



GROUPE BPCE: SUSTAINABLE DEVELOPMENT BOND PROGRAM

**Methodology Note for Social Bonds /
Local Economic Development (category:
Employment Conservation & Creation)**

12/09/2018



GROUPE BPCE

Bankers and insurers with a different perspective

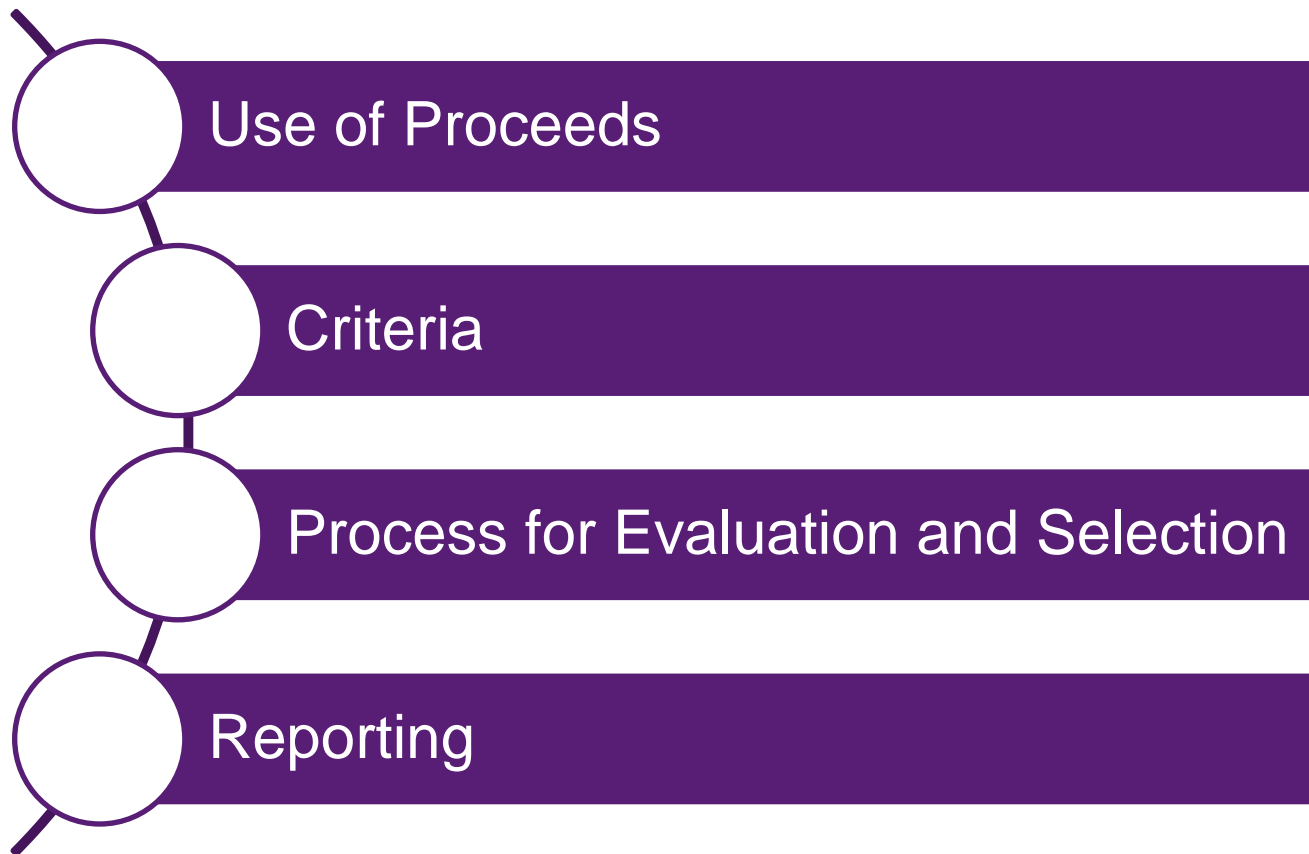
GROUPES BPCE'S SUSTAINABLE DEVELOPMENT BOND PROGRAM

*3 types of bonds
targeting both
environmental and
social challenges*

- Groupe BPCE's Sustainable Development Bond Program is targeting environmental, social and economic development to ensure long-term economic sustainability through the issuance of Green and Social Bonds:
 - 1. Green Bonds address environmental sustainability. Assets and activities financed deliver a positive contribution to climate change mitigation efforts (e.g. CO2 emissions reductions) or other environmental challenges (e.g. biodiversity protection, waste management, water conservation etc.)
 - 2A. Social Bonds: Human Development address social sustainability challenges through contributions to economic systems key to human development (education, healthcare, social development, social housing and relevant activities of local authorities) and that could potentially seek to benefit people who live and/or work in economically and/or socially disadvantaged areas or communities
 - 2B. Social Bonds: Local Economic Development support regional and community development and resilience through financing of small businesses, SMEs, local authorities and non-profit organizations that seek to benefit people who live and/or work in economically and/or socially disadvantaged areas or communities

