

Statement on Climate Change

BMO Financial Group (BMO) considers climate change one of the defining issues of our generation. Everyone, including BMO, bears responsibility for the effectiveness of the response.

We recognise that we can play an important role in supporting the transition to a lower carbon global economy, and that climate change presents both risks and opportunities that can affect BMO's business. Tackling climate change is also an essential foundation for achieving the United Nations Sustainable Development Goals (UN SDGs), particularly SDG Goal 13 on Climate Action.

These views are reflected in our efforts to: (1) capture emerging opportunities, such as sustainable finance related to the global transition to a lower carbon economy; (2) implement good international practice in responsible banking and environmental and social risk assessment, and; (3) provide useful climate-related disclosure and sustainability reporting consistent with international good practice, such as the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD).

Governance

Board Level Oversight

Board-level oversight of sustainability is embedded in the charter of our Board's Audit and Conduct Review Committee. This committee meets annually with the Chief Sustainability Officer, Corporate Secretary and General Counsel to review and discuss the findings of the BMO Environmental, Social and Governance Report (ESG Report) and to consider matters related to sustainability. Commencing in fiscal 2018, the ESG Report and climate related disclosure will be reviewed by the full Board of Directors.

BMO's directors are evaluated based on a skills matrix that specifically includes experience related to sustainability. For example, Jan Babiak brings unique expertise to her role as a member of BMO's Board of Directors. A former managing partner of Ernst & Young LLP, she founded and led the firm's global Climate Change and Sustainability Services practice. The Board also receives training on sustainability topics. Climate change disclosure training was developed and delivered to our directors in 2018 as part of BMO's implementation of the recommendations of the TCFD.

Management Approach

The Chief Executive Officer (CEO) has delegated responsibility for sustainability, including climate change, to BMO's General Counsel, who is a member of BMO's Executive Committee and reports directly to the CEO. BMO has appointed a Chief Sustainability Officer (CSO), who reports to the

Corporate Secretary and General Counsel. The CSO is responsible for the development and execution of sustainability strategy, including internal advisory, stakeholder engagement and disclosure. This mandate includes producing and publishing BMO's annual ESG Report and other related public disclosures, as well as monitoring climate-related issues and developing strategies to manage the risks and opportunities associated with climate change across the organization.

BMO's Sustainability Council, established in 2008, is chaired by BMO's General Counsel and comprises senior leaders from business and corporate support areas across the organization. The Sustainability Council meets quarterly and acts as a support and advisory body to oversee the implementation of BMO's sustainability strategy and discuss topics including climate change risks, opportunities and disclosure.

Climate-Related Disclosure

BMO is currently taking steps to implement the recommendations of the TCFD, which includes qualitative disclosure as well as quantitative analysis of climate-related financial risks relating to lending portfolios. Complete phase-in of the TCFD's recommendations will occur in the coming years in line with the TCFD's recommended implementation period.

Since 2006, BMO has made specific climate-related disclosure in accordance with the CDP (formerly Carbon Disclosure Project) and makes broader public disclosure around sustainability issues in our annual ESG Report.

Additional disclosure around environmental and social risk is also found in our Annual Report, including in the Management's Discussion and Analysis (MD&A). In 2018, the TCFD spotlighted our MD&A disclosure on environmental and social risk as an example of disclosure aligned to the TCFD recommendations around Risk Management. See page 16 of their [September Status Report](#).

Stakeholder Engagement

BMO has undertaken stakeholder engagement on the subject of climate change and also participates in working groups that advance understanding of best practices. This includes our origination and involvement in inter-bank discussions of the TCFD through the Canadian Bankers' Association, active participation in the United Nations Environment Programme – Finance Initiative (UNEP FI), which has pioneered emerging practice in TCFD scenario analysis, and investor engagement on our climate change program. In 2017, BMO joined the Carbon Pricing Leadership Coalition (CPLC), a voluntary initiative that brings together leaders from government, private sector, academia, and civil society to share experience working with carbon pricing and to expand the evidence base for effective carbon pricing systems and policies.

