Climate Action at Desjardins

2021 report on climate related risks and opportunities

Aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Desjardins

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INTRODUCTION

A new *Climate Action at Desjardins* report outlining the path toward our goal of net zero emissions

We're pleased to present this fourth report on climate-related risks and opportunities. Here we take stock of the progress we've made in the 4 key areas for rigorous action: governance, strategy, risk management, and metrics and targets.

This year it's separate from our larger Social and Cooperative Responsibility Report, a reflection of the priority we—and especially our members and clients and communities—place on climate action.

The climate emergency loomed large on the national and international scene in 2021 in great part because of the many extreme weather events the world experienced, including heat waves in western Canada and the United States and flooding in China and Europe, to name but a few. Whether you look at the Intergovernmental Panel on Climate Change (IPCC)'s report *Climate Change 2021: The Physical Science Basis*, the International Energy Agency's *Net Zero by 2050* report or the conclusions of COP 26 (the UN Conference of the Parties on climate change), the message is crystal clear: it's time to act. And people in all sectors—economics, politics, science and civil society alike—need to work together to face the climate emergency decisively. It's especially relevant to us at Desjardins considering that Canada will experience an average temperature increase 2 times higher than the global average[1], with all the impacts that this entails.

To respond to this issue and bring our stakeholders onboard too, our cooperative group renewed our climate ambition in 2021, with a goal of net zero emissions by 2040 in our extended operations (transportation, energy consumption and procurement), as well as our lending activities and our own investments in 3 key sectors: energy, transportation and real estate.

To show how seriously we're taking this target, in October 2021, we became the first financial institution in Canada to join the Science Based Targets initiative's Business Ambition for 1.5°C international campaign, in partnership with the United Nations Global Compact and the We Mean Business Coalition. In doing so, we've committed to setting medium-term science-based greenhouse gas emissions (GHG) reduction targets within 24 months.

Our first target: Reduce our operational GHG emissions by 41% compared to 2019 levels by 2025. But our climate ambition doesn't stop there. We're also targeting emissions generated by our financial activities, increasing the scope about 80-fold. Our first milestone in 2025 includes additional targets for our loans and investments and sustainable development training for our over 53,000 employees. We believe that expanding our collective knowledge will help us reach our goals together.

All across our organization, our teams are moving steadily toward our ambitious targets with the full support of our governing bodies, as you'll see in the pages ahead.

Enjoy the report!

Pauline D'Amboise
Secretary General and Vice-President, Governance and Sustainable Development

[1] Government of Canada. *Canada's Changing Climate Report*, 2019. https://changingclimate.ca/CCCR2019

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Overview of our climate-related accomplishments

	Completed prior to 2021	2021 highlights	Upcoming activities and projects
Governance	• Implemented a governance structure that includes supervision by the board of directors and 2 of its commissions (the Corporate Governance and Responsible Finance Commission and the Risk Management Commission); management by the Desjardins Group Management Committee, supported by the ESG Steering Committee and Desjardins Group Finance and Risk Management Committee; and support from dedicated ESG and climate action working groups • Integrated climate change into our sustainable development policy	• Supervised implementation of climate-related action plans following the 2019–2020 sustainable development audit by the Desjardins Group Monitoring Office • Increased our decision-making bodies' understanding of climate change • Submitted a report on international trends in governance and sustainability to the board and its Corporate Governance and Responsible Finance Commission	• Clarify governance for the target operating model for managing climate-related risks and opportunities • Increase climate-related details in projects submitted to governing bodies so they can participate fully in directing and monitoring climate action • Update the general incentive plan for all employees to include an indicator linked to our ESG performance as evaluated by extra-financial rating agencies
Strategy	• Identified climate-related risks and opportunities • Conducted climate-related stress testing (property and casualty insurance) • Participated in pilot projects with the United Nations Environment Programme Finance Initiative (UNEP FI) (PRI, PSI) • Reached our carbon reduction target for our own investments (average carbon intensity 25% lower than benchmark indexes) • Committed to divesting from coal and became the first financial institution in North America to join the Powering Past Coal Alliance • Published exposure to carbon-intensive sectors • Defined 4 climate scenarios	• Published our updated climate ambition: net zero emissions by 2040 (extended operations, lending activities and our own investments in 3 key sectors: energy, transportation and real estate) • Committed to the Business Ambition for 1.5°C campaign and the Science Based Targets initiative (SBTi) • Developed operational goals for 2025, on the way to our 2040 climate ambition • Began defining our science-based targets • Participated in several modules of UNEP FI's TCFD program • Desjardins Global Asset Management signed the Net Zero Asset Managers initiative	• Define, validate and publish science-based targets (for operations, investment and lending)

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	Completed prior to 2021	2021 highlights	Upcoming activities and projects
Risk management	• Updated the management approach for climate-related risk analysis • Fine-tuned the methodology for climate-related risk analysis	• Implemented several parts of our climate-related risk management approach • Worked on defining our target operating model for managing climate risk • Grew our climate-related risk management team	• Integrate climate-related risk into our risk appetite framework • Build on the risk register • Further integrate climate scenarios into risk analysis • Further develop ways of reporting to senior management • Roll out the target operating model
Metrics and targets	• Introduced transition indicators (Green Program, renewable energy) • Published a GHG statement (operations and real estate investments) and became carbon neutral in 2017 • Set decarbonization targets for our own investments and our operations • Joined the Partnership for Carbon Accounting Financials (PCAF) to better measure financed GHG emissions • Published exposure to fossil fuels (credit risk)	• Structured climate indicators in our strategic plan performance review • Improved methodology for monitoring exposure to carbon-intensive sectors and renewable energy • Measured and published our first public disclosure on our financed emissions (investing and lending) using PCAF methodology • Implemented a long-term net zero emissions target (2040, 3 target sectors: energy, transportation and real estate) and began work to set medium-term intermediate science-based targets • Updated our GHG emissions target for operations (-41% from 2019 levels by 2025)	• Increase data accuracy and quality for measuring our financed emissions • Measure our procurement-related GHG emissions • Implement new intermediate science-based targets

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Our climate action at a glance

Our strategy

2040

Target year for achieving our new climate ambition of **net zero emissions** for our operations and financial activities*

In 2021 we signed on to the

Business Ambition for 1.5°C

campaign and Desjardins Global Asset Management joined

NZAMI

(the Net Zero Asset Managers initiative), thus committing to support worldwide efforts to keep global warming below **1.5°C** above pre-industrial levels

Our operations

96%

of the electricity our organization consumes in Canada comes from **renewable energy sources**

86%

Share of renewable energy in our total energy mix

41%

below 2019 levels by 2025: our new science-based target for reducing our **GHG emissions from operations**

5.4

Emissions intensity

(Scopes 1 and 2, $kgCO_2e/m^2$)

Our lending and investment activities

4

asset classes whose **financed emissions** have been calculated (using the **PCAF** approach), plus 2 more that are being evaluated

82%

Share of **renewable energy** in our financing for the electricity generation sector

0.6%

Our credit risk **exposure** at default in **carbon-intensive sectors**

$1.5B

Investments in **renewable energy** infrastructure

-38%

Difference in **carbon intensity** of our own investments versus benchmark indexes

$500M

Our debut issue of **sustainable bonds** in the Canadian market

* Lending activities and our own investments in 3 key sectors: energy, transportation and real estate.

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GOVERNANCE

Supervision by the board of directors

Climate-related issues are supervised by the board of directors, with the support of its Corporate Governance and Responsible Finance Commission and the Risk Management Commission. In 2021, these bodies regularly discussed climate change at their meetings. The board of directors and its commissions receive a quarterly report on Desjardins Group's performance, which includes climate change-related indicators (see the next section), as well as a report on emerging risks, including climate change, which will be expanded in 2022. Members of the boards of Desjardins Group, Desjardins General Insurance Group and Desjardins Financial Security also attended several presentations on sustainable development and climate change in 2021.

