

GREEN
WEIGHTING FACTOR
by Natixis

An innovative tool to green
Natixis' balance sheet



October 2020

Green Weighting Factor

General principles

The GWF is an in-house mechanism that links analytical capital allocation to the degree of sustainability of each financing

Objectives:

- Speed up Natixis' transition to sustainable finance => **Incentivize green business origination (including for our "brown" franchises)**
- Integrate climate transition risk in the overall risk assessment of lending transactions => **penalize negative impact on climate**

• **A tool to monitor Natixis' climate strategy:** setting medium to long term targets + monitoring of the bank's loan book climate trajectory to become aligned with Paris Agreement objectives (+2°C scenario)

Double level of impact:

- **Transaction level:** impact transaction's financial performance indicators as of credit decision => impact decision to do or not a transaction
- **Portfolio level:** impact portfolio's financial performance ex ante => impact business mix

• **Scope: €145bn loan book**, excluding financial sector, holdings and securitization vehicles



- Selected indicator: GWF is applied to **analytical Risk Weighted Assets** with no impact on regulatory RWA = internal tool
- Prerequisite: **development of a proprietary methodology** to classify financings depending on their environmental / climate impact
- Timing: developed in 2018, implemented progressively to **all geographies and all lending activities** in 2019/2020, expanded to all banking activities in 2020/2021

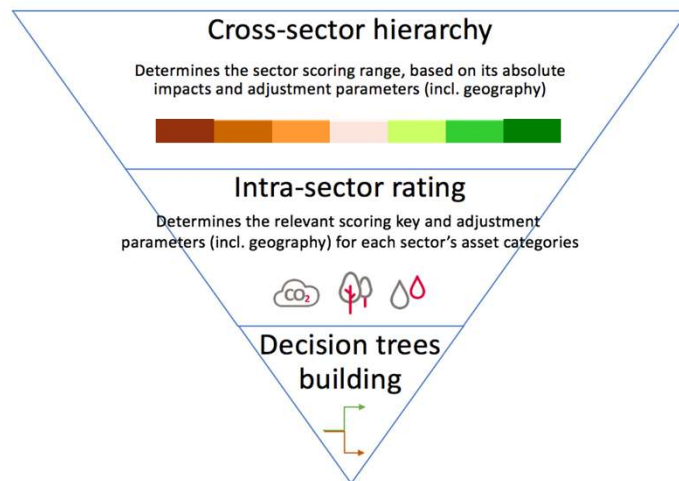
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Development of a proprietary environmental rating methodology

- Rating methodology using **7-level scale**
- **Climate change centric**, adjusted by **most material environmental externalities**: biodiversity, water, pollution, waste
- **Simple tool**, with no room for interpretation: limited number of criteria, retrievable information, thresholds
- Using a **life-cycle analysis approach** along with established market practices
- **Sectorial approach**: cross-sector hierarchy and cross-asset hierarchy within each sector

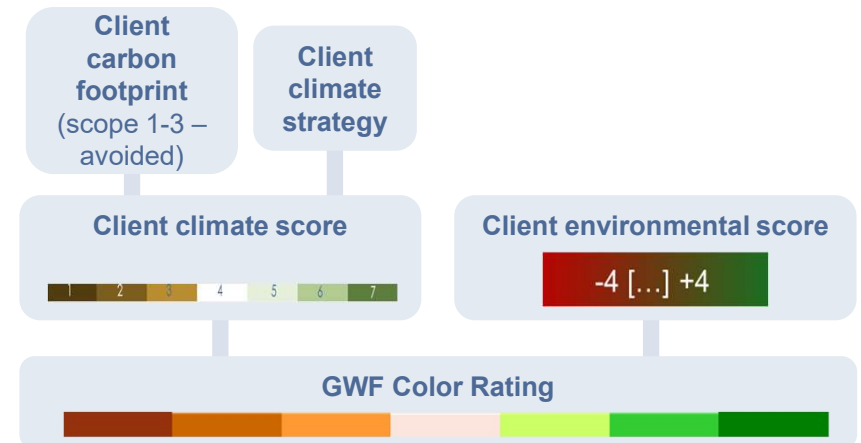
DEDICATED PURPOSE financing

- Objective: determine the “color” (rating) of each loan **depending on the environmental impact of the object being financed**
- Tool: development of 49 different decision trees for each activity within 8 macro-sectors



