



# Desjardins Sustainable Bond Framework



April 2021

# Background

Desjardins Group ("Desjardins" or "the company") is the largest financial cooperative in Canada, with assets of \$362 billion as of December 31<sup>st</sup>, 2020. Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins capitalizes on the skills of more than 48,000 employees and the commitment of nearly 2,600 directors.

## Desjardins' commitment to sustainability

At Desjardins, sustainability goes hand in hand with our mission and cooperative values. It's an integral part of our strategic plan that helps us contribute to local vitality and drive overall performance for our members and clients. For more than 120 years, Desjardins Group's focus has always been to enrich the lives of people and their communities.

We were the first Canadian financial institution to sign the Principles for Responsible Banking (PRB, 2019), following our signing of the Principles for Sustainable Insurance (PSI, 2019) and the Principles for Responsible Investment (PRI, 2009). By formally committing to these United Nations-backed principles, as well as other initiatives such as the Partnership for Carbon Accounting Financials, we're fast-tracking the integration of environmental, social and governance (ESG) criteria into our business model.

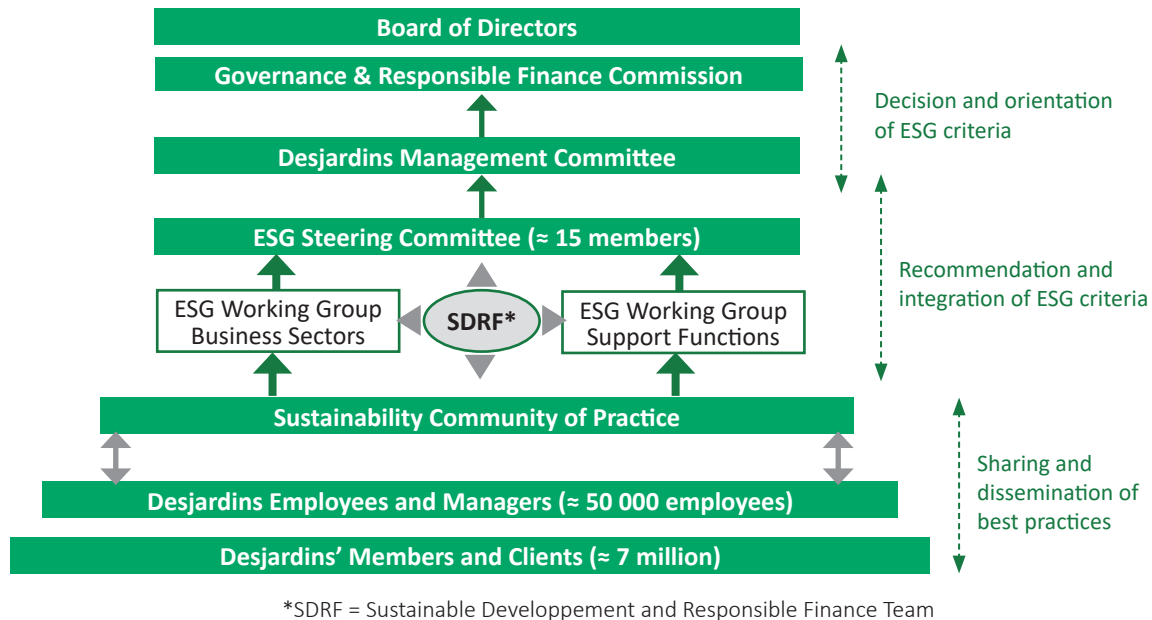
Our sustainable development policy, adopted in 2005, and the recommendations of our ESG Steering Committee provide a framework for promoting sustainable development and implementing the necessary business and management practices. These practices include an ESG screening process and ESG evaluation tools for key lending decisions and ambitions goals in support of the objectives of the Paris Agreement. Desjardins supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and annually publishes a report detailing our progress in implementing them.

We're also a strong advocate for a just energy transition. By championing green, responsible products and services, we hope to have a positive influence on our members and clients.

To discover more about our cooperative movement and our responsible financial products and services, visit [desjardins.com/socialresponsibility](https://desjardins.com/socialresponsibility).

