Vancity's climate targets.

Vancity

June 2022

Introduction to our climate targets.

In April 2022, a UN scientist warned that "It's now or never, if we want to limit global warming to 1.5°C; without immediate and deep emissions reductions across all sectors, it will be impossible." The financial sector is crucial to this global effort because it decides which business activities get financed, underwritten, or invested in.

Vancity is committed to doing our part. Since our founding in 1946, we've worked not only to provide the banking needs of our members, but also to help address major systemic challenges they, and the communities they live in, face.

This commitment to the wellbeing of our members and communities is the reason we introduced Canada's first SRI mutual fund (in 1986), were the first in Canada to dedicate a portion of our VISA profits to grants for local sustainability initiatives (1990), the first financial institution in Canada to offer a low-interest loan encouraging the purchase of low-emissions vehicles (2003), and the first financial institution in North America to become carbon-neutral in its operations (2008).

As the climate emergency rages on, a critical contribution banking institutions can make is to bring the emissions they finance to net-zero. As of June 2022, over 110 banking institutions from more than 40 countries, representing nearly 40 per cent of global banking assets, have joined the UN-convened Net Zero Banking Alliance (NZBA), pledging to bring their financed emissions to net-zero by 2050 or sooner.

Although Vancity was the only Canadian founding member of the NZBA, our own net-zero journey started began before the NZBA's inception. In January 2021, alongside four other public climate commitments (found here), we committed to bring the emissions we finance through all our loans and mortgages to net-zero by 2040. The following is our roadmap to achieving this commitment, starting with three interim targets for 2025.

Vancity's interim climate targets: approach and methodology.

Vancity's net-zero commitment means that the carbon emitted from anything we lend to—mostly commercial and residential properties—will be eliminated or significantly reduced by 2040, with any remaining emissions being brought to net-zero by balancing any residual greenhouse gas (GHG) emissions through removing an equivalent amount of GHGs from the atmosphere.

We became a founding member of the NZBA to ensure our approach to achieving net-zero is consistent with best practice and science-based. The NZBA commits signatory members to aligning their on-balance sheet lending and investment portfolios with net-zero emissions by 2050 (or sooner). This equates to a temperature outcome consistent with limiting global warming to a maximum of 1.5 degrees centigrade from pre-industrial levels by 2100, in line with the most ambitious objective of the 2015 Paris Agreement.

Membership of the NZBA commits us to applying the UN Environment Programme Finance Initiative's (UNEP FI's) *Guidelines for Climate Target Setting for Banks*. The Guidelines set out requirements for types and coverage of targets, financed emissions disclosure, use of decarbonization scenarios to set targets, and review of targets. They require banking institutions to set scenario-based absolute and/or sector-specific emissions intensity intermediate targets for 2030, or sooner, that account for a significant majority of the bank's portfolio emissions where data and methodologies allow. Please refer to the appendix for detailed information on our alignment with the Guidelines.

We have set near-term climate targets because we view the climate emergency as one of the most pressing issues facing people and the planet. This urgency means we are approaching the work as follows:

- We've committed to being net-zero by 2040, ten years ahead of the recommendation by the Intergovernmental Panel on Climate Change (IPCC). We did this because this is the pace of change we believe is required to address the climate emergency, and we believe it's achievable for us.
- We've established interim targets for 2025, five years ahead of the NZBA requirements. While the data for emissions related to the energy use of the buildings we finance and the businesses we lend to is of a low quality (more on this below), given our 2040 goal we decided this could not delay our target setting or delivering progress against targets. We also understand that setting an earlier target may challenge our ability to meet it. Our intent here is to signal the necessity of immediate climate action, and to model the transparency we would like to see institutions adopt on our collective journey towards a low carbon future.
- We've focused on absolute emissions reduction targets that reduce the total quantity of GHGs emitted to the atmosphere by the specified amount. The aim of these targets is to drive overall emissions reductions and to challenge us to grow in a way that aligns with our net-zero goal and commitment to financing a just transition.
- We don't invest in oil or gas or many of the highest carbon-intensive industries that are the focus of many other financial institutions who are setting interim climate targets. Most of our lending supports real estate through mortgage lending to homeowners and businesses, which is why we have focused our emission reduction targets here. Our real estate targets cover 81 per cent of our balance sheet lending (dollars outstanding at the end of 2021).
- We have an interest in supporting small and medium-sized (SMEs) businesses—who are sometimes overlooked in net-zero pathways and goals—to contribute to a low-carbon, resilient and fair economy. According to Statistics Canada, businesses with fewer than 100 employees contribute significantly to Canada's economy and GHG inventory and provide around 70 per cent of private sector jobs. In addition, with supply chain practices increasingly taking into consideration sustainability factors and

increasing consumer expectations, SMEs within supply chains that take steps to reduce their emissions will have a competitive advantage. While our business operational loan portfolio is small in terms of balance sheet lending (around one per cent), in 2021 it contributed around eight per cent of Vancity's estimated financed scope 1 and 2 client emissions, and 27 per cent if we factor in scope 3 client emissions.