GENERAL PURPOSE financing

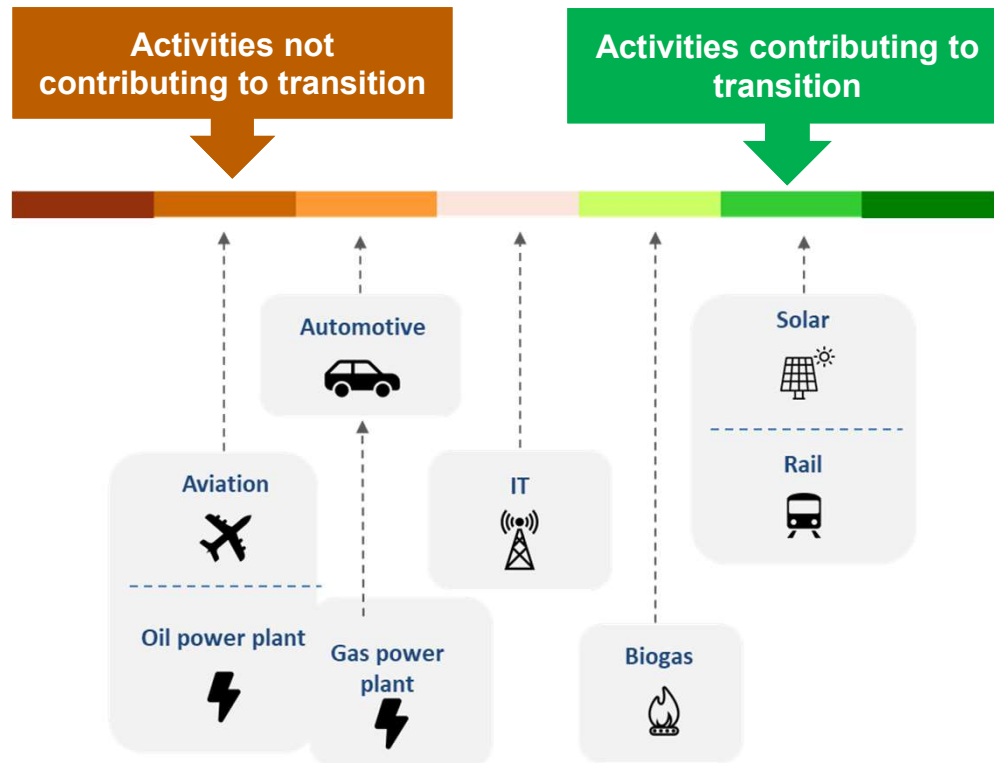
- Objective: determine the “color” (rating) of each corporate and public client depending on its **carbon footprint, strategy to decarbonize and impact on most material environmental issues**
- Rating of clients representing 80% corporate exposure



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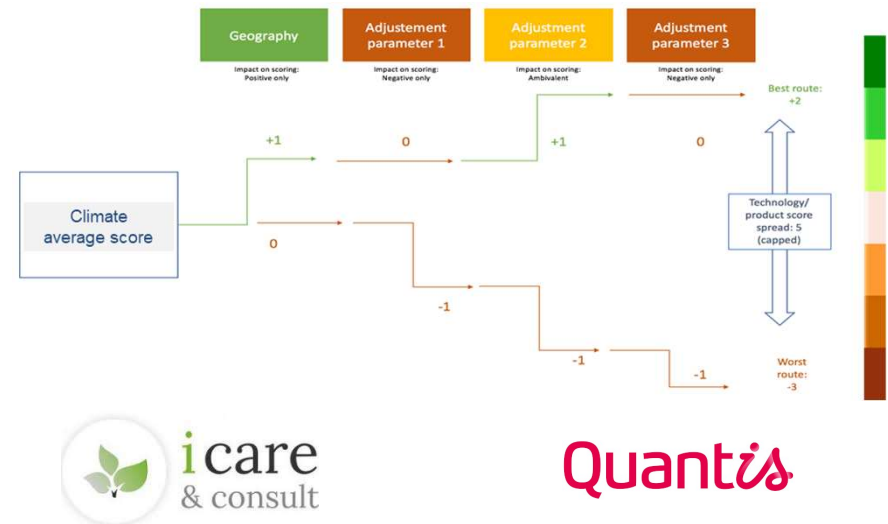
Environmental rating methodology for dedicated purpose financing