# Sustainability Governance

Since 2018, our ESG Steering Committee of senior managers from the business sectors and support functions has had the mandate to support and advise the Management Committee, and ultimately the Board of Directors, on sustainability issues.



As the cornerstone of ESG integration at Desjardins, the ESG Steering Committee is responsible for many tasks, including the establishment and maintenance of our sustainable bond program. Its main tasks include:

- ♦ Recommending positions on ESG issues to the Management Committee
- ♦ Ensuring Desjardins' coordination and coherence in the implementation of these positions by clarifying the roles and responsibilities of each business sector or support function.
- ♦ Ensuring the establishment of ambitious performance targets and indicators
- ♦ **Ensuring the implementation and maintenance of the Group's sustainable bonds program**
- ♦ Coordinating ESG reporting for the Group
- ♦ Ensuring that the organisation meets its international commitments (PRB, PRI, PSI) and adopts best disclosure practices in a gradual and structured manner
- ♦ Supporting the Integrated Risk Management Group in its role of assessing climate risk and making recommendations to appetite and risk tolerance bodies
- ♦ Managing ESG challenges from coalitions of international investors and other stakeholders and submitting recommendations to the Management Committee as required
- ♦ Validating the orientations of the Policy on the exercise of proxy voting rights
- ♦ Ensuring international monitoring of best practices in sustainable development, responsible finance and the fight and adaptation to climate change in order to adequately position Desjardins' strategies

To deliver on its ambition to develop sustainable bonds, the ESG Steering committee will rely on a dedicated Sustainable Finance Working Group (see section 'Project Evaluation and Selection Process').

# Desjardins Sustainable Bond Framework

In order to meet the commitments described above, and finance projects that will deliver environmental or social benefits to support Desjardins' business strategy and vision, Desjardins has elected to create a Sustainable Bond Framework (the "Framework"), under which it can issue Green Bond(s) or Social Bond(s) or Sustainability Bond(s). This Framework is in accordance with the ICMA Green Bond Principles<sup>1</sup> (GBP) 2018, Social Bond Principles<sup>2</sup> (SBP) 2020 and Sustainability Bond Guidelines<sup>3</sup> (SBG) 2018.

- ♦ Green Bond(s) – bonds where bond proceeds are used to finance 'Eligible green assets' as defined in section 'Use of Proceeds'
- ♦ Social Bond(s) – bonds where bond proceeds are used to finance 'Eligible social assets' as defined in section 'Use of Proceeds'
- ♦ Sustainable Bond(s) – bonds where bond proceeds are used to finance 'Eligible green assets' and 'Eligible social assets' as defined in section 'Use of Proceeds'

In alignment with these Principles, for each Green, Social or Sustainable Bond(s) issued, Desjardins asserts that it will adopt the following, as set out in this Framework:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The Framework also describes the manner in which a Desjardins' Green, Social or Sustainable Bond (each a 'Desjardins Sustainable Bond') support and contribute towards meeting the United Nations Sustainable Development Goals (UN SDGs).

1 Green Bond Principles (GBP) - <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp>

2 Social Bond Principles (SBP) - <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>








3 Green/Social/Sustainability Bond Guidelines - <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>



# Use of Proceeds

An amount at least equivalent to the net proceeds raised from any Desjardins Sustainable Bond will be allocated, in part or in full, to finance or refinance the loans, investments and internal or external projects which meet the green or social criteria as described below (collectively, "Eligible Assets"). General corporate loans will qualify as Eligible Assets if at least 90% of the loan recipient's revenue is derived from sources that meet the relevant eligibility criteria.








