

# Second-Party Opinion

## Bank of Montreal Sustainable Financing Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Bank of Montreal (BMO) Sustainable Financing Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Green Buildings & Infrastructure, (iii) Energy Efficiency, (iv) Clean Transportation, (v) Pollution Prevention and Control, (vi) Sustainable Water and Wastewater Management, (vii) Sustainable Management of Living Natural Resources & Sustainable Land Use, (viii) Indigenous Peoples’ Business and Community Lending, (ix) Women-Owned Business Lending, (x) Access to Essential Services, and (xi) Affordable Housing – align with those recognized by the Green Bond Principles 2018 and Social Bond Principles 2018. Sustainalytics considers the range of eligible projects to have positive environmental and social impacts and to advance a number of key UN Sustainable Development Goals.



**PROJECT EVALUATION / SELECTION** BMO has a dedicated Sustainable Bond Working Group (the “SBWG”) responsible for reviewing eligible projects, ongoing monitoring and validation procedures. The SBWG will comprise of cross-functional team, including representatives from BMO’s Sustainability Office. BMO also has an internal environmental and social risk assessment process in place. This is in line with market practice.



**MANAGEMENT OF PROCEEDS** BMO’s Sustainability Office will track the use of net proceeds to eligible projects through its internal information systems. Pending allocation, the net proceeds will be held in cash or liquid securities in accordance with BMO’s normal liquidity management policy. This is in line with market practice.



**REPORTING** BMO intends to publish annual information on its website within one year of issuance, until full allocation. Allocation reporting will include the total outstanding amount, allocated amount by eligible category, balance of unallocated proceeds, as well as relevant impact metrics, where feasible. BMO may also engage an independent auditor for post issuance verification of allocated proceeds. Sustainalytics views BMO’s allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	September 2019
<b>Issuer Location</b>	Toronto, Canada

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## Introduction

The Bank of Montreal (“BMO”, the “Bank”, or the “Issuer”) is a Canadian chartered bank which provides highly diversified services throughout the world, including personal and commercial banking, wealth management and investment banking products and services. BMO was established in 1817, and its head office is in Montreal, Quebec, and its executive offices are in Toronto, Ontario.

BMO has developed the BMO Sustainable Financing Framework (the “Framework”) under which it intends to issue sustainable finance transactions which will include bonds and/or loans, and use the proceeds to finance or refinance, in whole or in part, existing and future loans and/or investments to eligible projects which either address climate change and/or support inclusive and responsible financing.

The Framework defines the eligible green categories in the following seven areas:

1. Renewable Energy
2. Green Buildings & Infrastructure
3. Energy Efficiency
4. Clean Transportation
5. Pollution Prevention and Control
6. Sustainable Water and Wastewater Management
7. Sustainable Management of Living Natural Resources & Sustainable Land Use

Additionally, the Framework defines the eligible social categories in the following four areas:

1. Indigenous Peoples’ Business and Community Lending
2. Women-Owned Business Lending
3. Access to Essential Services
4. Affordable Housing

BMO engaged Sustainalytics to review the BMO Sustainable Financing Framework, dated August 2019, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

As part of this engagement, Sustainalytics held conversations with various members of BMO’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of BMO Sustainable Financing Framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the BMO Sustainable Financing Framework and should be read in conjunction with that Framework.

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<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> BMO Sustainable Financing Framework will be available on BMO’s Corporate Responsibility website at: <https://corporate-responsibility.bmo.com/reports/>

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the BMO Sustainable Financing Framework

#### Summary

Sustainalytics is of the opinion that the BMO Sustainable Financing Framework is credible and impactful, and aligns with the SBG 2018 and the four core components of the GBP 2018 and SBP 2018. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The seven green categories and the four social categories eligible for the use of proceeds are recognized as impactful by the GBP 2018, the SBP 2018, and the SBG 2018.
  - The eligible projects under the green use of proceeds will provide meaningful environmental contributions.
    - Sustainalytics believes that inclusion of thresholds for the following projects strengthens the Framework and prevents the proceeds from being directed to projects that could have significant negative environmental and/or social impacts:
      - Small hydro (<25 MW) and geothermal (with direct emissions of <100 gCO<sub>2</sub>/kWh);
      - Private and public transport that includes hybrid vehicles with tailpipe emission intensity of <75 gCO<sub>2</sub>/p-km and related infrastructure that excludes fueling stations, along with buses with no direct emissions.
    - BMO's eligibility criteria for Green Buildings is based on recognized third-party certification standards such as LEED (minimum Gold), or any other equivalent standards. Sustainalytics has conducted an evaluation of the certification scheme and considers such standards as having a positive impact (Appendix 1 provides additional details on the LEED certification scheme).
    - BMO considers a quantitative threshold of 20% improvement over the baseline for energy efficiency in infrastructure and/or through upgrades in or replacement of building equipment, systems or technologies. Sustainalytics views such inclusion as strengthening the Framework.
    - BMO intends to finance assets or projects in the areas of Sustainable Management of Living Natural Resources & Land Use<sup>3</sup>, including:
      - Sustainably managed agriculture, animal husbandry (excluding meat production), fishery and aquaculture certified with the Marine Stewardship Council (MSC), Aquaculture Stewardship Council (ASC), Global Sustainable Seafood Initiative (GSSI), Best Aquaculture Practice (BAP), Rainforest Alliance Certified, or UTZ Certified. Appendix 2 & 3 provide overviews of these schemes;
      - Sustainably managed forestry holdings certified with the Forest Stewardship Council (FSC), or the Programme for the Endorsement of Forest Certification (PEFC). Appendix 4 provides an overview of these schemes;
      - Agriculture projects that maintain or enhance existing carbon pools, or livestock management projects<sup>3</sup> that reduce methane or other greenhouse gas (GHG) emissions.
    - The fishery and aquaculture projects are based on certification schemes that have been formally recognized by the Global Sustainable Seafood Initiative (GSSI). GSSI has been assessed, along with the other certification schemes (in Appendix 3). Sustainalytics notes that the GSSI criteria does not cover social sustainability criteria; issues related to working conditions and slavery (prevalent in the seafood industry) are not covered by the benchmark. The GSSI criteria are based on several credible reference documents<sup>4</sup> which Sustainalytics recognizes as credible and impactful, however the limitations regarding social sustainability criteria are also acknowledged.

