

BMO Financial Group

# Sustainable Financing Framework

September 2019



Established in 1817, BMO Financial Group is a highly diversified financial services provider based in North America. BMO provides a broad range of personal and commercial banking, wealth management and investment banking products and services.

At BMO, we are driven by a single purpose to ***Boldly Grow the Good, in business and life.*** We recognize that our bank has an important role to play in driving positive change for our customers, employees and the communities where we do business. We have made bold commitments to promote a sustainable future, a thriving economy and an inclusive society. These [commitments](#) build on a strong history of sustainability at BMO, and include:

- Mobilizing \$400 billion towards sustainable finance by 2025;
- Doubling support for small businesses in Canada and the United States;
- Making [\\$3 billion](#) in capital available to women-owned businesses across Canada;
- Doubling the size of our Indigenous Banking business.

**Through our sustainable finance activities, we will support our clients in the pursuit of sustainable objectives. This includes positive social outcomes such as those expressed in the United Nations Sustainable Development Goals (the “UN SDGs”), and environmental outcomes that support the transition to a lower carbon economy.**

For more information on Sustainability at BMO, please visit our [website](#).

## BMO’s Sustainable Financing Framework

BMO’s Sustainable Financing Framework (the “Framework”) will guide future issuances of sustainable finance transactions including, but not limited to social bonds, green bonds, sustainability bonds (collectively referred to as “BMO Sustainable Bonds”). While BMO is focusing on Sustainable

Bond issuances at this time, the Framework could also be used to issue green loans. The Framework outlines:

1. Use of proceeds;
2. The process for asset selection and evaluation;
3. Management of proceeds; and
4. Reporting on use of proceeds and impacts.

The Framework aligns with the International Capital Markets Association (ICMA)’s 2018 Green Bond Principles, 2018 Social Bond Principles, 2018 Sustainability Bond Guidelines and the Loan Market Association (LMA)’s 2018 Green Loan Principles and will be updated as market practices evolve.

### 1. Use of Proceeds

An amount equivalent to the net proceeds of BMO Sustainable Bonds will be used to finance or re-finance project finance loans, general corporate finance loans, equity investments (collectively referred to as “Eligible Assets”) that support the achievement of the UN SDGs and the global transition to a lower carbon economy.

Green bonds are bonds where the proceeds are allocated to green assets, social bonds are bonds where the proceeds are allocated to social assets, and sustainability bonds are bonds where the proceeds are allocated to green and social assets.

BMO’s look-back period for Eligible Assets is 36 months prior to the date of the transaction’s issuance. Our goal is to fully allocate the net proceeds of a BMO Sustainable Bond within 18 months of issuance.

General corporate finance loans are eligible for funding by a BMO Sustainable Bond if at least 90% of the loan recipient’s revenue is derived from sources that meet the relevant eligibility criteria detailed below.

The table below outlines the eligibility criteria for proceeds of the different types of BMO Sustainable Bonds.

