

# Environmental and Social Framework

Madrid, December 23, 2020

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This English version of the Policy is a translation of the original in Spanish for information purposes only. In case of discrepancy, the Spanish original will prevail

# 1. Introduction

Given that some of our clients operate in sectors with a potential environmental and social impact, we have developed a specific Environmental and Social Framework (hereinafter referred to as the "Framework") as part of our commitment to promote sustainable development and human rights. At BBVA we believe that clients who manage their business responsibly are more successful in the long run. That is why we include environmental and social aspects in the due diligence process in order to take decisions.

The application of this Framework will allow us to better understand our clients' activities, to manage the expectations of our stakeholders (investors, regulators, NGOs, etc.) and to mitigate social and environmental risks.

This Framework, which is voluntary for BBVA, derives from the **BBVA's General Sustainability Policy** and **BBVA's Corporate Social Responsibility Policy**. Its aim is to help to achieve and support the Sustainable Development Goals (hereinafter "SDGs"), to promote the fight against climate change and to strengthen our commitment to human rights.

# 2. Purpose and scope

This document contains the standards of reference, general exclusions applicable to **the mining, agribusiness, energy, infrastructure and defense sectors** and it also sets forth prohibitions in terms of clients and projects specific to each of them.

BBVA has selected these sectors due to their potential impact on nature and communities, and their exposure to the risks of transition to a low carbon economy.

Provisions for the energy, mining, agribusiness and infrastructure sectors apply to the activity of **Corporate & Investment Banking** in all entities of the BBVA Group. Provisions for the defense sector apply to all BBVA Group entities and customer segments.

**For the purposes of this Framework, the general exclusions and prohibited activities** apply to the mining, agribusiness, energy, infrastructure and defense sectors.

In the case of:

- **Clients:** in all cases, they will imply the non-provision of financial services to clients in the defense sector. In other sectors (mining, energy, agribusiness and infrastructure), the situation will be analyzed specifically. As a result, it may be decided not to initiate the relationship, or otherwise to apply corrective measures to be able to resolve the situation, as outlined in the Framework implementation procedure. In general terms, if BBVA has sufficient evidence of a general exclusion, it will not support the provision of financial services to the affected clients.
- **Projects:** if BBVA has sufficient evidence that any of the circumstances described in the prohibited activities or general exclusions apply to a project, it will not take part in that project.

### 3. Framework implementation procedure

BBVA's standard risk, compliance and operations processes and tools include the identification, assessment and monitoring of environmental and social risks of its clients and operations. Decisions are based on internal information or, where appropriate, information provided by independent external analysts. Decisions on human rights issues also take into account the information available in the [UN Guiding Principles Reporting Database](#).

BBVA has a specific internal procedure for the implementation of the Framework, which establishes the process to be followed on environmental and social due diligence, in order to oversee its compliance in the following two areas:

#### 1) Clients

New clients will be assessed to see if the client's activity is in line with this Framework, based on a third party ESG (environmental, social, and governance) analysis, and if so, they will be accepted.

This due diligence process will be updated from time to time as long as the relationship with the client is maintained.

In the case of non-compliance with the Framework, the outcome of this due diligence process will be taken into account in the clients' financial programs.

#### 2) Transactions

Compliance with this Framework in the case of transactions with a client is covered by the due diligence process for the client, with the exception of transactions directly related to a specific project or defense activity. These latter transactions will be assessed on a case by case basis and compared to industry good practices to analyze that none of the general exclusion criteria exist and that they are not intended for the prohibited activities defined for each sector. The outcome will be negative if an exclusion or prohibition is identified, and BBVA will not take part in the transaction.

## 4. International standards of reference

BBVA expects its clients to do business under industry-leading standards and best practices in the geographies in which they operate, and particularly in the environmental and social aspects.

