POSITIVE IMPACT COVERED BOND FRAMEWORK

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POSITIVE IMPACT COVERED BOND FRAMEWORK

1. INTRODUCTION

In September 2015, the UN General Assembly formally established 17 Sustainable Development Goals (SDGs) to be addressed by 2030, which effectively provide a common framework for public and private stakeholders to set their agendas and define their policies and strategies over the next 15 years.

1.1 Positive impact Finance Initiative

A new approach to business and finance to achieve the SDGs

The Positive Impact initiative by the United Nations Environment Programme Finance Initiative (UNEP FI), which brings together 52 financial institutions worldwide, aims at bridging the gap of financing the Sustainable Development Goals (SDGs) set by the United Nations. USD 5-7 trillion a year until 2030 are needed to realize the SDGs worldwide, including investments into infrastructure, clean energy, water and sanitation and agriculture.

As such, the Positive Impact Manifesto[1] was published at the end of 2015, followed by the Positive Impact Principles[2] at the beginning of 2017. These publications have defined Positive Impact Finance as applying to every activity verifiably producing a positive impact on at least one of the sustainable development pillars (economic convergence, populations' basic needs, the environment) while ensuring that the potential negative impacts have been identified and properly managed.

By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenges of financing the SDGs.

Principles for Positive Impact Finance

The Principles are applicable to all forms of financial institutions and financial instruments. By jointly considering the three pillars of sustainable development and by basing themselves on an appraisal of both positive and negative impacts, they propose a holistic approach to sustainability issues. In doing so the Principles build on and complement valuable existing frameworks such as the Green Bond Principles (instrument-specific), the Principles for Responsible Investment (sector-specific), the Equator Principles (risk focused), among others, to provide a broad, common framework to achieve the financing of sustainable development.

[1] https://www.unepfi.org/positive-impact-manifesto/
[2] https://www.unepfi.org/wordpress/wp-content/uploads/2017/01/POSITIVE-IMPACT-PRINCIPLES-AW-WEB.pdf

1.2 Societe Generale, a consolidated Sustainable and Positive Impact finance offering

With the conviction that this concept reflects the reality of economic life (taking into account any negative impacts that must be remedied when they cannot be avoided) and that, far from counteracting other initiatives launched in the market under different names, it aims to be all-encompassing, Societe Generale is **a founding member of the UNEP-FI "Positive Impact Finance Initiative"** since 2015, and a core member of the UNEP-FI working group defining "Banking Principles".

Societe Generale has decided to promote its efforts under the development of a consolidated « Sustainable and Positive Impact Finance » proposition, whose objective is to develop and diversify a range of products and services by introducing more structuring expertise and advice on impact analysis and measurement, whilst incorporating the UN's 17 Sustainable Development Goals.

In 2018, the total amount of Sustainable & Positive Impact Finance was EUR 11.9 billion, of which:

- Positive Impact Finance (as defined by UNEP-FI) of EUR 5.1 billion, representing a 8.5-fold increase since 2012
- 'Green' financing of EUR 6.5 billion
- 'Social/ Societal' financing of EUR 5.4 billion

In addition, Societe Generale Group was the first French bank to issue benchmark bonds aligned with both the ICMA Green Bond Principles and the UNEP FI's Positive Impact Finance guidelines:

- Societe Generale has issued two Positive Impact Bonds of EUR 500 million each in 2015 and 2016
- Societe Generale Taïwan issued a Positive Impact Formosa Bond in 2018
- Societe Generale's leasing car subsidiary ALD issued in 2018 a EUR 500 million Positive Impact Bond financing the growth of the green fleet - certified by the Climate Bond Initiative

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Societe Generale Group's primary focus, under this Positive Impact Covered Bond framework, is to finance/refinance green residential mortgages via the issuance of Positive Impact Covered Bonds by its subsidiary Societe Generale Societe de Financement de l'Habitat (SG SFH).

Should the scope of the framework be modified for future issuances, the changes made will be documented in an updated Positive Impact Bond Framework and published accordingly on Societe Generale Group's website.