Asset Category		Eligibility Criteria
<b>Green Asset Categories</b>		
Renewable Energy	  	<ul style="list-style-type: none"> <li>- Lending in facilities, infrastructure and equipment dedicated to the generation, transmission and distribution of energy from renewable sources, including: solar, wind, waste biomass, tidal, geothermal with direct emissions &lt;math&gt;&lt;100\text{gCO}_2/\text{kWh}&lt;/math&gt; and hydroelectric energy &lt;math&gt;&lt;25\text{MW}&lt;/math&gt;.</li> </ul>
Green Buildings & Infrastructure	 	<ul style="list-style-type: none"> <li>- Lending in the construction, operation, maintenance or refurbishment of energy efficient commercial or residential buildings. Energy efficient buildings are certified green buildings (minimum of LEED Gold or equivalent).</li> <li>- Lending in the refurbishment of commercial or residential buildings which results in energy savings of 20% or more over baseline energy consumption.</li> <li>- Lending in climate resilient infrastructure and information support systems, such as climate observation and early warning systems.</li> </ul>
Energy Efficiency	 	<ul style="list-style-type: none"> <li>- Lending or investments that reduce energy consumption or greenhouse gas (GHG) emission intensity by 20% or more over the baseline and/or manage and store energy, including the manufacture of energy saving products, upgrade and/or replacement of heating, cooling and ventilation systems, lighting, and electrical equipment, equipment for monitoring energy performance such as digital controls, sensors and/or building information systems, and/or energy management software/systems.</li> </ul>
Clean Transportation	 	<ul style="list-style-type: none"> <li>- Lending related to low carbon transport assets and the acquisition, development, manufacturing, construction, operation and maintenance of infrastructure dedicated to low-carbon transport such as: <ul style="list-style-type: none"> <li>- Private Transport: electric vehicles, hybrid vehicles (with CO<sub>2</sub> emission threshold of &lt;math&gt;&lt;75\text{gCO}_2/\text{p-km}&lt;/math&gt;), charging stations (excluding fuel stations);</li> <li>- Public Transport: train (rolling stock and vehicles for electrified public transport, such as electrified rail, trams, and trolleybuses), buses with no direct emissions (electric or hydrogen), hybrid buses (with CO<sub>2</sub> emission threshold of &lt;math&gt;&lt;75\text{gCO}_2/\text{p-km}&lt;/math&gt;), transportation infrastructure (expansion of metro/train network, station upgrade).</li> </ul> </li> </ul>
Pollution Prevention and Control	 	<ul style="list-style-type: none"> <li>- Lending in facilities, systems and equipment used to collect and/or treat waste, hazardous waste or contaminated soil and divert waste from landfills.</li> </ul>
Sustainable Water and Wastewater Management		<ul style="list-style-type: none"> <li>- Lending and investments that reduce water consumption or collect, treat, recycle or reuse water.</li> <li>- Lending in infrastructure for flood prevention/defense or storm-water management.</li> </ul>
Sustainable Management of Living Natural Resources & Sustainable Land Use	  	<ul style="list-style-type: none"> <li>- Lending in certified sustainably managed agriculture, animal husbandry (excluding meat production), fishery and aquaculture, such as USDA Organic label, Aquaculture Stewardship Counsel label, Marine Stewardship Counsel label, Global Sustainable Seafood Initiative, Best Aquaculture Practice, Rainforest Alliance Certified, or UTZ Certified.</li> <li>- Lending in certified sustainably managed forest holdings, such as Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC).</li> <li>- Lending in agriculture projects that demonstrate significant reduction in energy and water use and/or GHG emissions, or that maintain or improve existing carbon pools such as greenhouses, reduced fertilizer use, rangeland management, collection and use of bagasse, rice husks or other agricultural waste, low tillage techniques, rehabilitation of degraded lands, etc. or livestock management projects (excluding meat production) that reduce methane or other GHG emissions such as manure management with biogas, etc.</li> </ul>

Asset Category	SUSTAINABLE DEVELOPMENT GOALS	Eligibility Criteria
<b>Social Asset Categories</b>		
Indigenous Peoples' Business and Community Lending		<ul style="list-style-type: none"> <li>- Lending/financing to an Indigenous Peoples' band, council, government, etc. and/or any commercial/business entity majority owned by such an organization/individual.</li> </ul>
Women-Owned Business Lending	 	<ul style="list-style-type: none"> <li>- Lending/financing to a micro-, small- and medium-sized enterprise (SME) (annual turnover of less than €50 million<sup>1</sup>) where at least one of the owners of the enterprise is a woman, or lending/financing to a non-SME where at least one third of the owners are women.</li> </ul>
Access to Free or Subsidized Essential Services	 	<ul style="list-style-type: none"> <li>- Lending or investment in public universities, schools and training centres.</li> <li>- Lending or investment in activities that expand youth and adult access to education and/or target inclusion of women and minorities such as technical, vocational and tertiary educational schemes, construction of educational facilities or training infrastructure, and access to campus infrastructure.</li> <li>- Lending or investment in public hospitals, medical equipment, homes or health facilities for the aged or people with disabilities.</li> </ul>
Affordable Housing	 	<ul style="list-style-type: none"> <li>- Lending in the development or refurbishment of housing that meets accredited or registered affordable housing definitions<sup>2</sup>, or contributes to access to low income residents.</li> </ul>