The Corporate Governance and Responsible Finance Commission ensures that climate-related risks and opportunities are included in our climate strategy, which is implemented and monitored by the Desjardins Group Management Committee.

Management's role

The Desjardins Group Management Committee, supported by the ESG Steering Committee and the Finance and Risk Management Committee, is responsible for climate strategy implementation. This includes identifying, assessing and managing climate-related risks and opportunities.

The ESG Steering Committee is made up of 14 vice-presidents (see page 9 of the Social and Cooperative Responsibility Report) who represent our core business areas and support functions. The steering committee is supported by cross-sector ESG working groups (representing our business sectors and support functions) and by a working group on climate-related risk quantification. The Sustainability and Responsible Finance team makes sure everything is coherent and provides internal advisory services on climate change.

The Desjardins Group Finance and Risk Management Committee is tasked with conducting regular reviews of the risks we're exposed to and supporting the ESG Steering Committee in establishing ESG positions. This committee receives a quarterly report on any developments in climate-related risks and actions implemented to manage them.

This past year, we updated our strategic plan for 2021–2024. One of the plan's foundations, socioeconomic leadership, includes several indicators that relate to integrating ESG criteria and considering climate change (such as product performance and targets related to our climate ambition). These indicators are reported to the ESG Steering Committee and most of them are also reported to the Desjardins Group Management Committee and the board of directors.

In late 2019, the Desjardins Group Monitoring Office conducted an internal audit on how the business sectors were implementing our sustainable development policy. Some of the recommendations to give more consideration to climate-related issues (reporting, defining targets, training and more) were integrated into action plans, most of which were implemented in 2021.

In addition to the governance structure at the Desjardins Group level, our main business sectors have developed their own management structures for integrating ESG criteria and responsible finance into their operations and for taking climate change into consideration. For the investment, lending and insurance sectors, this has meant growing their teams by adding ESG specialists and creating communities of practice for responsible investment and responsible insurance that help coordinate the approaches from sector to sector.

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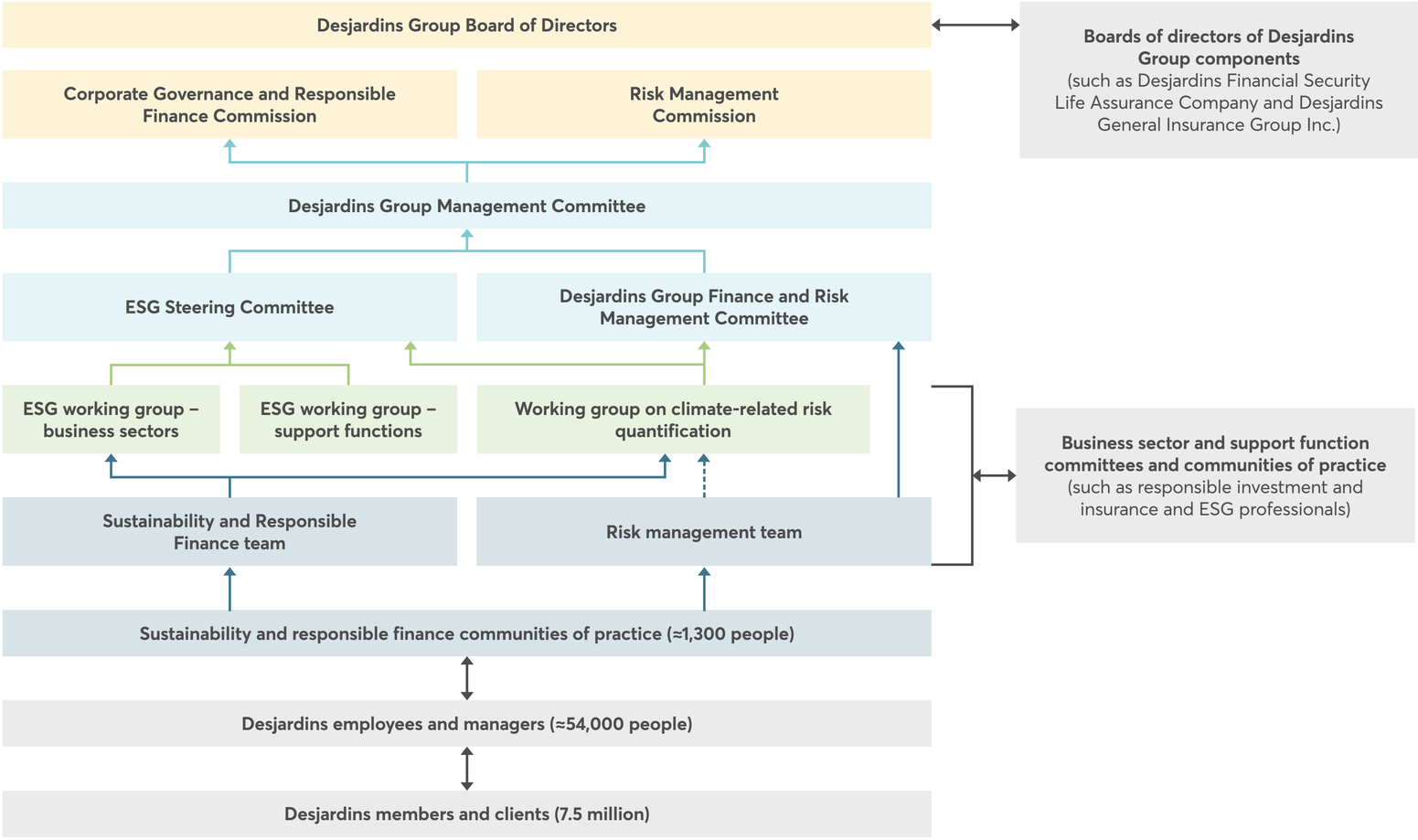
Desjardins Group climate change governance



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STRATEGY

Factoring in climate-related risks and opportunities

We understand how important it is to identify and evaluate the risks and opportunities related to the physical impacts of climate change and the transition to a low-carbon economy. The long-term repercussions of climate change are complex and extremely hard to predict. That's why we at Desjardins are investing more and more in growing our understanding and developing our analysis of climate-related risks. In 2019 and 2020, we made significant updates to how we factor climate change into our risk assessment and management approach. We refined that approach further in 2021 and increased the granularity of our results.

Climate risk approach

As part of the update to our risk analysis, we mapped out the risk factors that could have significant impacts on our business sectors, operations, members and clients over the short term (1 year), medium term (5 years) and long term (20 years) (see image on the next page).

These risk factors may result in financial consequences for our organization and our members and clients. Certain assets may experience a loss in value, or a loss of income or profitability could cause the value of an investment or a company's risk rating to drop.

We've developed a roadmap to quantify the most significant climate-related risk factors. In 2021, our teams expanded their work on our exposure to transition risks (financing for carbon-intensive sectors, financed GHG emissions) and physical risks (floods, hail, wind).

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Simplified map: 2021 qualitative evaluation of climate-related risks for Desjardins members, clients and operations

Climate-related risk factors			Examples of affected sectors and populations (members and clients)	Desjardins sectors most likely to be affected				
				Investing	Lending	Property and casualty insurance	Life and health insurance	Operations
Physical risk	Chronic	Increase in average temperature	Real estate, vulnerable populations					
		Changes in precipitation patterns	Extractive industries, agriculture					
		Rise in sea level	Infrastructure and buildings (coastal areas)					
		Drought	Agriculture and livestock farming, forest products					
		Deforestation	Forest products					
	Acute	Flooding, extreme precipitation and storms	Vulnerable populations, real estate, infrastructure					
		Forest fires	Forest products, extractive industries					
		Heatwaves	Vulnerable populations, construction, real estate, agriculture					
Transition risk	Political and legal	Price of carbon	Extractive industries, energy, transportation, manufacturing					
		Increased regulatory requirements	Transportation, extractive industries, energy, financial disclosure					
		Liability exposure	Extractive industries, energy, transportation, automobile, financial disclosure					
	Reputational	Stigmatization of certain industries	Extractive industries, energy, transportation, agriculture and livestock farming					
	Market	Changes in consumer habits	Automobile, energy, agriculture and livestock farming					
		Access to capital	Energy, transportation, real estate					

Legend

Low — High

Source: 2021 risk analysis; non-exhaustive list of affected sectors; work underway to determine the repercussions on Desjardins Group's sectors.

