NATIXIS
BEYOND BANKING

GREEN WEIGHTING FACTOR

by Natixis

CORALIS Industrial Symbiosis
14/10/2021

General principles

An in-house mechanism that links analytical capital allocation (and therefore the financial return of loans) to the degree of sustainability of each financing

Long term objective: align the climate trajectory of Natixis' balance sheet with Paris Agreement objectives (< 2°C scenario)

- **Speed up sustainable finance origination:** *incentivize green business origination (in particular for carbon-intensive sectors)*
- **Monitor Natixis' climate strategy:** *set medium to long term temperature targets, monitor target achievement over time*
- **Systematically include climate transition risk** *in the overall risk assessment of lending transactions: penalize negative impact on climate*
- ***Anticipate future regulatory evolution*** *on climate transition risk inclusion in banks' frameworks*

Use cases

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The GWF is now fully integrated in our IT systems and internal credit process as a mandatory & systematic step ahead of credit decisions

Use cases of the GWF have multiplied since its implementation 2 years ago

- **Lending decision making and annual review** *at transaction, client and business line levels*
- **Monitor climate transition risk** *through RAF indicator (« dark brown » share of credit RWAs)*
- **Balance sheet management:** *distribution, securitization*
- **Long-term portfolio projections to 2050,** *as part of climate stress test exercise (ACPR, EBA)*
- **Product innovation, strategic client dialogue, client tiering, commercial planning:** *analysis of transition potential, resulting sustainable finance product design and structuring*

Climate trajectory monitoring: Targets set to achieve net-zero by 2050

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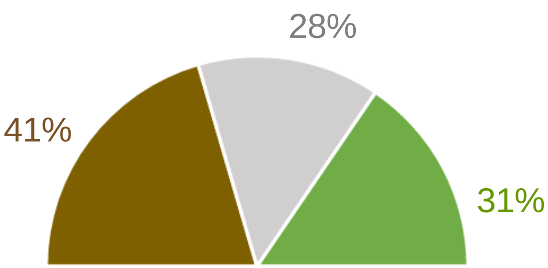
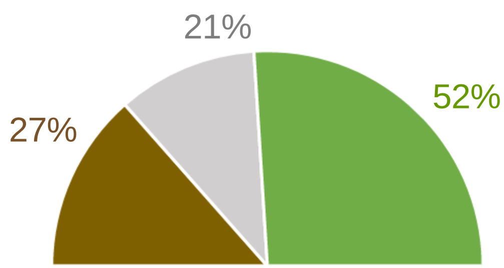
- **Implied Temperature Rise (ITR)** *calculation for each on-balance sheet exposure, excluding financial sector and sovereigns (similar to GWF)*
- **Objective: determine the speed of our balance sheet transition** *to achieve < 1.5°C alignment by 2050*
- **Granular 2024 business targets** *were set by industry / business line / platform through the Green Weighting Factor (GWF), resulting in the following ITR trajectory*

3.2°C in 2020 → **2.5°C in 2024** → **2.2°C in 2030**

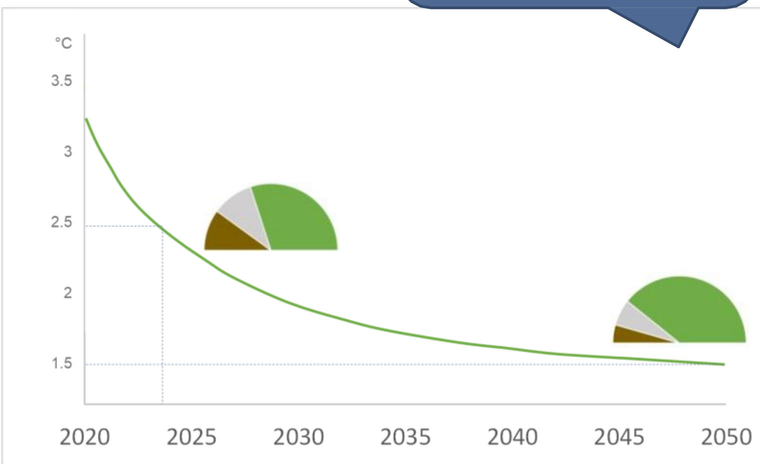
Reach a target 1.5°C carbon neutral target in 2050



€154bn of outstandings
All sectors excluding finance
All geographies



Granular targets set
by industry, business line, platform
(EMEA, APAC, Americas)



GWF Color Rating mix (% of outstandings)

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Summary of rating methodology