Table 1 : Eligible Green Assets per ICMA Green Bond Principles

Eligible Categories	Green Assets Eligibility Criteria	UN SDGs Alignment	
<b>Renewable Energy</b>	Lending or investments dedicated to generation of energy from renewable sources including: <ul style="list-style-type: none"> <li>I. Wind</li> <li>II. Solar</li> <li>III. Hydropower<sup>1</sup> with power density &gt; 5W/m<sup>2</sup></li> <li>IV. Waste biomass<sup>2</sup></li> </ul>		
<b>Energy Efficiency</b>	Lending or investments that reduce energy consumption, including: <ul style="list-style-type: none"> <li>I. Energy efficient heating, ventilation, air conditioning, refrigeration, lighting, and electrical equipment that result in at least 30% energy savings</li> <li>II. Projects that reduce losses in the delivery of bulk energy services by at least 30% or enhance integration of intermittent renewables such as energy storage using batteries, smart grids, demand response</li> <li>III. Projects that enable monitoring and optimization of the amount and timing of energy consumption such as smart meters, load control systems, sensors or building information systems</li> </ul>		
<b>Green Buildings</b>	Lending or investments in new or existing commercial or residential buildings that have received, or expect to receive based on its design, construction and operational plans, certification according to third party verified green building standards, such as: <ul style="list-style-type: none"> <li>I. LEED Gold or Platinum standard</li> <li>II. BOMA 360, Best Gold or Best Platinum certification</li> <li>III. BREEAM performance rating of 5 or 6 stars (Excellent and Outstanding, respectively)</li> <li>IV. other equivalent certification schemes for residential buildings, such as Energy Star or Novoclimat</li> </ul>	  	

<sup>1</sup> Large hydro assets >25 MW will be subject to an assessment, based on recognized best practice guidelines, of environmental and social risks and measures to address such risks.



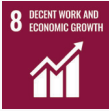



<sup>2</sup> Biomass projects will produce energy or renewable natural gas from waste biomass. This category excludes non-waste biomass and incineration of solid municipal wastes.

Table 1 : Eligible Green Assets per ICMA Green Bond Principles (continued)

Eligible Categories	Green Assets Eligibility Criteria	UN SDGs Alignment
<b>Clean Transportation</b>	<p>Lending or investments in low-carbon transport assets including:</p> <ul style="list-style-type: none"> <li>I. Private Transport: Zero direct emission vehicles and associated infrastructure (incl. hydrogen, fuel cell, electric)</li> <li>II. Public Transport: Rolling stock and vehicles for electrified public transport, such as electrified rail, including associated infrastructure.</li> </ul>	 
<b>Sustainable Food Production</b>	<p>Lending or investments that enhance ecosystem protection or restoration, including:</p> <ul style="list-style-type: none"> <li>I. Agriculture and maple production with recognized third-party sustainability certifications such as EU Organic, USDA Organic, Canada Organic, Rainforest Alliance, Ecocert, Pro-Cert, or Quebec Vrai</li> <li>II. Aquaculture and fisheries with recognized third-party sustainability certifications such as Aquaculture Stewardship Counsel (ASC), Best Aquaculture Practices (BAP) or Marine Stewardship Council (MSC)</li> </ul>	
<b>Environmentally Sustainable Management of Living Natural Resources and Land Use</b>	<p>Lending or investments that enhance ecosystem protection or restoration, including:</p> <ul style="list-style-type: none"> <li>I. Forestry or forestry products with recognized third-party sustainability certifications such as Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC), and the Sustainable Forestry Initiative (SFI) which is affiliated with PEFC</li> <li>II. Forest landscape restoration projects that regain ecological functionality and enhance human well-being across deforested or degraded forest landscapes</li> </ul>	
<b>Sustainable Water and Wastewater Management</b>	<p>Lending or investments that improve water quality, water efficiency, or climate change resilience, including:</p> <ul style="list-style-type: none"> <li>I. Technologies, projects and infrastructure for the collection, distribution, treatment, recycling or reuse of water, rainwater or waste water</li> <li>II. Infrastructure for flood prevention, flood defence or storm-water management</li> </ul>	 
<b>Pollution Prevention and Control<sup>3</sup></b>	<p>Lending or investments that reduce and manage emissions and waste generated, including:</p> <ul style="list-style-type: none"> <li>I. Technologies and projects for collection, sorting, treatment, recycling or reuse of emissions, waste, hazardous waste, or contaminated soil</li> <li>II. Technologies and projects to salvage, use, reuse, and recycle waste products and divert waste from landfills, including circular economy systems</li> </ul>	

<sup>3</sup> This category excludes waste-to-energy projects (ie. incineration of solid municipal waste)