In addition to the industry standards and recommendations mentioned in each sector, BBVA observes the following declarations, conventions and initiatives, within its responsible banking framework:

- Universal Declaration of Human Rights
- United Nations 2030 Agenda for Sustainable Development Goals (SDG)
- Paris Agreement of the United Nations Framework Convention on Climate Change
- International Labor Organization (ILO) Conventions
- United Nations Manifesto for a Global Economic Ethic
- United Nations Global Compact (UNGC)
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Global Reporting Initiative
- Carbon and Water Disclosure Project
- UNEP FI Statement on Sustainable Development and Positive Impact Initiative
- IFC Performance Standards and Environmental, Health and Safety Guidelines
- Equator Principles
- Principles for Responsible Investment (PRI)
- Green and Social Bond Principles
- Sustainability Linked Bond Principles
- Green Loan Principles
- Sustainability Linked Loan Principles
- Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
- UNEP-FI Principles for Responsible Banking
- Collective Commitment to Climate Action in the financial sector
- Science-Based Targets
- 2 Degrees Investing Initiative

## 5. General exclusions

BBVA will not support the provision of financial services to clients or projects, subject to section 2 of this Framework, when it has sufficient evidence that one of the following cases applies:

- Companies about which BBVA has sufficient evidence that they violate applicable human rights laws and regulations, or are involved in human rights abuses, regardless of whether such involvement violates local legislation in each country.
- Activities in which BBVA has sufficient evidence that child or forced labor—as these concepts are defined in the ILO Conventions—are being used.
- Projects involving resettlement or violation of the rights of indigenous or vulnerable groups without their free, prior and informed consent (FPIC).
- Projects that put UNESCO World Heritage sites, Ramsar-listed wetlands, Alliance for Zero Extinction sites, and International Union for Conservation of Nature category I-IV sites at risk.
- Companies subject to financial sanctions by the EU, the US and the United Nations<sup>1</sup>.

## 6. Development and approval

The Global Sustainability Office is responsible for developing and coordinating this Framework. The Office validates the Framework and submits it to the Head of Corporate & Investment Banking for its approval.

This Framework was adopted on December 23, 2020. This version of the Framework reflects the trends in sustainability, social and environmental risks, and stakeholder expectations (investors, regulators, NGOs, etc.) at the time it was prepared. Future revisions of the document will address these issues, along with best practices and industry standards.

Once a year, or whenever any event occurs that requires changes to this Framework, the Global Sustainability Office will review it and submit any updates and modifications deemed necessary or appropriate at any given time to the Head of Corporate & Investment Banking for them to be taken into account.

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<sup>1</sup> International financial sanctions are coercive measures against States, non-State entities or individuals that pose a threat to international peace and security. Chapter VII of the United Nations Charter provides the legal basis for the imposition of coercive measures within the United Nations. At EU level, restrictive measures are defined as a key tool of the Common Foreign and Security Policy (CFSP) under Article 21 of the EU Treaty. The U.S. Treasury Department, and in particular the Office of Foreign Assets Control (OFAC), enforces and administers economic sanctions against certain countries, jurisdictions, individuals and institutions in order to protect national security and U.S. foreign policy.

## 7. Mining sector provisions

Objective scope: mining.

Subjective scope:

Clients: Companies or groups that hold mining assets and which explore, develop or exploit such assets.

Projects: new developments and/or expansion of existing projects, covering the phases of mine planning and development, operation, in situ processing of extracted minerals, mine closure and restoration.

### 7.1. Background

The mining sector is one of the most important industries as it produces resources and raw materials which can be used to develop the economy and communities, and also accounts for a large fraction of several countries' income.

Exploration of mineral resources is expanding into new areas as the world's population and economy grow, increasing the likelihood of impacts on the environment and local communities. Mining is also a key sector for the transition to a low-carbon economy, as it can provide the mineral resources needed for innovation and renewable energy storage systems.

More and more metals now come from recycling and business models based on the circular economy, but it is still necessary to explore and develop the primary sources of minerals.

### 7.2. Client best practices

BBVA expects its clients to be able to:

- Maintain health and safety records of their employees and/or areas of influence
- Disseminate or provide information on their performance related to water use, waste and greenhouse gas emissions
- Make sufficient commitments to manage environmental and social aspects under the best industry practices and standards
- Have a transition policy towards sustainability

### 7.3. Mining standards and industry best practices

At the time this Framework was issued, BBVA considers industry best practices, international standards and treaties such as:

- International Finance Corporation (IFC) environmental, health and safety guidelines specific to the sector
- Principles of the International Council on Mining and Metals (ICMM)