Strategy

Capturing Opportunities

BMO has established a Strategic Framework, with Sustainability Principles set out alongside our Strategic Priorities, focused on pursuing our corporate vision and building a foundation of trust with our

stakeholders. This framework is championed by BMO's CEO. Environmental Impact is one of the four pillars of our Sustainability Principles.

Climate change and the global transition to a lower carbon economy will drive new and different demands. BMO's business model is adaptive to market trends, opportunities and client demands, and will respond to these new demands through product innovation.

We recognize an opportunity to differentiate ourselves by developing innovative new products and business services that are related to climate change and by offering financing solutions that can assist our customers during their transition to a low-carbon economy. These opportunities are being captured through our sustainable finance product underwriting and advisory services, including green, social and sustainability bond underwriting and green financing, as well as through innovative approaches to responsible investing taken by BMO Global Asset Management, among other activities. BMO is currently exploring additional ways to capture sustainable finance opportunities as this market grows, driven in part by changing capital flows associated with market and regulatory forces.

Sustainable Finance

In 2017, BMO Capital Markets recruited a Sustainable Finance Specialist and continues to build client engagement and identify market opportunities for sustainable finance products and services. BMO also has a full-time Green Bond Strategist who writes monthly market intelligence reports for internal and client use. Working groups have been established on sustainable finance and sustainability topics with membership across the enterprise. BMO Capital Markets is also working with the BMO Sustainability Office to identify green and socially beneficial lending activity and improve internal processes for tracking and monitoring such investments that will help organize and guide the growth of our sustainable finance business. A focused climate change and sustainable finance strategy review is being undertaken in 2019 to chart BMO's course over the global transition.

Global Asset Management

Climate change issues have affected the strategy of our wholly-owned asset manager, BMO Global Asset Management. BMO Global Asset Management is a founding signatory of the UN Principles for Responsible Investment and has a commitment to take financially-material ESG issues – including climate change - into account in all relevant investment strategies. BMO Global Asset Management has responded by taking specific steps to address climate risk. These include:

- Integrating ESG factors, including climate change, into the investment analysis process for all relevant asset classes.
- Authoring a [report](#) by the Institutional Investors Group on Climate Change on scenario analysis for investors, aimed at supporting the implementation of TCFD recommendations.
- Developing investment products that allow investors to direct capital towards climate solutions or lower carbon investments. These include the Climate Opportunity Partners private equity fund, which is entirely invested in solution providers; and green bond investments, which include two dedicated mandates for institutional investors.

- Implementing a comprehensive engagement and proxy voting approach aimed at encouraging investee companies to address climate risks. BMO Global Asset Management is an active participant in the US\$30 trillion Climate Action 100+ initiative, which aims to improve companies' governance, strategy and disclosure in relation to climate change.
- Supporting public policy statements on climate change, such as the Investor Statement, released in 2018, as well as interventions on specific policies such as European emissions trading reforms.
- Taking a transparent approach, including the publication of carbon footprints for two of our Responsible Funds as part of wider impact reporting. BMO Global Asset Management will also be publishing its own response to the TCFD recommendations.

Risk Management

Consistent with the recommendations of the TCFD and emerging best practice, climate-related risks may include both transition risks and physical risks. Transition risks include substitution of goods, new regulations, or other changes to the economic context of our business and the businesses of our clients. Physical risks include physical changes to the earth that could affect our business, including severe weather, flooding or other impacts of climate change. These potential risks exist for all financial institutions, including BMO, in relation to our own operations as well as through exposure to risks of our clients.

BMO's financial condition, liquidity and long-term value creation is evaluated as part of our enterprise-wide risk management approach. This is set out in our [MD&A](#), under Enterprise-Wide Risk Management.

Current approaches to evaluating areas of enterprise risk implicitly include the elements of transition and physical risk identified by the TCFD. Scenario analysis specific to climate change scenarios has not yet been conducted but is being analyzed for implementation in line with the recommendations of the TCFD, which BMO has supported.

