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NATIXIS

Independent Limited Assurance Report on the robustness and green integrity of Natixis Green Weighting Factor

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This report contains 9 pages



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Independent Limited Assurance Report on the robustness and green integrity of Natixis GWF approach

To the Executive Management of NATIXIS S.A.,

Further to the request made to us and in our capacity as an independent third party, we were engaged to provide an independent limited assurance report on the processes conducted since 2018 by NATIXIS S.A. (the **Bank** or the **Group**) for the development and implementation of the Green Weighting Factor's proprietary incentive mechanism (the **GWF**)¹ with the aim to decarbonize the balance sheet and gradually align the financing business with the Paris Agreement's objectives² (the **Natixis GWF approach**).

The Natixis GWF approach comprises the following key phases:

- (i) Setting the general principles of the mechanism, and the relevant organization and governance;
- (ii) Development of a dedicated climate and environmental rating methodology with supporting datasets, and calibration of the outcome which are the GWF color ratings;
- (iii) Implementation of the methodology in the processes and underlying systems of the Corporate & Investment Bank (CIB) balance sheet;
- (iv) Calibration of the internal adjustment factors of the Risk-Weighted Assets which are used as an internal credit decision making tool;
- (v) Development of a dedicated methodology to determine the climate trajectories and temperature assessment of the balance sheet, based on the GWF color ratings;
- (vi) Setting medium and longer term strategic targets for the Bank, in color mix and temperature and implementation of the relevant monitoring tools and levers to reach the Bank's climate alignment target.

Our work is based on a set of criteria as detailed hereinafter that have been developed to assess the robustness and green integrity of approaches developed by several banks to align their portfolios with the Paris Agreement objectives and have been considered as relevant, complete, reliable, neutral and understandable (the **Criteria**).

¹ Mechanism summarized in the Bank's 2020 Universal Registration Section '6.4.2.1 GWF: an innovative solution for a greener loan book' of the part '6.4.2 Green growth: financing the energy transition and combating climate change' of the Natixis Universal Registration Document and financial report 2020, available on the Bank's website https://www.natixis.com/natixis/en/universal-registration-document-and-annual-financial-report-2020-lpaz5_129338.html

² Align the climate trajectory of Natixis' balance sheet with Paris Agreement objectives (+1.5°C trajectory as set in the Paris Agreement <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>)

Criteria developed to assess the robustness and green integrity of approaches developed by several banks	Main topics assessed to support the criteria
Governance and organization	Involvement of high level of governance as a sponsor for the key steps of the approach (development and implementation) and in each of key decision milestones. Level of expertise and experience of the internal and external stakeholders involved in each phase of the approach. Inclusion of management of the relevant businesses to be informed and part of the decision making. Inclusion of the GWF in the annual performance objectives of relevant internal stakeholders.
Articulation with existing processes	Articulation with the existing processes and the internal control mechanism, for each phase of the approach.
Strategic focus and scope	Articulation with key strategic metrics used to manage the bank financing activities and with the Bank capital allocation strategy. Significant coverage of the approach with regards to the banks' balance sheet and related assets.
Leader to start the approach	Pioneering approach compared to the peers.
Robustness and green alignment of the underlying datasets	Existence of reliable processes and methodologies to develop the datasets supporting each key phase of the approach, their definitions, their update cycles, as well as the process to support their alignment with the main existing EU regulations available in May 2020 and the guiding principles of future EU regulations, as known at the time the development of the approach was initiated. Inclusion for the development of the datasets of recognized external experts and of recognized scientific climate and environmental data and methodologies.
Robustness of the implementation	Implementation of each of the key phases of the approach in the Bank's deal processes, the underlying IT systems, and the development of a comprehensive set of trainings for the organization.

In agreement between the Bank and KPMG, considering the innovative nature of the Natixis GWF approach, the scope of our work comprising the development to the implementation of the approach, and the period over which it was developed, an independent limited assurance engagement was considered appropriate.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the level of assurance that would have been obtained had a reasonable assurance engagement been performed.

