

**BANK OF MONTREAL**  
**AUDIT COMMITTEE CHARTER**

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**PURPOSE**

The Committee is responsible for performing the duties set out in this Charter to enable the Board to fulfill its oversight responsibilities in relation to:

- the integrity of the Bank's financial reporting;
- the effectiveness of the Bank's internal controls including internal control over financial reporting, controls relating to the prevention, identification and detection of fraud and disclosure controls;
- the performance of the Bank's internal audit function and the qualifications and independence of the Bank's Chief Auditor;
- the qualifications, independence and performance of the Shareholders' Auditors;
- the Bank's compliance with legal and regulatory requirements;
- transactions involving related parties;
- conflicts of interest and the use and disclosure of confidential information, including customer and employee information;
- consumer protection measures and dealing with customer complaints; and
- standards of business conduct and ethics for directors, senior management and employees.

**MEMBERS**

The Committee shall consist of three or more Directors as determined by the Board. At least a majority of the members of the Committee shall be resident Canadians and not "affiliated" with the Bank for the purposes of the *Bank Act* (Canada). Each member of the Committee shall be:

- a Director who is not an officer or employee of the Bank or an affiliate of the Bank; and
- "independent" for the purposes of applicable Canadian and United States securities laws and the New York Stock Exchange Rules.

Each member of the Committee shall be Financially Literate and the Committee shall have at least one Audit Committee Financial Expert. Members of the Committee shall not serve on more than three public company audit committees without the approval of the Board provided that members of the Committee serving on more than three public company audit committees as of November 25, 2003 may continue to serve on such committees without the approval of the Board. Members of the Committee may not receive any compensation from the Bank other than director and committee fees and fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service (provided such compensation is not contingent in any way on continued service).

The Board shall, having considered the recommendation of the Governance and Nominating Committee, appoint the members of the Committee and the Chair of the Committee annually following the meeting of the shareholders at which Directors are elected each year. Each successor to the Chair shall be designated by the Board, having considered the recommendation of the Governance and Nominating Committee, at least three months prior to the anticipated date of retirement of the Chair. The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors and increase the number of Committee members as it determines appropriate. If a member of the Committee becomes "affiliated" with the Bank for the purposes of the *Bank Act* (Canada), the member may continue as a member of the Committee with the approval of the Governance and Nominating Committee, in consultation with the General Counsel. Any member of the Committee may be removed or replaced at any time by the Board.

## MEETINGS

The Committee shall meet as frequently as it determines necessary but not less than once each quarter. Meetings may be called by the Chair of the Committee or any two members of the Committee. The Chair of the Committee must call a meeting when requested to do so by any member of the Committee, the Shareholders' Auditors, the Chief Auditor, the Chairman of the Board, the Chief Executive Officer or the Chief Financial Officer.

Notice of the time and place of each meeting of the Committee, other than ad hoc meetings, shall be given to each member of the Committee and the Shareholders' Auditors, not less than 48 hours before the time when the meeting is to be held. A quorum of the Committee shall be a majority of its members. The powers of the Committee may be exercised at a meeting at which a quorum of the Committee is present and at which a majority of the members present are resident Canadians and attending in person or by telephone or other electronic means. Each member is entitled to one vote in Committee proceedings.

Notice of the time and place of ad hoc meetings shall be given to each member not less than two hours before the time when the meeting is to be held.

The Chair shall preside at all meetings of the Committee at which he or she is present and shall, with input from the Chief Financial Officer, Chief Auditor and Shareholders' Auditors, develop the agenda for each Committee meeting. The agenda for each meeting of the Committee, other than ad hoc meetings, shall be delivered to each member of the Committee at least 48 hours prior to any meeting of the Committee, together with such other materials as the Chair determines necessary. The Chair shall designate from time to time a person who may be, but need not be, a member of the Committee, to be Secretary of the Committee. Minutes shall be kept of all meetings of the Committee and shall be maintained by the Secretary of the Committee.

The procedure at meetings is to be determined by the Committee unless otherwise determined by the By-Laws of the Bank, by a resolution of the Board or by this Charter.

The Committee shall meet at least quarterly in separate private sessions with management, the Chief Auditor and the Shareholders' Auditors. After such sessions, the Committee shall also meet with only members of the Committee present. The Committee may invite any Director, officer or employee of the Bank or the Bank's counsel or Shareholders' Auditors or any other person to attend meetings of the Committee to assist in the discussion and examination of the

matters under consideration by the Committee. The Shareholders' Auditors shall, at the expense of the Bank, be entitled to attend and be heard at any meeting of the Committee.