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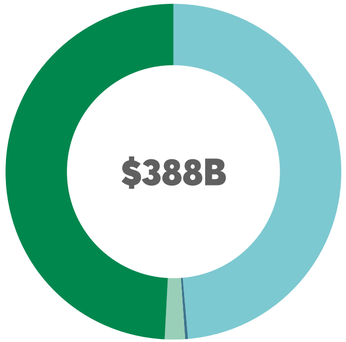
Our lending and own investment portfolios are exposed to climate-related risks in different ways. The real estate (mortgage financing and commercial real estate) and agriculture sectors are more exposed to physical risks, while sectors connected to extractive industries, particularly oil and gas, are more exposed to transition risks. Some sectors, such as utilities, are exposed to both risk categories. These risk exposures represent potential vulnerabilities for these sectors. In 2022, we'll be taking action to better understand, evaluate and quantify the way these risks spread.

Lending and own investment portfolios – Vulnerability to climate-related risks

Exposure at default to climate-related risks (as at December 31, 2021)



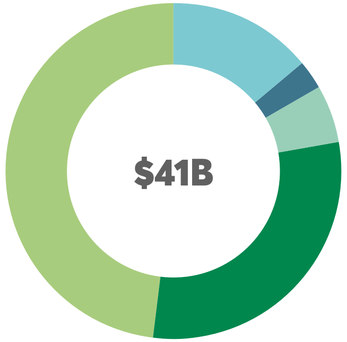
Physical risks (48.3%)
- Mortgage loans 33.5%
- Real estate 12.4%
- Agriculture 2.4%

Transition risks (0.2%)
- Mining, oil and gas 0.2%

Physical and transition risks (2.0%)
- Manufacturing 1.5%
- Utilities 0.5%

Low vulnerability (49.4%)
- Public organizations 14.8%
- Retail client exposures 14.5%
- Finance and insurance 5.1%
- Construction 1.6%
- Healthcare 1.2%
- Retail 1.1%
- Transportation 0.5%
- Wholesale 0.6%
- All others 10.0%

Exposure to climate-related risks (assets under management of our own funds as at December 31, 2021)



Physical risks (14.3%)
- Real estate 11.1%
- Infrastructure 3.2%

Transition risks (2.8%)
- Energy 2.8%

Physical and transition risks (5.6%)
- Utilities 2.7%
- Industrials 2.4%
- Materials 0.4%

Low vulnerability (28.6%)
- Finance 10.4 %
- Exchange-traded funds 3.6%
- Communication services 2.0%
- Consumer staples 1.1%
- Consumer discretionary 1.5%
- Information technology 0.5%
- All others 9.3%

Currently being assessed (48.8%)
- Sovereign bonds 48.8%

We currently have very little exposure to carbon-intensive sectors. Less than 1% of our credit risk exposure at default (excluding repo-style transactions, over the counter derivatives and insurance portfolios) is tied to fossil fuel production or fossil fuel power plants.[1] A more detailed analysis of our lending to the electricity generation[2] industry shows that only 16% of the portfolio is linked to fossil fuels.

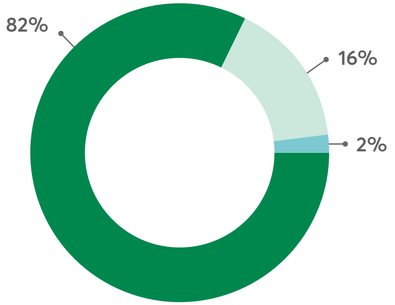
We're aware of the October 2021 updates to the guidance for implementing TCFD recommendations, particularly the expanded definition of carbon-intensive sectors to include energy, transportation, materials and buildings, and agriculture, food and forest products. As a result, we're updating our methodologies and will disclose these indicators in future reports.

Our exposure to carbon-intensive sectors[1] represents

0.6% ($2.1 billion)

of our credit risk exposure at default as at December 31, 2021

Our exposure at default for electricity production[2] was $1,160 million as at December 31, 2021



- Produced from renewable energy
- Produced from fossil fuels
- Other

[1] This percentage is calculated by dividing the exposure at default (EAD) for carbon-intensive sectors by the total credit risk EAD. (See page 55, Pillar 3 Report.) Carbon-intensive sectors include the energy and utilities sectors, as defined by the Global Industry Classification Standard (GICS) but exclude water utilities, independent power producers and renewable energy producers, as defined by the TCFD. Repo-style transactions and over-the-counter derivatives are not included in the calculation.

[2] This percentage is calculated based on the exposure at default of companies in the electricity generation sector. Each company is weighted based on the amount of electricity produced (in GWh).

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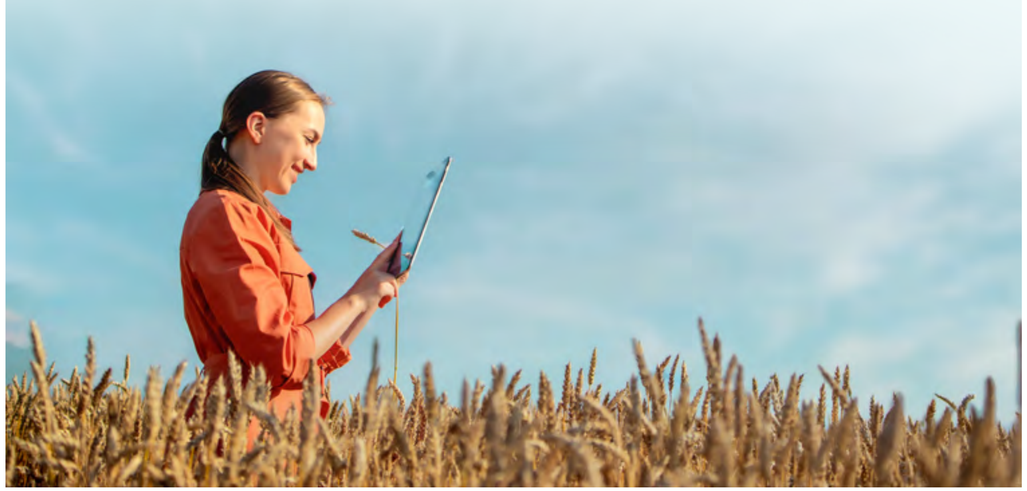
Innovative climate risk analysis

We develop and share knowledge around tools for evaluating climate risks ...

- As part of UNEP FI's TCFD program and in collaboration with one of the main providers of climate risk analysis services, we've evaluated 50 assets from several economic sectors in multiple regions.
- The quantitative results from our assets and the lessons learned from this experience are part of a public UNEP FI publication.

... and we support a startup that's building a new platform for analyzing climate risk

- In April 2021, we launched a climate challenge in partnership with Fintech Cadence through our Startup in Residence program.
- 12 Canadian startups received mentoring and support from a team of experts hailing from a range of industries, including sustainable development, investment and innovation.
- Aquantix, an up-and-coming company that specializes in evaluating climate-related risk for the real estate sector, took first place in the challenge. The company won a $25,000 grant plus support through the Startup in Residence program.



Climate-related opportunities

At Desjardins, we believe that climate change also provides opportunities for certain sectors of the economy and the institutions that work with them.

We want to be a part of a just energy transition for our society, and we're doing that several ways: developing responsible finance products, being active shareholders, investing in and financing renewable energy projects, financing university programs that train skilled workers (especially in responsible finance and the circular economy), and bolstering electric transportation infrastructure by adding charging stations in the communities we serve in Quebec and Ontario.

We're a leader in responsible investment (RI) in Canada with nearly 50 RI savings products and nearly $12.3 billion in RI assets under management as at December 31, 2021. SocieTerra funds and portfolios are some of our main products. They aim to offer attractive return potential while benefiting communities and the planet. All 17 of our SocieTerra funds and portfolios have been oil- and pipeline-free since June 2020.