**SOCIAL BONDS:
LOCAL ECONOMIC
DEVELOPMENT/
EMPLOYMENT
CONSERVATION &
CREATION
CATEGORY**

Overview



SOCIAL BONDS: LOCAL ECONOMIC DEVELOPMENT/ EMPLOYMENT CONSERVATION & CREATION CATEGORY

Use of Proceeds

- The following methodology description is related to the "Employment Conservation & Creation" category under the Local Economic Development type of Social Bonds.
- Targeted counterparties for this issuance are small businesses and nonprofit organizations located in economically and socially disadvantaged areas in metropolitan France.
- The goal is to refinance customers in order to facilitate job conservation or creation and revitalize economically depressed areas.
- Several specific sectors are excluded from the selection (Mining including coal, Oil & gas, Nuclear activities, Defense).
- Eligible Loans will include those originated no more than 3 years prior to time of issuance.
- If any material and critical controversies emerge in relation to a specific loan, the company commits to substitute that loan with an alternative Eligible Loan.*

* Groupe BPCE will put in place a process to identify the events and/or potential controversies affecting the borrowers of the Eligible Loans, that could undermine the social and/or environmental objectives targeted by the Bonds, in order to take appropriate corrective measures.

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Use of Proceeds



- ⦿ The Bond's goal contributes to the United Nations Sustainable Development Goals (SDG), in particular it is in line with SDG 8 “decent work and economic growth”, SDG 10 “reduced inequalities”, SDG 1 “No Poverty” and SDG 5 “Gender Equality”:

SDG	Target
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	<ul style="list-style-type: none"> • 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services • 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value • 8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training • 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment • 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Goal 10. Reduce inequality within and among countries	<ul style="list-style-type: none"> • 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status • 10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard
Goal 1. End poverty in all its forms everywhere	<ul style="list-style-type: none"> • 1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance • 1.b Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions
Goal 5. Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> • 5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws

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Criteria

- The definition of 'economically and socially disadvantaged areas' relies on geo-scoring with criteria followed, or provided by internationally and nationally-recognised organisations. These criteria are defined in order to track societal progression

- Scope of organisations studied



The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world.



The National Institute of Statistics and Economic Studies collects, analyses and disseminates information on the French economy and society



Founded in 2003, the Observatoire des Inégalités is an independent organisation which aims to establish detailed datasets concerning inequalities in France, Europe and Worldwide.

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Criteria

Criteria



- ⦿ The chosen metric is based on a combination of indicators followed or provided by organisations studied
- ⦿ Open source data are used to compute criteria



⦿ Relative Poverty Rate (60% threshold)

- The poverty rate is the ratio of the number of people (in a given age group) whose income falls below the 'poverty threshold', which is established at 60% of the median household income for the total population.
- Measure is relative rather than absolute, and reflects economic disparity, (poverty in Western economies dependent on social context).

- ⦿ Area (defined by zip code) with a poverty rate in the top third of all areas in metropolitan France

**O
R**

⦿ Unemployment Rate

- Numerator : Number of persons aged between 14 and 70 having declared themselves "unemployed" (regardless of any registration with the employment center)
- Denominator : Labor force which includes employed and unemployed workers

- ⦿ Area (defined by zip code) with an unemployment rate in the top third of all areas in metropolitan France

**A
N
D**

⦿ Business Creation Level

- Numerator : Number of companies created over the last year.
- Denominator : Number of companies at the beginning of the year

- ⦿ Area (defined by zip code) with a business creation lower than the median of metropolitan France areas as a whole

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Process for Evaluation and Selection

- ⦿ The selection and replenishment of initial loans within this virtual pool will occur within our core banking system according to initial criteria for the life of the bonds.
- ⦿ At least once a year, the virtual asset pool of Eligible Loans and the earmarked Eligible Loans will be updated/screened for normal or early repayment as well as sectoral exclusions and any other exclusions. Eligible Loans from the updated virtual pool will be added to the pool of earmarked Eligible Loans if needed.
- ⦿ The update of the virtual asset pool will be based on the latest open data available for criteria (unemployment rate, poverty rate, business creation)
- ⦿ For all such outstanding bond issues, the list of eligible official codes of sectors of economic activity is or will be published on a dedicated section of Groupe BPCE's website:
<https://www.groupebpce.fr/en/Investors/Funding/Social-bonds>
- ⦿ The eligible asset pool is validated on an annual basis by the Sustainable Development Bond Governance Committee.