## REPORTS

The Committee shall report the proceedings of each meeting and all recommendations made by the Committee at such meeting to the Board at the Board's next meeting. The Committee shall make such recommendations to the Board as it may deem appropriate and shall have such decision-making authority as the Board may determine from time to time. The Committee shall also approve the report of the Committee to be included in the Bank's information circular and such other reports relating to the activities of the Committee as may be required by the Bank or the Board from time to time. In addition, the Committee shall prepare and submit to the Board for its review and approval the report required to be submitted by the Board to the Office of the Superintendent of Financial Institutions within 90 days after the financial year-end of the Bank concerning the activities of the Committee during the year in carrying out its conduct review responsibilities.

## RESPONSIBILITIES AND DUTIES

The Committee shall perform the duties set out in this Charter and shall perform such other duties as may be necessary or appropriate under applicable law (including the *Bank Act* (Canada)) or stock exchange rules, or as may be delegated to the Committee by the Board from time to time, including such duties as are specified in the Bank's Board Approval/Oversight Guidelines. In addition, the Committee shall act as the audit committee and conduct review committee of subsidiaries of the Bank as required by the Board, such subsidiaries being referred to herein as Designated Subsidiaries, and provide reports to the boards of such subsidiaries and to the Superintendent of Financial Institutions as may be required by the *Bank Act* (Canada), *Trust and Loan Companies Act* (Canada) and the *Insurance Companies Act* (Canada) or other applicable laws.

### Financial Reporting

The Committee shall review with management and the Shareholders' Auditors:

- the appropriateness of the Bank's accounting and financial reporting;
- any significant changes to the Bank's accounting and financial reporting as such changes are recommended by management or the Shareholders' Auditors;
- the accounting treatment of significant risks and uncertainties;
- any material relevant proposed changes in accounting standards and securities policies or regulations;
- key estimates and judgments of management that may be material to the Bank's financial reporting; and
- significant auditing and financial reporting issues discussed during the fiscal period and the method of resolution.

The Committee shall review with management and the Shareholders' Auditors and approve or, if appropriate, recommend for approval by the Board before the following information is disclosed to the public or regulators as applicable:

- the annual audited consolidated financial statements, together with the report of the Shareholders' Auditors thereon, the list of Bank owned subsidiaries contained in the Bank's annual report to shareholders, and the interim unaudited financial statements, together with the interim review report of the Shareholders' Auditors thereon (taking into account the explanation of management of all significant variances between comparative reporting periods) before they are approved by the Directors;
- the annual information form of the Bank;
- earnings press releases;
- prospectuses and registration statements qualifying the Bank's common shares;
- all financial statements and other financial information in material public disclosure documents other than: (i) those previously reviewed by the Committee; or (ii) earnings coverage ratios, capitalization tables and summary financial information extracted or derived from financial statements previously reviewed by the Committee;
- such returns of the Bank as the Superintendent under the *Bank Act* (Canada) may specify; and
- annual financial statements and regulatory returns of subsidiaries of the Bank as required by the Board.

The Committee's review of any financial statement or financial information shall include a review with management of the presentation and impact of significant risks and uncertainties and as well as key estimates and judgments of management that may be material to the statements or disclosure. Before recommending any financial statements or financial information to the Board for approval, the Committee shall seek confirmation from management that such financial statements or financial information, together with the other financial information included in the Bank's annual and interim filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Bank as of the relevant date and for the relevant periods.

In addition, the Committee shall approve, and periodically assess the adequacy of, the Bank's procedures for (i) the review of financial information extracted or derived from the Bank's financial statements that is to be publicly disclosed and has not otherwise been reviewed by the Committee; and (ii) the review of financial information, performance targets and updates thereto provided to rating agencies and analysts.

### **Internal Controls**

In overseeing the Bank's internal control procedures and management's reporting thereon, the Committee shall:

- require management to design, implement and maintain appropriate internal control procedures (including controls related to the prevention, identification and detection of fraud);
- review, evaluate and approve the Bank's internal control policies;

- meet with the Chief Auditor and with management to discuss the effectiveness of the Bank's internal control procedures and the status of identified control weaknesses;
- review management's assessment of the design and operating effectiveness of the Bank's internal control over financial reporting contained in annual filings under applicable securities laws and the Shareholders' Auditors' report thereon in accordance with the rules and regulations of securities regulators and the Public Company Accounting Oversight Board (PCAOB);
- review certifications on the review of internal control over financial reporting required under applicable securities laws;
- review reports from management and the Chief Auditor as to the existence of any significant deficiencies and material weaknesses in the design or operation of the Bank's internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information, and any fraud involving management or other employees who have a significant role in the Bank's internal controls and any significant changes in internal control over financial reporting that are disclosed in regulatory filings;
- review management's recommendations for rectifying such deficiencies and weaknesses and review, as appropriate, the implementation of such recommendations; and
- review, as required, correspondence relating to inquiries or investigations by regulators concerning internal controls.