BMO will not knowingly allocate proceeds to businesses involved in the financing of the following activities:

- Weapons
- Tobacco
- Gambling
- Adult entertainment
- Predatory lending

- Reviewing the Sustainable Financing Framework;
- Reviewing and validating the pool of Eligible Assets;
- Validating the annual reporting for investors;
- Review of the Post Issuance External Verification Report and resolution of any issues that arise;
- Monitoring ongoing issues and evolving market practices in advancement of the program.

## 2. Process for Asset Selection and Evaluation

A Sustainable Bond Working Group (the "SBWG") composed of representatives from specialist teams in Corporate Treasury, Capital Markets, Personal & Commercial Banking, and Sustainability Office will meet on a semi-annual basis and will, with the support of Risk Management as required, be responsible for:

When selecting assets for BMO Sustainable Bonds, BMO's Sustainability Office reviews information about the assets and if there is doubt about the net sustainability benefits, or compliance with the Framework, such assets will not be included.

BMO evaluates the environmental and social risk associated with credit and counterparty transactions and exposures. Our financing guidelines address environmental and social risks for specific lines of business. We have been a signatory to the Equator Principles since 2005 and apply its credit risk management framework. Our approach to managing environmental and social risk is outlined in the Enterprise-Wide Risk Management section of Annual Report, available [online](#).

BMO supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). BMO has initiated a climate change scenario analysis program, in line with the TCFD recommendations.

<sup>1</sup> Office of The Superintendent of Financial Institutions (OSFI), Capital Adequacy Requirements (CAR) Chapter 6 – Credit Risk – Internal Ratings Based Approach, paragraph 82.

<sup>2</sup> Meets applicable definitions within the jurisdiction in which it is built, including through programs such as the Investment in Affordable Housing (IAH) initiative of the Canadian Mortgage and Housing Corporation (CMHC) or provincial equivalents

### 3. Management of Proceeds

Proceeds from BMO Sustainable Bonds will be allocated to Eligible Assets.

BMO's asset portfolios will be dynamic with Eligible Assets maturing and new Eligible Assets being added. BMO's Sustainable Bonds proceeds will be managed using a portfolio approach. Green, social, and sustainability portfolios will be managed separately.

BMO's Sustainability Office will monitor the aggregate amount of Eligible Assets in BMO's portfolios on a quarterly basis to ensure each is equal to or greater than the aggregate of the BMO applicable Sustainable Bond proceeds.

If the aggregate amount raised by a type of BMO Sustainable Bond is greater than the total amount of Eligible Assets in BMO's applicable portfolio, BMO will hold the excess amount in cash or liquid securities in accordance with BMO's normal liquidity management policy until the amount can be allocated to Eligible Assets.

If an Eligible Asset no longer qualifies according to the Eligibility Criteria or if the underlying eligible loan is repaid or divested, an amount equal to the loan size will be deducted from the applicable portfolio. If considered necessary, BMO will use its best efforts to substitute any Eligible Assets that no longer qualify, as soon as practical once qualifying substitution assets have been identified.

BMO will track the use of proceeds of BMO Sustainable Bonds using internal information systems. We will establish a Sustainable Bond Register to record specific Eligible Asset information and regularly monitor the status of each Eligible Asset. BMO's Sustainability Office will oversee this process, which will be reviewed semi-annually by the SBWG.