Estimated carbon intensity of organizations in which Desjardins Funds invest compared to comparable organizations

Desjardins SocieTerra Canadian Equity Fund	→ -51%	Desjardins SocieTerra Diversity Fund	→ -81%
Desjardins SocieTerra American Equity Fund	→ -73%	Desjardins SocieTerra Positive Change Fund	→ -74%
Desjardins SocieTerra International Equity Fund	→ -21%	Desjardins SocieTerra Cleantech Fund	→ +23%
Desjardins SocieTerra Environment Fund	→ -32 %	Desjardins SocieTerra Emerging Markets Equity Fund	→ -78%

* Results as at December 31, 2020, calculated using data from MSCI ESG ©2021 MSCI ESG Research LLC. Reproduced with permission; no further distribution. To learn more, see the *2021 Annual Report on Responsible Investment*.

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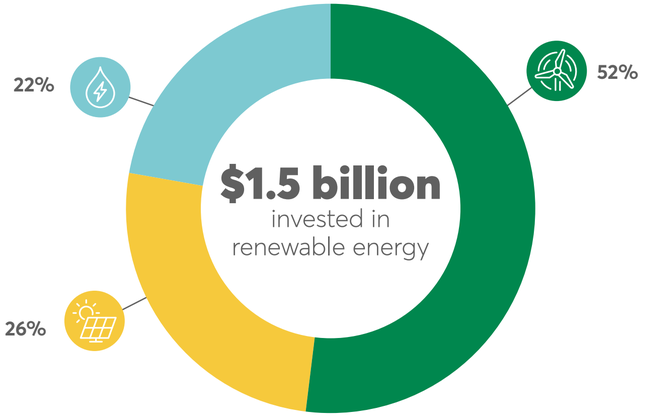
Together with the Desjardins Group Pension Plan, we have a sizable infrastructure portfolio. Our infrastructure investments are concentrated in the renewable energy sector, which accounts for 45% of this portfolio (see image below). Renewable energy investments continue to grow. The portfolio stood at $1.5 billion at September 30, 2021, up by 24% from the end of 2020.

Breakdown of renewable energy investments by source (wind, solar and hydroelectric energy)



We also encourage members and clients, whether they be individuals or businesses, to make energy-efficient choices. We do this by offering discounts on insurance premiums for energy-efficient buildings and reduced rates and other perks for financing hybrid and electric vehicles, energy-efficient homes and eco-friendly renovations (see the Desjardins Green Program)

We're also helping our members and clients adapt to the serious consequences of climate change by doing things like expanding our range of property and casualty insurance, including better flood coverage, and providing access to prevention tools like Alert™, Radar™ and Ajusto® through our Desjardins Insurance Home-Auto app (see pages 6 and 7 of our 2021 Principles for Sustainable Insurance report)

First issue of sustainable bonds

In September 2021, we made our debut issue of $500 million in sustainable bonds. Moody's ESG Solutions, an independent firm, gave our framework their highest rating, "Advanced." The extremely positive market response to this issuance created value for our members and clients and speaks to our approach's high standards and relevance.

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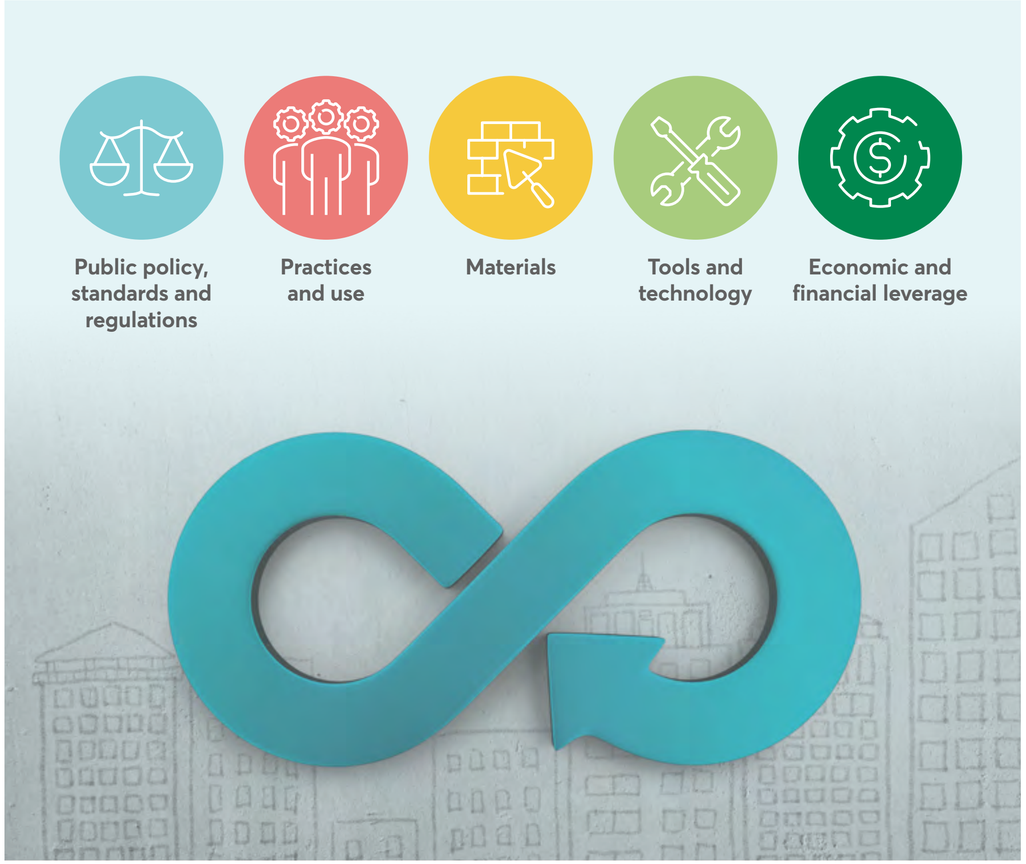
The circular economy, a ripe opportunity for climate action

Our strategy for identifying and accelerating opportunities in the transition to a low-carbon economy includes partnerships with the École de technologie supérieure (to develop a circular economy and solutions for several key industries) and Québec Net Positive (whose mission is to educate, equip and activate Quebec businesses so they can benefit from the low-carbon economy).



Supporting the transition to a circular economy – Our partnership with ÉTS

"The shift to a circular economy fully aligns with our values at Desjardins, particularly our concern for limiting our environmental footprint and choosing sustainable development. As a result, Desjardins is committed to expanding the ways we support business owners as they make this necessary transition."

Guy Cormier, President and CEO of Desjardins Group (*La Presse*, September 2021).

- We committed $2.1 million over 5 years to help the Center for Intersectoral Studies and Research on the Circular Economy at the École de technologie supérieure (ÉTS) launch an ecosystem of circular economy acceleration laboratories (ELEC) in April 2021.
- ELEC will help speed up the transition toward a circular economy in key sectors like construction, agri-food, mining and plastics. The resulting projects will then develop and test solutions to be shared.
- For example, in 2021 the ELEC teams facilitated several workshops to define and prioritize the themes for the construction sector lab.

