

DEFENCE & SECURITY SECTOR POLICY



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Preamble

Within the framework of its formal commitment to Corporate Social Responsibility (CSR) and to the UN Guiding Principles on Business and Human Rights, BNP Paribas has defined the present sector policy governing all business activities related to the defence and security industry.

As a major European financial institution, the Group recognises the validity of the position of the European Union Council, which states the five greatest challenges and threats to European Union security are terrorism, proliferation of weapons of mass destruction, regional conflicts, failed states and organised crime. Illicit weapons trade, in particular trade in small arms, figures at the centre of four of these five threats.

While BNP Paribas recognises the right of countries to defend themselves and protect their national security, the Group acknowledges that the defence and security sector presents specific risks related to (1) the status of certain weapons and equipment, (2) their potential end use, and (3) the risk of corruption and diversion.

Potential irresponsible end-use of military, security or police equipment is a key issue in this sector. For this reason, certain countries are subject to international monitoring, international sanctions or specific embargoes on trade in weapons or internal repression equipment.

Several initiatives aim at preventing weapons from being diverted and/or supplied to repressive regimes, terrorist groups and conflict zones, most notably embargoes, the EU Code of Conduct on Arms Exports and the UN Arms Trade Treaty.

BNP Paribas implements strengthened oversight measures to examine transactions involving sensitive countries. The group also assesses the risk of diversion of arms, especially small arms and light weapons and their ammunition, tied to countries and specific entities involved in the weapons trade.

BNP Paribas recognises that international trade in weapons is particularly exposed to the risk of corruption and money laundering. Arms trade may finance dictatorial and/or corrupt regimes and terrorist groups. For this reason, in keeping with its commitment to fight corruption and money laundering, the Group implements control measures designed to ensure the traceability of payments, the transparency of commercial and banking intermediaries, knowledge of the origin and destinations of goods as well as end users and the consistency of prices and commissions paid to commercial intermediaries.

Moreover, in order to address the risks linked to the defence and security sector, BNP Paribas assesses the activities and policies of its clients as part of its know your customer (KYC) process.

BNP Paribas is therefore implementing a CSR policy specific to the defence and security sector to address the above-mentioned risks and define consistent rules for all the Group's activities worldwide. This policy is an update of the previous Defence policy published in March 2012.

Sector policy

1 Scope

1.1 Geography

Worldwide.

1.2 Definitions

In this Policy, “defence and security equipment”, generally refers to weapons (whether controversial or not, see below), military and dual-use equipment, internal repression equipment, as well as security and police equipment.

1.3 Business

The Policy covers:

1. Defence and security companies: any company, group, institution, state agency or organisation involved in the manufacture, sale, storage or maintenance of defence and security equipment or involved in military, security or police services.
2. Defence and security transactions: any transaction involving a defence and security company and/or defence and security equipment.

1.4 BNP Paribas activities

BNP Paribas Group entities: this policy applies to all business lines, branches, subsidiaries and joint ventures of which BNP Paribas has the operational control. When BNP Paribas establishes new joint ventures in which it has a minority stake, it strives to include its standards as part of the joint venture agreement.

Financial services and products concerned: this policy applies to all the activities of BNP Paribas (lending, debt and equity capital markets, guarantees and advisory mandates, etc.). It covers all clients and new financing agreements. Financing agreements that predate this policy will be reviewed accordingly upon their renewal or as they are due for review. BNP Paribas pledges to encourage application of the rules set out in this policy in any joint venture or outsourcing agreement.

Asset management: this policy applies to all BNP Paribas entities managing proprietary assets. BNP Paribas entities managing third-party assets (with the exception of index-linked products) reflect this policy and develop standards adapted to their businesses which will exclude any stock or issuer that does not comply with their procedures and reference standards. External asset managers are actively monitored and strongly encouraged to implement similar standards.

Custodian entities: this policy and resulting company exclusions apply to all BNP Paribas entities with custodian activities when selecting the clients for which they provide services. Moreover, any security issued by an excluded company will be excluded from securities lending or collateral direct activities. However, custody activities such as post-trade processing, settlement and book-keeping of transactions remain possible for any security within the limits of applicable laws and regulations.

2 Context

BNP Paribas expects defence and security companies to comply with existing legislation and with licensing obligations, as well as with international conventions ratified by their host countries.

The defence market is highly regulated. International conventions prohibit some controversial weapons, and the trade of defence and security equipment is subject to both international treaties and national regulations (exporting and recipient entities and states). In addition, certain jurisdictions impose controls on the export of dual use equipment¹.

Beyond compliance with these regulations, this policy sets additional criteria to be respected by defence and security companies and requires companies to adopt a transparent approach as to the nature of their activities, the structure of their company and their ownership up to the ultimate level of control.