- Step 1: determine the **average climate score of each sector** using its carbon intensity = starting point of the sectorial decision tree



- Step 2: determine **each sector's possible range of ratings** (to take into account absolute impact of each sector)

- Step 3: build a **sectorial decision tree** to define the environmental impact of the specific object being financed through specific closed questions



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Environmental and climate impact of Natixis' CIB balance sheet

Color rating mix of Natixis CIB balance sheet resulting from the impact analysis on 70% of the project's scope (as of 23/09/2019)



Calibration resulting from impact analysis on 70% of the project's scope: scale of RWA adjustments



Example of GWF impact on transactional ROE:



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Next steps: set targets and actively manage balance sheet's climate impact

Long term target: align Natixis' balance sheet with the objectives of the Paris Agreement on climate (below +2°C trajectory)

Set targets (short, medium, long term)

- For Natixis CIB
- For each business line

Actively manage balance sheet's climate impact:

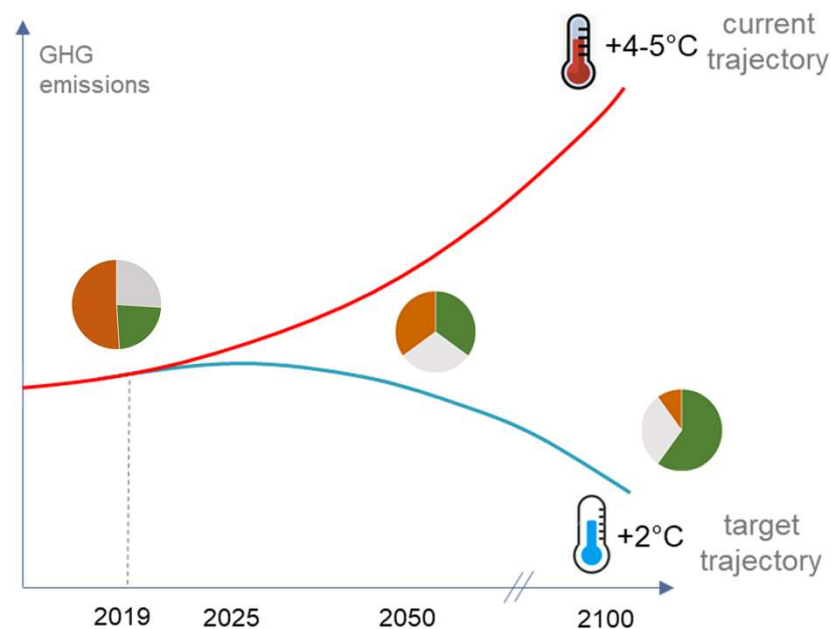
Internal / external indicators to monitor progress starting from Q4 2019

- **Green/brown mix of nominal exposure and RWA**
(monitors shift of financing portfolio)
- **Green/brown mix of underwritings**
(monitors shift of financing new origination)
- **EVA indicator**
(used to objectivize origination teams)

Transparency: regular disclosure of progress (at least annually)

Monitoring of transition climate risk:

- GWF indicator included in the RAF to monitor transition climate risk (share of « dark brown » in portfolio)
- Measure of potential correlations of GWF ratings with default probabilities and credit ratings (ongoing work)



Methodology to translate balance sheet's green/brown mix into climate trajectory is still work in progress