Our conclusion is hence expressed in the form of an independent limited assurance conclusion that nothing has come to our attention that causes us to believe that the Natixis GWF approach does not demonstrate robustness and green integrity based on the Criteria.

Bank management's responsibilities

The Management is responsible for preparing and implementing the Natixis GWF approach and the supporting documentation that is free from material misstatement, and for the information contained therein.



This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the documentation supporting the Natixis GWF approach that are free from material misstatement whether due to fraud or error. It also includes selecting and applying policies and procedures in relation to both financial and non-financial information, the compliance with laws and regulations applicable to its activities, making estimates and judgments that are reasonable in the circumstances and for maintaining adequate records in relation to the documentation supporting the Natixis GWF approach.

The Management is also responsible for preventing and detecting fraud and for identifying and ensuring that the Group complies with laws and regulations applicable to its activities.

The Management is responsible for ensuring that staff involved with the preparation of the documentation supporting the Natixis GWF approach, are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibilities

Our responsibility is to examine the Natixis GWF approach and to report thereon in the form of an independent limited assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 revised, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain a meaningful level of assurance about whether any matters have come to our attention that cause us to believe, the Natixis GWF approach does not demonstrate, in all material respects, robustness and green integrity based on the Criteria.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures selected depend on our understanding of the Natixis GWF approach conducted by the Group and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise.

Procedures performed

We used our professional judgment to select procedures for our limited assurance engagement, and to assess the risk of material misstatement in the scope above, whether due to fraud or error.

A limited assurance engagement on the Natixis GWF approach consists of making inquiries, primarily of persons responsible for the preparation of information presented in the supporting documentation of the Natixis GWF approach, and applying analytical and other evidence gathering procedures, as appropriate. We carried out our procedures from February 2019 to April 2022.

These procedures included:

- Inquiries of management to gain an understanding of the Group processes for conducting the Natixis GWF approach;
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy, climate strategy and policies, risk strategy and policies and the implementation of these across the business;
- Interviews with relevant staff at the corporate and business unit level responsible for conducting the Natixis GWF approach and providing the supporting documentation;
- Interviews with the external experts - consulting firms - involved in several steps of the Natixis GWF approach and collecting supporting documentation;
- Evaluating the appropriateness of the methods, policies and procedures used in the conduction of the Natixis GWF approach and the reasonableness of estimates made by the Group in the circumstances of the engagement;
- Conducting desk research benchmarking exercise to compare the Natixis GWF approach with global peers’;
- Comparing the information presented in the supporting documentation of the Natixis GWF approach to the corresponding information in the relevant underlying sources;
- Reading the information presented in the supporting documentation of the Natixis GWF approach to determine whether it is in line with our overall knowledge of, and experience with, the sustainability, climate and corporate performance of the Group.

These procedures included in particular:

To assess the criteria related to the governance and organization, articulation with existing processes and strategic focus and scope:

- Inquiries of the Steering Committee and other relevant staff, including external stakeholders, involved with the GWF program within the Bank, in order for us to gain an understanding of and collect documentation related to:
 - the governance structure managing the GWF – for the development and for the daily operations (implementation and run) -, and to which the main guiding principles and implementation steps have been submitting for validation;
 - the role the GWF support to decarbonize the balance sheet and gradually align the corporate financing business with the Paris Agreement’s objectives;
 - the level of implementation of the GWF, within the Bank and underlying processes, systems and organization, the Bank’s portfolio management, as well as the multiple use cases of the GWF since its implementation: lending decision making, climate transition risk monitoring, balance sheet management, long-term portfolio projections, input for client dialogue and commercial strategy, mandatory and regulatory based reporting;
 - the level of details used to develop the datasets supporting the GWF – 21 macro sectors -, the two approaches - financing corporate (**general purpose**) and financing project or asset (**dedicated purpose**) -, the level of details used to rate the climate impact of the financing and the level of expertise of the external stakeholders which have been taking part to the development of these datasets;
 - the impact and level of transformation of the IT system to implement the GWF;
 - the level of details used to develop the methodologies supporting the determination of the climate trajectories and related temperature based on the GWF color ratings;

- the methodology and the organization set up to develop the strategic targets for the Bank, the underlying products, and the business lines, in line with the Bank climate alignment target;
 - the tools that have developed to support the management of the different portfolio of the business lines, in line with the strategic targets that have been set up;
 - the identified internal stakeholders that have had their annual performance objectives updated based on the GWF, and the objectives that have been set up;
- Inspecting the documentation collected on the above matters.