3 Rules and standards of the policy

3.1 Defence and security companies

3.1.1 Exclusion rules

BNP Paribas defines controversial weapons as weapons having indiscriminate effects and causing undue harm and injuries. Certain controversial weapons, namely cluster munitions, antipersonnel mines, chemical and biological weapons and nuclear weapons are regulated by international conventions.

“Controversial weapons” is a concept subject to change over time. At the date of publication of this Policy, BNP Paribas considers the following to be “controversial weapons”:

- Anti-personnel mines: the Ottawa Convention, which took effect in March 1999, bans the use of anti-personnel mines;
- Cluster weapons: the Convention on Cluster Munitions (Oslo Convention) adopted in 2008 prohibits the use, stockpiling, production and transfer of cluster munitions;
- Nuclear weapons: the Nuclear Non-proliferation Treaty (NPT) of 1968, which took effect in 1970 aims at inhibiting the proliferation of nuclear weapons²;
- Biological and chemical weapons: the Biological and Toxin Weapons Convention (BTWC) of 1972 and the Chemical Weapons Convention (CWC) of 1993 outlaw biological and chemical weapons;
- Depleted uranium munitions: no current international convention exists, but BNP Paribas recognises the concerns of certain stakeholders concerning depleted uranium munitions.

¹ European Council Regulation 428/2009 (including the list of products and materials in appendix 1 http://trade.ec.europa.eu/doclib/docs/2009/june/tradoc_143390.pdf)

BNP Paribas will not provide financial products and services to, or invest in, companies assessed to be “involved in controversial weapons”.

BNP Paribas considers that a company is “involved in controversial weapons” when the company:

- Produces, trades, or stores controversial weapons or components that are specifically designed for these weapons (dedicated components) and which represent a critical component required for the functioning of the weapon (key component) and /or;
- Provides assistance, technologies or services dedicated to controversial weapons.

If one of the above-mentioned activities takes place within a subsidiary, the direct parent company is also considered to be involved in controversial weapons if it holds a majority equity interest in the subsidiary. Likewise, any majority-owned subsidiary of a company involved in controversial weapons is also deemed to be involved.

Furthermore, BNP Paribas will not provide financial products and services to (or invest in) companies involved in the following types of equipment and activity:

- Companies that produce, sell or buy equipment on the EU list of goods which have no practical use other than for the purpose of “*capital punishment, torture or other cruel, inhuman or degrading treatment or punishment*”. EU Council Regulation No 1236/2005 imposes a prohibition on exports of such goods³;
- Companies which have been identified by the UN, EU, United States or France, as having deliberately participated in the violation of embargos on arms and internal repression equipment imposed by these authorities.

3.1.2 Evaluation of companies’ risk profiles

BNP Paribas will identify and evaluate its existing and potential clients in the defence and security sector according to their risk of contributing to corruption, irresponsible end use or diversion of equipment. Companies that are involved in particularly sensitive equipment (such as small arms and light weapons, law enforcement equipment...) or activities or based in countries lacking a robust regulatory framework will be subjected to additional due diligence to assure they have internal policies and procedures in place that allow them to manage above mentioned risks. Where such assurances are found lacking the Group might further engage with the client in order to identify corrective measures. If no such corrective measures can be implemented within a short time frame the Group reserves the right to refuse new clients or to close existing client accounts.

³ COMMISSION IMPLEMENTING REGULATION (EU) No 775/2014 of 16 July 2014 amending Council Regulation (EC) No 1236/2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment

3.2 Defence and security transactions

BNP Paribas works to contribute to the respect of the United Nations Arms Trade Treaty (ATT) as well as to avoid any complicity with human rights violations in armed conflicts and to mitigate the risks of corruption and money laundering linked to the export of defence and security equipment to countries subject to conflict or instability, or which fail to offer reliable legal guarantees for control of financial transactions. BNP Paribas has established a series of due diligence measures to identify the final destination of this equipment, and the intermediaries involved in their trade.

3.2.1 Exclusion rules

BNP Paribas applies the following exclusion rules for its provision of financial products and services related to the trade of defence and security equipment.

Excluded countries:

BNP Paribas excludes transactions related to export of defence and security equipment to any country:

- Under embargo from the UN, EU, United States or France (covering arms and internal repression equipment);
- Which has been identified by the UN as having committed grave violations against children in armed conflict situations⁴;
- On the Financial Action Task Force (FATF) list of states that show serious shortcomings in legislation designed to combat financing of terrorism or money laundering.

Excluded counterparties:

BNP Paribas excludes transactions related to the trade in defence and security equipment where the risks of corruption or the risk of diversion cannot be managed, i.e.:

- The sale to non-state entities (states or state-controlled companies) outside OECD countries;
- The sale to counterparties, whether private or state-owned, that have a verified, recent history of involvement in deals in violation of UN, EU, United States or French embargoes on arms and international repression equipment.

