GROUPE BPCE: SUSTAINABLE DEVELOPMENT BOND PROGRAM

Methodology Note for Social bonds / Social Housing Bond

16/10/2019
BPCE SUSTAINABLE DEVELOPMENT BOND FRAMEWORK

Key features

BPCE’s Sustainable Development Bond Framework is a two pillar strategy that targets environmental and social financings to ensure long term sustainability

Green Bonds

Focused on environmental sustainability and creating a positive contribution to the reduction of climate change and other environmental challenges:

- Renewable energy
- Energy efficiency
- Green buildings
- Clean Transportation
- Sustainable Water Management
- Sustainable Waste Management
- Sustainable Agriculture
- Biodiversity conservation

Social Bonds

Addressing social sustainability challenges through contributions key to human development

- Healthcare
- Education
- Social Housing
- Social development

Supporting regional and community development

- Employment conservation and creation in economically or socially underprivileged areas
- Affordable basic infrastructure

GROUPE BPCE’S SUSTAINABLE DEVELOPMENT BOND PROGRAM

Addressing key components of sustainability
BPCE’s Sustainable Development Bond Framework encompasses the main entities of the group and all issuing signatures, for defined types of assets.

### Scope of the program

#### Originating entities
- Regional Banks
  - Banques Populaires
  - Caisse d’Epargne
- Listed Entity
  - Natixis SA
- Branches
  - Palatine
  - Lease
  - Factor
  - CFF

#### Issuing entities
- MLT Programs
  - BPCE SA
- Private Placement
  - Natixis SA, SI, Purple (Note, Neu MTN, EMTN)
  - BPCE SA
- Covered Bonds
  - SCF
  - SFH
- Securitization
  - BPCE
  - Natixis
  - CFF

#### Eligible Assets
- Format
  - General Obligation Loans
  - Project Finance Loans
- Types of clients
  - Corporates
  - Retail
  - Local Authority
- Lookback period
  - Financings granted less than three years ago
The Sustainable Development Bond Framework is aligned with the recommendation of the ICMA (Green & Social Bond Principles)

**Use of Proceeds**

**Sustainable Development Bond Program**

**Social**
- Human Development
  - Healthcare
  - Education
  - Social Housing
  - Social development
- Local Economic development
  - Employment conservation & creation
  - Affordable basic infrastructure

**Green**
- Renewable Energy
- Energy Efficiency
- Green buildings
- Clean transportation
- Sustainable Water management
- Sustainable Waste Management
- Biodiversity Conservation
- Sustainable Agriculture

**Selection process & Project Evaluation**
- For each eligible category, a methodology note defines specific eligibility criteria, including ESG selection criteria and reporting indicators
  - A Sustainable Development Bond Governance Committee and an Operational Committee oversee both the methodologies and actual implementation of both framework and methodology notes
  - Framework and methodology notes, including any substantial change to any, will be subject to the prior review by the provider of a second party opinion.

**Management of Proceeds**
- Net bond proceeds will be granted to Groupe BPCE’s regional banks or subsidiaries, by way of inter-company loans when necessary
  - Green and social Bond proceeds will not be fungible with any other source of wholesale funding.
  - Lookback period of max 3 years
  - Pending allocation or reallocation, proceeds (swapped into euros if the bonds are not issued in euros) will be invested in cash or equivalents.
  - At least once a year, earmarked eligible assets within the pool will be updated / screened for potential changes in eligibility status

**Reporting**
- Once a year, as long as Green Bonds or Social Bonds are outstanding, BPCE will publish reports on:
  1. Allocations by eligible project category and for each bond issue some examples of loans refinanced;
  2. Yet to be allocated amount of cash or cash equivalents;
  3. Relevant environmental and/or social key performance indicators (outputs / impacts);
  4. Assurance report provided by BPCE auditor on the compliance, in all material respects, of (i) the eligible loans with the selection criteria, and (ii) the pending cash allocation
GROUPE BPCE’S SUSTAINABLE DEVELOPMENT BOND PROGRAM

Dedicated governance

Groupe BPCE has established a dedicated Governance (and ad-hoc comitology*) to monitor its Sustainable Development Bond Program