Table 2 : Eligible Social Assets per ICMA Social Bond Principles

Eligible Categories	Social Assets Eligibility Criteria	UN SDGs Alignment
<b>Affordable Housing</b>	Lending or investments in the development or refurbishment of housing that meets accredited or registered affordable housing definitions in the applicable jurisdiction <sup>1</sup> , or that contributes access for Indigenous communities	
<b>Employment Generation through SME Financing</b>	<p>Lending or financing for micro-, small- and medium- sized businesses<sup>2</sup> or their projects in the following categories:</p> <ul style="list-style-type: none"> <li>I. Indigenous Peoples' Business and Community Lending: <ul style="list-style-type: none"> <li>♦ Indigenous Peoples' bands, councils, governments and/or businesses that are at least 51% owned and operated by such an organization or individual</li> </ul> </li> <li>II. Women-Owned Business Lending: <ul style="list-style-type: none"> <li>♦ At least 51% of the business is owned and operated by women</li> </ul> </li> <li>III. Developing and Emerging Countries Lending: <ul style="list-style-type: none"> <li>♦ Micro-finance in Low- or Middle-income economies as defined by the World Bank<sup>3</sup></li> </ul> </li> </ul>	  
<b>Access to Essential Services</b>	<p>Lending or investments that enhance access to public, not-for-profit, free or subsidized essential services, including:</p> <ul style="list-style-type: none"> <li>I. Infrastructure for hospitals, laboratories, clinics, healthcare, childcare and elder care centres</li> <li>II. Infrastructure for the provision of child, youth or adult education and vocational training services</li> </ul>	 

## Exclusionary Criteria

In line with its risk-based approach, Desjardins has set restriction criteria for clients identified as "total ban" clients. In addition to this policy, proceeds from each Desjardins Sustainable Bond will not knowingly finance or refinance, in whole or in part, any loans, investments or internal or external projects for which the principal activity<sup>4</sup> is any of the following:

- ♦ Tobacco
- ♦ Thermal coal
- ♦ Unconventional or nuclear weapons
- ♦ Predatory lending
- ♦ Gambling
- ♦ Adult entertainment

<sup>1</sup> Meets applicable definitions within the jurisdiction in which it is built, such as through the Canadian Mortgage and Housing Corporation's Investment in Affordable Housing program, the Société d'habitation du Québec or other regional equivalents

<sup>2</sup> An enterprise qualifies as a micro, small or medium enterprise if its annual revenue is less than €50 million (as defined by the Office of the Superintendent of Financial Institutions), or if the loan to it falls within the relevant MSME loan size proxy according to the [JFC MSME Definition](#)

<sup>3</sup> [The World Bank Country and Lending Groups](#)

<sup>4</sup> An activity is deemed to be the principal activity of a business if it represents at least 90% of its revenue

# Project Evaluation and Selection Process

The Eligible Assets will be subject to the following due diligence, which ensures that they meet the criteria set out above in section 'Use of Proceeds'.

Desjardins has an integrated approach to risk management, which ensures our risk profile matches the level of risk appetite and tolerance sought by senior management and the Board of Directors in view of our mission, vision and cooperative values. In line with this approach, and in support of our public commitment to gradually integrate ESG considerations in all our business decisions, our financing guidelines specifically address environmental and social risks for a growing number of transactions. For example, most financing transactions handled by our corporate and investment banking division, Desjardins Capital Markets, include a sector-specific ESG risk analysis.

The Eligible Assets will also be subject to additional due diligence by the Sustainable Finance Working Group (the "SFWG"), that will be made up of senior representatives from the below departments:

- ♦ Group Treasury
- ♦ Sustainable Development and Responsible Finance
- ♦ Capital Markets
- ♦ Personal & Commercial Banking
- ♦ Group Risk Management
- ♦ Legal Affairs

The SFWG will be chaired by Group Treasury and will meet on a quarterly basis. The SFWG will be responsible for:

- ♦ Regularly reviewing the Framework
- ♦ Reviewing, validating, and documenting the pool of Eligible Assets
- ♦ Reporting annually to investors through the Sustainable Bond Report
- ♦ Reviewing the post issuance external verification report
- ♦ Monitoring and resolving any issues that may arise





# Management of Proceeds

The net proceeds of each Desjardins Sustainable Bond will be earmarked towards Eligible Assets as stated in section 'Use of Proceeds' of this Framework and tracked by the SFWG through a Sustainable Bond Portfolio. The Sustainable Bond Portfolio will contain relevant information to identify each Desjardins' Sustainable Bond and the Eligible Assets relating to them and will form the basis of Desjardins' Sustainability Bond Report.