In overseeing the Bank's disclosure controls the Committee shall review and approve the disclosure policy and the disclosure controls and procedures that have been adopted by the Bank to confirm that material information about the Bank and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed on a timely basis. The Committee shall also review the report of the Bank's disclosure committee on the effectiveness of these controls and procedures.

### **Internal Audit Function**

In overseeing the internal audit function, the Committee shall:

- review, at least annually, the audit coverage, planned areas of audit focus, staffing and financial resources, organizational structure and operating principles and processes of the internal audit function and, if appropriate, recommend changes;
- review and approve the Bank's corporate policy setting out the terms of reference of the internal audit function and the Chief Auditor;
- review the independence of the internal audit function;
- review the quarterly report of the Chief Auditor, together with management's response to any identified weaknesses, including reports on internal controls over credit risk, liquidity risk, market risk and operational risk;
- review, at least semi-annually, with the Chief Auditor reports of regulators to the Bank and the resultant action by management; and

- review any other reports submitted to the Committee by the Chief Auditor.

The Audit Committee shall have the authority to communicate directly with the Chief Auditor. The Committee Chair shall also participate in the appointment and performance evaluation of the Chief Auditor.

### **Shareholders' Auditors**

The Shareholders' Auditors' reports to the Board and the Committee, as representatives of the shareholders. The Committee has the authority to communicate directly with the Shareholders' Auditors and the Shareholders' Auditors reports directly to the Committee. Accordingly, the Committee shall evaluate and be responsible for the Bank's relationship with the Shareholders' Auditors. Specifically, the Committee shall:

- make recommendations to the Board regarding the Shareholders' Auditors to be recommended to the shareholders for appointment and, where appropriate, the termination of the Shareholders' Auditors (with reference in particular to the skills and resources of the Shareholders' Auditors, taking into account the complexity of the Bank and the opinions of management and the Chief Auditor);
- review the terms of the Shareholders' Auditors' engagement, the annual audit plan and the appropriateness and reasonableness of the proposed audit fees and make recommendations to the Board as appropriate;
- require the Shareholders' Auditors to confirm in their engagement letter each year that they report directly to the Committee, as representatives of the shareholders;
- satisfy itself that the audit plan is risk based and covers all relevant activities over a measurable cycle and that the work of the Shareholders' Auditors and the Chief Auditor is coordinated;
- be directly responsible for overseeing the work of the Shareholders' Auditors for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Bank;
- review the scope and results of the audit conducted by the Shareholders' Auditors with the Shareholders' Auditors, the Chief Auditor and management, including:
  - (i) the Shareholders' Auditors' evaluation of the Bank's internal control over financial reporting that the Shareholders' Auditors tested and relied on and any recommendations related thereto;
  - (ii) the degree of cooperation the Shareholders' Auditors received from management; any problems experienced by the Shareholders' Auditors in conducting the audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
  - (iii) the existence of problems or potential problems related to accounting and/or auditing matters and any accounting errors;
  - (iv) the appropriateness and quality of all critical accounting policies and practices used by the Bank and the selection of new policies and practices (including those

policies for which management is required to exercise discretion or judgment); and

- (v) any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the Shareholders' Auditors' preferred treatment, as well as any other material communications with management;

and advise the Board of the Bank's performance in these areas;