<sup>3</sup> BMO, through its Framework, has confirmed to Sustainalytics that any projects related to animal husbandry and/or livestock management exclude meat production. Sustainalytics considers this to strengthen the criteria of project selection under the respective eligible category.

<sup>4</sup> FAO Code of Conduct for Responsible Fisheries (CCRF), the FAO Guidelines for Ecolabelling of Fish and Fishery Products from Marine/Inland Capture Fisheries and the FAO Technical Guidelines for Aquaculture Certification (FAO Guidelines).

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- The Framework defines women, youth, adults, minorities, low-income families, the aged or people with disabilities, Indigenous Peoples, as well as the general public as targeted population for the eligible projects under the social use of proceeds.
  - Indigenous Peoples' Business and Community Lending considers financial provisions to Indigenous Peoples' band, council, government, and commercial/business entities owned by such individuals and their organizations. Sustainalytics believes that BMO's selection of Indigenous Peoples as a target population will have positive social impact by enhancing their access to financing options that improve their economic conditions.<sup>5</sup>
  - BMO intends to provide loans to micro-, small- and medium-enterprises (MSMEs)<sup>6</sup> where at least one owner is a woman, or to businesses where at least one-third of the owners are women. Sustainalytics believes that BMO's lending to women-owned businesses promotes gender equality in business leadership and female entrepreneurship in general.
  - Within the Access to Essential Services category, the Framework allows for investments in the following for specific targeted groups: (i) public universities, schools and training centres; (ii) activities and/or infrastructure that expand access to technical, vocational and tertiary education; and (iii) public hospitals, medical equipment, homes or health facilities. Sustainalytics considers the access to inclusive and equitable services a fundamental human right, particularly as it targets enhancing access to free or subsidized essential services for the public and/or vulnerable groups, which is recognized as bringing significant positive societal benefits.
  - BMO's Affordable Housing category considers project eligibility in accordance with the applicable definitions within the respective Canadian jurisdiction, in which it is built, including through programs such as the Investment in Affordable Housing (IAH) program of the Canadian Mortgage and Housing Corporation (CMHC),<sup>7</sup> or its provincial equivalent.
- Project Evaluation and Selection:
  - BMO has a dedicated Sustainable Bond Working Group (the "SBWG") for the review of eligible projects, ongoing monitoring and validation procedures. The SBWG will be comprised of a cross-functional team, including representatives from BMO's Sustainability Office. BMO also has an internal environmental and social risk assessment process in place as well as a list of exclusions.<sup>8</sup> This is in line with market practice.
- Management of Proceeds:
  - BMO's Sustainability Office will track the allocation of proceeds to eligible projects through its internal information systems. The eligible projects originated or refinanced up to 36 months prior to bond issuance shall be considered eligible for inclusion in the portfolio, and general corporate finance is eligible for funding if at least 90% of the loan recipient's revenue is derived from sources that meet the criteria. Pending allocation, the net proceeds will be held in cash or liquid securities in accordance with BMO's normal liquidity management policy. Sustainalytics considers this to be in line with market practice.
- Reporting:
  - BMO intends to publish annual information within one year of issuance, until full allocation. The Bank may also engage an independent auditor for post issuance verification of allocation proceeds. Sustainalytics views BMO's allocation and impact reporting as aligned with market practice.
  - The allocation reporting will include the total outstanding amount, allocated amount by eligible category and balance of unallocated proceeds.

<sup>5</sup> The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) states that "indigenous peoples have the right to maintain and develop their own economic systems" and encourages States to continuously improve their economic conditions. OHCHR, Indigenous Peoples and Access to Finance: [https://www.ohchr.org/Documents/Issues/IPeoples/EMRIP/StudyGoodPractices/Australia\\_2.pdf](https://www.ohchr.org/Documents/Issues/IPeoples/EMRIP/StudyGoodPractices/Australia_2.pdf)

<sup>6</sup> BMO's MSME selection is based on the enterprise's annual turnover of <€50 million, in accordance with the Office of The Superintendent of Financial Institutions (OSFI), Capital Adequacy Requirements (CAR) Chapter 6 – Credit Risk – Internal Ratings Based Approach, paragraph 82.