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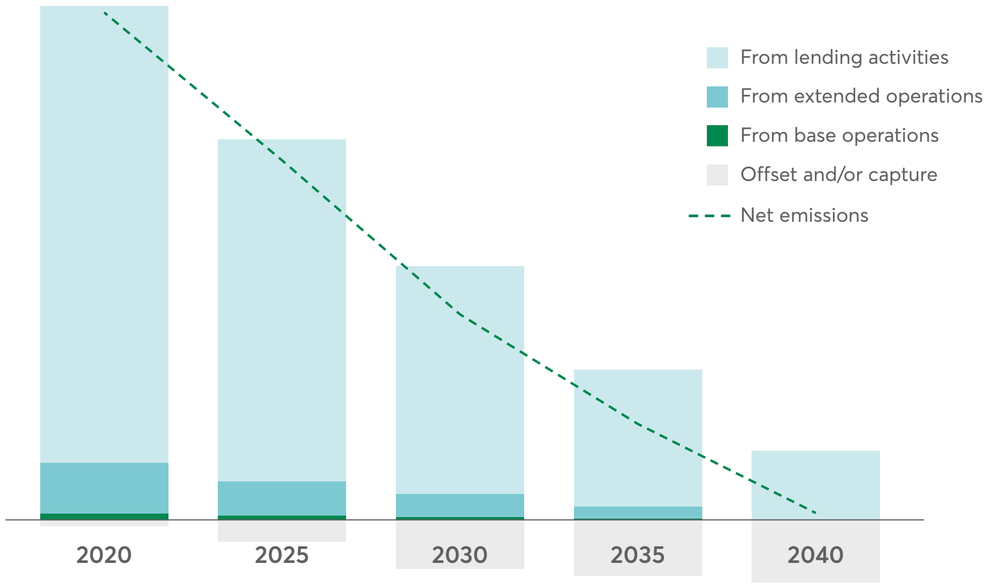
How climate-related risks and opportunities impact business, strategy and financial planning

At Desjardins, we understand that climate change can impact our organization's financial planning process and strategy.

We're currently working on analyzing and quantifying climate-related risk to help us better understand the impact of climate change on our costs and operating income, investments, capital distribution, acquisitions, transfers and access to capital, among others.

In April 2021, we announced our renewed climate ambition and our action plan to achieve net zero emissions by 2040 in our extended operations (buildings, business travel and supply chain) and in our lending activities and own investments in 3 carbon-intensive sectors: energy, transportation and real estate.

Illustration of projected GHG emissions under our 2040 climate strategy



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Our climate ambition is backed by existing projects and strategies, such as setting decarbonization targets for our own investments and investments held by the Desjardins Group Pension Plan, making major investments in and offering financing to the renewable energy sector, integrating ESG criteria and committing to shareholder engagement. (See the Social and Cooperative Responsibility Report.)

Expanding the scope of our climate strategy to include emissions that we don't directly control will require transforming our practices extensively. It will have a variety of implications for our financial activities, as specified in the figure below: supporting renewable energy, guiding carbon-intensive sectors, defining science-based targets with the SBTi approach, and overhauling our sustainable finance products. At the same time, we'll continue to decarbonize our operations to reach our science-based target, including working with our supply chain to quantify its GHG emission with the help of external experts. We'll also be giving our entire workforce sustainable development training.

Climate strategy objectives and targets for 2025

Financial activities

- Support renewable energy
  - Allocate 35% of our energy sector lending to renewables
  - Directly invest $2 billion in renewable energy infrastructure (+66% compared to 2020)
  - Participate in 5 additional biomethanization projects
- Guide and support businesses in carbon-intensive sectors that:
  - Demonstrate solid ESG performance
  - Factor in climate risk
  - Set credible targets for reducing GHG emissions
- Set science-based emissions targets for our own investments and lending activities
- Expand our sustainable finance lineup for individuals and businesses

Operations

- Achieve our science-based target (1.5°C) of reducing our operational GHG emissions by 41% compared to 2019 levels
- Work with our 100 largest suppliers to reduce the carbon footprint of our supply chain

Employees

- Train 85% of our employees on the principles of sustainable development by 2023
- Provide specific RI training for employees who design or sell RI products

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In 2021, we were the first Canadian financial institution to commit to Business Ambition for 1.5°C, an alliance led by the Science Based Targets initiative (SBTi) and the United Nations.

By joining Business Ambition for 1.5°C, we made several concrete commitments, including to publish intermediate science-based targets (short- or medium-term) for our operations and financial activities, which will be verified by SBTi no later than 2023.

We've already made progress on this commitment by publishing our first reduction target on our operational emissions: by 2025, we'll reduce the carbon emissions of our main activities (business travel, paper use, energy consumption in buildings we lease or own) by 41% compared to our 2019 emissions, which aligns with the goal of limiting global temperature increase to less than 1.5°C by the end of this century.

While we believe in the importance of dialogue and engagement, we have made the decision to exclude companies in the coal industry from our lending, investing and insurance activities, as explained in our position on coal. We further affirmed our position by joining the Powering Past Coal Alliance. In addition, we've established decision-making guidelines for our dealings with corporations in carbon-intensive sectors and will support SMEs in their energy transition.

Desjardins Global Asset Management Inc. (DGAM) joined the Net Zero Asset Managers Initiative (NZAMI) in October 2021. In doing so, DGAM joined an international group of asset managers working toward a goal of net zero GHG emissions by 2050, part of worldwide efforts to limit global warming to 1.5°C.

The following chart gives an overview of our climate-related commitments.

PCAF Partnership for Carbon Accounting Financials

SCIENCE BASED TARGETS — DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

BUSINESS AMBITION FOR 1.5°C

Commitments and initiatives: Climate change and responsible finance

Banking	Investment	Insurance
Position on the Paris Agreement		
N Climate ambition: Net zero emissions (3 key sectors)		
Powering Past Coal Alliance (coal phase-out)		
Tobacco-Free Finance Pledge		
Principles for Responsible Banking	Principles for Responsible Investment	Principles for Sustainable Insurance
N Commitment to Financial Health and Inclusion	Climate Action 100+	N Climate Proof Canada (Insurance Bureau of Canada)
	N Climate Engagement Canada	
N **Business Ambition for 1.5°C** (Science Based Targets initiative)		
Partnership for Carbon Accounting Finacials		
Task Force on Climate-related Financial Disclosure and CDP (previously the Carbon Disclosure Project)		
	N Net Zero Asset Managers initiative	
	N Global Investor Statement to Governments on the Climate Crisis	
	N Canadian Investor Statement on Climate Change (Responsible Investment Association)	

- Public commitment
- Commitment to an external initiative
- Target / quantification
- Reporting frameworks
- N New in 2021

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Many factors make it difficult to integrate climate change into the strategy of a financial institution like ours, including long time horizons, the multitude of physical and transition risks, complex causality links between climate and socioeconomic variables and the financial impact on our members, clients and business sectors, and the broad range of models and scenarios for what the future may hold.

In order to coordinate the latest industry developments into a worldwide approach, we've participated in a number of pilot projects with the United Nations Environment Programme Finance Initiative (UNEP FI). In 2018–2019, we took part in developing a scenario analysis tool for investments (transition scenarios for 1.5°C and 2°C), and in 2020 we helped develop a tool to assess the repercussions of flood risk on Ontario's property and casualty insurance industry based on 2 climate scenarios (Representative Concentration Pathways [RCPs] 4.5 and 8.5). In 2021, members of our teams participated in several modules of UNEP FI's TCFD project: Sectoral Climate Risks, Landscape Review of Climate Risk Assessment Methodologies and Client Transition and Underwriting (business financing sector).

With the help of an external firm, we defined 4 climate scenarios that will serve as the basis of our future analyses of the potential repercussions of climate change. These scenarios, listed below, represent a range of plausible future situations based on possible climate trajectories. They're consistent with the reference scenarios defined by the Intergovernmental Panel on Climate Change (IPCC) and the Network for Greening the Financial System (NGFS).

Climate scenarios used in our analyses

Scenario	Deep decarbonization Delayed action	Deep decarbonization Immediate action	Partial decarbonization	Business as usual
Trajectory	Countries act to limit global warming to 2°C or less by 2100, but worldwide action is delayed, resulting in a **disorganized transition**.	Countries act to limit global warming to 2°C or less by 2100. As of 2020, worldwide **action is organized** and consistent with the climate targets of the Paris Agreement.	Countries act according to their pledges under the Paris Agreement. Their **actions are not enough** to limit warming to an additional 2°C by 2100.	No further action is taken to limit global warming. Emissions continue to rise.
Increase in global temperature by 2100	≤ 2°C	≤ 2°C	~ 3°C	≥ 4°C

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RISK MANAGEMENT

Process for identifying and evaluating climate-related risks

We gather, identify and evaluate climate-related risks through an organization-wide multidisciplinary framework. Business sectors and support functions work together with risk management professionals and the Sustainability and Responsible Finance team to identify the main risks to their activities and their impacts. The results of these analyses are shown in the table summarizing the qualitative analysis of climate-related risk on page 10.

