
ESR sector policy applicable to the defense industry

*The terms marked with an asterisk * are included in the Glossary*

1 Context and Rationale

Geopolitical developments of the last few decades, country's economic challenges related to the growing scarcity of natural resources, rise of extremism and all other forms of violence make the world more insecure and emphasize the need for States to strengthen their capacities to preserve integrity, maintain peace and security.

In this context, Natixis, while recognizing the right of countries to protect their citizens and to defend themselves within the framework of international agreements and conventions, is concerned about specific risks, inherent to the defense sector:

- risk of diversion of weapons, especially in sensitive countries;
- risk of corruption and money laundering (financing of terrorist groups,...) ;
- long-term impacts on human lives, on the safety and health of civilian populations, in particular when using “controversial weapons” *.

Therefore, Natixis, in its business operations and in accordance with its Environmental and Social Responsibility objectives, implements strict procedures to regulate its activities related to the defense sector.

This document (the “Policy”) sets out the policy which main aim is to lay down a general intervention/exclusion framework applicable to financing, investing and providing financial services to companies operating in the fields of defense.

2 Scope of application of the Policy

The Policy applies worldwide.

The Policy applies to all services provided to companies involved in the manufacture, trade, storage, maintenance of weapons or ammunitions, as defined in the Policy.

The Policy covers:

Bank financing:

- Dedicated financing - in the form of project finance, export finance, sale, or trading, or all type of dedicated financing.
- Corporate financing, when facilities are to be used for general purposes and are not specifically allocated to precise equipment.

The term financing also covers all types of related banking or capital market products and services, including guarantees, letters of credit, swaps, and other associated facilities.

Advisory

- Financial advisory and M&A.

Capital Markets

- Bond or equity issues
- Trading and sale of financial derivatives

Proprietary asset management:

- Proprietary asset management activities of Natixis¹.

Third-party asset management:

- Third-party asset management activities of Ostrum Asset Management¹.

Insurance

- Third-party asset management activities of Natixis Assurances on all portfolios under management agreement¹ and dedicated funds

3 Implementation criteria

3.1 Financing dedicated to the sale of weapons, equipment or services

3.1.1 General principles

To address the issues raised in some countries with regard to human rights, corruption, money laundering and illicit traffic of weapons and ammunitions, Natixis has developed a framework for identifying and monitoring these risks.

¹ With the exception of any kind of index-linked solution

Thus, prior to the provision of banking and financial services, Natixis ensures that the transactions in the defense sector:

- comply with international weapons legislations;
- have an export license duly endorsed by the public authorities of the exporting country and have obtained the necessary documents that describe financial and commercial flows;
- have been carried out for the benefit of an acquiring company which is a state entity or is duly mandated by a state²;
- do not fall within the scope of exclusions set out below.

3.1.2 Exclusions criteria

3.1.2.1 Related to the seller company or the acquiring company

Natixis establishes and regularly updates a list of companies in the defense sector with which Natixis is not willing to establish business relations.

This list, validated by a committee consisting of members of the Executive Management, excludes:

- companies involved in the production or trade of “controversial weapons”* and/or associated ammunitions, due to unacceptable, indiscriminate and reprehensible harm and injuries caused - these weapons being recognized as unacceptable by international conventions.
- companies under embargo and sanctions on the sale of arms as adopted by the United Nations, the European Union, France or the United States;
- companies subject to major controversies, as assessed by Compliance, Risk and ESR Natixis departments.

3.1.2.2 Related to the country of the selling company

Natixis does not work with selling companies based in a country which:

- is non-OECD member³; or
- has not introduced a national mechanism to strictly monitor arms sales and related services.

3.1.2.3 Related to the country of the acquiring company

Natixis excludes any involvement in a transaction relating to the sales of equipment or defense services to a country subject to arms exports embargo or sanctions, in conformity with the measures adopted by the United Nations, the European Union, France or the United States,.

Furthermore, in the policies of exclusion, Natixis duly takes account of the followings:

² Except for sales of spare parts or dual use of goods and technologies to private company domiciled in an OECD country.

³ Except Brazil

- violations of international human rights as per the UN Charter and the Universal Declaration of Human Rights ;
- high risk of corruption or organized crime ;
- non-compliance with the EU Code of Conduct on arms trade ;
- non-compliance with conventions and protocols concerning counter-terrorism and anti-money laundering.

3.1.3 Vigilance points

In addition to the exclusions, Natixis implements strengthened oversight measures to examine transactions involving the following types of equipment, due in particular to potential risks of illegal trade the may generate:

- i. small arms and light weapons* and associated ammunitions;
- ii. second-hand equipment – second-hand equipment should be subject to an investment or renovation programme export licence ;
- iii. dual-use of goods and technologies*, normally used for civilian purposes but which may have military applications or could significantly strengthen military capability of the purchasing country.

In its analysis, Natixis takes into account whether the country of the acquiring company is engaged in an armed conflict area impacted by a civil, regional or international war.