To assess the criteria related to 'leader to start the approach':

- Undertaking a benchmarking exercise based on public information to compare the Natixis GWF approach to nine global peers' initiatives³, between October 2019 and February 2020⁴, in particular with respect to the following topics supporting the Criteria:
 - the green financing announcements and commitments, as well as the green finance governance and team,
 - the public statements on climate, environmental and social sector policies,
 - the carbon footprint & carbon pricing,
 - the portfolios forward looking analysis, and
 - the incentive mechanisms (including asset tagging) and the alignment, if needed, with a climate trajectory.

To assess the criteria related to the robustness and green alignment of the underlying datasets:

- Undertaking a desk research between October 2019 and May 2020 of European regulations, Guidelines, Disclosure requirements, with a focus on the ones related to Environment, Social, Governance (ESG), Climate change and environment⁵, which are linked to the Bank's activity (the **regulatory framework**), as well as an understanding of the aim and guiding principles of future EU regulations;
- Inquiries of the Steering Committee and other relevant staff involved with the GWF program within the Bank, for understanding how the Natixis GWF approach, comprising the rationale, design, governing principles, processes and outcomes, has been conducted in line with the regulatory framework;

³ ABN Amro, BBVA, BNP Paribas, Crédit Agricole CIB, Crédit Suisse, ING Bank, JP Morgan, Société Générale, UniCredit

⁴ Timeframe chosen to be close to the initiation of the development of the Natixis GWF Approach

⁵ The following European regulations, Guidelines, Disclosure requirements have been included in our analysis, conducted between October 2019 and May 2020:

- EU Action Plan on Financing Sustainable Growth of 8 March 2018, including the EU Taxonomy (Taxonomy: Final report of the Technical Expert Group on Sustainable Finance March 2020);
- EU Guidelines on reporting climate-related information, June 2019;
- European Banking Authority (EBA) Action Plan On Sustainable Finance of 6 December 2019;
- Network for Greening the Financial System (NGFS) Guide for Supervisors Integrating climate-related and environmental risks into prudential supervision May 2020.

The following European regulations, Guidelines, Disclosure requirements – list not complete -, that have been issued after May 2020, have not been included in our detailed analysis, but included in the analysis of the periodic reviews of the methodologies used for the general and dedicated purposes:

- EBA Implementing Technical Standards (ITS) on Pillar 3 disclosures on ESG risks, March 2021;
- EU Taxonomy Regulation, and the Delegated acts on the first two Climate objectives as well as the Article 8, July 2020, June and July 2021.

