



## **CORPORATE SOCIAL RESPONSIBILITY SECTOR POLICY - DEFENSE**

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# Preamble

Within the framework of its formal commitment to Corporate Social Responsibility (CSR), BNP Paribas has defined a policy governing all business activities related to the defence industry and the weapons trade.

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

**Controversial weapons:** these weapons have indiscriminate effects and cause undue harm and injuries. Certain controversial weapons, namely cluster munitions, antipersonnel mines, chemical and biological weapons and nuclear weapons are regulated by international conventions.

**Potential irresponsible use of non-controversial weapons:** the potential for the irresponsible end-use of military, security or police equipment is an important issue in this sector. This is why some countries are subject to international monitoring and subject to international sanctions and specific embargoes on weapons trade.

As a major European financial institution, the Group recognizes 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 organized crime. Illicit weapons trade, in particular trade in small arms, figures at the centre of four of these five threats.

Initiatives at different stages of implementation aim at preventing weapons from being supplied to repressive regimes and/or terrorist groups (embargoes, the EU Code of Conduct on Arms Exports and the Arms Trade Treaty).

BNP Paribas implements strengthened oversight measures to examine transactions involving the most sensitive countries. Until small arms trade has been addressed by an international treaty, the Group's oversight also includes transactions involving small arms.

**Corruption risk:** BNP Paribas also recognizes that international trade in weapons is particularly exposed to the risk of corruption and money laundering. Trade in non-controversial arms may finance dictatorial and/or corrupt regimes and terrorist groups. This is why, in keeping with its commitment to exemplary efforts to fight corruption and money laundering, the Group implements strengthened oversight and control measures. These measures are designed to ensure the traceability of payments, the transparency of commercial and banking intermediaries, knowledge of the destinations of goods and final buyers and the consistency of prices and commissions paid to commercial intermediaries.

BNP Paribas is therefore implementing a CSR policy specific to the defence 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 Defense policy published in December 2010.



# 1. Objective

This policy defines a set of rules and procedures applicable to the activities of all BNP Paribas group entities. These measures address the ethical issues related to the defence sector and establish guidelines for conducting business in a responsible manner.

## 2. Scope

**Geographic scope of application:** all activities of BNP Paribas group entities worldwide.

**Entities concerned:** any company, group, institution, state agency or organization involved in the manufacture, sale, storage or maintenance of weapons (see Glossary for detailed definition of the term “weapons”).

**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 new 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.

**Scope for 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.

## 3. Context and limits of the policy

BNP Paribas expects defence 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 concerning controversial weapons (see the Conventions listed below) and defence exports due in particular to security concerns regarding export entities and recipient states (e.g. embargoes, EU code of Conduct on Arms Exports, operating licences, etc.) as well as the risks of dual use for certain equipment (as defined by existing regulations<sup>1</sup>).

In addition to the compliance with these regulations, this policy sets additional criteria to be respected by defence companies.

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<sup>1</sup> European Council Regulation 428/2009 (including the list of products and materials in appendix 1 <http://trade.ec.europa.eu/doclib/html/143390.htm>).



## 4. Position de BNP Paribas toward « controversial weapons »

“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 weapons;

**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 recognizes the concerns of certain stakeholders concerning depleted uranium munitions.

BNP Paribas does not wish to be involved in the financing of transactions involving “controversial weapons”.

Furthermore, BNP Paribas does not wish to be involved in the provision of financial products and services or investments in companies involved in the manufacture, trade or storage of “controversial weapons”, or any other activity involving controversial weapons<sup>2</sup>.

BNP Paribas considers that a company is involved in the manufacture, trade or storage of controversial weapons when the company:

- produces, buys or sells or stores controversial weapons or components that are specifically designed for these weapons (dedicated components) and which represent a significant constituent 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 subsidiaries of a parent company involved in controversial weapons are also deemed to be involved.