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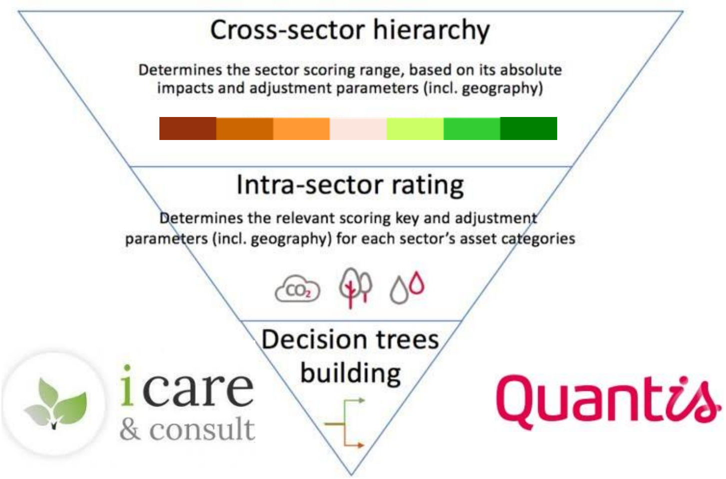
- Rating methodology using **7-level scale**
- **Climate change centric**, adjusted by **most material environmental externalities**: biodiversity, water, pollution, waste
- **Simple tool**, with no room for interpretation: limited number of criteria, retrievable information, thresholds
- Using a **life-cycle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

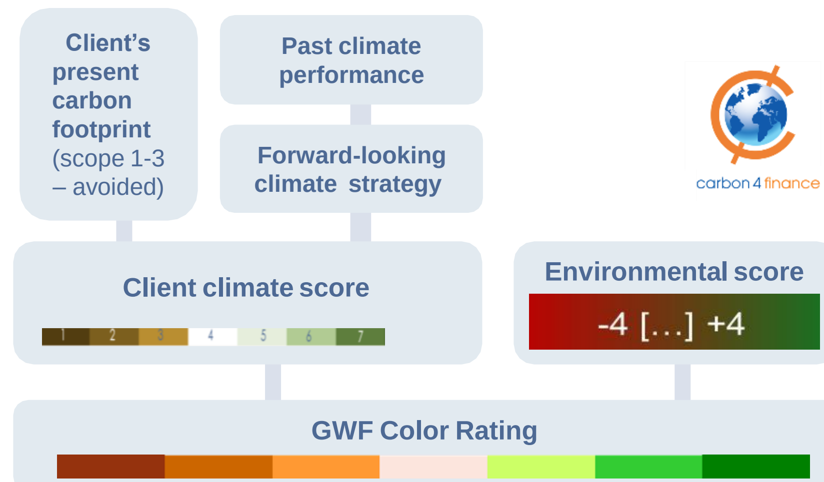
DEDICATED PURPOSE financing

- 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**



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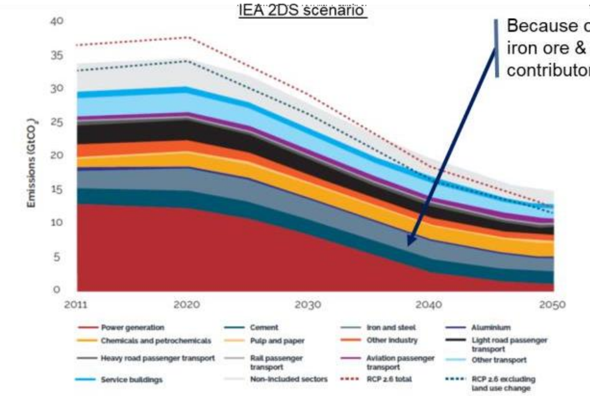
Using GWF to develop transition finance
Example of energy-intensive mining & metals sector

Sector "brown" characteristics:

- **Highly energy-intensive sector**: 2% of total global emissions, GHG emissions approx. 1Gt CO2e per year
- **Exploitation of non-renewable resources**
- **Long-lasting impacts on the environment**: water resources, land degradation, soil pollution, biodiversity impacts
- **Greater scrutiny on the industry** increases pressure on mining companies to explore ways to reduce their impact



Because of predominant volumes, iron ore & steel are the main contributors of the metal industry

Define transitioning levers and solutions to "green" activities:

Quit/exit	*Change activity and/or business model by disengaging from high emitting activities (e.g. coal).*
Diversify	*Act on activity-mix by increasing the share of low carbon products through organic diversification, external growth (diversification through acquisitions) or spin-off*
Decarbonize	*Decarbonize core and hard-to-abate activities' GHG emissions (e.g by setting scope 1,2,3 GHG reduction targets), with greater efficiency, new processes, technologies or raw materials/feedstocks changes. Means investments in new assets/equipment, process reshuffling as well as dedicated R&D and often ad hoc HR/skills management*
Offset	*Compensate emissions with additional CO2 removal solutions (e.g. reforestation)*
Low-carbon solutions	*Selling materials, products or services that enable the transition of other sectors or companies and help them to decarbonize (e.g. copper, lithium, cobalt, iron ore providing steel to renewable energy sector, aluminum necessary to create lighter transportation systems, borates vital ingredient of energy-efficient building materials)*

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Using GWF to develop transition finance

Through various sustainable & transition finance solutions