Our targets have been approved by Vancity's CEO, Executive Leadership Team, and Board of Directors along with near term actions for how we will begin making progress to achieve the targets. We've done work to understand where we need to focus efforts and the key barriers we need to help remove to meet our 2040 net-zero goal. We're now beginning to engage policy makers, community partners and members on climate action and a just climate transition, while working to improve our financed emissions measurement and disclosure. We're committed to being fully transparent about our journey, including sharing successes and challenges, and building on what we learn.

When it comes to emissions related to our day-to-day operations, we've been carbon neutral since 2008. This means we measure and reduce our GHG emissions as much as possible, then offset emissions through the purchase of registered carbon offsets from emission-reducing activities that others have undertaken. In 2022, we will work on aligning our operational emissions with science-based targets and set interim targets. We will also determine our longer-term net-zero goal for operational emissions. Please refer to our GHG Handbook and Inventory Report for more information on our operational emissions.

Financed emissions and base year

The base year is the year against which we will track progress made on our targets over time. We chose 2019 as the base year because this is the most recent representative year with data of sufficient quality, when our lending volumes were not affected by the pandemic. The choice of base year affects the speed and timeline of emissions reductions to achieve our net-zero goal. If the base year is set later, the reduction targets will be more aggressive to compensate for starting carbon reductions later.

Our base year is more than two full reporting years prior to the year we set the targets, and as such is an exception to the *Guidelines for Climate Target Setting for Banks*. However, because of the impact of the pandemic on 2020 baseline data, the NZBA has clarified that a 2019 base year is acceptable for banks setting targets in 2022.

Our base year data and subsequent annual reporting on financed emissions follows the Partnership for Global Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for Financial Institutions. Please refer to our Financed emissions approach and methodology technical document for details and a glossary of technical terms. In line with the PCAF Global GHG Standard, we applied an attribution factor defined as the share of total annual GHG emissions of the borrower that is allocated to the loans. We calculated the attribution factor by determining the outstanding amount of the loan, and dividing this by the value of the company, project, building, etc., that we invested in.

Note that our financed emissions data is highly estimated and subject to change as our data quality and approach improves.

Assurance status

As a signatory to the UN Environment Programme Finance Initiative's Principles for Responsible Banking, we're expected to obtain assurance on key climate-related disclosures as part of progress reporting. To prepare ourselves for assurance on key 2022 disclosures, in 2021 we hired external consultants to assess our methodology, data integrity and reporting of our financed emissions.

We're working on a climate data improvement plan which will include data clean-up as well as accessing additional data, including collecting data directly from our members and clients. As part of this work, we will clarify what triggers a recalculation of historical/base year data and/ or targets, for example significant portfolio changes, methodological developments that might compromise relevance and consistency over time, or new or improved tools or scenarios for target setting.

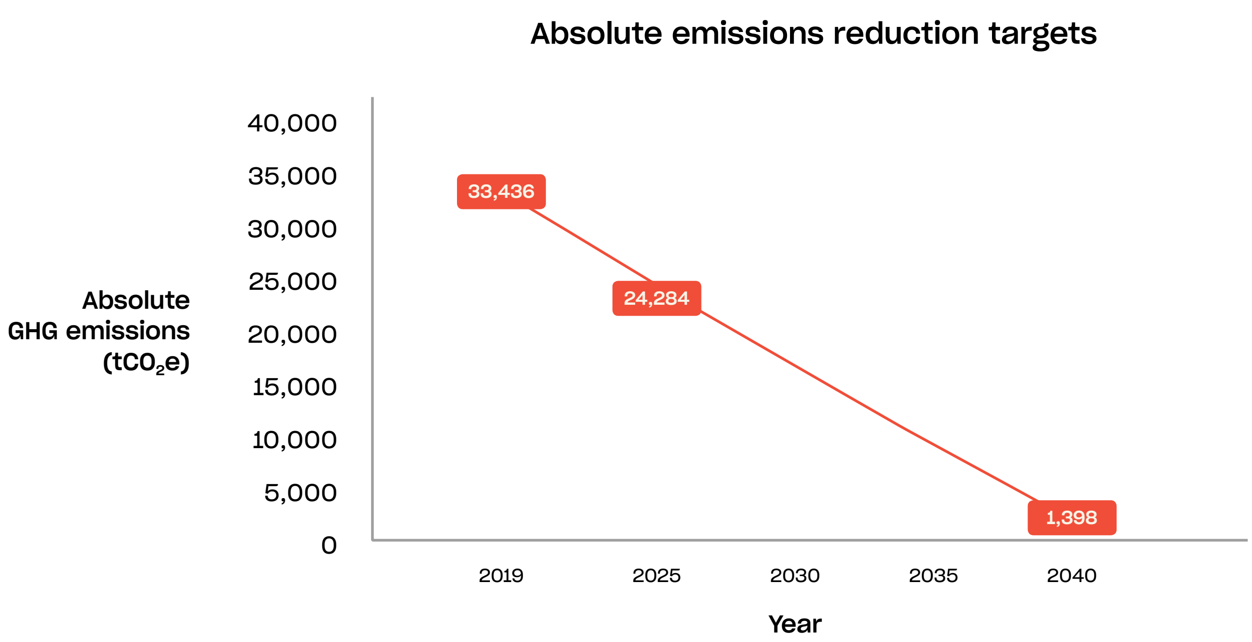
Residential and commercial service buildings: emission-reduction targets.