It is Desjardins intention to maintain an aggregate amount of Eligible Assets that is at least equal to the aggregate net proceeds of all Desjardins Sustainable Bond issuances that are concurrently outstanding under this Framework. In the event that the aggregate value of Eligible Assets in Desjardins Sustainable Bond Portfolio is less than the total outstanding amount of Desjardins Sustainable Bonds, the surplus will be held in line with Desjardins' general liquidity guidelines until allocation to Eligible Assets.

If an Eligible Asset no longer qualifies according to the eligibility criteria as defined by this Framework or if the underlying eligible loan or investment is repaid or divested, Desjardins will use its best efforts to substitute as soon as practical (and, in any case, within 24 months) in place of such loan, investment or internal or external project a qualifying Eligible Asset.

Desjardins intends to allocate the proceeds of any Desjardins Sustainable Bond to Eligible Assets originated no more than 36 months prior to the issuance. The proceeds will be allocated within 24 months from the date of issuance.

## Reporting

As long as there are outstanding Desjardins Sustainable Bonds, Desjardins will publish annually a Sustainable Bond Report, which will include allocation and impact reporting as detailed below. Desjardins' Sustainable Bond reporting will be publicly available.

### Allocation Reporting

Desjardins will provide at least the following details:

- I. Net proceeds raised from each Desjardins Sustainable Bond
- II. Aggregate amount of proceeds allocated to each eligible project category
- III. Allocation by geographic location
- IV. Refinancing versus new financing
- V. Balance of unallocated proceeds
- VI. Types of temporary unallocated funds placements and uses

### Impact Reporting

Where feasible, Desjardins' will provide reporting on relevant potential impact metrics for Eligible Assets described in Table 3 on page 10.

Table 3 : Potential Impact Reporting Metrics per ICMA Green Bond Principles

Eligible Categories	Potential Impact Reporting Metrics
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>♦ Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)</li> <li>♦ Capacity of renewable energy plant(s) constructed or rehabilitated in MW</li> <li>♦ Capacity of renewable energy plant(s) to be served by transmission systems (MW)</li> <li>♦ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent</li> </ul>
<b>Energy Efficiency</b>	<ul style="list-style-type: none"> <li>♦ Annual energy savings in MWh/GWh or percentage</li> <li>♦ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent</li> </ul>
<b>Green Buildings</b>	<ul style="list-style-type: none"> <li>♦ Number of green buildings of each certification</li> <li>♦ Area of certified green buildings in square feet and by certification level</li> <li>♦ Annual amount of waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or in absolute amount in tonnes p.a</li> <li>♦ Annual absolute (gross) water use before and after the project in m<sup>3</sup>/a, reduction in water use in %</li> <li>♦ Annual absolute (gross) amount of wastewater treated, reused or avoided before and after the project in m<sup>3</sup>/a and p.e./a and as %</li> <li>♦ Annual Absolute (gross) GHG emissions from the project in tonnes of CO<sub>2</sub> equivalent</li> <li>♦ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent</li> </ul>
<b>Clean Transportation</b>	<ul style="list-style-type: none"> <li>♦ Passenger-kilometres (i.e. the transport of one passenger over one kilometre) and/or passengers</li> <li>♦ Annual GHG emissions reduced/avoided in tCO<sub>2</sub>e p.a.</li> <li>♦ Reduction of air pollutants: particulate matter (PM), sulphur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)</li> <li>♦ Length of railways built</li> </ul>
<b>Sustainable Food Production</b>	<ul style="list-style-type: none"> <li>♦ Total surface financed (hectares), with reference to specific certification schemes where relevant</li> <li>♦ Number of maple trees tapped</li> <li>♦ Amount of organic products produced (metric tons or litres)</li> <li>♦ Number of organic products offered</li> </ul>
<b>Environmentally Sustainable Management of Living Natural Resources and Land Use</b>	<ul style="list-style-type: none"> <li>♦ Total surface financed (hectares), with reference to specific certification schemes where relevant</li> <li>♦ Annual CO<sub>2</sub> sequestered in tCO<sub>2</sub>/year</li> <li>♦ Environmentally sensitive areas protected (acres)</li> <li>♦ Number of trees saved by certified forestry products</li> </ul>
<b>Sustainable Water and Wastewater Management</b>	<ul style="list-style-type: none"> <li>♦ Annual absolute (gross) water use before and after the project in m<sup>3</sup>/a, reduction in water use in %</li> <li>♦ Annual absolute (gross) amount of wastewater treated, reused or avoided before and after the project in m<sup>3</sup>/a and p.e./a or as %</li> </ul>
<b>Pollution Prevention and Control</b>	<ul style="list-style-type: none"> <li>♦ Tons of waste reduced</li> <li>♦ Tons of secondary raw materials or compost produced</li> <li>♦ Absolute or % reduction in air/water pollutants</li> <li>♦ Number of people or % of population provided with improved municipal waste treatment or disposal services</li> <li>♦ Number of people or % of population with access to waste collection under the project</li> <li>♦ The absolute amount or % of residual non-separated waste before and after the project</li> <li>♦ Added monetary value created using waste</li> </ul>