- Extractive Industries Transparency Initiative (EITI)
- Voluntary Principles on Security and Human Rights (Voluntary Principles)
- International Labor Organization (ILO) in the C 176 Safety and Health in Mines Convention (1995)
- OECD Due Diligence Guidance for Responsible Supply Chains of minerals from Conflict-Affected and High Risk Areas relative to tin, tantalum, tungsten, their ores and mineral derivatives and gold
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposals
- Kimberley Process Certification Scheme
- World Nuclear Association Sustaining Global Best Practices in Uranium Mining and Processing
- Minamata Convention on Mercury
- International Cyanide Management Code
- International Seabed Authority Mining Code
- Bettercoal Code

## 7.4. Prohibited activities

BBVA will not support the provision of financial services to clients or projects, subject to section 2 of this Framework, when it has sufficient evidence that clients and/or projects are involved in the following activities:

### Clients

- Producers for whom there is evidence of controversies related to Mountaintop Removal mining (hereinafter MTR)
- Clients where an important part of their activity (more than 25%) consists of the extraction of coal for energy generation, and where they do not have a diversification strategy
- Companies for whom there is evidence of controversies related to artisanal or small-scale mining

### Projects

- New coal mines or expansion of coal mines
- Mountaintop Removal (MTR) methods
- Artisanal or informal mining
- Extraction, processing and marketing of asbestos
- Mines without site closure and recovery plans
- Mines without occupational health and safety management plan



- Mines with tailings dams not managed according to industry best practices
- Projects that dispose of tailings in coastal or shallow waters
- Seabed mines
- Mines in areas of armed conflict

Exceptions may be made for existing mines or expansion of coal mines using Mountaintop Removal (MTR) methods and clients with a significant proportion of activities consisting of coal extraction (more than 25%) and no diversification strategy, in countries with a high energy dependency (more than 65% of energy imported) or no viable alternatives. BBVA will report on such projects or financed clients on a consolidated basis and the total limit will not be increased.<sup>2</sup>

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<sup>2</sup> The information will be aggregated (volume and country). Project and client names will not be disclosed for confidentiality reasons in the finance agreements.

## 8. Agribusiness sector provisions

Objective scope: agriculture, livestock and fisheries.

Subjective scope:

Clients: companies or groups whose main activity is the cultivation and production of agricultural, forestry, livestock and fishing products, in particular high impact products such as palm oil, soy, cocoa, coffee, cotton, tobacco, intensive aquaculture and forest products.

Projects: new developments and/or expansion of existing projects which include the production and/or processing phases of agricultural, forestry, livestock and fisheries products.

This Framework includes activities related to land cultivation, forest management, livestock and fisheries. Agricultural products may be food-related (cereals, fruits, fish, etc.) or not food-related (cotton, wool, wood, etc.).

Activities not covered by this Framework:

- manufacture or distribution of agricultural machinery, pesticides and fertilizers;
- manufacture of processed food and beverages
- food and beverage distribution

### 8.1. Background

Agriculture, forestry, livestock and fisheries cover people's primary needs, are an important source of income and provide a livelihood for millions of people. Investing in agriculture is one of the most effective strategies for improving food security and promoting sustainability.

This industry is also a vital source for food, and is of increasing importance for other sectors such as the production of consumer goods (palm oil), the textile industry (cotton) and construction (wood).

However, strong and growing demand for such products, exacerbated by population growth, puts pressure on the environment and local communities, and this is a phenomenon which requires careful consideration.

### 8.2. Client best practices

BBVA expects its clients to be able to:

- Implement recognized sustainability certification standards and processes in their industry
- Make sufficient commitments to manage environmental and social aspects under the best industry practices and standards

### 8.3. Agricultural standards and industry best practices

At the time this Framework was issued, BBVA considers industry best practices, international standards and treaties for the agricultural sector such as:

- International Finance Corporation (IFC) environmental, health and safety guidelines specific to the sector
- The FAO's Code of Conduct for Responsible Fisheries and Fisheries Management: The Ecosystem Approach to Fisheries, Technical Guidelines for Responsible Fisheries
- The Aquaculture Stewardship Council
- Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (FAO, IFAD, UNCTAD and World Bank)
- Voluntary Guidelines on Responsible Governance of Tenure of Land, Fisheries and Forests (FAO, 2012)
- Agreement to Promote Compliance with International Conservation and Management Measures by Fishing Vessels on the High Seas (FAO)
- The UN Resolutions pertaining to sustainable fisheries (including ban on drift nets)
- The WWF 2050 Key Performance Criteria
- Convention on Biological Diversity (1992) and the Nagoya protocol (2010)
- Cartagena Protocol on Biosafety
- Stockholm Convention on Persistent Organic Pollutants (POPs)
- FAO-OECD Guidance for Responsible Agricultural Supply Chains
- The Global Roundtable for Sustainable Beef (GRSB) and Standards Cattle Production System (SCPS)
- Assured Food Standards (AFS)
- Global Good Agricultural Practice (GAP)
- Sustainable Agriculture Practice Standard and Sustainable Agriculture Initiative Platform

### **Palm oil**

- Roundtable on Sustainable Palm Oil (RSPO)
- RSPO Principles and Criteria for Responsible Palm Oil Production

### **Soybeans**

- Roundtable on Responsible Soy Association (RTRS)
- Basel Criteria for Responsible Soy Production
- CGF Sustainable Soy Sourcing Guidelines

### **Coffee, Tea, Cocoa, Sugar, Cotton**

- Common Code for the Coffee Community (4C)
- Tropical Commodities Coalition for Sustainable Tea Coffee and Cocoa (TCC)

- Ethical Tea Partnership (ETP)
- World Cocoa Foundation (WCF)
- Rainforest Alliance Sustainable Agriculture Standard (SAN)
- UTZ Certified
- Bonsucro
- Better Cotton Initiative

### **Timber**

- Forest Stewardship Council (FSC) Certification
- Program for the Endorsement of Forest Certification (PEFC)
- FSC Chain of Custody Certification

### **Tobacco**

- World Health Organization (WHO) Framework Convention on Tobacco Control

## **8.4. Prohibited activities**

BBVA provides services to the productive and commercial agents that form part of the agricultural production chain, but it will not support the provision of financial services to clients or projects, subject to section 2 of this Framework, when it has sufficient evidence that clients and/or projects are involved in the following activities:

### **Clients**

- Clients for whom there is evidence of controversies related to the production or trade of substances subject to international prohibitions
- Clients engaged in the production, processing and marketing of palm oil through companies that are not members or are not in the process of becoming members of the Roundtable for Sustainable Palm Oil (RSPO)
- Clients engaged in non-health related animal testing
- Clients for whom there is evidence of controversies related to the production or trade of products regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

### **Projects**

- Burning of natural ecosystems to clear land for the development of agricultural projects
- Clearing of High Conservation Value and High Carbon Forests
- Production of first generation biofuels

- Use of substances prohibited by the Stockholm Convention, listed in Annex III to the Rotterdam Convention, WHO Class 1A or 1B or listed in the SIN list
- Exploitations of palm oil not certified or in process of certification by the Roundtable on Sustainable Palm Oil (RSPO)
- Palm oil exploitation in swamps and peat-rich areas
- Vessels operating with drift nets longer than 2.5 km or using drift nets intended for the capture of species listed in Annex VIII of EU Regulation 1239/98
- Deep Sea Bottom trawling (deeper than 600 m below sea level)

Exceptions may be made for the production of first-generation biodiesel in countries with high energy dependence (more than 65% of imported energy) or without viable alternatives. BBVA will report on such projects or financed clients on a consolidated basis and the total limit will not be increased.<sup>3</sup>

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<sup>3</sup> The information will be aggregated (volume and country). Project and client names will not be disclosed for confidentiality reasons in the finance agreements.

## 9. Energy sector provisions

Objective scope:

- exploration, production, transport and refining of oil and gas
- renewable energy projects: wind, solar, hydroelectric, biomass and biofuels
- thermal power generation plants (gas combined cycles and coal plants)
- nuclear power plants
- electrical transmission and distribution

Subjective scope:

- Clients: Companies or groups that own energy assets that represent a significant part of their total assets and take part in the exploration, development or exploitation of those assets
- Projects: New projects, acquisitions and expansions of energy exploration, development, generation or transmission projects

### 9.1. Background

The energy sector plays an important role in economic well-being and development. For communities to develop, they must have secure and affordable access to energy. However, some activities can potentially have a negative impact on the environment and local communities. This is why strict regulation, the application of best practices and the transition to a low-emission energy model, which BBVA strongly supports, are necessary.