We updated the methodology for climate-related risk analysis in 2020 to reflect the specific situation of each business sector and the potential repercussions on our members and clients. In 2021, our identification and evaluation focused on the vulnerabilities identified the previous year, to evaluate the dominant physical and transition risk factors.

We continued to quantify these risks in parallel, which gave us a better understanding of many of them, particularly how more frequent and likely climate events will influence insurance risk and credit risk.

We're also monitoring our exposure to transition risks using specific indicators in the fossil fuel and renewable energy sectors, in business financing, in our own investments, as well as in our property and casualty insurance, life and health insurance, and retirement savings portfolios.

Process for managing climate-related risk

In 2020, we expanded our management approach for climate-related risk so that we can better integrate it—individually or as a part of other environmental, social and governance (ESG) risks—into our existing risk management practices and a growing number of decision-making processes.

In 2020 and 2021, we started certain aspects of our approach and finalized others. For example, we worked on governance, risk analysis, selection of relevant climate scenarios and quantification of the impact of certain risk factors. We also analyzed our operating model for managing climate risk and we identified areas for improvement. This work allows us to strengthen the existing structure and preserve certain elements, such as the action plans underway.

Following an assessment of climate-related risk, we establish action plans and an implementation schedule for measures to mitigate risk, where needed.

Each year, the results of the climate-related risk analysis are presented to the Desjardins Group Finance and Risk Management Committee.

Several additional tools help us improve our grasp of climate-related risk in our activities. Climate-related risk is evaluated in investment decisions, notably by monitoring carbon intensity as it compares to benchmark indexes (at December 31, 2021, we surpassed our target for our own investments of -25% compared to the indexes and reached -38%) and by engaging as shareholders. We also consider climate change in lending decisions and when files are reviewed annually by using an ESG evaluation grid customized by industry (used since 2020 for large businesses, with gradual integration for medium-sized businesses starting in 2021). We are currently building a climate analysis grid for carbon-intensive sectors that we plan to deploy in 2022.

Implementing our science-based targets by 2023 rounds out these tools and gives us a more detailed view of how our investment and lending portfolios align with the objectives of the Paris Agreement.

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Integrating climate-related risk into our risk management

Climate-related risk is an integral part of other kinds of risk (insurance, credit, etc.). Some processes handle climate risk separately, all the while integrating it into our integrated risk management framework (see figure opposite).

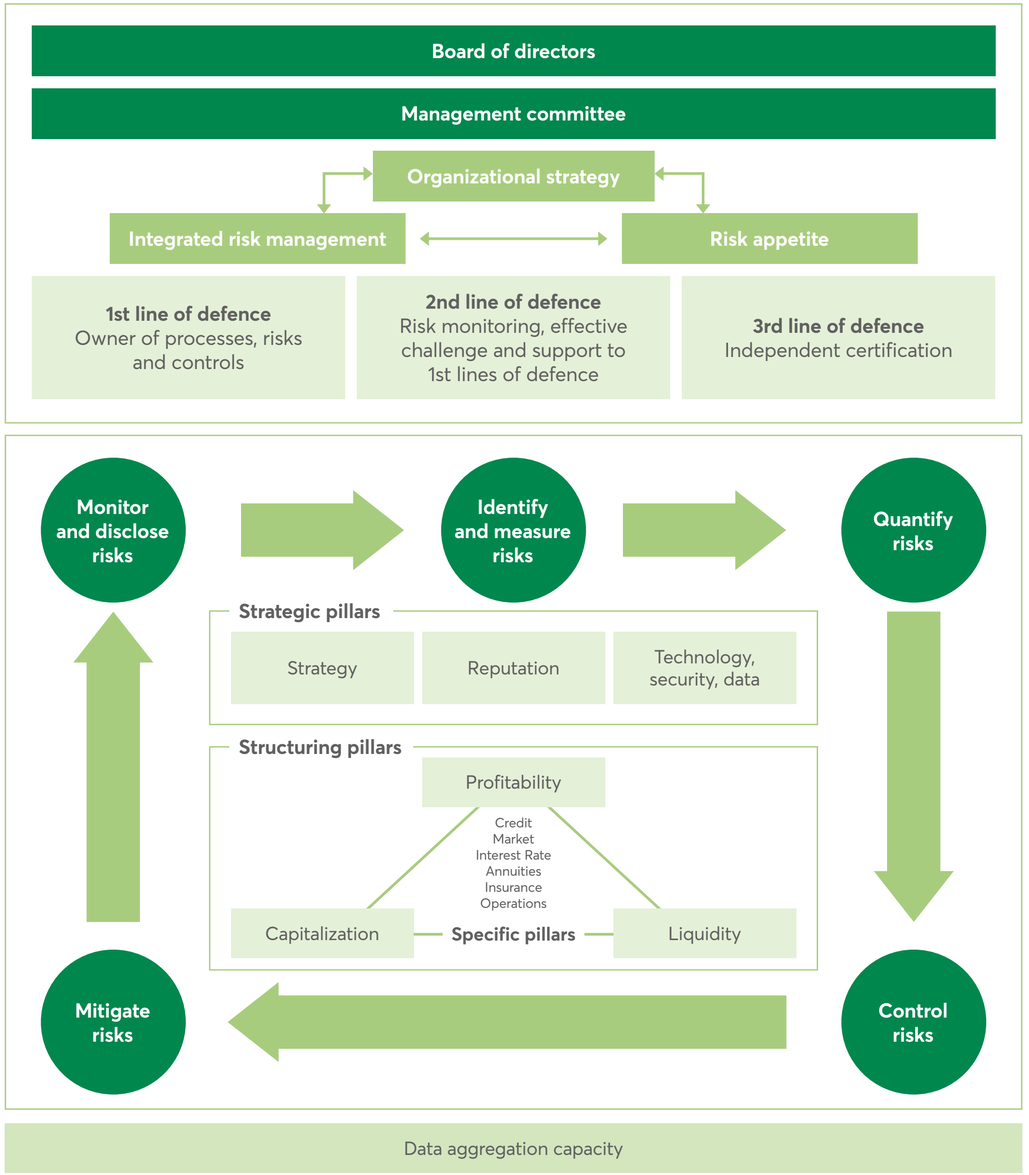
We have a risk register that lists categories and subcategories of risk affecting the organization. The register is updated at least once a year and serves as the basis for the quantitative and qualitative assessment of the materiality of risks, the determination of our risk profile and the implementation of appropriate strategies to mitigate risks. The register includes environmental and social risk, to which climate-related risk is an external risk factor. Since climate change can affect our future performance, it's considered both a main risk and an emerging risk and it is monitored quarterly by senior management.

In keeping with our integrated risk management framework, our first line of defence is a team specialized in sustainability and responsible finance that helps the business sectors account for climate-related risks as they manage their specific risks.

Strengthening the process is a dedicated climate risk team that works with other second line of defence teams (insurance, credit, etc.) to structure and supervise the way this risk is included and managed. Climate risk gets its own treatment in the quarterly report to senior management. It's also subject to an annual disclosure to the Desjardins Group Finance and Risk Management Committee.

Our third line of defence is the Desjardins Group Monitoring Office, as the 2019 internal audit on the implementation of our sustainable development policy showed. That audit included several recommendations regarding climate change (see the **Governance** section).