2. SOCIETE GENERALE GROUP'S COMPREHENSIVE CLIMATE STRATEGY

Environmental challenges, especially the fight against global warming and the preservation of biodiversity, are driving a profound shift toward a low-carbon economy that embraces the sustainable management of natural and biological resources for the benefit of future generations. At the 2015 Paris Agreement on climate change, Societe Generale took the commitment to keep its activities in line with the goal of limiting global warming to 2°C and to contribute to zero emissions. At the center of relations between economic stakeholders, Societe Generale has defined a comprehensive climate strategy to support its clients through this transformation by offering adapted products and services and keeping its own emissions under control.

2.1 Fight against climate change

Scaling back carbon-heavy investments

Societe Generale has stopped financing the development of coal mines, coal-fired plants and associated infrastructure around the world and no longer finances oil sands production and oil drilling in the Arctic. Most recently Societe Generale announced its decision to cease offering financial services and products to client companies whose activity in thermal coal represents 50% or more, and for those where thermal coal represents 30-50% if they do not have a reduction strategy in place.

Reducing the environmental impact of energy activities financed by the Bank

Societe Generale is conscious of the fact that the projects it finances can have negative impacts on the environment and has defined rules to limit these impacts. As part of its corporate financing activity, the Group has for the past three years been evaluating the carbon footprint (indirect emissions) of its balance sheet commitments. In the oil and gas sector, the Bank requires its clients to apply the best practices in order to limit greenhouse gas emissions (methane and carbon dioxide) and other environmental and social impacts associated with production activities.

Managing the risks associated with climate change and supporting our clients

Societe Generale is putting in place a risk management process for the risks associated with climate change so as to evaluate and control them through an analysis methodology developed with the UNEP-FI and the 2°C Investing Initiative (2DII). This method measures the extent to which the Group's portfolio is aligned regarding the sectors most exposed to fossil fuel extraction (oil, gas and coal) for electricity generation, automotive production, and four other carbon-intensive sectors (namely steel, cement, aviation and maritime transport).

Limiting our own Carbon footprint

Like any company, Societe Generale generates an environmental impact through its activities. Conscious of its responsibility, the Bank has made two major commitments to better manage its environmental impacts: reduce its carbon footprint per occupant by 25% from 2014 levels by 2020; improve the energy efficiency of the Group's buildings by 20% between 2014 and 2020. An innovative Internal Carbon Tax Programme launched in 2012 has led to tangible results: carbon footprint per occupant reduced by 13% and the energy efficiency of our buildings improved by 16% from 2014 levels.

2.2 Supporting the energy transition of our clients

In our wholesale activities

Societe Generale set the objective of mobilizing €100bn between 2016 and 2020, consisting of €15bn for renewable energy financing and consultancy and €85bn for green bond issues arranged or jointly-arranged by Societe Generale. As at April 2019, a total amount of €78bn has been reached.

In our Retail Banking activities:

Developments were also undertaken to support the energy transition of our Retail clients. New offers have been developed via our partnerships with Econocom and by Franfinance, our subsidiary specialized in leasing, and to facilitate the access to energy-efficient solutions and promote energy renovation. Boursorama, our online banking subsidiary, has created, on its side, a financing offer dedicated to eco-responsible projects with a discount on applicable rates.

2.3 Sustainable Cities, a strong axis of our strategy

The ambition of Societe Generale Group is to contribute to cities offering the best possible services for the common good. Our real estate activities are covered by this axis of our strategy.

With this respect, Sogeprom, the Group’s property development subsidiary, which benefits from 45 years of experience, has defined an ambition to rethink real estate. Its focus is clearly to build, via innovative partnerships, the sustainable city of the future, which places the citizen as a core actor and includes sustainable technology and energy solutions. Its building, Ampère e+, was awarded by the Green Solutions Awards 2017 in the Smart Building category, during the COP 23. Sogeprom is also pioneering a life-cycle approach of the building sector, with the conception of recycling solutions for the building materials.

Within Societe Generale’s Retail banking activities in France, a team dedicated to the Greater Paris project was created in order to build, in cooperation with local authorities, the city of the future around the sustainable city concept. The objective is also to promote bank financing of Small and Medium Enterprises in Greater Paris.