Sustainable Development Bond Governance Committee

Joint sponsorship of Groupe BPCE’s CFO and Head of Environmental, Social, and Governance (ESG) with participation from ESG, business development and finance teams of the Group regional banks and Natixis, Head of MLT Funding & Investor relations, Head of Asset and Liability Management (ALM), Head of Portfolio Management and external ESG experts

Strategy & Supervision

- Issuance targets and follow up of deliveries,
- Framework, methodology notes and reporting review and approval,
- Supervision of the governance and process for eligible asset pool evaluation and selection,
- Deal reviews and enforcement of lessons learnt

Innovation

- Steering BPCE group’s entities sustainable product (loans) innovation process, including how to embed impact and eligibility criteria in products characteristics
- Definition of new issuance types

Dialogue and engagement

- Market practice review and dialogue with external stakeholders
- Support of business initiatives and dialogue with clients

*Ad-hoc dedicated committees may be created within the financing entities to identify eligible assets, apply exclusion criteria, monitor the eligible asset pool and produce ad-hoc reporting at issuance and/or batch of issuance levels
FOCUS ON SOCIAL BONDS
BPCE’s Social Bond Framework is aligned with the Social Bond Principles defined by ICMA in terms of Use of Proceeds

**Eligible Categories**

**Human Development**
- Access to essential and basic services for all

**Local Economic Development**
- Contribution to local development and quality of life

**Eligible assets**
- Healthcare
- Education
- Social housing
- Social development
- Employment conservation & creation
- Affordable Basic Infrastructure

**Goals & Benefits**
- Contribution to access to healthcare & improvement of healthcare facilities/services and coverage
- Contribution to access to education and ensure inclusive and equitable quality education and learning opportunities
- Contribution to access for more people to adequate, safe and affordable housing
- Contribution to access to other basic social services for more people
- Job conservation and/or creation, focusing on economically depressed areas, contribution to poverty reduction and economic growth
- Contribution to access to sustainable transport systems and basic infrastructure & improvement of quality of life

**UN SDG**

* Sustainable Development Goals
SOCIAL HOUSING
METHODOLOGY
The following methodology description is related to the “Social housing” Eligible category under BPCE « Social bond » type of issuance.

2 Social Bonds

Focused on social sustainability and creating a positive contribution to the access to essential and basic services for all and local community development and well-being
- Healthcare
- Education
- Social Housing
- Social development
- Employment conservation and creation
- Affordable Basic Infrastructure

Use of Proceeds
Loans dedicated to Social Housing Landlords & Loans dedicated to promote social home ownership

Management of proceeds
- Proceeds allocated through intra-group loans
- Eligible pool of assets updated at least yearly
- 3 years look back period
- Audit trail : ?

Reporting
- Issuances
- Eligible asset pool : size, split by category
- Impact Number of apartments built, Number of Households financed
- External assurance : auditor’s report

Selection & evaluation

ESG selection criteria
- French environmental regulation applicable to housing construction, especially for social housing landlords
- Client risk assessment (based on KYC and LAB internal processes)
- ESG controversies check (sector, client, project) at Loan approval

Governance
- BPCE Sustainable Development Bond Committee
- Ad-hoc dedicated committees within financing entities

External review
- Second Opinion
- Third party audit of proceeds allocation and actual eligibility
SOCIAL HOUSING

1. USE OF PROCEEDS

Eligible Assets

Financing or refinancing of loans for the development and renovation of the social housing stock and for the social home ownership in France

- Social Housing in France is highly regulated and the selection process will leverage on the legal status associated with the borrowing landlords and on the loan category in the case of households benefitting from social homeownership support.

- Loans financed by dedicated resources provided by Public Institutions (e.g. Caisse des Dépôts et Consignations) will be excluded, so as to avoid double counting.

- The look-back period will span over three years. Only loans granted during the three years preceding the issuances will be deemed eligible.