<sup>7</sup> As per the Canadian Mortgage and Housing Corporation (CMHC), the housing is considered 'affordable' if "it costs less than 30% of a household's before-tax income" and includes all forms of tenure including rental, ownership and co-operative ownership, and can be provided by private, public and non-profit sectors. CMHC, About Affordable Housing in Canada: <https://www.cmhc-schl.gc.ca/en/developing-and-renovating/develop-new-affordable-housing/programs-and-information/about-affordable-housing-in-canada>

<sup>8</sup> Sustainalytics notes that BMO has strengthened the Framework by selecting project-specific thresholds and exclusions that prevent the proceeds from being directed to projects with significant environmental and/or social impacts, such as exclusion of fueling stations. Sustainalytics further recommends BMO to track the allocation to social projects with its rigorous environmental and social risk management procedures in place to avoid lending or exposure to carbon-intensive activities and sectors.

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- The impact reporting may include qualitative and quantitative indicators, where feasible, such as renewable energy capacity installed or generated; GHG emissions reduced/avoided; number of green buildings financed; sustainability certifications achieved; amount of energy saved; eligible vehicles produced; number of electric vehicles or charging stations installed; waste diverted from landfill; water savings achieved; targeted population served by category; number of loans provided; number of educational institutions, healthcare beds, hospitals, or affordable housing built or upgraded.

### Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the BMO Sustainable Financing Framework aligns with the SBG 2018 and the four core components of the GBP 2018 and SBP 2018. For detailed information please refer to Appendix 5: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Performance of the Issuer

### Contribution of the Framework to BMO's sustainability strategy

Sustainalytics is of the opinion that BMO articulates a strong commitment towards a comprehensive approach to sustainability, including inclusive and responsible financing. BMO has demonstrated its commitment to mitigate climate change and promote positive social impact in its 2018 Environmental, Social and Governance Report<sup>9</sup> and through the following efforts:

- BMO's Environmental Policy<sup>10</sup> states that it is "committed to minimizing the impact of our operations on the environment and to demonstrating leadership by integrating environmental considerations into all our business practices." This commitment, in practice, is fulfilled by policies and actions affecting both the Bank's internal operations, as well as their products and services.
- BMO's ECO Strategy<sup>11</sup> aims to address the environmental impacts of the Bank's own operations, through a focus on energy use reduction, sustainable employee transportation for business purposes, sustainable materials usage, waste management, and sustainable procurement.
- Within its own operations, BMO has been carbon-neutral and has set and achieved three successive multi-year enterprise emission reduction targets since 2008. In 2017, the Bank established a new reductions target for carbon emissions of 15% below 2016 level by 2021, as well as a target of reducing water usage by 8% per unit of real estate floor space over the same time period.<sup>12</sup>
- BMO's Materiality matrix identified responsible investing and responsible lending as two of the priority areas based on their significance to stakeholders and the Bank.
- The Bank supports financial inclusion and access to banking for marginalized communities with several initiatives,<sup>9</sup> including but are not limited to:
  - The On-Reserve Housing Loan Program to Indigenous communities, which provides financing without the need for government guarantees;
  - Its continued partnership with the Planned Lifetime Advocacy Network (PLAN) to increase awareness of Registered Disability Savings Plans (RDSPs) for people living with disabilities;
  - The launch of exclusive platform or services, such as BMO Business Xpress platform, and social media engagements specifically intended to support small business owners;
  - Its commitment to provide capital of CAD3 billion for women-owned businesses in Canada between 2019 and 2021; and
  - Its provision of USD593.7 million in community development loans and USD169.0 million in community development investments in 2018 which supported the construction and sustainability of affordable housing, revitalization and stabilization in low- and moderate-income neighborhoods, among other projects.

Sustainalytics is of the opinion that the use of proceeds of BMO's Sustainable Bonds will support and complement the objectives of BMO's sustainability strategy.

<sup>9</sup> BMO, 2018 Environmental, Social and Governance Report:

[https://corporate-responsibility.bmo.com/wp-content/uploads/2019/03/BMO\\_ESG\\_PAS2018en.pdf](https://corporate-responsibility.bmo.com/wp-content/uploads/2019/03/BMO_ESG_PAS2018en.pdf)

<sup>10</sup> BMO, Environmental Policy:

[https://corporate-responsibility.bmo.com/wp-content/themes/bmo-corp/resources/pdfs/BMOEnvironmentalPolicy\\_Nov2018d.pdf](https://corporate-responsibility.bmo.com/wp-content/themes/bmo-corp/resources/pdfs/BMOEnvironmentalPolicy_Nov2018d.pdf)

<sup>11</sup> BMO, Environmental Policy and Approach:

<https://corporate-responsibility.bmo.com/our-practices/environmental-stewardship/environmental-policy-and-approach/>

<sup>12</sup> BMO Environmental Targets and Performance: <https://www.bmo.com/home/about/banking/corporate-responsibility/environment/carbon-neutral>

### Well positioned to address common environmental and social risks associated with the projects

While the use of proceeds to finance loans and green, and/or social projects will provide largely positive impacts, Sustainalytics recognizes that the eligible use of proceeds categories, as defined in the BMO Sustainable Financing Framework, may be exposed to certain environmental and social risks. Particularly, large infrastructure projects such as renewable energy, commercial buildings, and public infrastructure may pose risks related to biodiversity impacts, air and water pollution, community relations, and worker health and safety. BMO has the following policies and procedures in place to help mitigate and/or manage these risks:

- Since 2005, BMO has been a signatory to the Equator Principles and applies environmental and social screening process to “categorize and assess projects and assess climate-related risks and associated disclosures.”<sup>13</sup>
- BMO has an Enterprise-Wide Risk Management Framework<sup>14</sup> as overseen by the Enterprise Risk and Portfolio Management (ERPM) group, which outlines an integrated approach to risk-taking, governance and control related to BMO’s business activities.
- BMO outlined a commitment to consider environmental and social risks as part of the enterprise risk and credit risk management frameworks<sup>15</sup>:
  - BMO has internal policies for its Commercial Banking and Capital Markets businesses that provide guidance on identification, management and mitigation of environmental and social risks in financing transactions;
  - The Bank applies environmental due diligence to assess clients that are active in environmentally sensitive industries;
  - BMO also evaluates social risks based on how well clients manage regulatory and other issues and Indigenous consultation, along with application of rigorous screening for several other social risks such as human trafficking, unfair labour practices, international transfer of equipment for military or internal purposes as well as the manufacturing of weapons banned by international control treaties.
- BMO has enacted policies mandating ethical behavior and an enterprise wide approach to social risk mitigation, including a Code of Conduct,<sup>16</sup> Supplier Code of Conduct,<sup>17</sup> and Modern Slavery and Human Trafficking Statement<sup>18</sup>.
- As a member of the UNEP – Finance Initiative (UNEP FI), BMO engages with stakeholders and the financial community at large on recent developments in sustainable banking. The Bank also joined the Carbon Pricing Leadership Coalition (CPLC) to voluntary support the implementation of carbon pricing globally.<sup>19</sup>

Given the above, Sustainalytics is of the opinion that BMO is well prepared to manage potential environmental and social risks associated with the use of proceeds.

## Section 3: Impact of Use of Proceeds

All seven eligible green categories and four eligible social categories are recognized as impactful by the GBP 2018 and the SBP 2018.

### The importance of BMO’s lending to environmental and social projects

BMO intends to use proceeds from its Sustainable Bonds to provide loans to eligible companies and projects, which will provide positive environmental and/or social benefits. The United Nations Environment Programme (UNEP) not only states that “transforming the financial system is key to promoting the green transformation of our economies”, but also that scaling up of green finance is “needed urgently”.<sup>20</sup> The International Finance

<sup>13</sup> BMO, Annual Report 2018: [https://www.bmo.com/ir/files/F18%20Files/bmo\\_ar2018.pdf](https://www.bmo.com/ir/files/F18%20Files/bmo_ar2018.pdf)

<sup>14</sup> BMO, Management’s Discussion and Analysis- Enterprise-Wide Risk Management: [https://www.bmo.com/ar2018/downloads/bmo\\_ar18\\_mda\\_riskman.pdf](https://www.bmo.com/ar2018/downloads/bmo_ar18_mda_riskman.pdf)

<sup>15</sup> BMO, 2018 Environmental, Social and Governance Report: [https://corporate-responsibility.bmo.com/wp-content/uploads/2019/03/BMO\\_ESG\\_PAS2018en.pdf](https://corporate-responsibility.bmo.com/wp-content/uploads/2019/03/BMO_ESG_PAS2018en.pdf)

<sup>16</sup> BMO, Code of Conduct: [https://www.bmo.com/pdf/code-of-conduct/BMO\\_Code\\_of\\_Conduct\\_EN\\_oct2018.pdf](https://www.bmo.com/pdf/code-of-conduct/BMO_Code_of_Conduct_EN_oct2018.pdf)

<sup>17</sup> BMO, Supplier Code of Conduct: [https://www.bmo.com/pdf/Supplier\\_Code\\_of\\_Conduct\\_Final.pdf](https://www.bmo.com/pdf/Supplier_Code_of_Conduct_Final.pdf)

<sup>18</sup> BMO, BMO on Human Rights - Modern Slavery and Human Trafficking Statement: <https://corporate-responsibility.bmo.com/wp-content/uploads/2019/04/2019-MSA-Statement-Combined-English.pdf>

<sup>19</sup> BMO, 2018 Environmental, Social and Governance Report: [https://corporate-responsibility.bmo.com/wp-content/uploads/2019/03/BMO\\_ESG\\_PAS2018en.pdf](https://corporate-responsibility.bmo.com/wp-content/uploads/2019/03/BMO_ESG_PAS2018en.pdf)

<sup>20</sup> UNEP, Green Finance – A Growing Imperative: [http://unepinquiry.org/wp-content/uploads/2016/05/Green\\_Finance\\_A\\_Growing\\_Imperative.pdf](http://unepinquiry.org/wp-content/uploads/2016/05/Green_Finance_A_Growing_Imperative.pdf)

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Corporation (IFC) further states that “if we are to transition to a sustainable global economy, we need to scale up the financing of investments that provide environmental benefits”.<sup>21</sup>

As a global financial institution with gross loans and acceptances worth over USD444.4 billion as of the third quarter of 2019,<sup>22</sup> BMO is well-positioned to make an impact through its lending activities. Furthermore, given that approximately CAD28 billion, or 7%, of BMO’s total lending activities are in the natural resources sector by 2018;<sup>9</sup> the adoption of environmentally friendly practices in these areas, as described in the Framework, will generate significant impacts.

Additionally, the Framework intends to provide financing to women-owned SMEs, therefore, further supporting the Bank’s commitments for women-owned and small businesses as discussed previously. These lending activities will, directly or indirectly, help support the growth of innovation, gender equality, financial inclusion, economic growth and national competitiveness. Overall, Sustainalytics believes that BMO’s Sustainable Bonds will promote the adoption of environmentally and socially responsible lending practices and support a shift towards a low-carbon economy.