Integrated risk management framework



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METRICS AND TARGETS

Overview of our climate-related measures and targets

We base the way we manage our climate-related performance, risks and opportunities on measuring and monitoring indicators in our main business sectors and support functions. The primary ones are summarized below:

Area	Metric	Target	2021	2020	2019
Investments	Carbon intensity of our own investments compared to benchmark indexes (weighted average carbon intensity)	-25%	-38.1%	-32.0%	-14.5%
	Amount invested in renewable energy (our own investments and the Desjardins Group Pension Plan's investments)	$2B in 2025	$1.5B (Q3 2021)	$1.2B	$1.2B
Lending	Exposure at default in carbon-intensive sectors (% and $)		0.6% ($2.1B)	0.7% ($2.2B)	N/A
	Total exposure at default for electricity production ($, % renewables/fossil/other)		$1,160M 82% / 16% / 2%	$962M 85% / 10% / 5%[1]	N/A
	Share of renewables in our lending to energy corporations	35% in 2025	31%	28%	N/A
	Cumulative biomethanization projects financed	6 projects in 2025	1	1	1
	Sustainable bonds ($ issued)		$500M	$0M	$0M
Financial activities (GHG emissions)	Residential mortgages ($ktCO_2e$ and tCO_2e/$ outstanding, PCAF data quality score 5)		456 $ktCO_2e$ 4.0 tCO_2e/$M	516 $ktCO_2e$ 4.9 tCO_2e/$M	N/A
	Consumer loans for motor vehicles ($ktCO_2e$ and tCO_2e/$ outstanding, PCAF data quality score 3)		474 $ktCO_2e$ 112.5 tCO_2e/$M	553 $ktCO_2e$ 125.9 tCO_2e/$M	N/A
	Commercial real estate (loans and investments, $ktCO_2e$ and tCO_2e/$ outstanding or invested, PCAF data quality score 1 to 5)		611 $ktCO_2e$ 12.9 tCO_2e/$M	562 $ktCO_2e$ 12.9 tCO_2e/$M	N/A
	Stocks and corporate bonds (our own investments, $ktCO_2e$ and tCO_2e/$ outstanding or invested, PCAF data quality score 1 to 4)		333 $ktCO_2e$ 31.8 tCO_2e/$M	369 $ktCO_2e$ 37.9 tCO_2e/$M	N/A

: Indicators monitored by the ESG Steering Committee

N/A: Data not available

[1] Values updated after obtaining more precise 2020 data on electricity generation.

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Area	Metric	Target	2021	2020	2019
Operations	Direct GHG emissions (Scope 1, tCO_2e)[1]	-41% 2019–2025	6,620*	8,188*	11,899*
	Indirect GHG emissions (Scope 2, tCO_2e)[2]		1,303*	1,844*	2,023*
	Indirect GHG emissions (Scope 3, tCO_2e)[2]		9,624*	15,030*	26,840*
	Total GHG emissions (tCO_2e)[4]		17,547*	25,062*[5]	40,762*
	Emissions intensity (Scopes 1 and 2, $kgCO_2e/m2$)[6]		5.4	6.7	9.4
	Energy intensity (Scopes 1 and 2, GJ/m2)[7]		0.80	0.84	0.91
	Renewable energy purchased (GWh/%)		284 (96%)	295 (96%)	306 (95%)
	Share of energy mix from renewable energy (%)		86%	84%	80%
	Internal carbon price ($/$tCO_2e$)		N/A[8]	$14/$tCO_2e$	$13/$tCO_2e$
	Residual waste sent to landfills		708 t	945 t	2,403 t
	Residual waste recycled or repurposed		1,996 t	1,985 t	3,179 t
	Total residual waste		2,704 t	2,930 t	5,583 t
	Recycling/recovery/composting rate		74%	68%	57%

: Indicators monitored by the ESG Steering Committee

N/A: Data not available

*PwC conducted a limited assurance engagement on these indicators.

[1] Direct emissions (Scope 1) include those related to fuel consumption in the buildings that we occupy (as an owner or tenant), our vehicle fleet, and any refrigerant leakage in our buildings.

[2] Indirect emissions (Scope 2) include electricity and steam consumed in the buildings that we occupy (as an owner or tenant). Gases included in the calculations are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). All emissions are calculated using the location-based method.

[3] Other emissions (Scope 3) include business trips made with rental and personal vehicles, as well as business trips made by plane, bus and train. GHG emissions from paper consumption are calculated using the Environmental Paper Network's Paper Calculator. As of this year, our financed emissions associated with Desjardins Global Asset Management's direct real estate investments (16,005 tCO_2e in 2021) are included in the total financed emissions (category 15 [investments] in the GHG Protocol) in the previous table.

[4] 2021 data covers all of Desjardins Group and was collected for the following components:

- Caisse network and centres
- Desjardins Investment Product Operations
- Desjardins Real Estate Group
- Desjardins Global Asset Management
- Desjardins General Insurance Group
- Desjardins Financial Security
- Desjardins Investments
- Desjardins International Development
- Fédération des caisses Desjardins du Québec
- Desjardins Shared Services Group
- Desjardins Technology Group
- Desjardins Securities

Any Desjardins Group components not listed are not included in the calculations.

Gases included in carbon dioxide equivalent (CO_2e) are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O).

[5] Total emissions for 2020 were recalculated (from 27,556 to 25,062 tCO_2e for the operational total) because of a new, more precise source for estimating the energy mix consumed by some of the sites for which we did not have actual consumption data.

[6] GHG emission intensity is measured by dividing total emissions (Scopes 1 and 2; CO_2, CH4 and N_2O) by the total area of buildings in the operational scope.

[7] Energy intensity (in GJ/m²) was changed in 2021 to align with the operational scope (energy consumed on operational sites/m² of operational sites). The values for 2020 and 2019 have been updated to reflect this change.

[8] The internal carbon pricing for 2021 is currently being defined and will be announced in the 2022 disclosure.

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Climate-related risk and opportunity indicators

In 2021 we began integrating a set of new ESG and climate-related indicators into our performance review structure. These indicators are reported to the ESG Steering Committee every quarter, and most of them are also reported to the Desjardins Group Management Committee.

These indicators include:

- Advanced indicators, such as sustainable development training given to our employees, ESG indicators integrated into our activities, and the percentage of our activities whose financed emissions we measure
- Performance indicators, which measure things like our ESG scores, how our positions are being followed, how our ESG and climate-related products and sustainable bonds perform, and how close we are to reaching our targets for energy transition opportunities and reducing GHG emissions for our operations, supply chain and financial activities
- Perception indicators (internal and external), which let us know how well the general public, our members and clients and our employees think Desjardins Group is doing as an ESG leader

These indicators and targets also include our 2025 objectives related to our climate ambition of net zero emissions by 2040. We'll add our science-based targets to the list once they've been verified by the SBTi.

Where relevant, the indicators and associated targets are included in the annual objectives of senior managers and employees. In 2022, the general incentive plan for all employees will be updated to include an indicator linked to our ESG performance as evaluated by extra-financial rating agencies.

We use internal carbon pricing for certain large projects. The price is based on the amount spent on certified carbon credits, which we've been purchasing to offset our GHG emissions since 2017. In 2020, the average price was $14/t$CO_2$e.

We also track other indicators related to climate action and a just energy transition, like the percentage of our investments and lending in carbon-intensive sectors and renewable energy, the amount of paper we use for our operations, and the amount of residual waste we generate.

Operational GHG emissions and carbon neutrality

We measure and offset the carbon footprint of our operations including emissions from our buildings, business travel and paper consumption.

In 2021, the way we define the scope for our building-related GHG emissions changed. Scopes 1 and 2 only include emissions of buildings over which we have operational control (ones used or occupied by Desjardins employees), while Scope 3 includes emissions of buildings that are direct investments and not under our operational control (Scope 3, category 15 in the GHG Protocol). The scoping around transportation and paper use is the same as before. We redistributed the emissions for 2020 and 2019 to reflect this new categorization.

As shown in the previous table, our operational emissions dropped 30% from 2020 to 2021, primarily because of the COVID-19 pandemic. For all 12 months of 2021 (compared to 9.5 months in 2020), all business travel was suspended, and work-from-home was mandatory for more than 80% of employees. This situation has had a major impact on paper consumption and, to a lesser extent, on energy used by our buildings. A change to the emission factors for electricity in Quebec (-29%) and Ontario (-6%) also contributed to the reduced emissions in Scope 2. Finally, our procurement teams' efforts to replace paper containing 0% recycled content with 100% recycled paper contributed to the lower emissions related to our paper consumption.