Excluded equipment:

Certain types of defence and security equipment are unacceptable in themselves, while others can represent unacceptable risks when used without sufficient oversight.

Independently of the countries involved, BNP Paribas excludes transactions involving

- Controversial weapons (as defined in 3.1.1);
- Equipment on the EU list of goods which “have no practical use other than for the purpose of capital punishment, torture or other cruel, inhuman or degrading treatment or punishment”.⁵;

Moreover, where countries with a known record of grave human rights violations are involved, BNP Paribas excludes transactions involving:

⁴ <https://childrenandarmedconflict.un.org/countries-caac/>

⁵ The Commission Implementing Regulation (EU) No 775/2014 of 16 July 2014 amending Council Regulation (EC) No 1236/2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment. The goods listed in Annex II of the document are prohibited from export from the EU.

- Small arms and light weapons and associated ammunitions;
- Services, software, or equipment destined for use in the surveillance of citizens' private communications through internet or other means of telecommunication⁶;
- Equipment on the EU list of goods which *"could be used for the capital punishment, torture or other cruel, inhuman or degrading treatment or punishment"*⁷.

3.2.2 Evaluation rules

Beyond the strict exclusion rules, the decision to approve transactions must be based on a careful evaluation of associated risks.

Therefore, the Group has established a list of sensitive countries where transactions are subjected to a reinforced due diligence process. This list is based on the following criteria:

- countries under restrictive measures;
- countries known for drug production and trafficking;
- the corruption perception index prepared by Transparency International;
- countries with a known record of grave violations of human rights;
- assessment of the regulatory framework regarding prevention of money laundering and the financing of terrorism;
- countries in areas of ongoing conflict according to criteria defined by university research centres recognised for expertise regarding armed conflicts;
- countries currently classified or having been classified in the past as Non-Cooperative Countries or Territories (NCCTs) by the FATF, in the global fight against money laundering and terrorist financing.

This reinforced due diligence is performed by the Compliance Function (Financial Security).

4 Policy implementation mechanisms

BNP Paribas is assisted by external defence sector experts for the analyses required to determine which companies are involved in controversial weapons and equipment, and in the violation of embargoes. This information is reviewed within the Group as appropriate and discussed with the companies concerned.

A list of excluded companies is administered centrally by the Group CSR function and applied by all Group entities. Group entities subject to compliance with fiduciary obligations implement specific approval mechanisms, in compliance with applicable regulations. Any decision to refuse the provision of products and services and/or to refuse to invest in these controversial companies is made by BNP Paribas General Management after a review of the recommendation by the Group's CSR officers. The result of this decision is formal company exclusion.

⁶ on 'Human rights and technology: the impact of intrusion and surveillance systems on human rights in third countries' (2014/2232(INI)) <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A8-2015-0178+0+DOC+PDF+V0//EN>

⁷ The Commission Implementing Regulation (EU) No 775/2014 of 16 July 2014 amending Council Regulation (EC) No 1236/2005, imposes controls on goods that could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment. The goods listed in Annex III of the document are subject to export authorisation requirements.

The BNP Paribas Group Compliance – Financial Security function oversees implementation of this policy for all Group entities, with the help of the CSR function. It leads work groups designed to ensure integration of the consequences of this policy in operational processes. The RISK function, through its Operational Permanent Control teams, also performs scheduled controls of both the effective application of this policy and the required specific procedures framework.

5 Policy disclosure and follow-up

BNP Paribas' stakeholders will be informed of the existence and the content of this policy. The policy will be posted on the BNP Paribas website. Furthermore, a copy will be systematically provided to defence companies as part of the due diligence process or upon discussion of any financial product or services to be provided subsequent to the official release date of this policy. BNP Paribas will review this policy regularly and in the light of prevailing circumstances, may update the policy to ensure consistency with national and international regulations and best practices. BNP Paribas welcomes any constructive feedback and comments on this policy.

6 Disclaimer

In order to comply with regulations and to implement the principles defined in its internal procedures and sector policies, BNP Paribas makes every effort to obtain information, particularly from defence companies, concerning their policies and practices. BNP Paribas uses the information gathered from defence companies and its partners as a basis for decisions. However, the Group remains dependent on the availability and reporting of quality, up-to-date information.

7 Glossary

The following definitions apply for this policy:

- **Anti-personnel mine:** 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 (definition from Ottawa Convention, 1997).
- **Arms Trade Treaty:** the United Nations Arms Trade Treaty (ATT) is a multilateral treaty that regulates the international trade in conventional weapons - from small arms to battle tanks, combat aircraft and warships - with the objective of preventing and eradicating the illicit trade in conventional arms and preventing their diversion. It was adopted by the UN General Assembly on April 2nd 2013 and entered into force on 24 December 2014. **Biological weapon:** Biological weapons are defined in line with the multilateral Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their destruction (1972):

(a) Microbial or other biological agents, or toxins, regardless of their origin or method of production, of types and in quantities that have no justification for prophylactic, protective or other peaceful purposes;

(b) Weapons, equipment or means of delivery designed to use such agents or toxins for hostile purposes or in armed conflict.

