Vancity Centre
183 Terminal Avenue, Vancouver, BC V6A 4G2
T 604.877.7000 vancity.com

Vancity

Ms. Catherine Howarth
63/66 Hatton Garden
Fifth Floor, Suite 23
London, EC1N 8LE
August 14, 2021

Dear Catherine,

I want to thank you and ShareAction for your important engagement on the climate crisis. Having worked with you on important shareholder engagement campaigns in the past, Vancity is glad to see you take this leadership role in pushing the global financial sector to get more ambitious about addressing the climate emergency.

Putting people and planet first is at the core of Vancity's identity and business model, and has been for many decades. Vancity recognizes that financial institutions have to do more to address the climate emergency. That's why we are taking concrete, credible steps toward reducing the emissions financed by our lending and investments. It's also the reason we have been active participants in international initiatives such as UNEP FI's Commitment to Climate Action, the work of the Partnership for Climate Accounting Financials (PCAF), and most recently the UN's Net-Zero Banking Alliance, of which we were the only Canadian founding signatory.

Over the past year, we have worked to understand our financed-emissions exposure and to begin identifying opportunities to reduce our financed GHG emissions. We were an early joiner to PCAF North America, and as a working group member contributed to the development of what's now the global GHG accounting and reporting standard for financed emissions – the same standard currently being adopted by Canada's five largest banks.

This work will inform and drive progress on the five climate commitments we made in January 2021, including a commitment to bring our entire loan and mortgage portfolio to net-zero by 2040. It complements what we've already done to reduce our operational emissions and make them carbon-neutral, and the fact that we don't invest in, or lend to, fossil fuel companies. This positions us to drive further change and contribute to limiting warming ahead of the global target called for by the Intergovernmental Panel on Climate Change.

Achieving net-zero is crucial. *How* we get there is critically important, and we know that lower-income people are more exposed to climate risks and that economic inequality severely impacts climate resilience. Our work is focused on financial and social inclusion to provide banking and other solutions to help people who are affected by the climate emergency.

We recognize that we still have a lot of work to do. Our PCAF disclosure has enabled us to measure the emissions we are financing. This accounting, which we disclosed for the first time this year, has helped us to understand where we are starting from and the complexity involved in doing this type of reporting and disclosure. It is enabling us to do the work of setting targets using science-based scenarios, and to determine the most effective actions to take.

There is significant overlap between the actions outlined in your letter and the steps Vancity has already taken, or is preparing to take, as we chart a path to achieving our climate commitments. As head of our External Relations and Impact Strategy Division and the executive lead of our climate strategies, I have detailed our progress on these items in the text below. Please feel free to reach out if you have any questions.

I thank you again for taking on this important engagement campaign, and I look forward to future opportunities for collaboration between ShareAction and Vancity.

Jonathan Fowlie
Chief External Relations Officer
Vancity Credit Union
Jonathan_Fowlie@vancity.com

ShareAction: Five Issues for Financial Institutions

1. Publish short-term (5-10 years) climate-related targets covering all relevant financial services ahead of your 2022 AGM.

Vancity is in the process of creating roadmaps to achieve our commitments, including setting short-term targets. We believe targets developed using science-based scenarios are essential to demonstrating our dedication to our net-zero commitment, and we are working on releasing those targets ahead of our 2022 AGM. Being among the first Canadian and North American financial institutions on this journey, we recognize there could be unexpected obstacles, and are dedicated to full transparency should they arise, with one of our five climate commitments focused on being transparent and accountable.

2. Integrate the findings of the IEA Net-Zero scenario and/or another 1.5°C scenario with low overshoot and minimal reliance on Negative Emission Technologies into your climate strategy.

Work on our climate strategy, now guided by the climate commitments we released in January 2021, commenced before the release of the IEA's landmark Net-Zero by 2050 report, but encompasses many key components of the IEA's net-zero pathway. For example, the IEA is calling for a halt in new investment in oil-and-gas production, and Vancity does not invest in or lend to fossil-fuel companies.

Another central tenet of the IEA pathway is that a "massive clean energy expansion" has to happen this decade, and must be fueled by significant investment from both governments and financial institutions. As the IEA notes, this "requires further rapid deployment of available technologies as well as widespread use of technologies that are not on the market yet."