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GHG emissions from our financial activities

In 2020, we joined the Partnership for Carbon Accounting Financials (PCAF) to adopt and promote an international standard for measuring the GHG emissions of our loans and investments.

In 2021, our teams were active participants in PCAF working groups and they applied the methodology of the *Global GHG Accounting and Reporting Standard for the Financial Industry* (first edition, 2020) to 6 asset classes covered by the guide.

This type of calculation comes with certain challenges, foremost of which is obtaining precise, granular and exhaustive data about our members' and clients' businesses, projects, buildings and vehicles. Most of the results we have are therefore based on averages, which translates to medium to low data quality scores (scores of 3 to 5), by the PCAF quality scale, for 3 of the 4 asset categories disclosed in the following table.

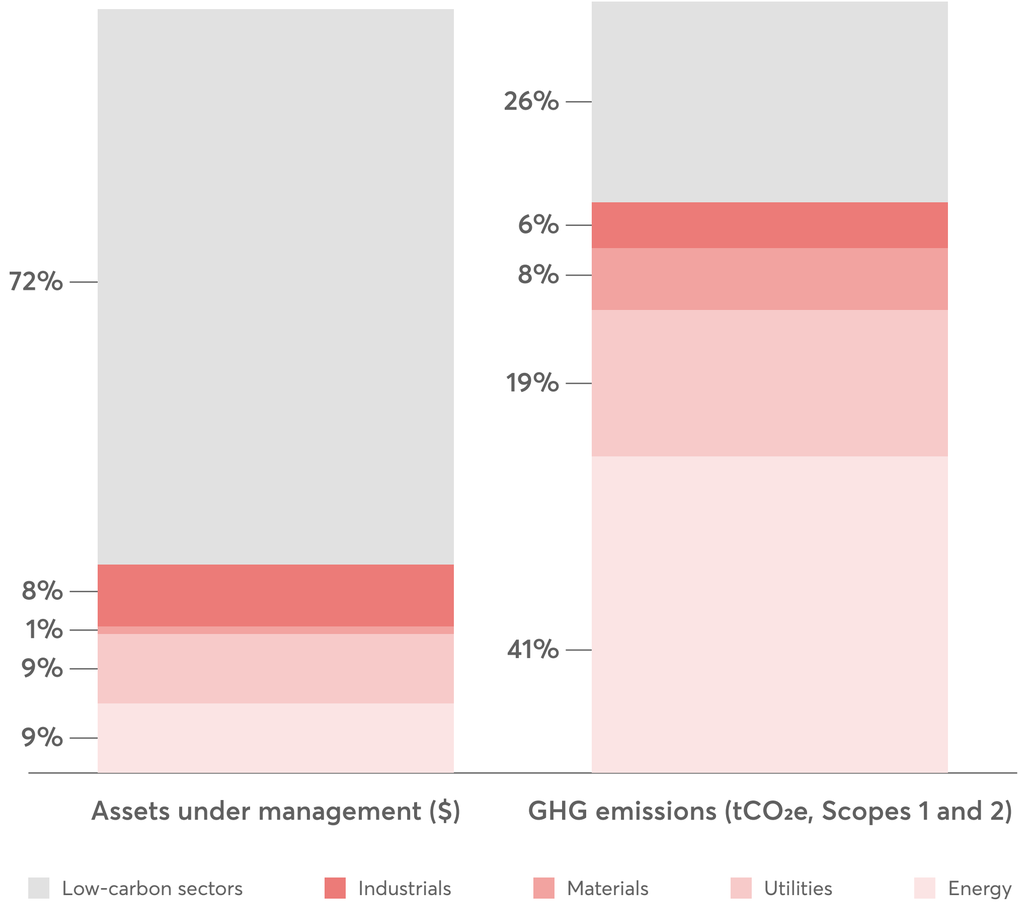
Financed emissions – PCAF disclosure (December 31, 2021)

Asset class (December 31, 2021)	**Emissions** (Scopes 1 and 2, tCO_2e)	**Assets under management/ outstanding** ($M)	**% coverage**	**Carbon intensity** (tCO_2e/M$)	**PCAF score**
Mortgages	456,202	118,757	96%	4.0	5
Vehicle financing	473,783	7,097	59%	112.5	3
Commercial real estate (financing)	594,853	52,528	87%	13.1	5
Total financing	**1,524,838**	**178,381**	**92%**	**9.3**	
Commercial real estate (investments)	16,005	1,901	100%	8.4	1 (47%) 4 (53%)
Listed equity and corporate bonds (our own investments)	333,109	12,485	84%	31.8	1 (54%) 2 (34%) 4 (14%)
Total investments	**349,114**	**14,386**	**86%**	**28.2**	

These results are based on the best available data and the methodology deemed most appropriate for our portfolio; they have not been audited by a third party. Any calculation error or update resulting from a change in methodology or addition of new data that produced significantly different results from what has been published will be addressed and corrected in future publications.

Despite these issues, the first estimates reveal the following:

- Listed equity and corporate bonds, our own investments: Utilities, energy and materials account for nearly 70% of this portfolio's emissions, although they comprise only 20% of assets under management.



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- Commercial real estate and residential mortgages: These portfolios are concentrated in Quebec, where electricity is generated by renewable energy sources (95% hydroelectric, 4% wind) and electric heating is found in most buildings. As a result, this asset class has a low carbon intensity. We've been working to collect energy consumption data for some assets for several years. However, most of the data is still estimated. These estimates are imprecise and need to be bolstered with real data.
- Motor vehicle loans: This portfolio has the highest emission intensity. It includes very few electric vehicles, which is representative of the current state of vehicles in Canada. The part of this portfolio that isn't covered (41%) represents recreational vehicles (ATVs, boats, etc.), for which there is no recognized approach for estimating emissions.
- Business loans: There's not enough actual data and the averages available for estimation are too poor quality for us to be able to publish results at this point.
- Project finance: There's not enough actual data and the averages available for estimation are too poor quality for us to be able to publish results at this point. An exploratory analysis of the impact of the renewable energy projects we finance showed that the electrical generation that can be attributed to our financing would allow about 150,000 tCO_2e of emissions to be avoided by replacing fossil-fuel use, primarily in the United States.

These results underscore how important it is to obtain real data (for Scope 1, 2 and 3 GHG emissions and physical data like surface area and production volumes) rather than relying on industry-level estimates, which are often dated. It would allow us to identify the economic players that have the best GHG performance as well as those that will need support in the energy transition.

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Confirming our new climate ambition in 2021 helped us define or renew several quantitative targets for Desjardins Group as a whole and some for specific entities. These targets are part of how we're implementing our net zero emissions by 2040 climate strategy (focused on our operations and financial activities in energy, transportation and real estate). And on a higher level, they fit the 2050 objective we committed to through Business Ambition for 1.5°C. Many of these targets were introduced in the **Strategy** section and earlier in the **Metrics and targets** section, and are summarized in the table below.

Quantitative medium-term objectives and targets

2023

- Train 85% of our employees on the principles of sustainable development

2025

- Allocate 35% of our energy sector lending to renewables
- Directly invest $2 billion in renewable energy infrastructure (+66% compared to 2020)
- Participate in 5 additionnal biomethanization projects
- Achieve our science-based target (1.5°C) of reducing our operational GHG emissions by 41% compared to 2019 levels

In progress

- Set science-based emissions targets for our own investments and lending activities (2025 or 2030)

Ongoing

- Keep the carbon intensity of our own investments at least 25% below the benchmark index

Desjardins climate strategy: Net zero emissions by 2040

- Extended operations: buildings, business travel and supply chain
- Lending activities and own investments (targeted sectors: energy, transportation and real estate)

2050 net zero emissions objective: Business Ambition for 1.5°C