Societe Generale SA – Combined Shareholders' Meeting of 19 May 2020

# Answers to the written questions of 7 shareholders

**1. Question from Ms. Anne-Sophie Lajeunesse, individual shareholder** (question submitted by e-mail on 9 April 2020)**:**

*In the current environment, have the members of the Board of Directors and executive managers of Societe Generale planned to reduce their pay as many other large corporations have done?*

**Answer given by the Board of Directors:**

For their contribution to the approximately €50m solidarity plan that the Group plans to establish, the Chief Executive Officer and Deputy Chief Executive Officers of Societe Generale announced on Thursday 30 April that they had decided and notified the Board of Directors that they would give up half of the annual variable remuneration granted by the Board in respect of fiscal year 2020 when the time comes.

The Board would like to underscore that Societe Generale Group has not made use of partial unemployment mechanisms and has maintained the salaries of its employees since the beginning of the Covid-19 crisis.

**2. Question from Mr. Philippe Rabeux, individual shareholder** (question submitted by e-mail on 22 April 2020):

*Subsequent to the ECB's request resulting from the Coronavirus crisis, no dividend will be paid this year.*

*What will happen with Company savings plans, given that employees are the ones keeping the Bank running after all?*

**Answer given by the Board of Directors:**

In today's unprecedented health crisis caused by Covid-19, the European Central Bank recommended suspending dividend payments this year, a recommendation that is supported by some of our stakeholders. Accordingly, at its meeting of 31 March 2020, the Board of Directors decided to cancel the dividend distribution and, for legal and technical reasons, had to reduce the dividend in respect of fiscal year 2019 to 0. The Board of Directors also clarified, at that same meeting, that an exceptional dividend may be paid at the end of the year, depending on the Group's situation. It is true that employee shareholders have been impacted by this decision.

In such complicated circumstances, Societe Generale Group acknowledges the extraordinary commitment of its employees, and has initiated, for example, pursuant to an agreement signed on 2 April 2020 in France, crisis exit talks with the Trade Unions that will address potential financial recognition measures which can be taken for employees called upon to keep the Bank's businesses up and running in connection with its customers.

The Board would like to stress that Societe Generale Group has not made use of partial unemployment mechanisms and has maintained the salaries of its employees since the beginning of the Covid-19 crisis.

**3. Question from Mr. Bernard Delage, individual shareholder** (question submitted by e-mail on 1 May 2020):

*I had to sell registered shares held in a securities account, but I was unable to do so from my computer. The staff at my branch did it for me, but I noticed at the time that the IT system was archaic (use of masks dating back to the "Minitel").*

- *Is there any plan to modernise the software used at the branches?*
- *Is IT security guaranteed with these systems?*
- *Wouldn't your employees be able to work more efficiently if your software tools were improved, thus reducing the need for branch reductions?*

**Answer given by the Board of Directors:**

The software currently used operates in an old interface. There is a plan to update this interface to align with Internet standards by the end of the year.
The current software has no data security problems and fully complies with security standards. Our strategy is to equip our Customer Advisors with the same kind of user-friendly tools offered to our customers.

**4. Questions from Mr. Dominique Leroy, individual shareholder** (questions submitted by e-mail on 4 May 2020):

*1) The home loan portfolio held by French banks had been seen as very sound; has the severity of the crisis generated a debt servicing risk given how many new unemployed persons failed to take out job loss insurance (especially with banks becoming less disciplined), potentially leading to concerning losses? How is SG managing this risk?*

*2) The severity and suddenness of the crisis apparently caught some of the models used by SG to manage counterparty and market product risk off guard, with very adverse impacts on the quality of certain underlying portfolios. Could you please comment on this problem and explain the measures taken to correct it?*

*3) Financial institution counterparty risk:*
*Jézabel Couppey-Soubeyran's column "Banks don't have a vaccine either" published in Le Monde on 26 April expressed concern over whether or not banks could withstand the economic impacts caused by the crisis. Do you find this viewpoint too alarmist? Why?*

*Given the high volume of business with financial institutions, how is the Bank guarding against the risk of default by weakened partners, possible the risk of a domino effect??*

*How is the risk associated with unregulated shadow banking players being controlled in the current environment?*

*4) Aside from the financial impact on retail or other investors, doesn't SG's now-laughable share price carry risks for the Bank?*

*5) The financial statements for fiscal year 2019 (pre-health crisis) included disposals of a considerable number of small subsidiaries, particularly in central Europe or in private banking, often bought just a few years ago. Why these shifts in strategy, which do not appear to create any value?*

**Answer given by the Board of Directors:**

1. The credit approval process employed by Societe Generale is responsible and the home loan portfolio is currently sound. Loan rescheduling options are available for customers experiencing temporary hardship.

   Home loan agreements offer some flexibility (payments may be suspended for up to 12 months). Such payment deferrals are granted at the customer's request. Only interest and Group insurance premiums are charged, once the Bank has approved the request.