- meet regularly with the Shareholders' Auditors without management present to review and ask the Shareholders' Auditors to report on any audit problems and difficulties including any significant disagreements, unresolved issues as well as management's response thereto and consultations with management as well as any other matters the Shareholders' Auditors believe the Committee should be aware of in order to exercise its responsibilities;
- oversee the resolution of any disagreements between the Shareholders' Auditors and management;
- review all material correspondence between the Shareholders' Auditors and management related to audit findings;
- evaluate the Shareholders' Auditors' audit performance, taking into account management's evaluation of such performance;
- review the report of the Shareholders' Auditors under Section 328 of the *Bank Act* (Canada);
- review any investments or transactions that could adversely affect the wellbeing of the Bank as the Shareholders' Auditors or any officer of the Bank may bring to the attention of the Committee;
- review and approve the Bank's Auditor Independence Policy which provides guidance for engaging the Shareholders' Auditors to perform audit and permitted non-audit services for the Bank, its subsidiaries and material entities over which the Bank has significant influence;
- pre-approve all audit services and permitted non-audit services (including the fees and terms thereof) to be performed for the Bank, its subsidiaries and material entities over which the Bank has significant influence by the Shareholders' Auditors in accordance with the criteria established by the Committee in the Bank's Auditor Independence Policy; the Committee may delegate to one or more Committee members, the authority to grant pre-approvals for audit and permitted non-audit services to be performed for the Bank by the Shareholders' Auditors, provided that decisions of such members to grant pre-approvals shall be presented to the full Committee at its next meeting;
- obtain and review a report from the Shareholders' Auditors at least annually addressing (i) the Shareholders' Auditors' internal quality control procedures, (ii) any material issues raised by the most recent internal quality-control review or peer review of the Shareholders' Auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more audits carried out by the Shareholders' Auditors, (iii) any steps taken to deal with any such

issues, (iv) the Shareholders' Auditors' internal procedures to ensure independence, and (v) delineating all relationships between the Shareholders' Auditors and the Bank;

- require the Shareholders' Auditors to confirm annually, in writing, that they are independent in accordance with applicable independence rules;
- review any notices required to be delivered to the Committee by the Shareholders' Auditors relating to (i) the Shareholders' Auditors' failure to address defects in its quality control systems to the satisfaction of the Canadian Public Accountability Board and/or the Public Company Accounting Oversight Board (PCAOB), or (ii) sanctions imposed on the Shareholders' Auditors by the Canadian Public Accountability Board and/or the Public Company Accounting Oversight Board (PCAOB) and the U.S. Securities and Exchange Commission and take such action and make recommendations to the Board as appropriate;
- be responsible for actively engaging in a dialogue with the Shareholders' Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the Shareholders' Auditors and for recommending that the Board take appropriate action to ensure the independence of the Shareholders' Auditors;
- review and evaluate the qualifications, performance and independence of the lead audit partner of the Shareholders' Auditors and require the rotation of members of the audit engagement team (including the lead audit partner) as required by law and require that the Shareholders' Auditors provide a plan for the orderly transition of audit engagement team members; and
- review and approve the Bank's policies for the hiring by the Bank of partners and employees or former partners and employees of the present and former Shareholders' Auditors.

### **Risk Management**

The Committee shall discuss the Bank's major financial risk exposures and the steps management has taken to monitor and control such exposures.

### **Legal and Regulatory Compliance**

The Committee shall:

- review with the General Counsel an annual report on any litigation matters that could significantly affect the Bank's financial statements;
- review with the General Counsel and the Chief Compliance Officer the adequacy and effectiveness of the Bank's legislative compliance management framework and the results of related monitoring and oversight activities, including the receipt of reports of significant compliance issues and trends;
- review with the General Counsel reports of regulators to the Bank and the resultant action by management; and

- meet annually with representatives of the Office of the Superintendent of Financial Institutions (OSFI), either jointly with the Board or the Board's Risk Review Committee, to receive OSFI's report on the results of its annual examination of the Bank.

### **Business Conduct and Ethics**

The Committee shall:

- establish and review annually procedures for:
  - the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal control over financial reporting or auditing matters; and
  - the confidential anonymous submission of concerns by employees of the Bank regarding questionable accounting or auditing matters;
- review and recommend for approval by the Board, *FirstPrinciples: Our Code of Business Conduct and Ethics*, the Bank's code of business conduct and ethics applicable to directors, officers and employees and any amendments and approve any waivers as appropriate (including waivers for the Bank's Chief Executive Officer, Chief Financial Officer and Chief Accountant);
- review and approve the Bank's code of ethics for the Bank's Chief Executive Officer, Chief Financial Officer and Chief Accountant and amendments of that code;
- review reports to the Committee relating to employee conduct procedures and the annual operation of *FirstPrinciples: Our Code of Business Conduct and Ethics*, the Bank's code of business conduct and ethics; and
- review quarterly reports relating to employee concerns received through the Ombudsman line, including concerns related to questionable accounting, internal control over financial reporting or auditing matters.

### **Aircraft and Chief Executive Officer Expense Accounts**

The Chair of the Committee shall review, on a quarterly basis, the report on Chief Executive Officer expense accounts, and the Committee shall review, on an annual basis, the report on Bank aircraft and Chief Executive Officer expense accounts.