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<sup>2</sup> An exception is made for companies that only contribute to government controlled nuclear weapon programs in NATO countries that are authorized to possess nuclear weapons under the Nuclear Non-Proliferation Treaty.



## 5. Position of BNP Paribas concerning the final destination of weapons and intermediaries involved in buying or selling these weapons

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 weapons and military 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 exclusion and monitoring measures to identify the final destination of weapons and the intermediaries involved in their trade:

BNP Paribas refuses to finance or provide financial services for the export of weapons to any country:

- Under arms embargo from France, the European Union, the United States and the United Nations;
- Which has been accused by the United Nations of grave violations and abuses against children during a conflict.

BNP Paribas refuses to provide financial services for the opaque sale or purchase of weapons where the risk of corruption cannot be controlled. This excludes involvement in:

- the sale of weapons and military equipment to non-state entities (states or state-controlled companies) outside NATO and/or EU countries;
- weapons transactions involving a state on the FATF list of states that show serious shortcomings in legislation designed to combat financing of terrorism or money laundering and whose defence sector is not guaranteed by membership in NATO or the EU.

BNP Paribas believes that mechanisms governing decisions on whether to approve financing must reflect the degree of exposure of different countries to certain risks. The Group has therefore established a list of particularly sensitive countries, based notably on the following criteria:

- countries under restrictive measures;
- countries known for drug production and trafficking;
- the corruption perception index prepared by Transparency International;
- known human rights violations;
- assessment of the regulatory framework regarding prevention money laundering and terrorism financing
- countries in areas of ongoing conflict as defined by criteria defined by university research centres recognized for expertise regarding armed conflicts;



- countries currently classified or having been classified in the past as Non-Cooperative Countries or Territories (NCCTs) by the Financial Action Task Force, in the global fight against money laundering and terrorist financing.

For the “most sensitive countries”, the decision to finance a transaction can only be exceptional. The decision is taken after a reinforced due diligence performed by the Compliance teams, following an escalation process over sighted by the Group Compliance (Financial Security) teams.

This procedure enables BNP Paribas to ensure that it is not providing financial services to fund transactions related to the export or trade in weapons, even if they are not considered controversial, to states that might use these weapons to violate human rights as defined by the international community, or for any other use that cannot legitimately be considered as necessary for security and national defence. This exclusion also applies to weapons such as certain small arms that might not be specifically designed for military use.

The Group performs specific due diligence for intermediaries involved in defence sector transactions. Internal policies governing relationships with new clients and approval of BNP Paribas transactions form the basis of any decisions to enter into these relationships.

BNP Paribas has also taken specific measures to avoid supplying weapons or any form of support for persons or entities designated as terrorists under existing rules and legislation.

For all transactions, BNP Paribas expects defence sector customers and counterparties to adopt a transparent approach to their activities, the structure of their company and their ownership, up to the ultimate level of control. Given the sensitive nature of the defence industry, BNP Paribas is especially vigilant in its review of companies in this sector, particularly unlisted companies.

## 6. 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. This information is reviewed within the Group as appropriate and discussed with the companies concerned.

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 entities. Group entities subject to compliance with fiduciary obligations implement specific approval mechanisms, conform to applicable regulations.

The BNP Paribas Group Compliance 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 Compliance 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.



## 7. 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 will closely monitor the outcomes of negotiations related to the Arms Trade Treaty (ATT). BNP Paribas welcomes any constructive feedback and comments on this policy.

## 8. 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.





## 9. 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:** Arms trade Treaty (ATT) is a future UN Treaty that aims at controlling and regulating the import, export and transfer of conventional weapons. The Treaty has been under negotiation since December 2006 and is expected to be concluded at a UN Conference in 2012.

**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 (4) 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.

**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).



**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 above are subject to change when this policy is revised.

CONTACT : [DEVELOPPEMENT\\_DURABLE@bnpparibas.com](mailto:DEVELOPPEMENT_DURABLE@bnpparibas.com)

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