   Furthermore, the portfolio is predominantly secured by a guarantor, Crédit Logement. Loans not secured by Crédit Logement are covered by mortgage guarantees.

2. The risk factor in question is addressed in section 4.1.4.5 of the 2020 URD: "The models, in particular the Group's internal models, used in strategic decision-making and in risk management systems could fail or prove to be inadequate and result in financial losses for the Group."

   The risk management system in place relies on three lines of defence, in accordance with regulations (see 4.2).
   It is detailed in section 4.11 (pg. 248) of the 2020 URD (model risk).

   As explained under "Governance, steering and monitoring", model risk is monitored from start to finish (from analyses to any corrective measures) by the MRM Committee, chaired by the Chief Risk Officer.

3. While acknowledging the exceptional severity of this health crisis, banks should be capable of absorbing this shockwave, with the support of the governments, central banks and regulatory authorities, which have in general adequately taken the measure of this crisis with exceptional responses. Clearly, banks will not be spared the impact of the crisis. They will see a decline in revenues, a significant increase in cost of risk triggered by the deterioration of the economic environment, and a drop in their solvency ratio, as already seen in the earnings releases published by banks for the first quarter. A significant rise in Non-Performing Loans can be expected in certain geographic regions and some sectors hit hardest by the crisis. However, this crisis emerged after a period in which banks had worked hard to build up their capital, and this is especially true for G-SIBs (global systematically important banks). The stimulus measures should also help alleviate the effects of this health crisis to an acceptable level, including for example the stimulus measures for financial institutions, aimed at ensuring banks will be able to continue financing the economy.
   In Europe, the ECB adopted exceptional measures to shore up bank liquidity, while also relaxing capital requirements, and encouraging banks for example not to pay dividends this year.

   Our exposures to banks and financial institutions are relatively modest, and most are held with top-tier issuers (G-SIBs) which are themselves eligible for these same stimulus measures and are subject to enhanced regulatory supervision. These predominantly systemic institutions will undoubtedly see their results weakened by current events, but are not suffering from serious liquidity problems, making a domino effect unlikely. They are sure to see their solvency decline, though with a positive outlook for recovery in time, depending on how fast and strong the future economic recovery is. In addition, our exposure to weaker banks is limited to a very low rate of under 2.5%, in line with our conservative policy.

   Similarly, we adopted a policy limiting our exposure to shadow banking entities starting in early 2018, and we monitor this portfolio on a quarterly basis. This exposure makes up a very low percentage of the Group's outstanding loans (around 2%). Furthermore, the highest-risk exposures in this category (e.g. hedge funds, private equity) are subject to careful supervision and regularly reviewed.

4. As a general rule, we do not comment on our share price. However, it is important to note that the value of the share price has no impact on the value of the Group's tangible net assets, which stands at €55.6 per share. In general, European banking stocks are seen as unattractive due to

the multiple uncertainties surrounding the economic environment and regulatory stability. As far as Societe Generale is concerned, the share price absolutely does not reflect the intrinsic value of our assets, and we will work non-stop in the coming quarters to show the market that it is too pessimistic and to provide the right answers quarter after quarter in terms of adapting our businesses to the new reality created by the coronavirus crisis.

5. The disposals carried out last year in central Europe and the private banking business were completely in line with the Group's refocusing efforts, in accordance with the 3-year strategic plan presented in 2017, aimed at focusing on assets holding top-tier positions on their market, a robust growth profile and potential for synergies with the Bank's other businesses. The entities in central Europe already sold or whose disposals were announced in 2019, i.e. our entities in Slovenia, Serbia, Macedonia, Montenegro, Moldavia, Poland, Bulgaria and Albania, and the private banking business in Belgium, do not meet these criteria.

**5. Questions from Mr. Olivier Djaba, individual shareholder** (questions submitted by e-mail on 10 May 2020):

1. *What whistleblowing channel is available to parties outside the company (providers, customers, other, etc.) who wish to raise an alert?*

2. *Where legal proceedings were initiated by a whistleblower prior to the Sapin 2 Act, does this constitute an obstacle to handling the alert?*

3. *The implementation of Sapin 2 set high criteria for the selection of Compliance function supervisors. Would employees subject to legal proceedings involving compliance matters risk seeing their appointment as Compliance function supervisors blocked?*

4. *What mechanisms are in place to settle conflict between shareholders and the SG Group? Which do you prefer? Mediation – Arbitration – Litigation.*

5. *What is the Board's position on the following cases liable to arise in a Group entity in conjunction with a former employee?*

*o Reparations granted to a whistleblower who suffered retaliation at the subsidiary level, for example the person was fired and the dismissal was determined to be unlawful, despite the alert being raised and ignored at the highest level of the Group.*

*o Failure to remit an employment certificate, despite claims and injunctions issued by qualified third parties,*

*o Manoeuvres aimed at delaying an arbitration or court decision, for an unreasonable length of time draining the entity's resources, in the event legal recourse is taken by a former staff member, instead of relying on alternative dispute resolution mechanisms.*

6. *If information, for example information contained in the CSR Report or in written Q&As, appears to be inaccurate, how do you go about correcting it?*

**Answer given by the Board of Directors:**

1. External suppliers and providers can use our Group whistleblowing tool, which is called Whistle-B, which is available on a website. Customers are free to submit complaints, which are addressed in accordance with a special procedure.