- Understanding how the GWF, thanks to its use cases, assist the Bank to respond to the main objectives of the regulatory framework;
- Understanding the documentation underlying the Natixis GWF approach to develop the datasets supporting the GWF, based on the following procedures:
 - For dedicated and general purposes, (i) assessing the completeness of the sectors in the Bank's balance sheet for which climate change is most material addressed, (ii) assessing the process for the update of the methodology, criteria, thresholds, and related questions if needed, as well as the frequency set up for this process, (iii) assessing the reputation of the external providers as well as their level of objectivity, (iv) assessing the consistency and comparability between the GWF ratings by sectors, for general purpose, and for dedicated purpose;
 - For general purpose, interviews to understand the methodology used to take into account climate and environmental issues, the definitions of the indicators, the details of the data to calculate the GWF rating, the estimation methods and proxies, the details of the methodology for qualitative assessment of the INDCs⁶ for the sovereigns;
 - For dedicated purpose, using sampling techniques on decision trees underlying the datasets, assessing (i) their relevance (materiality of the assets climate and environmental impacts), (ii) their completeness (integration of the sector most material climate and environmental issues, alignment of the rationale for methodological choices), (iii) their reliability (documentation and recognition of the main references and sources of information used, reliability of the thresholds used in the analysis if needed), (iv) their understandability (assessment of the subjectivity bias of the underlying questions developed with the decision trees, assessment of the easiness of information to be identified to go through the decision trees), (v) their consistency with the Climate Bond Standard⁷, and the EU Taxonomy⁸, as existing in April 2020 (in particular consistency of the decision trees criteria with the criteria, thresholds and precautionary principles established by the EU Technical Expert Group, alignment of the GWF highest ratings with the thresholds defined by the EU Taxonomy, exclusion in the GWF green ratings of the sectors excluded from the EU Taxonomy);
 - For general and dedicated purpose, verifying that the update of regulatory framework is included in the periodic reviews of the methodologies used for the general and dedicated purposes⁵, in particular the EU Taxonomy Regulation and the Delegated acts on the first two Climate objectives issued in June 2021.

⁶ Intended Nationally Determined Contributions (INDCs)

⁷ Climate Bond Standard V2.1 of the Climate Bond Initiative used for certifications until June 30, 2020 - <https://www.climatebonds.net/standard>

⁸ Taxonomy: Final report of the Technical Expert Group on Sustainable Finance March 2020 - https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

To assess the criteria related to the robustness of the implementation:

- Performing a walkthrough of the process dedicated purpose and general purpose in order to (i) obtain an understanding and undertake a testing of the processes, organization and IT systems impacted by the GWF; (ii) obtain an understanding and undertake a testing of the rating process on the financing cycle process passing through the following channels which includes the Front Office, the Credit Risk Analysis, the Risk Committee, the Back Office – Accounting, the Back Office - Booking - Reporting / Prudential-Regulatory, and the IT, and (iii) review the input of the rating matrix API in the different systems to result in the adjusted Risk-Weighted Assets;
- Obtaining an understanding of the internal control mechanism the Bank has put in place in the GWF implementation and the daily operations, in particular the involvement decided and the roles and responsibilities of the internal relevant stakeholders with respect to the inclusion of the GWF in the financing cycle process;
- Performing tests of details, between October 2020 and December 2021, using sampling techniques, to test throughout the credit process and related systems the proper application of the Natixis GWF approach on selected deals, and reconcile the information with the supporting documents;
- Appreciating the level of coverage of the GWF in the Bank total balance sheet;
- Performing a walkthrough of the process for the application of the methodologies supporting the determination of the climate trajectories and related temperature based on the GWF color ratings, and the methodologies set up to develop the strategic targets for the business lines;
- Understanding and collecting documentation related to the GWF supporting training program, the content and the organization to attend the training sessions;
- Reviewing the GWF training documentation compared to our understanding of the Natixis GWF approach.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Natixis GWF approach does not demonstrate robustness and green integrity based on the Criteria.

Comments

Without modifying our conclusion, we have the following comments: as stated in the description of our procedures,

- the criteria related to 'leader to start the approach' has been assessed based on a benchmarking exercise between October 2019 and February 2020;

- the regulatory framework, comprising European regulations, Guidelines, Disclosure requirements, with a focus on the ones related to Environment, Social, Governance (ESG), Climate change and environment, which are linked to the Bank's activity, analyzed to support the criteria related to 'robustness and green alignment of the underlying datasets', has been assessed based on (i) analysis between October 2019 and May 2020, and (ii) analysis of the periodic reviews of the methodologies used for the general and dedicated purposes after May 2020.

Context of our Report

In accordance with the terms of our engagement, our report has been prepared for the Group solely in connection with the context specified in the first paragraph and for no other purpose or in no other context.

Paris-La Défense, April 29, 2022

KPMG S.A.



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