We are beginning to work in both these areas through our national subsidiary, Vancity Community Investment Bank (VCIB). VCIB's emerging strategy is to fill gaps in the clean energy landscape that are underserved by other investors. For example, we are beginning to provide financing to the under-invested small-to-mid size renewable energy market. We are working with businesses and institutions developing, testing and demonstrating emerging technologies such as cutting-edge geo-exchange and bioenergy systems.

The IEA has also emphasized the importance of building energy efficiency and of transitioning energy use from carbon-based sources to renewable sources, including electrification where electricity is generated mostly from renewable sources. We learned from our Partnership for Climate Accounting Financials (PCAF) results that these will be critical to our own climate strategy and our path to a net-zero portfolio. One of our biggest sources of financed emissions is the natural gas used for heating buildings. Helping our members reduce emissions from their homes and commercial buildings and transition to electricity (which in British Columbia is almost entirely hydro-generated) as the main heating source is thus critical to our climate strategy. In addition to this work on existing building stock, we will be working to finance the development and demonstration of new net-zero buildings and solutions that reduce emissions from the building process.

Working with our members to encourage their own journey away from emissions-generating behavior is also central to our climate strategy. This echoes the IEA's spotlight on consumer choice and action as essential to its net-zero pathway. We are exploring what we can do to achieve this through our Planet-Wise loan products that encourage energy-efficiency retrofits, electric vehicles, and the re-use of construction materials. We also offer, through VCIB, green commercial mortgages to businesses and commercial building owners looking to finance energy efficiency retrofits and renewable energy solutions.

We share the IEA's focus on encouraging the sale of electric vehicles and eventually transitioning most transportation to electric options. We have long supported members and employees in transitioning to electric vehicles (cars as well as scooters and e-bikes) or cycling; we currently offer a Planet-Wise Transportation Loan to members for all of these types of transportation as well as an electric vehicles rebate for employees.

We will continue to take steps to integrate the findings of the IEA and/or other credible 1.5°C scenarios into our climate strategy as we progress our work in this space.

3. Phase out from coal by 2030 in OECD countries and by 2040 in non-OECD countries at the latest.

In 2019, we shifted all investment funds we manage to be fossil-fuel free. Under our fossil fuel free policy, our investment funds exclude oil and gas producers, pipeline companies, coal power producers, natural gas distribution utilities, LNG operations as well as service companies whose primary business is supporting the fossil fuel industry.

And under our Ethical Principles for Business Relationships, which guide our work with our community business members as well as our suppliers (see response #5 for more detail), we do not lend to, or invest in, fossil-fuel companies.

4. Ensure your financial statements are drawn up in alignment with a 1.5°C-pathway.

We agree with ShareAction that banks' economic prospects will be impacted by both the physical impacts of climate change as well as the transition onto a net-zero pathway and that these impacts should be a critical consideration in banks' financial statements, which are required to ensure a fair representation of the entity's economic position.

Where financial institutions fail to incorporate climate risks into their accounts, there is a risk of misrepresentation, which could lead to the overvaluation of unsustainable assets and the under-valuation of green and sustainable assets. As a member-owned and directed financial co-operative, carefully allocating the capital our members entrust to our care, and being transparent to our member-owners about our risks and opportunities, including our climate risks, is paramount. Our financial statements reflect this conviction.

Climate is one of the ten risk dimensions Vancity monitors, and we revise our risk metrics and thresholds annually. Our climate risk metrics are still somewhat rudimentary, but we are working to deepen our understanding of climate risks, improve our climate risk indicators for both physical and transition risks, and mature our climate risk metrics. This includes using deeper scenario analysis and improving how we factor what scenario planning tells us about the future climate risk landscape.

The fact that we do not lend to, or invest in, fossil fuel companies, lessens our exposure to transition risk. Nonetheless, we believe it's necessary to set aside capital to deal with inevitable climate risks, and therefore factor climate risks into our Internal Capital Adequacy Assessment Process (ICAAP), which is IASB compliant. We review potential loss scenarios annually, and where this assessment deems it necessary, we allocate capital to hedge against shocks brought about by climate-related risks.

In doing so, we recognize that even under a 1.5°C scenario there will be increased frequency and severity of climate-related weather events, which pose a risk to both our owned assets and our portfolio. In particular, we've determined that our biggest physical risk is flooding in British Columbia's Lower Mainland, where the majority of our lending occurs and where most of our physical assets are located.