Natixis therefore integrates in the credit analysis procedure a conflict assessment and decision grid. This grid has been established according to a typology of conflicts recognized by international organizations acting in the management of humanitarian crisis situations.

3.2 General purpose corporate financing not specifically allocated to the sale of weapons, equipment or services

For its activities of general purpose corporate financing, service and investment in the defense sector, Natixis carries out all due diligence needed to ensure that the exclusion criteria related to the selling company and/or the selling company's country, as listed in Part 3.1.2.1 and Part 3.1.2.2 above, are not met.

4 Implementation and decision-making process

To ensure compliance with the Policy, each transaction related to the defense sector and arms trade is subject of special attention, requiring an opinion from Risks, Compliance and ESR departments.

All parties concerned by the transaction (Front / Middle or Back Offices) are involved, from the first contact with the client on the initiation of the transaction, throughout the structuring, the risk country monitoring, until validation by the various credit or investment Committees.

Defense transactions are presented for validation to at least one member of the Executive Management.

5 Date of implementation of the Policy

As of the date the Policy is published, all existing contractual commitments non-compliant with the Policy will be honored but will not be renewed at maturity.

The Policy applies to any new transaction as of the date the Policy is published.

Natixis reserves the right to amend, improve or develop this Policy at any time without prior notice.

6 Glossary

Cluster munitions: *in accordance with the Convention on Cluster Munitions (entered into force in June 2008)* systems and munitions designed to disperse or release explosive sub munitions.

Biological weapons: *in accordance with the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction*, signed at London, Moscow and Washington on 10 April 1972, are considered as "biological weapons",

- 1) microbial or other biological agents, or toxins whatever their origin or method of production, of types and in quantities that have no justification for prophylactic, protective or other peaceful purposes;
- 2) weapons, equipment or means of delivery designed to use such agents or toxins for hostile purposes or in armed conflict."

Chemical weapon: *in accordance with the multilateral Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (1993):* any chemical which through its chemical action on life processes can cause death, temporary incapacitation or permanent harm to humans or animals. This includes all such chemicals, regardless of their origin or of their method of production, and regardless of whether they are produced in facilities, in munitions or elsewhere.

Controversial weapons: are considered as “controversial weapons”: anti-personnel mines*, cluster munitions*, nuclear weapons*, biological weapons*, chemical weapons, depleted uranium weapons*.

Nuclear weapon: are considered as “nuclear weapons”, weapons covered by the Treaty on the Non-Proliferation of Nuclear Weapons, entered into force in 1968.

Depleted uranium weapons: are considered as “depleted uranium weapons”, munitions and armor containing uranium depleted in the isotope 235 below that occurring in nature or any other type of industrial uranium.

Small arms and light weapons (SALW): *in accordance with the International Instrument to Enable States to Identify and Trace, in a Timely and Reliable Manner, Illicit Small Arms and Light Weapons and support its full implementation at the global, regional and national levels*, adopted by the UN General Assembly on 8 December 2005, are considered as “Small Arms and Light Weapons”, any man-portable lethal weapon that expels or launches, is designed to expel or launch, or may be readily converted to expel or launch a shot, bullet or projectile by the action of an explosive, excluding antique small arms and light weapons or their replicas.

Dual-use of goods and technologies: *in accordance with regulation (EC) No 428/2009 amended*, dual-use items shall mean items, including software and technology, which can be used both for civil and military purposes, and shall include all goods which can be used for both non-explosive uses and assisting in any way in the manufacture of nuclear weapons or other nuclear explosive devices

Anti-personnel mine: *in accordance with article 2 of the Ottawa Convention, entered into force in 1999*, a mine that is designed to be exploded by the presence, proximity or contact with a person and that will incapacitate, injure or kill one or more persons.

7 Reference

- The Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies.
- The 1993 Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.
- The 2008 Convention on Cluster Munitions.
- The 1972 Convention on the Prohibition of the Development, Production and stockpiling of Bacteriological (Biological) and Toxin Weapons and on their destruction.

- The 1998 European Union Code of Conduct on Arms Export (“EU Code of Conduct”) and the 2008 EU Common position on exports of Military technology and equipment.
- FATF: The Financial Action Task Force is an inter-governmental body established in 1989. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.
- The 9-20 July 2001 Program of Action to prevent, combat and eradicate the illicit trade in small arms and light weapons in all its aspects from the United Nations
- The 1925 Geneva Protocol for the Prohibition of the Use in War of Asphyxiating, Poisonous or other Gases and Bacteriological Methods of Warfare.
- The 1968 Treaty on the Non-Proliferation of Nuclear Weapons.
- The 1997 UN Ottawa Treaty (Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction).
- Arms Trade Treaty (ATT) - (adopted in 2013)
- Council regulation (EC) No 428/2009 of 5 May 2009 setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items.
- The UN Charter and The Universal Declaration of Human Rights (adopted in 1948)