**Oil and Gas:** although their relative weight in the global energy mix is going down, industry continues to explore and develop new assets in an increasingly challenging setting, whether due to applied technology (fracking) or a remote and challenging operating environment (deep water) or in countries which are institutionally weak or in conflict.

**Thermal power generation:** thermal generation technologies with fossil fuels contribute to the stability of electrical systems when production from renewable sources is low. However, they have potential environmental and social impacts, particularly their contribution to climate change. While coal-fired power plants are the most emission-intensive, natural gas plants are conceived as a transitional technology to a low-carbon energy mix.

**Renewable energy:** this is the cleanest form of energy generation. However, renewable energies also have environmental and social impacts, particularly large-scale water projects, which, despite their important contribution to renewable energy supply, flood control and water supply, can have a negative environmental impact on their surroundings.

## 9.2. Client best practices

In its strategy to promote a more sustainable energy model, BBVA expects its clients to be able to:

- Maintain health and safety records of their employees and/or areas of influence
- Have standards and processes in place for the cleanup of discharges in high sea operations and spills in off-shore operations
- Make sufficient commitments to manage environmental and social issues under the best industry practices and standards.

BBVA supports power companies in their transition to more sustainable energy sources and in reducing their greenhouse gas (GHG) emissions. Clients are encouraged to adopt an energy transition strategy that defines GHG emission reduction goals, targets for investment in renewable energy or increasing low-carbon energy sources in the generation mix, and pledges not to increase coal-fired power generation capacity.

## 9.3. Energy standards and industry best practices

At the time this Framework was issued, BBVA considers industry best practices, international standards and treaties for the energy sector such as:

- IFC environment, health and safety guidelines specific to the sector
- Extractive Industry Transparency Initiative (EITI)
- International Petroleum Industry Environmental Conservation Association (IPIECA)
- Petroleum Governance Initiative
- Global Gas Flaring Reduction Initiative
- International Energy Agency (IEA) Golden Rules
- The International Convention for the Prevention of Pollution from Ships (MARPOL)
- Oil Spill Response Project
- World Commission on Dams (WCD) Framework
- International Hydropower Association Sustainability Assessment Protocol
- Energy and Biodiversity Initiative (EBI)
- Bettercoal Code
- The Roundtable on Sustainable Biomaterials (RSB) Principles and Criteria

## 9.4. Prohibited activities

BBVA will not support the provision of financial services to clients or projects, subject to section 2 of this Framework, when it has sufficient evidence that clients and/or projects are involved in the following activities:

### Clients

- Clients with significant coal-fired power generation (over 25%) and without a diversification strategy
- Clients involved in the construction and operation of nuclear power plants or uranium enrichment facilities in countries sanctioned for this purpose by the United Nations, the European Union or the United States
- Clients involved in any activity related to tar sands without a diversification strategy and where this activity represents more than 10% of its total production

### Projects

- New nuclear power plants
- New coal-fired power plants and expansion of existing power plants
- Arctic exploration, production and transport of oil and gas projects
- Exploration, production and transport of tar sands
- Single hull oil transport vessels
- Large dams that are not built under the World Commission on Dams framework
- New hydroelectric plants without adequate environmental and social risk management systems in relation to dam safety, environmental impact, labor regulations and population resettlement.
- Oil and gas extraction operations in areas of armed conflict

Exceptions may be made for existing and under-construction coal and nuclear plants, and coal-based power generation clients (with over 25% coal-based) with no diversification strategy, in countries with a high level of energy dependency (over 65% of energy imports) or no viable alternatives. BBVA will report on such projects or financed clients on a consolidated basis and the total limit will not be increased.<sup>4</sup>

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<sup>4</sup> The information will be aggregated (volume and country). Project and client names will not be disclosed for confidentiality reasons in the finance agreements.



## 10. Infrastructure sector provisions

Objective scope:

- transportation: highways, ports, terminals, airports, metro, tram and rail
- environmental: waste and water management (treatment, management and distribution)
- social: education and health
- telecommunications: cables and communication networks

Subjective scope:

Clients: Companies or groups that have infrastructure and/or participate in the construction operation and exploitation of those infrastructure assets.

Projects: New developments and/or expansion of existing projects, covering the planning, construction, acquisition, operation and maintenance phases of infrastructure assets.