### Indigenous Peoples’ Businesses and Community Lending

BMO intends to use a portion of net proceeds from its Sustainable Bonds to increase access to banking for Indigenous Peoples with a commitment to double the size of its Indigenous Banking business arm by 2025. Such commitments to enhance the availability of financing mechanisms are intended to spur the economic development within Indigenous communities across Canada.<sup>23</sup> Sustainalytics notes that Indigenous Peoples represent a significant segment of the labour market and local economy in Canada, with over 1.6 million people accounting for approximately 4.9% of the total population.<sup>24</sup> However, when comparing the percentage of the population not in the labour force, the OECD highlighted significant gaps between the Indigenous and non-Indigenous population in Canadian cities in 2018, ranging between 13.9% in Edmonton and 22.1% in Thunder Bay.<sup>24</sup>

As one of the leading providers of financial services to Indigenous communities in Canada, BMO is well-positioned to tap into lending activities in order to promote economic self-sufficiency amongst Indigenous Peoples and their communities, as aligned with the UNDRIP’s mission<sup>25</sup>. BMO recognizes that its ability to contribute to the self-determination of Indigenous Peoples is linked to the development of effective relationships with their communities, and thus aims to expand its Indigenous Banking business offerings to continue meeting the unique banking needs within these communities.

Sustainalytics is of the opinion that the use of proceeds from BMO’s Sustainable Bonds will promote economic self-sufficiency and prosperity of Indigenous communities, businesses and individuals across Canada.<sup>26</sup>

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The Bank’s Sustainable Bonds advance the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency.

<sup>21</sup> IFC, Green Finance- A Bottom-up Approach to Track Existing Flows:

[https://www.greengrowthknowledge.org/sites/default/files/downloads/resource/IFC\\_Green%2BFinance%2B-%2BA%2BBottom-up%2BApproach%2Bto%2BTrack%2BExisting%2BFlows%2B2017.pdf](https://www.greengrowthknowledge.org/sites/default/files/downloads/resource/IFC_Green%2BFinance%2B-%2BA%2BBottom-up%2BApproach%2Bto%2BTrack%2BExisting%2BFlows%2B2017.pdf)

<sup>22</sup> BMO, Investor Presentation: [https://www.bmo.com/ir/qtrinfo/1/2019-q3/Q319\\_AnalystPresentation.pdf](https://www.bmo.com/ir/qtrinfo/1/2019-q3/Q319_AnalystPresentation.pdf)

<sup>23</sup> BMO, Indigenous Banking: <https://corporate-responsibility.bmo.com/our-practices/responsible-banking/indigenous-banking/>

<sup>24</sup> OECD, Indigenous Employment Skills and Strategies in Canada: <https://www.oecd.org/canada/indigenous-employment-and-skills-strategies-in-canada-9789264300477-en.htm>

<sup>25</sup> OHCHR, Indigenous Peoples and Access to Finance: [https://www.ohchr.org/Documents/Issues/IPeoples/EMRIP/StudyGoodPractices/Australia\\_2.pdf](https://www.ohchr.org/Documents/Issues/IPeoples/EMRIP/StudyGoodPractices/Australia_2.pdf)

<sup>26</sup> BMO, BMO Bank of Montreal Indigenous Banking: <https://www.bmo.com/indigenous/en/commitment.html>

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<p>Green Buildings &amp; Infrastructure</p> <p>Affordable Housing</p> <p>Clean Transportation</p>	<p>9. Industry, Innovation and Infrastructure</p> <p>11. Sustainable Cities and Communities</p>	<p>9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.</p> <p>11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.</p> <p>11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.</p> <p>11.B By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, and resilience to disasters.</p>
<p>Pollution Prevention and Control</p>	<p>12. Responsible Consumption and Production</p>	<p>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.</p>
<p>Sustainable Water and Wastewater Management</p>	<p>6. Clean Water and Sanitation</p> <p>13. Climate Action</p>	<p>6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.</p> <p>13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.</p>
<p>Sustainable Management of Living Natural Resources &amp; Sustainable Land Use</p>	<p>14. Life Below Water</p> <p>15. Life on Land</p>	<p>14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.</p> <p>15.A Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems.</p>
<p>Women-Owned Business Lending</p> <p>Indigenous Peoples' Business and Community Lending</p>	<p>5. Gender Equality</p> <p>8. Decent Work and Economic Growth</p> <p>10. Reduced Inequalities</p>	<p>5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.</p> <p>8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.</p> <p>10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.</p>
<p>Access to Essential Services</p>	<p>3. Good Health and Well-Being</p> <p>4. Quality Education</p>	<p>3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.</p> <p>4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.</p> <p>4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.</p>



## Conclusion


The Bank of Montreal (BMO) has developed a Sustainable Financing Framework to finance or refinance, in whole or in part, a broad range of eligible projects that intend to deliver positive environmental and social outcomes. Sustainalytics believes that BMO's Framework is aligned with its overall sustainability strategy and that the environmental and social use of proceed categories will advance a number of key SDGs. Additionally, Sustainalytics is of the opinion that BMO has sufficient measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Furthermore, Sustainalytics highlights that BMO may invest in infrastructure for education and health care for marginalized population, which will enhance access to public, free or subsidized essential services, and that are recognized as impactful by the SBP 2018.

Overall, Sustainalytics is of the opinion that the Bank of Montreal (BMO) Sustainable Financing Framework is robust, transparent, and in alignment with the Sustainability Bond Guidelines 2018 and the four core components of the Green Bond Principles 2018 and the Social Bond Principles 2018.