- For each bond, the issuing entity will publicly disclose the estimation of ex-ante social benefits and of the share of refinancing, once proceeds allocated and at the latest annually within the reporting.
### Social Housing

#### 1. Use of Proceeds

**Eligible Assets:**

2 types of eligible loans

**Development and renovation of the French social housing stock**

Loans dedicated to HLM (Habitations à Loyer Modéré) offices, in particular to three types of French Social Housing Landlords:

- **OPH (Offices Publics de l’Habitat)** - Public entities which have been set up by, and are legally linked, to one or several local governments with a very limited and clearly defined remit for the operation, renovation, and construction of social housing.
- **ESH (Entreprises Sociales pour l’Habitat)** - Private entities with a similarly defined remit as OPH.
- **SEM (Société d’Économie Mixte)** - Public Private Partnerships, but under the control of local authorities (public limited company whose capital is mainly held by one or more public entities i.e. the State, a local authority, or any other public institution).

**Social Home Ownership**

Loans dedicated to promote social home ownership through the acquisition of new and existing housing, such as:

- **P.S.L.A. (Prêt Social Location Accession)** dedicated to acquisition of new housing after a rental period (call option), with legally defined social requirements for both the borrower (buyer) and the property operator (vendor).
- **Vente HLM** dedicated to acquisition of existing housing (built or acquired by an HLM office since more than 10 yrs), with legally defined quality and social requirements for both the borrower (buyer) and the property operator (vendor).
- **PAS (Prêt à l’Accession Sociale)** dedicated to acquisition of dwelling by households meeting maximum income requirements.
- **OFR – BRS** dedicated to promote social ownership by households meeting maximum income requirements and with restrictions in the ability of the households to resell their home in order to maintain the social destination of the dwelling.

**Social Objective**

Access to housing and improved comfort

**Target Population**

Low-income population subject to conditions of resources defined regarding the reference tax revenues of each person living in the household, depending on geographic areas

(strictly defined by the framework of French law)
# Social Housing

## 2. Process for Selection and Evaluation

**Methodology for Social Housing Asset Selection**

### Loan Pipeline

<table>
<thead>
<tr>
<th>Loan Beneficiaries</th>
<th>Loan Products*</th>
</tr>
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<tr>
<td>French social housing stock</td>
<td>Eligible Legal Status*</td>
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<td>Social Home Ownership</td>
<td>OPH, ESH and SEM</td>
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<td>Landlords</td>
<td>Eligible Loan Products*</td>
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<tr>
<td>Households</td>
<td>• P.S.L.A. (Prêt Social Location Accession) (new building)</td>
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<tr>
<td></td>
<td>• Vente HLM (existing building)</td>
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<tr>
<td></td>
<td>• PAS (Prêt à l’Accession Sociale) (new or existing building)</td>
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<tr>
<td></td>
<td>• OFS – BRS (organisme de foncier solidaire - bail réel solidaire) (new or existing building)</td>
</tr>
</tbody>
</table>

### Exclusion

- Dedicated financings backed by public resources

### Social Housing Objective

- Do no harm sustainability objective
  - French environmental regulation applicable to both housing construction, renovation and acquisition and Social Home Ownership
  - Client risk assessment (based on KYC and LAB internal processes)
  - ESG controversies check (sector, client, project) at Loan approval

### Eligible Pool of Loans Validated by the Committee

**Groupe BPCE will select social housing loans thanks to a specific methodology and selection workflow**

- Loans granted during the last three years
- Landlords
- Households
- Eligible pool of loans validated by the Committee

* See comprehensive descriptions in appendix
**3. MANAGEMENT OF PROCEEDS**

**Tracking and allocation process**

- **Originating entities**
  - Loans
- **Eligible Pool of Loans**
- **Issuers**
  - Treasuries
  - Social Housing bond investors

- **Loans (intra-group if necessary)**

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**Groupe BPCE will implement dedicated processes to ensure tracking and transparency**

- The Committee (via the Portfolio Management & Financial Engineering function) ensures the adequate monitoring of the evolution of the Green Portfolio on a quarterly basis and that the issued amount remains significantly lower than the nominal of the green portfolio.