### 4. Reporting

BMO will report publicly on the use of BMO Sustainable Bond proceeds within one year of issuance and annually thereafter. Green, Social, and Sustainability portfolios will be reported separately. The reports will be posted on BMO's [website](#), and will include:

- The value of BMO Sustainable Bonds outstanding;
- Aggregate amounts of proceeds allocated to each of the Eligible Asset category;
- The balance of unallocated proceeds at the time of reporting;
- Qualitative and quantitative sustainability performance indicators and impacts, where feasible (see Appendix A for examples of potential indicators).

Any disclosure related to loan level information will be subject to BMO's confidentiality obligations and the availability of information.

#### External Review

#### Second-Party Opinion

BMO has obtained a Second-Party Opinion from Sustainalytics for the Framework.

#### Post Issuance Verification

Prior to the first anniversary of the issuance of a BMO Sustainable Bond, and annually thereafter, an external auditor may be engaged to provide limited assurance on BMO's reporting as described in section 4 above.

#### Feedback

We welcome feedback from all our stakeholders on the Framework and approach to sustainable finance. Please share your feedback at [sustainability@bmo.com](mailto:sustainability@bmo.com)

## Appendix A – Sample Impact Indicators

BMO may report on the following impact indicators related to the Framework.

Asset Category	Possible Impact Metrics
Renewable Energy	<ul style="list-style-type: none"> <li>- Renewable energy capacity installed (MW)</li> <li>- Estimated annual renewable energy generated (MWh)</li> <li>- Estimated annual GHG emissions avoided (in tCO<sub>2</sub>e)</li> </ul>
Green Buildings & Infrastructure	<ul style="list-style-type: none"> <li>- Number of green buildings financed</li> <li>- Sustainability certification achieved</li> <li>- Total gross floor area of green real estate (m<sup>2</sup>)</li> <li>- Amount of energy saved (MWh)</li> <li>- Estimated annual GHG emissions avoided (in tCO<sub>2</sub>e)</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>- Amount of energy saved (MWh)</li> <li>- Estimated annual GHG emissions avoided (in tCO<sub>2</sub>e)</li> </ul>
Clean Transportation	<ul style="list-style-type: none"> <li>- Amount of energy saved (MWh)</li> <li>- Estimated GHG emissions reduced or avoided</li> <li>- Number of eligible vehicles produced</li> <li>- Number of electric or fuel cell vehicle charging/fuelling points installed</li> <li>- Number of passengers served</li> </ul>
Pollution Prevention and Control	<ul style="list-style-type: none"> <li>- Number of recycling projects financed</li> <li>- Waste diverted from landfill (tonnes)</li> </ul>
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> <li>- Annual water savings or reduced water loss</li> <li>- Volume of water saved /reduced / treated (m<sup>3</sup>)</li> <li>- Total Population served by the system</li> </ul>
Sustainable Management of Living Natural Resources & Sustainable Land Use	<ul style="list-style-type: none"> <li>- Number of agricultural projects financed</li> <li>- Total surfaced financed (hectares)</li> </ul>
Indigenous Peoples' Business and Community Lending	<ul style="list-style-type: none"> <li>- Number of loans provided</li> <li>- Value of loans provided (\$)</li> <li>- Number of Indigenous Peoples' owned businesses financed</li> <li>- Number of Indigenous communities supported</li> <li>- Number of jobs supported</li> </ul>
Women-Owned Business Lending	<ul style="list-style-type: none"> <li>- Number of loans provided</li> <li>- Value of loans provided (\$)</li> <li>- Number of women-owned businesses financed</li> <li>- Number of women entrepreneurs supported</li> <li>- Number of jobs supported</li> </ul>
Access to Free or Subsidized Essential Services	<ul style="list-style-type: none"> <li>- Number of educational institutions funded, location and type</li> <li>- Number of students supported</li> <li>- Number of healthcare beds provided</li> <li>- Number of hospital and other healthcare facilities built or upgraded</li> <li>- Number of health patients served</li> </ul>
Affordable Housing	<ul style="list-style-type: none"> <li>- Number of affordable housing units built or refurbished</li> <li>- Distance to public transport</li> </ul>

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