

## Natixis' CIB answer to NIB's consultation on defense financing

The Nordic Investment Bank (NIB)'s Board of Directors approved the updated [Sustainability Policy](#) for public consultation on **12 June 2025**. The proposed revision allows the NIB to **fund conventional weapons and ammunition**, 'controversial' weapons remain strictly excluded.

This lending policy change comes in response to a request from the Nordic and Baltic governments. In March 2024, these governments urged NIB to mobilize financial resources for climate and nature, enhancing productivity and innovation, and exploring options to bolster security and resilience.

Natixis CIB response to this consultation tackles two key elements:

1. The interplay between **defense financing** and **issuer-level and UoP instruments eligibility criteria**, from the standpoint ESG/sustainability driven investors;
2. the necessary vigilance and clarity regarding the definition of controversial weapons.

### Our key observations

- Natixis CIB believes **NIB's policy revision favoring defense financing will be welcomed by market participants** as it is aligned with the new geopolitical context, and the positions taken at the European level and among the Member States
- Nonetheless, the defense sector presents **unique challenges** that require **banking actors to carefully consider reputational risks and maintain strict oversight & ethical governance**.
- Overall **changes in lending policies can alter issuers' sustainability commitments, targets and ESG ratings**, highlighting the need for clarity on the types and volumes of defense finance actors and/or equipment, and requiring an evaluation of the consequences on E&S targets (incl. SBTi target).
- **In this context, NIB should not discard sustainability efficiency and performance when considering defense financing**, engagement might be worth pursued and disclosed. This could help mitigate civil society criticism of defense financing.
- NIB's updated sustainability policy **explicitly prohibits engagement with counterparties involved in the production of controversial weapons**, defined by international treaties and conventions.
- However, "controversial weapons" is a concept that must be treated with extreme caution due to the uncertainty surrounding the notion and its likely evolution. Indeed, **the definition as well as the technology of controversial weapons is complex and evolving** (between actors/ESG agencies, and over time), **as there is no universally accepted standard, underscoring the need for categorization clarity** and updates in front of technological or political changes.

### Summary of Natixis CIB's answer

- The change in NIB's policy is set against a backdrop of geopolitical tensions and increased European defense spending necessity.
- **Reputational risks and necessity to monitor defense exposure:** Engaging with controversial equipment/counterparts can affect public perception and stakeholder's trust. The potential diversion of funds or military equipment towards unintended or inappropriate uses underscores the importance of maintaining stringent oversight mechanisms.
- **Defense sector financing and investors appreciation:** Usually, lending policy changes at a financial institution level do not directly affect the eligibility of sustainability Use-of-Proceeds instruments. However, they can affect issuer-level rating and assessments, with a potential downgrading of ESG ratings, or exclusion, which could affect demand for vanilla bonds from investors which apply basic ESG screening/exclusions. Thus, Natixis encourages NIB to clarify key aspects around exclusion perimeter, framework update, the feasibility of the SBTi target with greater exposure to defense actors.
- **The key factors to consider when financing the defense sector are as follows:** the type of weaponries or defense actors financed, the future share of exposure to this defense assets or activities at NIB's balance sheet, the clear indication to investors and ringfencing

guarantees that those defense-related financing will not be eligible under labeled bond frameworks even if they fulfill environmental eligibility criteria, the areas of defense financing by NIB ideally showing it aims or contributes at compensating EU strategic shortfalls.

- **Financing the transition of the defense sector:** The European Banks and Supranational, Sub-sovereign and Agency must provide financing to the defense sector without undermining other (sustainability) considerations. This is undeniable that the defense sector has an impact on climate change, and the military sector is partially exempted from some environmental norms and standards. However, just because the defense sector has certain strategic characteristics, it does not mean that the banks financing should grant a blank check and overlook decarbonization or pollution issues. Defense sector financing goes beyond merely providing capital, when conducted with the transparency characteristic of sustainable finance, it also generates additional signals and incentives.
- **Defense financing and sustainability commitment:** The consequences of greater exposure to defense on NIB's financed emissions should not be ignored, notably on its commitment to be net-zero by 2050. Considering first the sensitive nature and the polluting character of the defense sector, and considering then that "NIB actively engages with its clients and lending counterparties". Natixis recommends engaging on carbon footprint performance, circularity aspects, depollution requirements, etc.
- **The delicate and evolving definition of controversial weapons require scrutiny and review:** To define "controversial weapons", NIB refers to the international framework, but this framework is porous. It might be relevant to explicitly quote the text. Furthermore, despite the crucial role as deterrents of controversial weapons in EU sustainable finance, there is no widely agreed-upon definition of 'controversial weapons'. Most definitions are tied to international standards, but the precise extent of the treaties to consider may remain a subject of debate, considering notably the non-ratification by some country of certain treaties. For example, on June 30, 2025, Ukraine's President Volodymyr Zelensky issued a decree that sets his conflict-affected nation on a path to withdraw from the Ottawa Convention<sup>19</sup>, which prohibits signatories from obtaining, manufacturing, storing, or deploying antipersonnel mines intended to be concealed or buried in the ground. Besides, it is a necessity to take into account the upcoming developments of controversial weapons. The swift advancement of artificial intelligence (AI) is prompting investors to rethink their strategies, as companies aim to capitalize on their AI capabilities for both civilian and military uses.