Our interim 2025 and final 2040 targets for residential and commercial service buildings are as follows:

Commercial service buildings

- A 27% reduction in absolute emissions by 2025 from base year
- A 96% reduction in absolute emissions by 2040 from base year

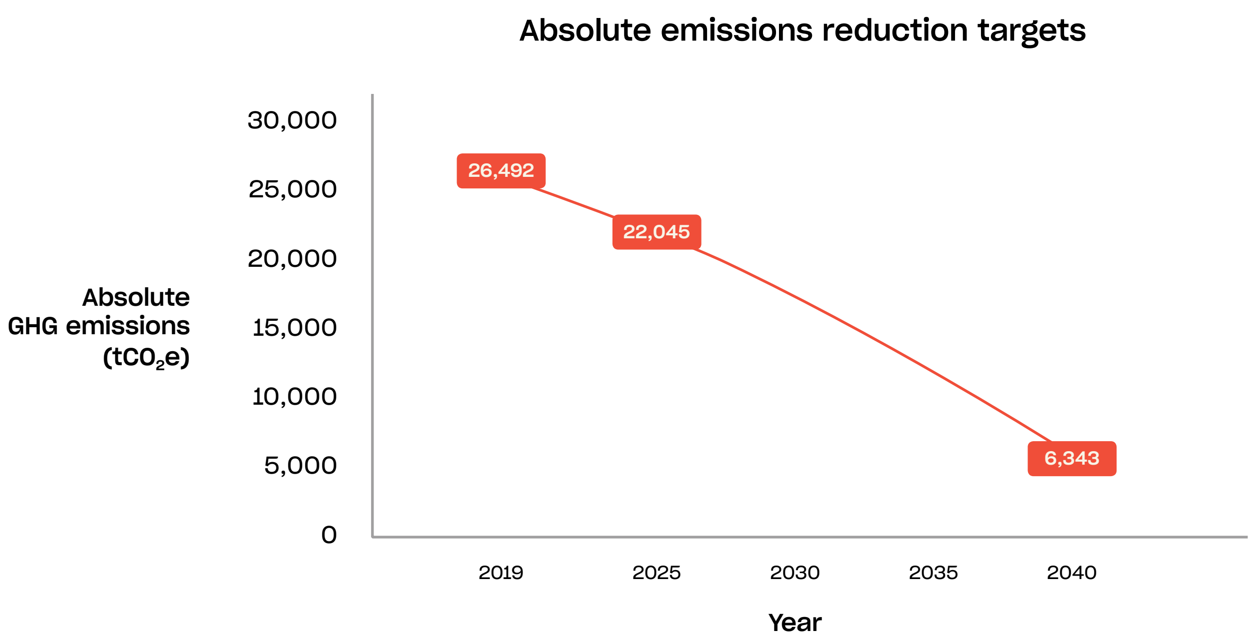
Year	Target emissions (tC02e)
2019 (base year)	33,436
2025	24,284
2040	1,398



Residential buildings

- A 17% reduction in absolute emissions by 2025 from base year
- A 76% reduction in absolute emissions by 2040 from base year

Year	Target emissions (tC02e)
2019 (base year)	26,492
2025	22,045
2040	6,343



The above charts depict our pathway to net-zero emissions, as generated by the tool we used (see below). However, our progress will not be linear, and our financed emissions data over time will be affected by data quality and methodological improvements as well as by actual portfolio emission reductions.

As the charts indicate, there will be some residual emissions that remain unabated by the time net zero is reached. These emissions will be brought to zero through removing an equivalent amount of GHGs from the atmosphere in line with best practice.

Commercial service buildings	
Includes scope 1 and 2 emissions attributed to financing for the purchase of the following types of commercial properties: Accommodation buildings, hospitals/healthcare buildings, office buildings, education, retail trade, and other buildings.	Excludes loans where we don't have sufficient data to estimate emissions. These comprised 24% of the $ balance-sheet value of commercial service buildings in 2021 and include industrial buildings and land-only acquisitions.
Residential buildings	
Includes scope 1 and 2 emissions attributed to financing for the purchase of single detached homes, single attached homes, and apartments. Includes residential properties purchased by a business.	Excludes loans where we don't have sufficient data to estimate emissions. These comprised 2% of the $ balance-sheet value of residential buildings in 2021.

Our targets for buildings focus on the acquisition and ongoing ownership of new and existing buildings. They exclude lending to, and emissions associated with, construction and renovation. There is not yet an agreed-on approach for calculating emissions associated with construction financing, and the PCAF Global GHG Standard does not require these emissions to be reported. This is because the member we provide the financing to (e.g., the homeowner, building owner, developer) typically hires a third party to construct or renovate a building. These emissions would therefore be reported as scope 3 of loan applicants, i.e., they are not directly measured by loan applicants. However, PCAF acknowledges that construction emissions, notably a building's embodied GHG emissions, are important and should not be neglected. We expect to include loans for construction and renovation in the future, and in the meantime, we'll continue to monitor developments. As part of our efforts to reduce emissions associated with operational business loans we will be supporting members who work in higher emitting sectors, including construction.