In addition, Societe Generale was selected by the leading company in mid-range housing in Île-de-France to support the development of the housing offer in areas under pressure. The operator is developing an offer aimed at the middle classes, whose resources exceed social housing thresholds but are insufficient to access the open housing market. It aims to create 80,000 mid-range housing units in Île-de-France by 2025, with the objective to meet the major challenges of eco-housing, urban renewal and social diversity in sustainable cities.

The Sustainable Cities line of action is also being developed through high-impact projects outside of France and through the definition of sustainable mobility solutions, notably via our car leasing subsidiary: ALD Automotive[3].

[3] More information is available regarding Societe Generale Group's overall sustainability strategy in the Chapter 5 of our Registration Document (https://www.societegenerale.com/sites/default/files/documents/Document%20de%20r%C3%A9f%C3%A9rence/2019/ddr-2019_societe-generale_eng_version.pdf)

3. APPLICATION OF THE PRINCIPLES FOR POSITIVE IMPACT FINANCE 2017

In alignment with the UN Environment Program Finance Initiative's Principles for Positive Impact Finance (2017) and the ICMA's Green Bond Principles (2018)[4] and with the intention of being aligned with the upcoming European regulation, this Framework is presented through the following key pillars:

1. Definition
2. Frameworks
3. Assessment
4. Transparency

3.1 DEFINITION

PPIF #1: Positive Impact Finance is that which serves to finance Positive Impact Business
It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated. By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenge of financing the Sustainable Development Goals (SDGs)

Positive Contribution

Societe Generale's objective is to work on all levels possible to implement its global ambition and to scale up the Bank's actions across all its clients. This includes the Sustainable Cities axis of its strategy and notably its development in the retail businesses, which include residential mortgages activity in France ("*Prêts Personnels Immobiliers* (PPI)"). The definition of this Positive Impact Covered Bond Framework is aligned with this ambition, its scope being to cover a portfolio of **residential mortgages** selected for their clear **positive contribution to Climate** and their support to the transition to a low carbon future.

[4] https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

<u>Direct response to SDGs</u>

The Positive Impact Covered Bonds, issued under this framework, will contribute to achieving the following United Nations Sustainable Development Goals: “Affordable and Clean Energy” (SDG 7) and “Climate Action” (SDG 13).

SDG	Targets
7 AFFORDABLE AND CLEAN ENERGY	**7.3** By 2030, double the global rate of improvement in energy efficiency
13 CLIMATE ACTION	UN SDG 13 consists in taking urgent action to combat climate change and its impacts. Financing Renewable Energy projects, **Green buildings** and Clean Transportation can contribute to this goal, as **it contributes to the reduction of GHG emissions** compared to energy production based on fossil fuels and to the development of carbon-intensive buildings

3.2 FRAMEWORK

PPIF #2: To promote the delivery of Positive Impact Finance, entities (financial or non-financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects, programs, and/or entities to be financed or invested in

<u>Identification</u>

An amount equivalent to the net proceeds of the Positive Impact Covered Bond issuance will be used to finance or refinance green residential mortgages (the “**Eligible Loans**”), selected based on the eligibility criteria defined below and according to the Positive Impact Assessment methodology.

<u>Selection of the loans qualifying to Positive Impact</u>

A Positive Impact Covered Bond Committee (the “**Committee**”) has been created to ensure the respect of the Framework and oversee the entire issuance process. The Committee is composed of Societe Generale’s representatives from the following departments: Group Treasury (including SG SFH’s team), Corporate and Social Responsibility, internal Environmental & Social experts, Loans originators (Retail Banking in France, Boursorama, Credit du Nord).
SG SFH’s team, within the Group Treasury, is in charge of identifying the Eligible Loans based on the eligibility criteria below.
Once the portfolio of Eligible Loans is duly selected, it is validated by the “Committee”.

<u>Eligibility criteria:</u>

- Green residential mortgages include mortgages on new residential buildings belonging to the top 15% low carbon buildings in their region. Societe Generale Group has relied on the support of external green real estate consultant Wild Trees to define the associated eligibility criteria for residential buildings located in Metropolitan France (see methodology published on SG's Investor Relations webpage).