## Appendices

### Appendix 1: LEED Certification Scheme




	LEED <sup>27</sup>
<b>Background</b>	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.
<b>Certification levels</b>	Certified Silver Gold Platinum
<b>Areas of Assessment</b>	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>
<b>Requirements</b>	<p>Prerequisites (independent of level of certification) + Credits with associated points</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>
<b>Performance display</b>	

<sup>27</sup> USGBC, LEED: [www.usgbc.org/LEED](http://www.usgbc.org/LEED)

## Appendix 2: Certification Schemes for Agriculture

	<b>Rainforest Alliance</b>	<b>UTZ</b>	<b>USDA Organic</b>
Background	The Rainforest Alliance Seal is a global certification system for Agriculture, Forestry and Tourism. The Rainforest Alliance certification indicates compliance with the organization's standards for environmental, social and economic sustainability. Rainforest Alliance merged with UTZ in January 2018.	The UTZ Label is a global certification system for coffee, cocoa, tea and hazelnuts. The UTZ certification incorporates environmental, social, farm management and farming practices considerations. UTZ merged with Rainforest Alliance in January 2018.	The USDA Organic label is a US certification system overseen, administered and enforced by the National Organic Program of the United States Department of Agriculture. The US Organic label is regulated by the US Organic Foods Production Act of 1990 and involves input from the National Organic Standards Board (a Federal Advisory Committee made up of 15 members of the public) and the public.
Clear positive impact	Promoting sustainable practices in agriculture, forestry and tourism.	Promoting sustainable practices in Coffee, Cocoa Tea and Hazelnut farming and trading.	Promoting sustainable farming practices that improve water quality, conserve energy, increase biodiversity and contribute to soil health.
Minimum standards	Rainforest alliance establishes a minimum threshold for impact through critical criteria and requires farmers to go beyond by demonstrating improved sustainability on 14 continuous improvement criteria.	UTZ establishes a minimum threshold for impact through mandatory points and additional points, and requires farmers to go beyond by demonstrating compliance with an increasingly large proportion of both mandatory and additional points.	The USDA Organic seal sets strict production and labeling requirements: <ul style="list-style-type: none"> <li>• produced without genetic engineering, ionizing radiation or sewage sludge</li> <li>• produced using allowed substances based on a comprehensive list of authorized synthetic and non-synthetic substances</li> </ul> overseen by a USDA NOP authorized agent
Scope of certification or programme	Rainforest alliance addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria.	UTZ addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria.	The USDA Organic system addresses key risks such as substance use through the regulation of synthetic and non-synthetic substances to preserve soil quality and in line with federal guidelines on animal raising practices, pest and weed control and the use of additives.
Verification of standards and risk mitigation	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	The USDA seal has a twofold enforcement mechanism, one by Organic Certifiers and one by the USDA Agricultural Marketing Services. The two bodies undergo audits to ensure compliance with criteria and continuous improvement at least once a year or unannounced.
Third party expertise and multi-stakeholder process	Standard setting is aligned with the ISEAL Standard Setting Code.	Standard setting is aligned with the ISEAL Standard Setting Code.	The USDA Organic seal is organized by the National Organic Program which develops the rules and regulations for the production, handling, labeling and enforcement of all USDA organic products. This process receives input from the national Organic Standards Board (a Federal Advisory Committee

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			made of 15 members of the public) and the general public.
Performance Display			
Third-party verified	<ul style="list-style-type: none"> <li>• Africert</li> <li>• Conservacion y Desarrollo Certificado S.A.</li> <li>• Imafloa</li> <li>• IMO India</li> <li>• CERES</li> <li>• IBD</li> <li>• Indocert</li> <li>• NaturaCert</li> <li>• Productos y Procesos Sostenables, A.C.</li> <li>• NEPCon</li> </ul>	60 UTZ approved certification bodies split by country and by relevant commodity (coffee, cocoa, tea, hazelnut, herbals. Rooibos)	80 certifying agents are USDA accredited and authorized to certify operations under the USDA organic standards. 48 of the 80 certifying authorities are US based and 32 are in foreign countries. Most certifying agents are directly accredited by the USDA National Organic Program, with an additional 21 members being officially authorized through recognition agreements between US and other governments.
Qualitative considerations	Global recognition across 76 countries around the world. There are 763 Rainforest Alliance certified products and more than 1,354,057 people which have conducted training, certification and verification under the Rainforest Alliance standard. Rigorous on the enforcement of minimum standards and strong governance over the implementaton of social and environmental mitigation processes.	Global recognition across 131 countries around the world. There are 987,000 UTZ Certified farmers in the UTZ programme with more than 368,000 workers on the UTZ certified farms in 41 producing countries and more than 3.4 million hectares of UTZ certified crops. The UTZ name or label is present on more than 15,000 products in 131 countries worldwide. Rigorous on the enforcement of minimum standards and strong governance over the implementaton of social and environmental mitigation processes.	Under the USDA Organic seal, the US federal legislation allows thre levels of organic foods, namely: purely organic products made entirely with certified organic ingredient and labeled 100% organic, products with at least 95% organic ingredients. Both categories are allowed to be certified USDA Organic. A third category with at least 70% organic ingredients may be labeled as “made with organic ingredients”, but cannot display the USDA Organic seal.