Note the following difference between our financed emissions disclosures and targets: our targets for residential buildings include income-generating residential properties, i.e., residential buildings and units owned by a business. In our financed emissions disclosures, these are included under commercial real estate, in line with the PCAF Global GHG Standard.

We opted for absolute emission reduction targets over emission intensity targets for real estate, following best practice, and to support delivering on overall emissions reductions. However, we disclose emissions per square metre of real estate financed for both commercial real estate and residential mortgages, by building type and use, in our Financed emissions approach and methodology technical document. We will use intensity data to inform emissions reduction strategies and internal progress tracking.

What scenarios and tools did we use?

The *Guidelines for Climate Target Setting for Banks* require signatories to use decarbonization scenarios which: are from credible and well-recognised sources; are no/low overshoot; rely conservatively on negative emissions technologies; and to the extent possible, minimise misalignment with other Sustainable Development Goals.

For both residential and commercial buildings, we used the Science Based Targets Initiative's Sectoral Decarbonization Approach (SBTi's SDA) tool for commercial and residential real estate to map our target pathway from 2019 (base year) to 2040 (end point). The SBTi's SDA tool uses data from the International Energy Association's Energy Technology Perspectives (IEA ETP) 2017 and applies a 'beyond 2 degrees' scenario.

The SBTi's tool establishes targets for 2050, which we scaled to 2040, keeping the reduction as similar to the 2050 pathway as possible. Our final target (i.e., the absolute emission reduction) remains the same, but our year-over-year reductions are steeper, given the shorter timeframe.

Our rationale for using the SBTi's SDA tool included:

- Simplicity: the tool encompasses all buildings, whereas the Carbon Risk Real Estate Monitor (CRREM) Carbon Risk Assessment tool (the alternative tool we looked at) requires multiple targets and pathways by specific building types.
- Coverage: CRREM's tool does not yet include single-family residential homes for Canada, or Educational/Other service buildings. Single-family detached homes are a sizable portion of our lending and not being able to set an interim target that included them would have meant excluding 71 per cent of our total covered residential building emissions in our base year.
- Target type: SBTi's tool provides targets for both absolute emissions (tonnes CO2e) and emission intensity (tonnes CO2e per square metre financed) while targets using CRREM's tool were only available in intensity terms.
- When comparing the intensity targets generated by the SBTi's SDA tool to the intensity targets generated by the CRREM's tool, SBTi intensity targets were more aggressive.

The option to set a 1.5 degree aligned target for commercial and residential mortgages using the SBTi's tool was not available at the time we set our targets due to the lack of scenario data from the IEA. We will be closely following the IEA's and SBTi's work in this space as new tools and scenarios for target setting become available. That being said, we believe our targets are 1.5 degree aligned for two main reasons: our pathway and endpoint were modified to meet 2050 targets by 2040; and the SBTi's SDA tool resulted in more aggressive intensity targets than the CRREM's Carbon Risk Assessment 1.5 degree aligned tool.

Please see the appendix for specific details on the alignment of the scenario we used with the UNEP FI's *Guidelines for Climate Target Setting for Banks*.

How have we factored in growth?

The SBTi's SDA tool uses a 'Fixed Market Share' approach when an organization's growth projections for the target year are not available. This approach assumes that the portfolio grows at the same rate as the sector globally. SBTi's Fixed Market Share portfolio growth rates from 2019 to 2050 are 67.1 per cent for residential buildings, and 63.3 per cent for commercial buildings. We assumed these growth rates to be the same over Vancity's target timeframe of 2019 to 2040, that is: 2.47 per cent compound annual growth for residential buildings and 2.36 per cent compound annual growth for commercial buildings.

Note that global growth rates used by the tool are higher than projected building square metre growth rates in British Columbia between 2020-2030. However, Vancity has experienced significant growth in our mortgage portfolios since we established our base year emissions (2019). In fact, our growth between 2019 to 2021 exceeds the amount of growth contemplated within the same time frame in the science-based modelling that we used to chart our pathway towards net-zero emissions by 2040. This is why we chose to apply the higher growth rate, which translates into a more ambitious pathway to net zero.

We see the path forward not as limiting our growth to meet our targets, but instead as growing in a low-carbon way, with cleaner growth that identifies and supports members who want to reduce their emissions. Our growth also means we can invest greater resources into climate-related initiatives and systems-change through our Shared Success program through which we share 30 per cent of our annual net profits to members and communities. See rethink.vancity.com for more details.

Operational business loans: member engagement target.

Over the next year we will engage with our business members who have lending to support them to reduce their emissions, specifically:

- By the end of June 2023, we will proactively connect with a significant majority of business members in five high emitting sectors to provide resources to measure and disclose their emissions.
- Businesses in high-emitting sectors seeking new loans over $750,000 will need to provide data on their emissions. Those with significant actual emissions will be supported to develop a Climate Transition Plan.
- By the end of June 2023, we will also have engaged with at least 15 members with existing lending and high emissions to develop a Climate Transition Plan.