2. Whistleblowing rights are in no way affected by ongoing legal proceedings. In such case, an alert, whether submitted using Whistle-B or through another channel, would be taken into consideration if it meets the admissibility and eligibility criteria as determined by applicable

regulations. Such an alert enables whistleblowers to provide additional information, outside of any legal proceeding already initiated.

3. Should such a case arise, it would be extensively analysed on a case-by-case basis in accordance with the “innocent until proven guilty” principle and the associated integrity requirements.

4. The mechanism employed to settle conflicts between shareholders and Societe Generale Group entities depends in particular on the competent jurisdiction and the legal grounds of the matter subject to dispute. Based on the various components of the case and applicable law, the Group entity might offer to settle the dispute through an alternative method, such as mediation or arbitration.

5. Disputes liable to arise between a Group entity and a former employee are managed by the Legal Department of the entity in question, in accordance with applicable whistleblowing rules. Because factual situations and dispute settlement law varies from case to case, we cannot give a general answer to questions relating to a specific case.

6. French entities exceeding certain revenue or headcount thresholds are required to submit a “DPEF” (non-financial performance report). The DPEF replaces the Corporate Social Responsibility (CSR) report that listed companies on regulated markets were required to submit. Because it is part of the company’s annual management report, the DPEF is prepared once a year by the board of directors.

In the specific case where Societe Generale’s DPEF were found, post-audit, to contain inaccurate information, the inaccuracy could be corrected in particular for the purpose of preparing the next DPEF.

Similarly, if an answer to a written question were found to be incorrect, the Board of Directors could, after performing the necessary checks, correct the information and publish it in accordance with the usual procedure for written questions.

**6. Questions from Mr. Alain Balesdent, individual shareholder** (questions submitted by e-mail on 11 May 2020):

*1) At the ECB’s request, our Board reversed its decision on the initially proposed dividend.*

*Our bank is not in the habit of paying interim dividends. However, with this type of mechanism, Societe Generale shareholders would already have - partially - benefited from the company’s strong 2019 earnings. Provisions were already made for one or more interim dividends and would not have hurt the company’s solidity. In fact, the solvency ratios of French banks are significantly above regulatory requirements, as recently pointed out by our Chief Executive Officer.*

*Consequently, might our Board consider paying dividends more frequently in the future (and not just for this year)?*

*2) This year, shareholders can submit written questions prior to the General Shareholders’ Meeting by e-mail, but in 2019 questions had to be sent by registered letter. Does our Board plan to offer both options in years to come?*

**Answer given by the Board of Directors:**

1. As you pointed out, in accordance with the recommendation issued by the European Central Bank, the Group’s Board of Directors decided to amend the resolution pertaining to the appropriation of 2019 earnings by eliminating the dividend in respect of 2019 earnings. In the second half of 2020, the Board will propose guidelines for the distribution of dividends to shareholders. Such distribution might consist

of an interim dividend on 2020 earnings or an exceptional dividend drawn from retained earnings, which would call for a General Shareholders' Meeting.
It is true that interim dividends are more common in a number of countries, but they tend to be used less by corporations in France. However, in the course of fulfilling its duties, the Board regularly examines the Group's dividend policy, particularly in terms of amount and conditions of payment.

2. Due to the current crisis and the necessity of holding the General Shareholders' Meeting by audioconference, we authorised the submission of written questions by e-mail, subject of course to meeting the usual formalities (proof of shareholder status, etc.). We plan to continue authorising this procedure, which proved satisfactory all around, in the coming years.

**7. Questions from Mr. Bernard Hubert, individual shareholder** (questions submitted by e-mail on 11 May 2020):

*At the General Shareholders' Meeting on 19 May, I would like to be given precise information on the major cases of fraud recorded in the Q1-2020 financial statements and on their possible causes (such as the lack or inadequacy of internal control procedures).*

**Answer given by the Board of Directors:**

Both cases of alleged fraud referred to in the Q1 2020 financial statements involved companies very well-known internationally in their sectors, and which up to now have enjoyed a solid reputation. It would appear that these clients, faced with growing hardships, decided to falsify their financial statements in order to fraudulently conceal this critical situation, primarily from their creditors, Societe Generale being just one of multiple banks involved.

Legal proceedings have been initiated in both cases.

Also, both are cases of external fraud, i.e. occurring outside Societe Generale Group, and no internal failures were observed in either case.