In response, we monitor our portfolio against flood risk quarterly and seek to improve this monitoring though better data and modeling on different warming pathways. The recoverability of our lending portfolio now considers these increasing flooding risks. We have also begun to monitor risks to our portfolio from forest fires. In addition, we've partnered with the City of Vancouver on its False Creek Adaptation Plan and are carefully reviewing BC's Climate Action Preparedness Plan to see if there are any additional steps we can take to mitigate the risk exposure of both our owned assets and our mortgage-heavy portfolio.

In terms of oversight, our Operational Risk Management Committee meets bimonthly and has, as a standing item, a discussion on climate risks, including what they are, where they exist, and what mitigating steps are being taken or recommended. Climate risks are reported to the Board and the Executive Leadership Team (ELT) quarterly, along with all other key risks we monitor. We also report to our membership annually about our climate risks through our Annual Report, which contains our TCFD disclosure. In 2022, our Board and ELT plan to assess revised key risk indicators for climate which will better reflect a changing risk landscape, drawing on a greater knowledge of our portfolio and pathway to net-zero to better reflect our transition risk.

Our progress on better incorporating climate risk into our financial planning is interconnected with our progress on fully developing our climate strategy, much of which is already congruent with the IEA's net-zero pathway (see response #2). Specifically, the work we're doing to improve the data around measuring GHG emissions in our lending portfolio will feed into both our climate strategy and our financial risk planning. And developing our net-zero plan and setting targets is critical for our risk planning because these targets will help us to understand and address our transition risk.

Integrating climate risk into financial planning and disclosure is an evolving area for Vancity, as it is for most financial institutions. Some climate risk impacts are already reflected in our financial statements, but there is definitely room for increasing this, and we are putting significant focus into this work. There is robust appetite from both our ELT and our Board to improve our monitoring and understanding of climate risk as well as its integration into our decision-making, and the process and visibility with which we are proceeding with this work is just as robust.

5. Commit to protect and restore biodiversity.

The protection and restoration of biodiversity and the natural environment is embedded into Vancity's business model through our Ethical Principles for Business Relationships (EPBRs). Our EPBRs help guide decisions about our current and future business relationships, including suppliers, business members, and sponsorship and grant recipients. They provide a framework

under which we make decisions that seek to increase positive impact, or reduce harm, for people and planet.

Environmental and sustainability leadership is one of our four EPBRs. Under this principle, we seek out, and prioritize support for, businesses and community projects that “contribute to the preservation of natural ecosystems and environmental restoration”, “provide goods/services with positive environmental benefits” or “measure and minimize impact on air, water and land”, among other criteria. These criteria guide our assessment of new and existing relationships, and in practice this means that we are not active in industries that cause significant harm to biodiversity and the natural environment. In our most recent impact assessment under the Principles of Responsible Banking, biodiversity did not emerge as an area of “significant potential negative impact” based on our lending activities.

Vancity also uses our assets to improve social inclusion, economic well-being and environmental sustainability by tracking the percentage of Triple Bottom Line Assets under Administration (TBLAA). This tells us how much of Vancity’s capital directly supports our values of social justice and financial inclusion, environmental sustainability, and/or cooperative principles and practices. Along with metrics such as financed emissions, it allows us to tell a more fulsome story about our impact, and to demonstrate our commitment to building a clean and fair economy. We report TBLAA ($’s and % by asset class) voluntarily in our annual reports. TBLAA is a key organizational performance metric and is externally audited.

Vancity has also, for decades, supported community initiatives that protect and restore the natural environment. In 1990 Vancity became the first in Canada to contribute VISA profits to grants for environmental initiatives. This program – the EnviroFund™ – continues today with a current focus on funding “lighter living” initiatives that decrease the footprint that daily lives have on the natural environment. More recently, Vancity Investment Management (VCIM) joined the Finance for Biodiversity Pledge as an initial signatory prior to the launch in September 2020, committing to collaborating, engaging, assessing its own biodiversity impact, setting targets and reporting on biodiversity matters by 2024. As part of this commitment, VCIM has joined the Finance for Biodiversity Foundation to collaboratively develop biodiversity KPIs and engagement strategies that will enable VCIM and other pledge signatories to uphold our commitments under the Finance for Biodiversity Pledge.

Vancity is committed to supporting the creation of more affordable housing units and to supporting new builds and retrofits that reduce emissions from the built environment. This of course could result in increased demand for timber. We are aware of this and are working with nonprofit building partners to test out ways to reduce the environmental impacts of these processes. We are also encouraging members taking out loans or mortgages that entail retrofits

to consider “deconstruction”, a process that maximizes the resources, including timber, that can be salvaged for reuse as part of a retrofit.