What's included in our target?

Operational business loans	
Includes members with on-balance sheet loans and lines of credit for general business purposes (i.e., with unknown use of proceeds). Includes revolving credit facilities, overdraft facilities, and general-purpose real estate secured loans/line of credits. Our members are primarily non-listed small and medium-sized businesses and not-for-profits.	Excludes members with mortgages used to acquire real estate. These loans are included in our emission reduction targets for buildings (see above).

Why an engagement target vs. an emission-reduction target?

We explored setting an emissions-reduction target for our business loans, overall and for higher-emitting sectors, but we faced several challenges. These included:

- Relatively small loan exposures in some sectors means new and maturing loans can have an outsized impact on portfolio emissions
- A lack of quality data on the GHG emissions of Vancity's business members, including scope 3 emissions
- The lack of a suitable target setting tool for financial institutions related to small and medium sized enterprises.

We therefore determined that an engagement target is more suitable at this time as it reduces the risk stemming from emissions volatility within a relatively small portfolio (1 per cent of our total lending). It will also allow us to gain data insights, understand where our members are at on their climate journey, and collaborate with members to support reductions. This will support us to set science-based targets in the future.

To land on the specifics of our engagement target, we analysed emissions by sector, and found that in 2019, 12 sectors represented over 90 per cent of scope 1 and scope 2 emissions, with four sectors representing just over 50 per cent of scope 1 and scope 2 emissions. We also looked at our top sectors in terms of the emissions intensity, and corresponding member and loan counts and size. As noted above, we observed high volatility in our emissions data between 2019 and 2021. We also considered the data quality issues we need to address, as well as our capacity to engage members and ensure that any engagement drives positive climate-related outcomes.

In 2021, the top emitters in terms of absolute emissions (all scopes) in our portfolio were associated with manufacturing, construction (in particular, emissions related to the construction and renovation of buildings), wholesale trade, health care and social assistance, and accommodation and food services. The most carbon-intensive sectors we lend to, in terms of emissions per dollar invested, are mining and quarrying, utilities, and agriculture. However, our exposure to these sectors is fairly limited. Many of the organizations we support are community-oriented and values-based, therefore we expect that actual emissions will be less than estimated emissions, which are based on averages by sector.

What scenarios and tools did we consider?

We tested the SBTi's Net-Zero Standard for Corporates tool to map the decarbonization pathway for business loans because no tool for small and medium sized businesses was available. The SBTi's tool uses data from the International Energy Association's Energy Technology Perspectives (IEA ETP) 2017 and Transition to Sustainable Buildings (2013), and applies a '1.5 degree' scenario.

We also explored the One Earth Climate Model—Integrated Energy Assessment Model which provides industry-specific 1.5 degree pathways for the finance sector. Our rationale for using the SBTi's Corporates tool included the fact that the tool encompasses all businesses, whereas the One Earth Climate Model focuses on a limited number of sectors. For example, it does not include manufacturing or accommodation and food services, which are key sectors we finance.

Using the SBTi tool's cross-sector pathway, we found that a linear emissions reduction of 4.2 per cent annually across our business loan portfolio aligns with limiting global warming to 1.5 degrees centigrade by the end of the century. If we scale this target to match our 2040 ambition, we need to reduce our business lending related scope 1 and scope 2 emissions by 6.1 per cent annually until 2040, starting from a 2019 baseline of 9,969 tonnes of CO2e.

We also looked at scope 3 emissions, which we disclose in our financed emissions profile. The SBTi tool recommends a separate target for scope 3, which defaults to an ambition of well-below two degrees. This equates to a year-over-year reduction in emissions of 2.5 per cent, and 3.6 per cent reduction when scaled to 2040.

After inputting 2019 base year emissions data into the target setting tool, we discovered that we were well ahead of where we needed to be for emissions reductions in 2020 and 2021. This was due to a few loans in higher emitting sectors being paid out in 2021, and new lending being more concentrated in lower emitting sectors. This, combined with the reasons noted above, is why we decided to set an engagement target for the time being.

How we will achieve our targets.

In parallel to working to calculate financed emissions and set targets, we've been making progress on actions that will help to achieve the targets. This work, and our work going forward, focuses on three key areas: policy advocacy, member engagement and clean growth.

Policy advocacy

Achievement of our interim climate targets, and our long-term goal of net-zero by 2040, is highly dependent on government policies, regulations, and funding that reduce emissions. While key governments in our operating regions have set net-zero goals, they will need to take significant action in the coming years to ensure those goals are met. Vancity meets and consults regularly with officials and policymakers at every level of government to advance our commitment to building a cleaner and fairer world and to drive systemic change.