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**Social Housing**

- Social Housing bond issuance done by BPCE or Natixis, ISIN tagged as Social Housing
- Treasury collects net proceeds in order to finance or refinance Social Housing assets
- Introduction of a Social Housing flag in treasury systems for eligible loans and matched with the ISINs of Social Housing issuances
- Net proceeds are allocated to existing, on-going or future eligible Social Housing assets
- The treasury department will proceed to intragroup loans equal to the issued amount from the main body to originating entities on a prorata basis of the eligible assets provided.
**Groupe BPCE** will report annually both at bond and program levels on allocation and social outputs & impacts

**Development and renovation of the French social housing stock**

**Allocation**
- Allocated amount (EUR)
- Share of financing vs. refinancing
- # and amount of loans granted to social housing landlords, total and dispatched by type of social housing landlords

**Aggregated & dispatched by type of landlords**
- # of dwellings (equivalent to # of households)
- % of new dwellings built over the year
- % of dwellings subject to subsidised housing conditions
- % of dwellings rented to households subject to housing aids (i.e. French APL or AL) % of dwellings located within “priority area” (i.e. quartiers prioritaires)
- Average age of housing stock

**Social Home Ownership**

**Allocation**
- Allocated amount (EUR)
- Share of financing vs. refinancing
- # and amount of loans granted to social home ownership, total and breakdown by product

**Outputs & Impacts**
- # of beneficiaries (equivalent to # of households)
- Amount of loans granted by social-professional categories
- Amount of loans granted by housing area (A, B and C) or by level of ownership area*

- Allocation and outputs & impacts indicators will be disclosed both at Bond (or batch of bonds or notes) and at Program (i.e. eligible pool of assets) levels.
- Reporting will only include the pro-rated share of output and impact indicators that corresponds to the amount financed by the Social Bond (social bond share of financing VS. total debt of landlord).
- Reporting will be based on direct data collection (no calculation methodologies) for quantitative determination, obtained from Ecolocale database (internal system).
- Due to French banking laws, all issuing entities cannot disclose the name of the underlying landlords or sponsors. Specific data will thus be anonymized.

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*Ownership rate per area: source Insee [https://statistiques-locales.insee.fr/#c=indicator&i=bdcom.pt_log_rp&s=2016&view=map2](https://statistiques-locales.insee.fr/#c=indicator&i=bdcom.pt_log_rp&s=2016&view=map2)*
Groupe BPCE has appointed VigeoEiris as Second Party Opinion on the Social Housing methodology note

Vigeo Eiris is of the opinion that the Social Bonds to be issued within Groupe BPCE’s Sustainable Development Bond Program and the Methodology Note for Social Housing Bonds are aligned with the four core components of the Social Bond Principles 2018.

We express a reasonable assurance on the Issuer’s commitments and on the contribution of the contemplated Bonds to sustainable development.
1/ Development and renovation of the French social housing stock

**Definition**
Loans dedicated to HLM (Habitations à Loyer Modéré) offices, in particular to three types of French Social Housing Landlords supervised by ANCOLS (Acteur unique de contrôle et d’évaluation des organismes d’Action Logement et du logement social):

- **OPH** (Offices Publics de L'Habitat) - Public entities which have been set up by, and are legally linked, to one or several local governments with a very limited and clearly defined remit for the operation, renovation, and construction of social housing;
- **ESH** (Entreprises Sociales pour l'Habitat) - private entities with a similarly defined remit as OPH;
- **SEM** (Société d'Économie Mixte) - Public Private Partnerships, but under the control of local authorities (public limited company whose capital is mainly held by one or more public entities i.e. the State, a local authority, or any other public institution)

**Target population:**
According to French Law (Article L. 411-1 of the French Construction and Housing Code), low-income population for social housing is subject to conditions of resources and defined for regular residence in France. Resources ceiling depends on the following criteria:

- The type of accommodation, depending on financing (loans and subsidies) obtained by the social housing landlords during the construction or renovation of the housing concerned
- The applicant’s family situation, relying on the reference tax revenues of each person living in the household, the amount of the housing allowance to which the household is entitled and the potential costs incurred for the accommodation of the spouse in a residential facility for dependent elderly people.
- The location of the desired accommodation, depending on geographic areas*