### 10.1. Background

As the world's population grows and living standards rise, the world faces an increasing demand for the development and expansion of infrastructure—such as transport and telecommunications networks or waste management facilities—to support and enable this growth. In cities, infrastructure investment is crucial in the shift toward the smart city model.

BBVA focuses its efforts on making the construction and operation of infrastructure compatible with sustainable development. This Framework is aligned with SDG 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation. We therefore aim to finance the development of reliable, sustainable and quality infrastructure to support economic development and human well-being, with a special emphasis on affordable and equitable access for all.

#### Transport

It is an essential sector for trade growth, economic development and the opening up of territories, allowing the efficient movement of people and goods, including goods that are considered hazardous, such as oil or chemicals. At the same time, developing new transport infrastructure assets and the modernization and improvement of existing ones means that in many cases there is less consumption of fossil fuels and a fall in greenhouse gases. Urban transport infrastructure is particularly important when it comes to creating cities with better public transport and a healthier environment.

#### Environmental: water infrastructure and waste management

Fresh water is a finite and vulnerable resource, essential to sustain life, development and the environment. Demand is increasing due to population growth and urbanization, and to the growing needs of agriculture, industry, energy and households, producing water stress situations and impacts such as desertification, aquifer depletion and droughts. To avoid these situations, the SDGs set the goal of achieving universal access to affordable drinking water and adequate sanitation and hygiene services by 2030.

Recognizing the magnitude of the challenge of water scarcity, we encourage our customers to implement technically and financially feasible measures to reduce water consumption when operations or projects are water intensive, and to avoid the release of effluents or, when not possible, minimize and manage their impact.

Waste management is an essential industry to reduce the consumption of raw materials, avoid pollution and progress toward a circular economy model. In this great opportunity for our planet and humanity, the SDG have set goals for 2030 to encourage businesses to adopt sustainable practices, and to significantly reduce waste generation through prevention, reduction, recycling and reuse activities.

### **Social: educational and health infrastructure**

Achieving quality education is key to improve people's lives and sustainable development. In line with the SDG 4 to "ensure inclusive, equitable and quality education and promote lifelong learning opportunities for all," BBVA supports projects to advance the goal of building and adapting educational facilities that take everyone's needs into account and to offer safe, inclusive and effective learning environments for all.

Ensuring a healthy life and promoting well-being for all at any age is essential to sustainable development. BBVA is committed to delivering on SDG 3, which is "ensuring a healthy life and promoting well-being for all ages," and it supports projects and businesses that contribute to universal access to essential health services and affordable, quality medicines for all.

### **An opportunity for everyone**

We recognize that the infrastructure sector faces potential environmental and social challenges, particularly large transport infrastructure. Properly managed, infrastructure is an essential element for economic development, environmental conservation and social well-being. BBVA works to identify and support business opportunities in the infrastructure sector, to achieve the SDG goals in health, education, water, infrastructure and cities.

## **10.2. Client best practices**

BBVA expects its clients to be able to:

- Maintain health and safety records of their employees and/or areas of influence.
- Provide information on their performance related to water use, waste and GHG emissions
- Make sufficient commitments to manage environmental and social issues under the best industry practices and standards

### 10.3. Infrastructure standards and industry best practices

At the time this Framework was issued, BBVA considers industry best practices, international standards and treaties for the infrastructure sector such as:

- International Finance Corporation (IFC) environmental, health and safety guidelines specific to the sector
- OECD Framework for Better Governance of Infrastructure
- World Commission on Dams (WCD) Framework
- United Nations Environment Program (UNEP) Dams and Development Project
- Building Research Establishment Environmental Assessment Method (BREEAM)
- Leadership in Energy and Environmental Design (LEED)
- The United Nations Model Recommendations on the Transport of Dangerous Goods

### 10.4. Prohibited activities

BBVA will not support the provision of financial services to clients or projects, subject to section 2 of this Framework, when it has sufficient evidence that clients and/or projects are involved in the following activities:

#### Projects

- Dams that are not built under the Framework of the World Commission on Dams (WCD)
- Facilities not complying with the Hong Kong Ship Recycling Convention
- Desalination plants that lack adequate measures to mitigate the impact of brine removal and/or extraction of sea water

# 11. Defense sector provisions

Objective scope: defense

Subjective scope: clients<sup>5</sup> and transactions<sup>6</sup> involved in the manufacture, marketing or maintenance of defense material<sup>7</sup>.