BMO's enterprise-wide risk management framework assists the bank in managing its risk-taking activities – including, for example, consideration of growth opportunities in certain sectors. This framework is anchored in the three-lines-of-defence approach to managing risk. See our [MD&A](#) for a full description of responsibilities.

Climate change is considered within credit and counterparty risk analysis. Credit risk management begins with lending and credit risk officers who operate in a dual control structure to authorize lending transactions. When evaluating clients, we consider all risks in an integrated fashion, including climate change. Specific guidelines related to climate change are applied to transactions with clients operating in emissions-intensive industry sectors, which involve efforts to understand the borrower's climate change adaptation/mitigation strategies. The output of our client evaluation/process is our credit risk profile which feeds into our overall risk reporting and quarterly disclosure directed at key stakeholders including the Board, regulators, and the investor community.

At the company level, the information gathered is then distilled to determine the impact to our business and in collaboration with the potentially affected areas, a determination of materiality (against other issues and priorities) is made. With respect to climate change, if the risk is material (meaning that it

would have a negative impact on a company's operating leverage such that they would be unable to meet their financial commitments to us) a mitigation plan is put in place. Other risk types include:

- Market risk, including the risk related to the possibility that the substitution of goods could affect credit risk, as well as the risks associated with our own products and services, is considered in a variety of contexts. These potential exposures also present opportunities that are reviewed in the context of sustainable finance, responsible lending and asset management strategies. BMO's response at the strategic level involves the development of sustainable finance products and services, including responsible banking and responsible lending programs.
- Reputation risk could relate to BMO's perceived actions or lack of action in relation to climate change, our disclosures around climate change or the activities of our clients. BMO monitors reputational risks associated with climate change as part of our overall risk assessments of operational and business risks. Climate-related reputation risks are addressed within the scope of our reputational risk management framework overseen by BMO's Reputation Risk Committee (RRC).
- Legal risk could relate to BMO's actions or alleged lack of action in relation to climate change, our disclosures around climate change or the activities of our clients. BMO monitors other legal risks associated with climate change as part of our overall risk assessments of operational, business and reputational risks.

Material risks are reported in our Annual Report. Our ESG Report also discloses data on our lending to the natural resources sector.

Metrics and Targets

From an operational perspective, we recognize that environmental stewardship is one of today's most pressing global challenges, with climate change in particular presenting a growing threat. Stakeholders expect us to consider the impact that BMO has on the natural environment, both directly in terms of our own operations and indirectly through our purchasing decisions. We expect the same of ourselves. BMO has set and achieved three separate multi-year enterprise emissions reduction targets since 2008 and has worked hard to maintain our carbon neutrality since 2010.

BMO tracks and analyzes our own emissions and tracks new fuel/energy taxes and regulations that could affect our operating costs. We also track weather data for large urban centres in North America where BMO facilities are located to assess potential physical risks to our own operations. These areas of analysis are considered in operational risk and sustainability planning and reporting.

From an enterprise-wide operational perspective, BMO is carbon neutral. In 2017, BMO set a new five-year target to reduce absolute carbon emissions by 15% by the end of FY2021, with our FY2016 performance as a baseline. This builds on BMO's reduction of absolute emissions (adjusted to exclude the impacts of weather and other factors) by 13.9% at the end of FY2016, with our FY2012 performance as a baseline. The Environmental Sustainability group within Corporate Real Estate is responsible for establishing and maintaining an operational environmental management system that is aligned with the

framework set out in ISO 14001, and for setting objectives and targets related to BMO's operations and its Environmental Policy.

Further information on metrics and targets is found in our [CDP submission](#).

In Closing

We look forward to working with our industry peers, stakeholders and governments to find ways to identify and mitigate the risks associated with climate change, and to direct capital towards climate solutions, in order to secure a more sustainable future for our planet.

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