*Zones A, B and C defined according to the maximum income for entitlement to social housing, the maximum income to qualify for a zero rate loan or a social accession loan and for a landlord, the right to a tax reduction

Link defined conditions of resources: [http://www.financement-logement-social.logement.gouv.fr/logement-social-r245.html](http://www.financement-logement-social.logement.gouv.fr/logement-social-r245.html)
**Social Home Ownership**

**Definition**

Loans dedicated to promote social home ownership through the acquisition of new and existing housing, such as:

- **P.A.S.** (Prêt à l'Accession Sociale) dedicated to promote the purchase of dwellings by households meeting specific income requirements depending on the location of the dwelling. In addition, the contemplated property must be the main residence of the household at least during 6 years after the purchase.
  - The loan can finance the purchase of any kind of dwelling (new, refurnished, existing dwelling).
  - The loan can last from 5 to 25 years. The loan can finance up to the totality of the purchase.
  - The interest rate of the PAS loan is regulated by the State administration and the Credit Institution should have entered into a specific convention with the State Administration.

- **P.S.L.A.** (prêt social location accession) dedicated to acquisition of new housing after a rental period (call option), with legally defined social requirements for both the borrower (buyer) and the property operator (vendor).
  - **Borrower**
    - The contemplated property must be its principal residence.
    - Both a maximum (resources ceiling) and a minimum (amount of the operation divided by 10) of reference tax revenues of each person living in the household are legally defined and annually updated.
  - **Vendor**
    - A maximum sales price is legally defined and annually updated by geographic areas, and tax advantages for the buyer (reduced VAT, exemption of land tax for 15 years).
    - A buyback guarantee must be offered on a 15-years period from exercise of the call option.
    - In case of non-exercise of the call option or of redemption, households with revenues lower than income ceiling defined for PLUS (prêt locatif à usage social) can benefit from a re-housing guarantee.
    - During the rental period, a maximum of rental fee is defined (based on rent ceiling defined for PLS – Prêt Locatif Social).

- **O.F.S.-B.R.S.** (Organisme de Foncier Solidaire-Bail Réel Solidaire) dedicated to the acquisition of dwellings by the occupying household by entering into a specific leasing agreement which allows the household to purchase the dwelling but not the underlying land in order to reduce significantly the purchase price.
  - The buyer should respect the criteria of maximum income and uses the dwelling as its main residency.
  - The purchase price is aligned with the PSLA scale and reduced by the value of the land. The dwelling can be sold solely to a household that respects the PSLA income criteria and the purchase price should also be aligned with the PSLA scale.
  - The BRS can only be granted by an “Organisme de Foncier Solidaire” a specific juridical form delivered by the State administration and the OFS are supervised by the State Administration.
  - The household should during the BRS (from 18 to 99 years) repay the acquisition loan and an occupation fee to the BRS.

**Target population:**

According to French Law, low-income population for PSLA & OFS-BRS is subject to conditions of resources defined regarding the reference tax revenues of each person living in the household, depending on geographic areas*. Link defined conditions of resources: [http://www.financement-logement-social.logement.gouv.fr/accession-r246.html](http://www.financement-logement-social.logement.gouv.fr/accession-r246.html)
2/ Social home ownership

**Vente HLM** dedicated to acquisition of existing housing (built or acquired by an HLM office since more than 10 yrs), with legally defined quality and social requirements for both the borrower (buyer) and the property operator (vendor).

**Borrower**
- Priority is given to social housing tenants
- Both a maximum (resources ceiling) of reference tax revenues of each person living in the household are legally defined and annually updated – same framework than HLM social housing

**Vendor**
- Preference sales price is proposed to the buyer
- A buyback guarantee must be offered on a 10-years period
- A re-housing guarantee offered during 5 years
- A redemption guarantee offered during 5 years

**Target population:**
According to French Law (Article L. 411-1 of the French Construction and Housing Code), low-income population for Vente HLM is subject to conditions of resources defined regarding the reference tax revenues of each person living in the household, depending on geographic areas* (same than HLM social housing conditions)