Our work includes advocating for sizable emissions reductions through public policies as well as helping ensure planned and existing policies are implemented and that they achieve the goals they were designed to achieve. To support this, we are:

- Identifying the policies, including enabling policies, most critical to Vancity's net-zero targets. Preliminary analysis points to electrification of the heating and cooling systems of buildings as delivering the greatest overall emissions reductions. Enabling policies include those that build the labour force and the number of skilled workers who can contribute to energy retrofits and building electrification.
- Working with our Stakeholder Relations and Community Investment teams to activate and align messages with our partners and advocacy allies, and leveraging our community investments toward informing and building support for equity-focused climate action.
- Assessing which sustainable finance-linked policies will best support progress on all three targets.

- Engaging in advocacy on initiatives that drive the most significant reductions in financed emissions in ways that are affordable, equitable, and improve the well-being of residents and workers. A recent example is our advocacy to the City of Vancouver on proposed bylaws for decarbonizing hot water and space heating and cooling equipment in new and existing buildings.
- Sharing what we learn on climate risk with governments to support the reduction of unintended consequences such as the expansion of low-emissions housing in areas more prone to physical climate risks such as flooding.
- Collaborating with community partners to develop research and initiatives, and building coalitions with partners who share our goals.

Member engagement

When it comes to the most significant contributors to global warming, Vancity has no exposure to the oil and gas sector and only limited exposure to the utilities and the mining and quarrying sectors. This means that, with the exception of commercial and residential buildings, rather than financing the low-carbon transition of highly carbon-intensive sectors, we need to work across our membership to support emissions reductions in our communities associated with existing and future lending.

From research, we know that Vancity members who own homes are engaged on the topic of climate change and show greater inclination to take action to address emissions associated with their home. For example, recent Vancity research revealed that one in three members say reducing their carbon emissions is their top motivation for replacing their home's heating equipment (the top motivation in the general population was being worried the equipment would break down soon). We also learned that 70 per cent of members are willing to pay more in energy costs to reduce their emissions and are more likely to use financing to pay for new heating equipment. And while our members are more likely than the general population to use financing to make these changes, most want to use their savings and rebates to pay for these upgrades.

We currently support emissions reductions through lending and provide information-based solutions including:

- Offering our Planet-Wise suite of lending products for businesses and individuals, including funding EnerGuide Home Evaluation Rebates
- Offering a publicly available Planet-Wise Business Guide for Climate Action
- Upskilling colleagues to engage with members on emissions reductions, including mandatory learning for all member-facing colleagues.

To drive achievement of further emissions reductions in the near term we are working on delivering the following initiatives:

- Member education webinars with community partners, supported by Shared Success funding (the program through which we share 30 per cent of our annual net profits to members and communities)

- Leveraging our Shared Success funding to deliver supports and grants to help members, including not-for profit housing associations and home owners, retrofit buildings to reduce emissions and enhance comfort and safety
- Supporting our business members to assess and reduce their emissions
- Developing and implementing Climate Transition Plans for a select number of higher-emitting business members.

Clean growth

Growing our lending in lower-emitting assets and businesses and investing in climate solutions will be key to supporting emissions reductions. We can achieve this by working to attract, support and enable such assets or businesses, monitoring the emissions associated with our lending, and incorporating climate considerations into our decision-making processes.

Vancity already has a strong track record of clean growth, thanks to several initiatives including:

- Our Ethical Principles for Business Relationships which specify the types of organisations we want to lend to, procure from, and work with
- Our focus on growing our percentage of "Triple Bottom Line Assets", including clean energy projects, green buildings, green businesses, and green transactions
- An updated lending policy that specifies emissions thresholds for energy projects and advises on the types of energy projects we will not finance–primarily companies who extract, produce and/or distribute fossil fuels, biogases, or nuclear energy.

Looking ahead, to drive further clean growth we are working on:

- Marketing in a way that attracts values-aligned members and grows our book of green businesses, buildings, and transactions
- Updating our definitions of "Triple Bottom Line"/Impact to drive progress on our net-zero and equity goals
- Developing and providing training and resources on business sector emissions for relevant member-facing colleagues, including opportunities for low-emissions growth
- Exploring lending-related emissions thresholds for operational business loans and commercial building financing. A threshold does not mean a member would not receive lending; rather it triggers an additional review to consider emissions in our lending decision process and in how we engage with the member.

Future revisions and additions to interim climate targets.

Tools and methodologies for net-zero target setting for banks will continue to be developed and to evolve. Currently the tools that are available do not fully meet our purposes. The *Guidelines for Climate Target Setting for Banks* allow us the flexibility to review and potentially revise targets as appropriate. They also require us to review, and if necessary, revise targets at least every five years, to ensure consistency with the latest science (as detailed in IPCC assessment reports) or to reflect significant changes that might compromise the relevance and consistency of the existing targets, e.g., material portfolio changes, and methodological developments.

We will review our 2025 targets in 2023 following the release of new tools, and if necessary, amend them. Specifically:

For residential and commercial service buildings, we will review and look at 1.5 degree aligned target setting tools as they become available, including the combined SBTi/CRREM real estate target setting tool, which is expected to be released in the summer of 2022.

For operational business loans, we will look to the SBTi's forthcoming Net-Zero Standard for financial institutions, planned to be fully released in 2023.