Table 4 : Potential Impact Reporting Metrics per ICMA Social Bond Principles

Eligible Categories	Potential Impact Reporting Metrics
<b>Affordable Housing</b>	<ul style="list-style-type: none"> <li>♦ Number of beneficiaries</li> <li>♦ Number of affordable housing units built or refurbished</li> </ul>
<b>Employment Generation through SME Financing</b>	<ul style="list-style-type: none"> <li>♦ Number and value of loans to MSMEs</li> <li>♦ Number of beneficiaries in the case of Indigenous Peoples' bands, councils, or governments</li> <li>♦ Number of jobs supported/created/retained</li> </ul>
<b>Access to Essential Services</b>	<ul style="list-style-type: none"> <li>♦ Number of beneficiaries</li> <li>♦ Additional number of beds in hospitals</li> <li>♦ Number of hospital and other healthcare facilities built/upgraded</li> <li>♦ Number of health checks provided</li> <li>♦ Number of residents benefitting from healthcare which is otherwise not accessible</li> <li>♦ Number of educational institutions funded, location and type</li> <li>♦ Number of students supported or spots made available in schools</li> </ul>

# External review

## Second-Party Opinion

Desjardins has appointed Vigeo Eiris (V.E.) to provide an external review on the Desjardins Sustainable Bond Framework, and confirm its alignment with the ICMA GBP, SBP and SBG. This Second Party Opinion document is available on Desjardins' and V.E.'s respective websites.

## Post issuance external verification

Desjardins' Sustainable Bond Framework will also be subject to external verification by an external auditor. The auditor will verify:

- ♦ The compliance of assets financed by the Green, Social or Sustainable Bond proceeds with eligibility criteria defined in the use of proceeds section in this Framework
- ♦ Allocated amount related to the Eligible Assets financed by the Desjardins Sustainable Bond proceeds
- ♦ The management of proceeds and unallocated proceeds amount

The external auditor's report will be published on Desjardins' website.

# Amendments to this Framework

The SFWG will review this Framework on a regular basis, including its alignment to updated versions of the ICMA GBP, SBP and SBG as and when they are released, with the aim of adhering to best practices in the market. Such review may result in this Framework being updated and amended. The updates, if not minor in nature, will be subject to review by a qualified independent external reviewer. Any future updated version of this Framework that may exist will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding review by the external reviewer. The updated Framework, if any, will be published on Desjardins' website and will replace this Framework.

# Disclaimer

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By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions formulated may be incorrect, or the predictions, forecasts or forward-looking statements as well as Desjardins' objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Desjardins cautions readers against placing undue reliance on these forward-looking statements when making decisions, given actual results, conditions, actions or future events could differ significantly from the targets, expectations, estimates or intentions advanced in them, explicitly or implicitly.

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