- **Chemical weapon:** are defined in line with the multilateral Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (1993):
 - (a) Toxic chemicals and their precursors, except where intended for purposes not prohibited under this Convention, as long as the types and quantities are consistent with such purposes;
 - (b) Munitions and devices or systems specifically designed to cause death or other harm through the toxic properties of those toxic chemical substances specified in subparagraph (a), which would be released as a result of the employment of such munitions and devices;
 - (c) Any equipment specifically designed for use directly in connection with the employment of munitions and devices specified in subparagraph (b).
- **Cluster munitions:** systems and munitions designed to disperse or release explosive sub munitions each weighing less than 20 kilograms, and including these explosive sub munitions (definition from the Convention on Cluster Munitions, 2008).
- **Controversial weapons:** please see section (3.1.1) above.
- **Depleted uranium ammunition:** munitions containing depleted uranium.
- **Financial Action Task Force:** the Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.
- **Internal Repression:** the EU Code of Conduct on Arms Exports defines “Internal Repression” as to “include inter alia, torture and other cruel, inhuman and degrading treatment or punishment, summary or arbitrary executions, disappearances, arbitrary detentions and other major violations of human rights and fundamental freedoms as set out in relevant international human rights instruments, including the Universal Declaration on Human Rights and the International Covenant on Civil and Political Rights.”
- **Internal Repression Equipment:** within the scope of this Policy “Internal Repression Equipment” should be understood as a specific subset of Police and Security Equipment which might be used for internal repression. The EU Code of Conduct on Arms Exports defines “Internal Repression Equipment” as: “equipment which might be used for internal repression [including], inter alia, equipment where there is evidence of the use of this or similar equipment for internal repression by the proposed end-user, or where there is reason to believe that the equipment will be diverted from its stated end-use or end-user and used for internal repression.” There is no definitive list of the types of equipment included in this category, but EU regulations implementing restrictive measures on certain countries sometimes specify a list of equipment covered by an embargo on Internal Repression Equipment.⁸

⁸ For example, see Annex I of COUNCIL REGULATION (EU) No 36/2012 of 18 January 2012 concerning restrictive measures in view of the situation in Syria; or Annex III of COUNCIL REGULATION (EU) No 588/2011 of 20 June 2011 concerning restrictive measures against President Lukashenko and certain officials of Belarus

- **Military equipment:** is defined as all equipment covered by EU Council Common Position 2008/944/CFSP defining common rules governing the control of exports of military technology and equipment as indicated on the most recent Common Military List of the European Union.⁹
- **Nuclear weapon:** a device that is capable of releasing nuclear energy in an uncontrolled manner and which has a group of characteristics that are appropriate for use for warlike purposes (definition from Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean, 1967).
- **Risk of diversion:** the risk of diversion concerns transfers of defence and security equipment to unauthorised users, as well as transfers to authorised users that will use, or are at risk of using the equipment in abusive ways to commit serious violations of human rights. (also see Article 11 of the Arms Trade Treaty)
- **Security and Police equipment:** security and police equipment are the goods and services – including weapons, technology, or training - that enable security and police forces to function. This includes small arms and light weapons, ammunition, riot control equipment, police vehicles, surveillance equipment as well as training that security and police forces receive.
- **Small Arms and Light Weapons (SALW):** small arms include revolvers and self-loading pistols, rifles and carbines, assault rifles, sub-machine guns and light machine guns. Light weapons include heavy machine guns, hand-held under-barrel and mounted grenade launchers, portable anti-aircraft guns, portable anti-tank guns, recoilless rifles, portable launchers of anti-tank missile and rocket systems; portable launchers of anti-aircraft missile systems (MANPADS); and mortars of calibres of less than 100 mm. Also included are the following ammunitions and explosives: cartridges (rounds) for small arms, shells and missiles for light weapons, mobile containers with missiles or shells for single-action anti-aircraft and anti-tank systems, anti-personnel and anti-tank hand grenades, landmines, explosives¹⁰.
- **Weapons:** a weapon is generally defined as being a device for use in attack or defence in combat, fighting, or war. Equipment such as radars, binoculars and unarmed trucks are not considered as weapons.

The above definitions are subject to change when this policy is revised.

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⁹ For the most recent Common Military List of the European Union at the time of publication of this document please see: <http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=OJ:C:2015:129:FULL&from=EN>

¹⁰ Based on <http://www.un.org/Depts/ddar/Firstcom/SGreport52/a52298.html>