### **Transactions with Related Parties**

The Committee shall be responsible for overseeing compliance by the Bank and Designated Subsidiaries with the self-dealing provisions of the *Bank Act (Canada)*, the *Trust and Loan Companies Act (Canada)* and the *Insurance Companies Act (Canada)* and applicable insider lending restrictions under the United States Securities Exchange Act. In furtherance of this responsibility, the Committee shall:

- require management to establish procedures for complying with the self-dealing provisions of the *Bank Act (Canada)*, the *Trust and Loan Companies Act (Canada)* and the *Insurance Companies Act (Canada)* and applicable insider lending restrictions under the United States Securities Exchange Act;

- review the effectiveness of the procedures established by management to ensure compliance with the self-dealing provisions of the *Bank Act (Canada)*, the *Trust and Loan Companies Act (Canada)* and the *Insurance Companies Act (Canada)* and applicable insider lending restrictions under the United States Securities Exchange Act;
- review the practices of the Bank to ensure that any transactions with related parties of the Bank and its Designated Subsidiaries that may have a material effect on the stability or solvency of the Bank or its Designated Subsidiaries are identified; and
- review reports to the Committee summarizing transactions with related parties of the Bank and its Designated Subsidiaries.

In addition, the Committee shall be responsible for:

- reviewing and approving the measurement criteria and benchmarks for permitted transactions with related parties of the Bank; and
- reviewing and approving the terms and conditions of loans made to related parties which exceed the established benchmarks for such transactions.

### **Conflicts of Interest and Confidential Information**

The Committee shall:

- monitor the procedures established by the Bank and Designated Subsidiaries to identify, resolve and, where possible, reduce incidences of, conflicts of interest;
- monitor the procedures established by the Bank and Designated Subsidiaries to restrict the use and disclosure of confidential information, including customer and employee information, and to monitor compliance with the obligations imposed by Privacy legislation; and
- review reports to the Committee relating to the use and disclosure of customer and employee information.

### **Consumer Protection Measures and Complaints**

The Committee shall:

- monitor the procedures established by the Bank and Designated Subsidiaries to make the disclosure of information to customers as required by the *Bank Act (Canada)*, the *Trust and Loan Companies Act (Canada)* and the *Insurance Companies Act (Canada)*;
- monitor the procedures established for dealing with complaints, including complaints made by persons having requested or received products or services;
- review the annual report of the Bank Ombudsman on complaints resolution;
- monitor procedures established by the Bank and Designated Subsidiaries to fulfill the obligations imposed by the Financial Consumer Agency of Canada; and
- review reports to the Committee relating to disclosure of information to customers and complaints.

## **ACCESS TO MANAGEMENT AND OUTSIDE ADVISORS**

The Committee shall have full, free and unrestricted access to management and employees, the Chief Auditor and to the Shareholders' Auditors. The Committee has the authority to engage independent legal counsel, consultants or other advisors, with respect to any issue or to assist it in fulfilling its responsibilities without consulting or obtaining the approval of any officer of the Bank. The Bank shall provide appropriate funding, as determined by the Committee, for the payment of: compensation to the Shareholders' Auditors engaged for the purpose of preparing or issuing an auditor's report or performing the audit, review or attest services for the Bank; compensation to any advisors employed by the Committee and; ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

## **ANNUAL REVIEW AND ASSESSMENT**

An annual review and assessment of the Committee's performance and effectiveness, including a review of its compliance with this Charter, shall be conducted in accordance with the process developed by the Board's Governance and Nominating Committee and approved by the Board. The results thereof shall be reported in accordance with the process established by the Board's Governance and Nominating Committee and approved by the Board.

The Committee shall review and assess the adequacy of this Charter on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators or stock exchanges with whom the Bank has a reporting relationship and, if appropriate, shall recommend changes to the Board's Governance and Nominating Committee.

## **DEFINITIONS**

Capitalized terms used in this Charter have the meanings attributed to them below:

"Audit Committee Financial Expert" means a person who has the following attributes:

- (i) an understanding of generally accepted accounting principles and financial statements;
- (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Bank's financial statements, or experience actively supervising one or more persons engaged in such activities;
- (iv) an understanding of internal controls and procedures for financial reporting; and
- (v) an understanding of audit committee functions;

acquired through any one or more of the following:

- (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- (iv) other relevant experience.

“Bank” means Bank of Montreal.

“Board” means the Board of Directors of Bank of Montreal.

“Committee” means the Audit Committee of the Board of Directors of Bank of Montreal.

"Financially Literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Bank's financial statements.