### Appendix 3: Certification Schemes for Fishery and Aquaculture

	<b>Marine Stewardship Council</b> <sup>28</sup>	<b>Aquaculture Stewardship Council</b> <sup>29</sup>	<b>Best Aquaculture Practices</b> <sup>30</sup>	<b>GSSI</b>
Background	Marine Stewardship Council (MSC) is a non-profit organization founded in 1996, that issues eco-label certifications for fisheries which are sustainable and well-managed.	The Aquaculture Stewardship Council (ASC) is an independent, international NGO that manages the ASC certification and labelling program for responsible aquaculture.	The BAP certification is administered by the Global Aquaculture Alliance (GAA), a non-profit organization focused on advocacy, the education and leadership of on responsible aquaculture matters.	The Global Sustainable Seafood Initiative (GSSI) was created to fill the need for a globally accepted tool to provide an objective and transparent assessment of the performance and provide recognition of credible and responsible seafood certification schemes.
Clear positive impact	Promoting sustainable fisheries practices.	Promoting sustainable aquaculture practices.	Promoting sustainable aquaculture practices.	Promoting credible and impactful seafood certification programs.
Minimum standards	A minimum score must be met across each of the performance indicators.  As a condition to certification, low-scoring indicators must be accompanied by action plans for improvement.	Quantitative and qualitative thresholds which are designed to be measurable, metric- and performance-based.  Certification may be granted with a “variance” to certain requirements of the standard. This variance is designed to allow the standard to adapt to local conditions, but has been criticized for weakening the standard and overriding the consultations involved in the standard-setting process.	The BAP assessment has mandatory minimums, but also includes indicators which allow the proponent to define individual targets.  As the certification process is fishery-specific, the standard may be more robust for some species. For example, the Monterey Bay Aquarium’s Seafood Watch programme recommends BAP as a reputable label for freshwater fish, mussels, and shrimp, but not salmon, scallops, or clams. <sup>31</sup>	Through its Global Benchmark Tool, GSSI provides formal recognition to credible certification schemes with demonstrated responsible practices by evaluating governance criteria and operational management criteria. The benchmark covers both fisheries and aquaculture.
Scope of certification or programme	The MSC standard consists of a fisheries standard and a chain of custody standard.  The Fishery Standard assesses three core principles: sustainable fish stocks, minimising environmental impact, and effective fisheries management; collectively these account for the major environmental and social impacts.	ASC encompasses nine farm standards, covering 15 fish species as well as the harvest of seaweed. These farm standards lay out minimum requirements regarding both environmental and social performance.  Additionally, a Chain of Custody Standard is mandatory for all supply chain actors in order to ensure traceability.	Different certifications are available for different parts of the supply chain: farms, processing plants, hatcheries, feed mills. In practice, that means that a processing plant that does not necessarily source all of its fish from certified farms can still be certified (a star rating display on the label provides this information).	GSSI addresses key risks through its benchmarking, including stakeholder engagement, antibiotic use, animal health and impacts on local habitat and water resources.





<sup>28</sup> MSC, The MSC Fisheries Standard: <https://www.msc.org/standards-and-certification/fisheries-standard>

<sup>29</sup> ASC, Farm standards: <https://www.asc-aqua.org/what-we-do/our-standards/farm-standards/>

<sup>30</sup> Best Aquaculture Practices Certification, About Best Aquaculture Practices: <https://www.bapcertification.org/About>

<sup>31</sup> Seafood Watch, Eco-Certification: <https://www.seafoodwatch.org/seafood-recommendations/eco-certification>

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	<p>The Chain of Custody standard addresses certified spurchsing, seperation, traceability and records, and good management.</p>		<p>Within each fishery-specific standard there are requirements and recommendations which apply to social, environmental, animal health &amp; welfare, and food safety issues.</p>	
<p>Verification of standards and risk mitigation</p>	<p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065.</p> <p>Certification is valid for up to five years.</p>	<p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the ASC standard and ISO 17065.</p> <p>Major non-compliances must be remedied within three months.</p>	<p>Third-party certification bodies such as Global Trust, Bureau Veritas, Control Union, Lloyd’s Register, NSF, SGS assess compliance against the standard.</p> <p>Non-compliance precludes recertification until the violation is remedied.</p>	<p>Formal recognition is provided to certification schemes that undergo assessments to ensure compliance with criteria.</p>
<p>Third party expertise and multi-stakeholder process</p>	<p>Aligned with the UN Code of Conduct for Reponsible Fishing, and further informed by the Global Sustainable Seafood Initiative (GSSI), World Trade Organization (WTO), and International Social and Environmental Accreditation and Labelling (ISEAL)</p>	<p>Developed in line with United Nation’s Food and Agriculture Organization) UN FAO) and International Labour Organisation (ILO) principles.</p> <p>Managed in accordance with the International Social and Environmental Accreditation and Labelling (ISEAL) Codes of Good Practice.</p>	<p>The standard is managed by an oversight committee, which takes development input from a technical committee as well as public comments.</p> <p>Aligned with Global Food Safety Initiative (GFSI), Global Social Compliance Programme (GSCP) and Global Sustainable Seafood Initiative (GSSI).</p>	<p>GSSI delivers recognition of seafood certification schemes aligned with the FAO Guidelines.</p>
<p>Performance display</p>				
<p>Qualitative considerations</p>	<p>The MSC label is the most widely recognized sustainable fisheries label worldwide, and is generally accepted to have positive impacts on marine environments.</p> <p>Proponents of the label cite the transparent science-based process for approval and its successful engagement with industry groups. Criticism from various observers include lack of focus on preventing by-catch, protecting marine mammals and endangered species, follow-up on conditions,</p>	<p>Widely recognized, and modeled on the successful MSC certification.</p> <p>Some criticism has been focused on the ability to certify with a “variance”, in which certain aspects of the standard can be interpreted or waived during the audit procedure.</p> <p>While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture.</p>	<p>Widely recognized within the industry.</p> <p>As the certification process is fishery-specific, the standard may be more robust for some species than for other.</p> <p>While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture.</p>	<p>Recognition is provided through a 7-step benchmark process that is carried out by a independent experts, the GSSI steering board, the benchmark committee and the GSSI secretariat.</p>

