carbon mitigation plan, how it is being implemented and whether the Board of Directors was involved in its development; and
- The borrower's preparedness to deal with forthcoming regulatory requirements regarding greenhouse gas emissions.

⁴ The following sectors typically have companies that are large emitters of greenhouse gases: thermal electricity generation; fossil fuel industries; mining; chemical; metal production; transportation; construction; waste management; agriculture (large-scale industrial); and manufacturing (e.g. pulp & paper, timber products, glass, cement, fertilizers & lime).

Forest Biodiversity: When there is a known specific use of lending proceeds, BMO will not engage in providing new financing for commercial projects or operations that result in resource extraction on an unsustainable basis from: tropical rainforests, UNESCO World Heritage Sites or High Conservation Value Forests.⁵

In addition, when assessing the eligibility of borrowers from the forestry sector, we will assess whether the company is demonstrating sustainable management of natural resources through an appropriate system of independent certification or other acceptable alternative, such as the forest management schemes developed by the Forest Stewardship Council, Canadian Standards Association and American Forests and Paper Association.

4.2 Project Financing

In our assessment of applications for project financing, we will continue to apply our internal guidelines which implement the requirements of the Equator Principles – a framework to ensure that projects are developed in a manner that is socially responsible and reflect sound environmental management practices.

⁵ High Conservation Value forests (HCVF) are defined according to the Forest Stewardship Council (FSC) as those forests that contain one or more of the following attributes:

- contain globally, regionally or nationally significant concentrations of biodiversity (e.g. endangered species);
- significant large landscape level forests where viable populations of most, if not all, naturally occurring species exist in natural patterns of distribution and abundance;
- are in or contain rare, threatened or endangered ecosystems;
- provide basic services of nature in critical situations (e.g. watershed protection, erosion control); and/or
- are fundamental to meeting basic needs of local communities (e.g. subsistence, health) or are critical to local communities' traditional cultural identity.

5. Our Approach to New Products and Services

We firmly believe that our efforts to achieve environmental sustainability can act as the inspiration for new financial products and services. We have already seen this in action, when in late 2007 BMO Nesbitt Burns launched, for clients across Canada, a new responsible investment product offering which applies a rigorous environmental, social and governance (ESG) approach to the construction and management of the product's investment portfolio.

BMO will continue to investigate and pursue opportunities to develop new products and services that both satisfy the financial needs of our customers and also contribute to the objectives of sustainable development.

6. Our Approach to Community Donations and Sponsorships

BMO is one of Canada's largest corporate benefactors. Every year we contribute tens of millions of dollars in corporate donations, sponsorships and events, supporting communities and thousands of charities and not-for-profit organizations in Canada and the United States. Our ongoing commitment to community donations and sponsorships includes a portion which is directed to environmental programs and initiatives.

One tangible example is BMO's pledge of \$375,000 over three years to Evergreen, an organization that is at the forefront of Canada's urban greening movement. Founded in 1990, Evergreen provides individuals and community-based organizations with the tools and knowledge to become stewards in their own communities, focusing on a "how-to," solution-based approach that addresses environmental, economic and social challenges affecting neighbourhoods, towns and cities. BMO's support will go toward the establishment of six outdoor training institutes for teachers in Toronto, Halifax and Winnipeg as part of Evergreen's Learning Grounds program.

In the future, we will continue to support environmental initiatives, such as Evergreen, and the valuable contribution they make to Canadian and global efforts to improve the state of our environment.

7. Governance, Stakeholder Engagement and Reporting

Governance

BMO's President & Chief Executive Officer and senior executive team will ensure that adequate implementation procedures are in place and review progress with respect to our environmental performance.

The Head of Corporate Responsibility will be responsible for coordinating the development and maintenance of an enterprise-wide strategy to fulfill BMO's overarching environmental responsibilities.

The Head of Environmental Sustainability will have responsibility for developing environmental programs, objectives and targets relating to BMO's business operations. BMO's Operating Groups, Procurement and Strategic Sourcing, and Corporate Real Estate will also ensure that the appropriate operating procedures are in place to ensure that environmental targets and objectives are met.

Finally, BMO's Corporate Responsibility Committee membership is made up of executives and senior personnel from across the organization. The mandate of the committee, among other things, is to provide input during the development of environmental strategy and policy; investigate solutions to environmental issues and to realize opportunities; and for members to discuss and collaborate on matters relating to the integration of BMO's environmental commitments into the business operations under their control.

Stakeholder Engagement

We are committed to maintaining open lines of communication with our internal and external stakeholders regarding our environmental performance. During the recent review of our environmental policy and the creation of this action plan, we consulted with employee representatives, a number of external organizations, and obtained customer feedback. As we move forward on the pathway towards sustainability, we will continue to seek the views of our stakeholders, such as investors, customers, employees, community groups, governments and academia.

Reporting

We will continue to report publicly on our environmental performance through our Corporate Responsibility Report and Public Accountability Statement, Annual Report, and website (www.bmo.com). When possible, we will include reference to baseline data and verifiable environmental targets and objectives. What's more, we will endeavour to be transparent in our performance in meeting those targets and objectives. Our reporting practices will continue to be based on the sustainability framework of the Global Reporting Initiative.