## 11.1. Background

BBVA recognizes the right of countries to defend themselves and consequently to develop, produce and possess weapons. However, BBVA considers that certain activities or products related to the defense industry are not aligned with its business principles and standards.

## 11.2. Industry standards and best practices

At the time this Framework was issued, BBVA considers industry best practices, international standards and treaties for the defense sector such as:

- United Nations Arms Trade Treaty (2014)
- Treaty on the Non-Proliferation of Nuclear Weapons (NPT) (1970)
- Geneva Protocol for the Prohibition of the Use in War of Asphyxiating, Poisonous or Other Gases and of Bacteriological Methods of Warfare (1925)
- Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction (1997)
- Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction (1972)
- Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (1993)
- Convention on Cluster Munitions (2008)
- Council Common Position 2008/944/CFSP (2008)

## 11.3. Prohibited activities

BBVA will not support the provision of financial services to clients, subject to section 2 of this Framework, when it has sufficient evidence that clients or their transactions are involved in the following activities:

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<sup>5</sup> In relation to this Framework, clients will be considered to be defense and security companies, or any company, institution, state agency or organization involved in the manufacture, trade or maintenance of defense and security equipment.

<sup>6</sup> For the purposes of this Framework, transactions cover any transaction involving clients and/or defense material.

<sup>7</sup> For the purposes of this Framework, defense material will be understood to be any material defined by the United Nations and the European Commission as a conventional weapon (including components, ammunition, spare parts, operation and maintenance) and dual-use materials (for civilian use that may be applied to military use).

## Clients

- Companies that sell arms to countries or groups subject to arms embargoes imposed by the United Nations, the European Union or the United States.
- Manufacturers of controversial weapons<sup>8</sup> and their key components: anti-personnel mines, biological and chemical weapons, cluster munitions, depleted uranium and white phosphorus munitions and nuclear weapons.
- Companies involved in the manufacture or commercialization of nuclear weapons or their components in countries that are not signatories or in breach of the Non-Proliferation Treaty.
- Manufacturers of military assault weapons for civilian use.
- Companies that are not in possession of the relevant export license.

## Transactions

- Arms trade operations in countries sanctioned with arms embargoes imposed by the United Nations, the European Union and the United States.
- Arms trade operations in countries at high risk of human rights violations.
- Trading operations with intermediaries or where the end user is not a public organization (police and armed forces, defense departments, defense companies).
- Production and trade of controversial weapons and their key components: anti-personnel mines, biological weapons, chemical weapons, cluster munitions, nuclear munitions, white phosphorus munitions and depleted uranium munitions.

Specifically in the management of own and client funds, BBVA will not invest its own funds or those of its clients in any activity related to controversial weapons or directly in bonds issued by countries subject to arms embargoes imposed by the United Nations Security Council, the European Union and the United States. This prohibition also applies to third-party funds marketed by BBVA.

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<sup>8</sup> In the definition of controversial weapons (anti-personnel mines, biological weapons, chemical weapons, cluster weapons, nuclear weapons, depleted uranium munitions and white phosphorus munitions), BBVA applies the criteria of the following international conventions:

- Anti-personnel mines: as defined in the convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction (1997);
- Biological weapons: as defined in the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction (1972);
- Chemical weapons: as defined in the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (1993);
- Cluster weapons: as defined in the Convention on Cluster Munitions (2008);
- Depleted uranium and white phosphorus munitions: as defined by the independent external adviser which prepares defense exclusion lists for BBVA, in the absence of international agreements and legal frameworks governing their use.
- Nuclear weapons: BBVA will not invest or provide financial services to companies directly involved in the development, production, testing or maintenance of nuclear weapons in countries that have not signed the Non-Proliferation Treaty (NPT) or in countries that do not comply with the NPT. Nuclear weapons are considered controversial because of the potential impact on the civilian population and their indiscriminate nature when used, but are not prohibited by international law. The NPT strictly regulates and oversees the ownership, production, proliferation and use of nuclear weapons. As part of this treaty, it is accepted that China, France, Russia, the United Kingdom and the United States may produce and possess nuclear weapons.

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