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	crew safety, and live tracking of supply chains.			
				<p>GSSI has provided formal recognition of 7 certification schemes including: Alaska Responsible Fisheries Management Certification Program, Iceland Responsible Fisheries Management Certification Programme, Marine Stewardship Council, Best Aquaculture Practices Certification, GLOBALG.A.P. Aquaculture Certification System, Aquaculture Stewardship Council Certification, and Audubon G.U.L.F RFM Certification Program.</p>

## Appendix 4: FSC and PEFC Certifications

Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC), including PEFC's Latin American implementation as CERTFOR, are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labor Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

- (i) *Type of organization:* Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.
- (ii) *Indigenous People's Rights:* FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.
- (iii) *Sourcing wood from non-certified sources:* Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC's standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the violation of local, national, and international legislation with regards to worker's and indigenous people's rights as being a controversial source of wood.



## Appendix 5: Sustainability Bond / Sustainability Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Bank of Montreal
<b>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</b> <i>[specify as appropriate]</i>	Bank of Montreal Sustainable Financing Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	September 09, 2019
<b>Publication date of review publication:</b> <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarize the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Green Buildings & Infrastructure, (iii) Energy Efficiency, (iv) Clean Transportation, (v) Pollution Prevention and Control, (vi) Sustainable Water and Wastewater Management, (vii) Sustainable Management of Living Natural Resources & Sustainable Land Use, (viii) Indigenous Peoples' Business and Community Lending, (ix) Women-Owned Business Lending, (x) Access to Essential Services, and (xi) Affordable Housing – align with those recognized by the Green Bond Principles 2018 and Social Bond Principles 2018. Sustainalytics considers the range of eligible projects to have positive environmental and social impacts and to advance a number of key UN Sustainable Development Goals.

#### Use of proceeds categories as per GBP:

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy   | <input checked="" type="checkbox"/> Energy efficiency   |
| <input checked="" type="checkbox"/> Pollution prevention and control   | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation  |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation  |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

#### Use of proceeds categories as per SBP:

- |  |  |
|--|--|
| <input type="checkbox"/> Affordable basic infrastructure   | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input checked="" type="checkbox"/> Affordable housing   | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security   | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the social taxonomy, if other than SBPs:

#### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

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Overall comment on section (if applicable):

BMO has a dedicated Sustainable Bond Working Group (the "SBWG") for the review of eligible projects, ongoing monitoring and validation procedures. The SBWG will comprise of cross-functional team, including representatives from BMO's Sustainability Office. BMO also has an internal environmental and social risk assessment process in place. This is in line with market practice.

### Evaluation and selection

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                           | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other ( <i>please specify</i> ):  |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

BMO's Sustainability Office will track the net use of proceeds to eligible projects through its internal information systems. Pending allocation, the net proceeds will be held in cash or liquid securities in accordance with BMO's normal liquidity management policy. This is in line with market practice.

### Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

### Additional disclosure:

- |  |   |
|--|---|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other ( <i>please specify</i> ):                               |

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### 4. REPORTING

Overall comment on section (if applicable):

BMO intends to publish annual information on its website within one year of issuance, until full allocation. Allocation reporting will include the total outstanding amount, allocated amount by eligible category, balance of unallocated proceeds, as well as relevant impact metrics, where feasible. BMO may also engage an independent auditor for post issuance verification of allocation proceeds. Sustainalytics views BMO's allocation and impact reporting as aligned with market practice.

#### Use of proceeds reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other ( <i>please specify</i> ):        |

#### *Information reported:*

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Allocated amounts  | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): Balance of unallocated proceeds |   |

#### *Frequency:*

- |   |                                      |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual                | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |                                      |

#### Impact reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other ( <i>please specify</i> ):        |

#### *Frequency:*

- |   |                                      |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual                | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |                                      |

#### *Information reported (expected or ex-post):*

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings   |
| <input checked="" type="checkbox"/> Decrease in water use   | <input checked="" type="checkbox"/> Number of beneficiaries  |
| <input checked="" type="checkbox"/> Target populations      | <input type="checkbox"/> Other ESG indicators ( <i>please specify</i> ): Renewable energy capacity installed or generated; number of green buildings financed; sustainability certifications achieved; eligible vehicles produced; number of electric vehicles or charging stations installed; waste diverted from landfill; number of loans |

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provided; number of educational institutions, healthcare beds, hospitals, or affordable housing built or upgraded.

### Means of Disclosure

- |   |  |
|---|--|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report                    |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other (please specify): a report posted on its website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): |  |

Where appropriate, please specify name and date of publication in the useful links section.

### USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://corporate-responsibility.bmo.com/reports/>

### SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

#### Type(s) of Review provided:

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

#### Review provider(s):

#### Date of publication:

### ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

## Disclaimer

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## Bank of Montreal Sustainable Financing Framework

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## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider". The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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