<u>Alignment with existing standards and regulations:</u>

- The Climate Bonds Initiative Standards for Low Carbon residential properties (version 1.0)[5]

<u>Positive Impact Assessment</u>

The assessment process follows a 3-step approach:

<u>Identification</u>

- A first level of the 'a priori' Positive Impact of an investment or of the activities of a client through an identification of potential negative impacts on the 3 sustainable development pillars and of positive impacts at least on climate

<u>Evaluation</u>

- The Positive Impact evaluation confirms or invalidates the qualification of a priori Positive Impact Finance loans
- The Evaluation consists in:
  1. Assessing negative and positive Environmental & Social (E&S) impact
  2. Assessing how negative impacts are addressed
     Only loans with well-managed negative impacts combined with positive ones are determined to be "positive impact"

<u>Action</u>

The positive impact on climate change is estimated based on a methodology developed with the support of external green real estate consultant Wild Trees, which take into consideration the management of potential negative externalities.

[5] https://www.climatebonds.net/files/files/Residential%20Property%20Criteria.pdf

Management of Proceeds

The net proceeds of the Positive Impact Covered Bonds will be managed by SG SFH's team within Societe Generale Group's Treasury.

Subsequent changes to the Positive Impact Covered Bond Framework will not apply to outstanding Positive Impact Covered Bonds (grandfathering). Eligible Loans must meet the eligibility criteria at the time they are flagged as Eligible Loans. If the eligibility criteria need to be enhanced, then these new criteria will not apply retroactively to the existing Eligible Loans. Existing Eligible Loans do not lose their status if they do not meet the new eligibility criteria. Conversely, new Positive Impact Covered Bonds shall be aligned with the most recent version of the Positive Impact Covered Bond Framework.

SG SFH commits to reach at issuance a total outstanding amount of loans and investments related to the Eligible Loans that matches or exceeds the balance of net proceeds from its outstanding Positive Impact Covered Bonds.

During the life of the bonds, Eligible Loans will be added to or removed from the pool of Eligible Loans to the extent required (e.g. in case of loans divestment or cancellation, in case of amortized or redeemed loan). In case of removal of some loans, SG SFH commits, on a best effort basis, to reallocate immediately the equivalent amount of proceeds to other Eligible Loans.

3.3 ASSESSMENT

PPIF #4: The assessment of Positive Impact Finance delivered by entities, should be based on the actual impacts achieved

Reporting

As per the commitment to transparency (see section '3.4 Transparency' below), and in accordance with the fourth principle of the Green Bond Principles (2018), a reporting will be produced annually and until the maturity of the bonds. It will be made available via SG's Investor Relations webpage.

This Allocation and Impact reporting will be presented on a portfolio basis and intends to include the following climate impact metrics:

- Estimated ex-ante annual energy savings (in MWh)
- Annual GHG emissions in tons of CO_2 equivalent saved

A limited or reasonable assurance report, provided by an external auditor or any other appointed independent third party, will also be made public on SG's Investor Relations webpage. For each reporting, the independent third party will verify:

- the allocated and unallocated proceeds
- the compliance of the Eligible Loans with the defined eligibility criteria
- the review of the impact reporting

3.4 TRANSPARENCY

PPIF #3: Entities providing Positive Impact Finance should provide transparency and disclosure on:
-The activities, projects, programs, and/or entities financed considered Positive Impact, the intended positive impacts thereof (as per PPIF 1);
-The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per PPIF 2);
- The impacts achieved by the activities, projects, programs, and/or entities financed (as per PPIF 4)

This Positive Impact Covered Bond Framework demonstrates a strong commitment to provide transparency and disclosure on:

- **The intended impacts**
  The issuance of Positive Impact Covered Bond is expected to contribute to a low-carbon economy.

- **The methodologies, Key Performance Indicators and processes to determine eligibility and verify impacts (see section '3.2 Framework')**
  A transparent methodology and related processes have been developed to:

    - ✓ select loans qualifying for Positive Impact and mitigate potential negative impacts
    - ✓ assess the positive impact through a transparent and robust methodology, developed when needed with External Consultants
    - ✓ manage the Positive Impact Covered Bonds proceeds

- **The Reporting (see section '3.3 Assessment')**

In accordance with market best practices such as the International Financial Institutions joint communication on Harmonized Framework for Impact Reporting (June 2019)[6], a reporting is intended to be produced annually and updated upon any material event that would affect the portfolio of Eligible Loans.