In addition to providing loans, we manage and/or administer investments. These include liquidity investments that make up a sizable portion of our on-balance sheet investments (investments that can be quickly and economically converted to cash, as needed) as well as off-balance sheet investments that we manage or administer on behalf of members and clients. We will consider establishing additional interim climate targets for on-balance sheet loans and investments as the data, methodologies and tools allow, in line with the *Guidelines for Climate Target Setting for Banks*.

Off-balance sheet investments fall under the Net-Zero Asset Managers Initiative, which Vancity Investment Management (VCIM) signed in 2021. Guided by this initiative, VCIM will establish near-term climate targets in 2022.

Note on the uncertainty of our climate data and targets.

Vancity's targets and underlying data are based on assumptions and estimates. Measurement errors, inaccurate approximations and choice of methodology can all lead to higher levels of uncertainty in the targets we've established. When calculating our base year (2019) financed emissions data—the starting point for our targets—we applied the PCAF Global GHG Standard to the extent possible. This reduces uncertainty by constraining the choices we made in our methodology. However, we still needed to make certain methodological choices and assumptions. For full transparency, we have documented these in a separate report: see Financed emissions approach and methodology.

The assumptions, estimates and underlying data on which our targets are set are subject to change, just as our climate-related capabilities and net-zero by 2040 transition plan will continue to evolve. We fully expect that our targets will be recalculated and amended in the future. However, our hope is that by being highly transparent and continuing to share best practices with our peers we will ultimately help evolve, improve, and harmonize financed-emissions reporting and climate target setting.

Appendix: Alignment with the UNEP FI's *Guidelines for Climate Target Setting for Banks*

Guidance	Vancity
1. Banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.	
• The long-term targets shall at least align with the temperature goals of the Paris Agreement and include a 2050 target. Intermediate targets shall include a target for 2030 or sooner.	• We have a net-zero by 2040 goal • We have established interim targets for 2025, as detailed in this document.
• Banks' targets shall include their clients' Scope 1, Scope 2 and Scope 3 emissions, where significant and data allows.	• Our targets for mortgages (residential and commercial service buildings) cover scope 1 and 2 emissions. This is in line with the PCAF Global GHG Standard. • We disclose scope 1, 2 and 3 emissions for our business (SME loan) clients in our financed emissions technical document. However, we have not set an emissions reduction target for SME member emissions due to data quality issues and relatively low exposure. Rather, we have established a 2025 engagement target, see page 13 for more details.
• The targets shall cover a significant majority of a bank's Scope 3 emissions, including those from a set list of carbon-intensive sectors.	• Our emissions reduction targets for residential and commercial mortgages covers 81% of balance sheet lending (as at the end of 2021). • Our SME loan portfolio accounts for around 1% of on balance sheet lending and a quarter of estimated portfolio-wide emissions (if we include scope 3 business member emissions). Our one-year engagement target will allow us to gain important data insights, which will support us as we aim to set science-based targets for these loans in the future.
• The target base-year shall be no more than two full reporting years prior to the setting of the target.	• Our target base year is 2019. This is more than two full reporting years prior to when we set the targets in 2022, but subsequent guidance from the NZBA allows this due to the pandemic.

• Banks shall be transparent about timeframes for targets by disclosing the base-year and target years, selected scenarios, intermediate targets and milestones.	• The timeframe of our targets is clear: net-zero by 2040, interim targets for 2025 (residential and commercial mortgages), and a one-year target for SME client engagement. • We have provided information on scenarios used in this document, and we will report progress annually.
• Target-setting shall be supported within 12 months of setting the targets by the disclosure of planned actions and milestones to meet these targets, including investment and lending guidelines, transition plans and climate-related sectoral policies, such as for fossil fuel and other high-emitting sectors.	• We have provided details on our planned actions to meet our targets in this document, and on rethink.vancity.com. • Vancity does not lend to companies that extract, produce and/or distribute fossil fuels.
• Banks shall measure and report annual progress against targets, using metrics that are the basis of the long-term and intermediate targets.	• We will report progress on targets annually through our annual report and on rethink.vancity.com.
• UNEP FI Principles for Responsible Banking (PRB) signatory banks shall obtain third-party independent verification or assurance within four years of signing the Principles, while non-PRB banks are encouraged to obtain third-party independent verification or assurance.	• We will obtain third-party assurance on progress made, as presented in our PRB self-assessment report, which will be included as part of our 2022 annual report.
• Banks shall be diligent in applying evolving leading practice on the use of offsets, including the latest version of the GHG Protocol.	• We are in the process of determining our approach to offsets. We intend to apply evolving leading practice and align with NZBA guidance. We will provide updates on our approach, progress and milestones achieved on rethink.vancity.com.

2. Banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities.	
• The financed emissions profile of the bank's portfolio shall be calculated and disclosed annually. This shall include, where targets have been set: · Absolute emissions; and · Portfolio-wide emissions intensity; and · Sector-specific emissions intensity.	• Where data and methodologies exist, we have disclosed: · Portfolio-wide absolute emissions (lending and investment activities) · Portfolio-wide emissions intensity (emissions per $s loaned or invested) · Sector-specific emissions intensity (emissions per square foot buildings financed). See: Financed emissions approach and methodology
• Signatories may select additional alternative methodological approaches, such as an implied temperature rise or forward-looking technological profile, as expressed in production capacity.	• Not applicable
• No specific methodology is mandated in these Guidelines to calculate values for the above metrics. However, banks should strive to use credible sources and explain the methodologies used for calculating their emissions profile. Where methodologies are not publicly available and there are data challenges, banks should explain the allocation approach used, data sources and their limitations, approaches to estimation, proxies used if data are not available and key assumptions. Banks should provide an assessment of the data quality used in their calculations. If several data sources are available, data with the highest quality are expected to be used, unless justified.	• We use the Partnership for Global Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for Financial Institutions. Our disclosures include external data sources and emission factors used, key assumptions and data quality. See: Financed emissions approach and methodology
• Banks shall assess the emissions profile for lending and investment activities as explained in Guideline 1.	• Where data and methodologies exist, we have assessed our emissions profile for lending and investment activities. See: Financed emissions approach and methodology

• The scope and boundary of the emissions profile should account for a significant majority of the bank's emissions, including the sectoral approach, as explained in Guideline 1.	• In 2021 our emissions disclosure covered around 82 per cent of all lending, 53 per cent of liquidity investments, and 63 per cent of managed client investments in terms of the dollars loaned or invested. • Note that it is not yet possible to measure all our financed emissions, or to calculate the precise proportion of our financed emissions that have been measured.
3. Banks shall use widely accepted science-based decarbonization scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement.	
• Banks shall use widely accepted science-based decarbonization scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement. • *NZBA additional guidance provided after target approval by the Vancity Board of Directors:* scenarios shall limit global warming to 1.5°C by end of the century.	• To establish our 2025 targets, we used the Science Based Targets initiative Sectoral Decarbonization Approach (SBTi's SDA) tool for residential and service buildings. The SBTi defines and promotes best practice in science-based target setting, • This tool uses data from the International Energy Association's Energy Technology Perspectives (IEA's ETP) 2017 and applies a 'beyond 2 degrees' scenario (B2DS), which falls within the Paris Agreement range of ambition: >50% probability of limiting global warming to 1.75°C above pre-industrial levels. • While the scenario we used meets the *Guidelines for Climate Target Setting for Banks*, it does not meet the NZBA's ambition of >50% probability of limiting global warming to 1.5°C. • However, we believe our targets meet the NZBA's ambition for two main reasons: our pathway and endpoint were modified to meet 2050 targets by 2040; and the SBTi's SDA tool resulted in more aggressive targets than the CRREM's Carbon Risk Assessment 1.5 degree aligned tool. This is because the SBTi tool uses global data whereas the CRREM tool considers a cleaner grid in Canada. • Once updated SBTi tools become available based on a net-zero scenario, we will revisit our approach and look at updating targets if needed.

The scenarios selected: • shall rely conservatively on negative emissions technologies. • shall have reasonable assumptions on carbon sequestration achieved through nature-based solutions and land use change.	• The IEA ETP B2DS is the reference scenario used by the SBTi SDA tool. The SBTi shapes industry best practice, and uses screening processes for scenario selection, which screens for plausibility.
• Banks should disclose key assumptions used in these scenarios.	• See here for key assumptions: www.iea.org/reports/etp-model-2017/framework-assumptions
• The scenarios selected shall be "no-overshoot" or "low-overshoot" scenarios.	• The IEA ETP scenario is described as a no-low overshoot pathway by the IPCC. See slide 45: www.ipcc.ch/site/assets/uploads/sites/2/2019/09/SR15_Slide_Deck.pdf.
• The scenarios selected shall, where possible, minimise misalignment with other Sustainable Development Goals (SDGs).	• The IEA ETP scenarios were published in 2017 (two years after the SDGs were published) and do not indicate alignment of the scenarios to the SDGs. • Future iterations of the SBTi SDA approach hmay provide greater clarity on alignment to the SDGs.
4. Banks shall regularly review targets to ensure consistency with current climate science.	
• Targets shall be reviewed, and if necessary revised, at least every five years, to ensure consistency with the latest science (as detailed in IPCC assessment reports).	• We plan to review our 2025 targets in 2023 following the release of new tools, and if necessary, amend them. • We further plan to regularly review coverage of targets and ensure they continue to cover a significant majority of our scope 3 emissions, including those from carbon-intensive sectors.
• Targets shall be recalculated and revised as needed to reflect significant changes that might compromise the relevance and consistency of the existing targets, e.g., material portfolio changes, methodological developments.	• We plan to recalculate and revise targets as needed to align with material portfolio changes, methodological developments, and best practice. • We will clarify what triggers a recalculation of historical/base year emissions data and/or targets.

• Targets shall be approved by the highest executive level and reviewed by the highest-level governance body in the bank.	• Our targets were approved by Vancity's CEO, Executive Leadership Team, and Board of Directors, along with near term actions for how we will begin making progress to achieve the targets.