[6] https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf

Second Party Opinion on SG SFH's Positive Impact Covered Bond Framework

Vigeo Eiris has been commissioned to conduct an external review of this Positive Impact Covered Bond Framework and issue a second opinion on the framework's environmental credentials and its alignment with:

- ✓ The Principles for Positive Impact Finance
- ✓ The Green Bond Principles

The Second Party Opinion is available on SG's Investor Relations webpage.

APPENDIX 1: PRINCIPLES FOR POSITIVE IMPACT FINANCE (PPIF) AND GREEN BOND PRINCIPLES CORRESPONDANCE TABLE

GREEN BOND PRINCIPLES	KEY FEATURES OF THE POSITIVE IMPACT COVERED BOND FRAMEWORK	CORRESPONDENCE TABLE WITHIN THE PPIF FRAMEWORK
USE OF PROCEEDS	An amount equivalent to the net proceeds of the Positive Impact Covered Bond issuance will be used to finance or refinance green residential mortgages (the "Eligible Loans"), selected based on the eligibility criteria defined below and according to the Positive Impact Assessment methodology.	See Section 3.1. Definition
PROCESS FOR PROJECT EVALUATION AND SELECTION	A Positive Impact Covered Bond Committee (the "Committee") has been created to ensure the respect of the Framework and oversee the entire issuance process. The Committee is composed of Societe Generale's representatives from the following departments: Group Treasury (including SG SFH's team), Corporate and Social Responsibility, internal Environmental & Social experts, Loans originators (Retail Banking in France, Boursorama, Credit du Nord). SG SFH's team, within the Group Treasury, is in charge of identifying the Eligible Loans based on the eligibility criteria below. Once the portfolio of Eligible Loans is duly selected, it is validated by the "Committee". Eligibility criteria: ▪ Green residential mortgages include mortgages on new residential buildings belonging to the top 15% low carbon buildings in their region. Societe Generale has relied on the support of external green real estate consultant Wild Trees to define the associated eligibility criteria for residential buildings located in Metropolitan France (see methodology in [Appendix x]) Alignment with existing standards and regulations: ▪ The Climate Bonds Initiative Standards for Low Carbon residential properties (version 1.0)[7]	See Section 3.2. Framework
MANAGEMENT OF PROCEEDS	The net proceeds of the Positive Impact Covered Bonds will be managed by SG SFH's team within Societe Generale Group's Treasury Department. Subsequent changes to the Positive Impact Covered Bond Framework will not apply to outstanding Positive Impact Covered Bonds (grandfathering). Eligible Loans must meet the eligibility criteria at the time they are flagged as Eligible Loans. If the eligibility criteria need to be enhanced, then these new criteria will not apply retroactively to the existing Eligible Loans. Existing Eligible Loans do not lose their status if they do not meet the new eligibility criteria. Conversely, new Positive Impact Covered Bonds shall be aligned with the most recent version of the Positive Impact Covered Bond Framework. SG SFH commits to reach at issuance a total outstanding amount of loans and investments related to the Eligible Loans that matches or exceeds the balance of net proceeds from its outstanding Positive Impact Covered Bonds.	See Section 3.2. Framework

[7] https://www.climatebonds.net/files/files/Residential%20Property%20Criteria.pdf

	During the life of the bonds, Eligible Loans will be added to or removed from the pool of Eligible Loans to the extent required (e.g. in case of loans divestment or cancellation, in case of amortized or redeemed loan). In case of removal of some loans, SG SFH commits, on a best effort basis, to reallocate immediately the equivalent amount of proceeds to other Eligible Loans.	
REPORTING	A reporting will be produced annually and until the maturity of the bonds. It will be made available via SG's Investor Relations webpage.	See Section 3.3. Assessment
EXTERNAL REVIEW	Second Party Opinion (SPO): Vigeo-Eiris has reviewed SG SFH 's Positive Impact Covered Bond framework and issued a second opinion confirming the framework's environmental credentials and its alignment with: ✓ The Principles for Positive Impact Finance ✓ The Green Bond Principles Verification of the reporting: limited or reasonable assurance report provided by an external auditor or any other appointed independent third party to be published on SG's Investor Relations webpage.	See Section 3.3. Assessment and See Section 3.4. Transparency