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Process for Evaluation and Selection

- Roles and responsibilities in the process for evaluation and selection :

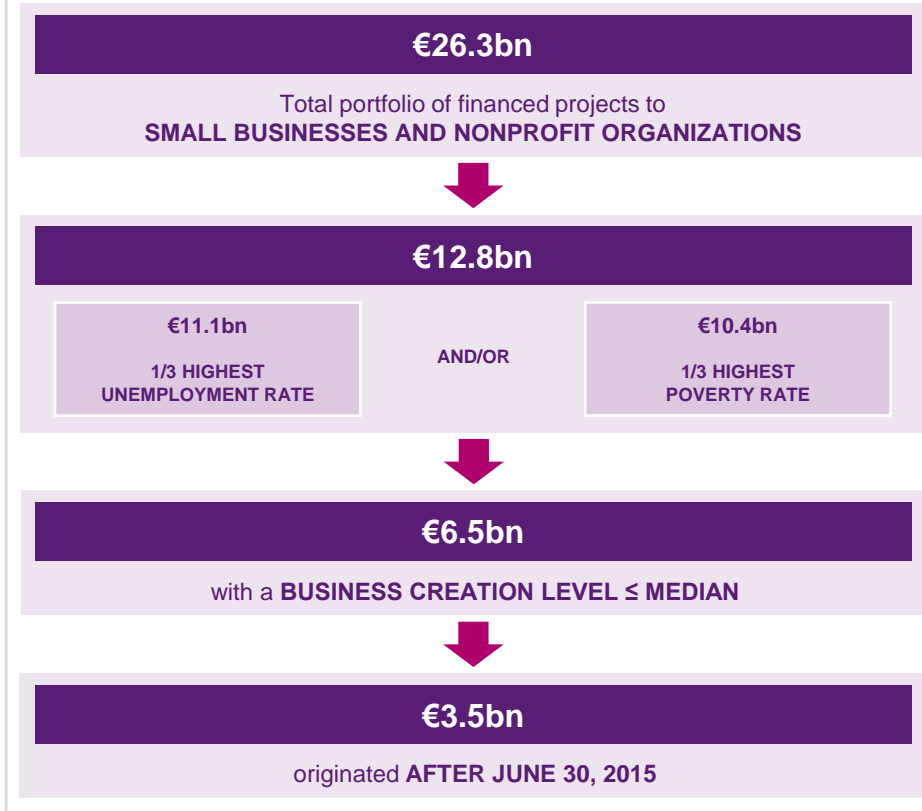
Team Process	Asset and Liability Management	MLT Funding & Investor Relations	ESG
Definition of selection criteria	Responsible/Accountable	Consulted	Consulted
Selection of Eligible Loans	Consulted	Responsible/Accountable	Consulted
Monitoring and reporting	Consulted	Responsible/Accountable	Consulted

- Heads of departments are members of the Sustainable Development Bond Governance Committee and report to the Committee on the process they are in charge of
- The Committee is in charge of approving the definition of selection criteria and the scope of monitoring and reporting for each bond issue

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*Process for
Evaluation and
Selection*

LOANS ELIGIBLE FOR REFINANCING VIA LED BOND PROCEEDS WILL BE
CHOSEN FROM THE TOTAL PORTFOLIO OF PROJECTS TO SMALL BUSINESSES
AND NONPROFIT ORGANIZATIONS (ILLUSTRATION OF SELECTION)



RESTRICTIVE SELECTION CRITERIA applied via zip codes in metropolitan France (6,052 zip codes ensuring a very granular approach)

Several **SPECIFIC SECTORS ARE EXCLUDED** from the selection (Mining including coal, Oil & gas, Nuclear activities, Defense)

LIMITED LOOKBACK on originated loans ≤ 3 years

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Process for Evaluation and Selection

In-depth approach

- France metropolitan territory is divided into 6,052 zip codes
- The average population by zip code is around 10,500 inhabitants
- Thus zip codes ensure both a very granular approach and a statistically significant unit
- Socio-demographic data provided by INSEE are computed at zip code level

Mean by zip code (total population)	
Mean of inhabitants	10 564
Unemployment rate*	12%
Poverty rate	14%
Business creation level	8,5%
Non graduate rate	30%

*Unemployment rate according to INSEE definition (not ILO definition)

Geographical representation of zip code



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*Process for
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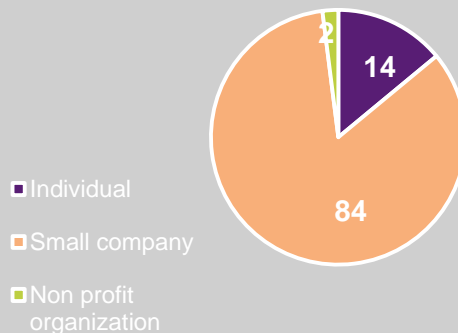
Focus on eligible asset pool (stock at 31/01/2018)

72 000 Eligible
Loans

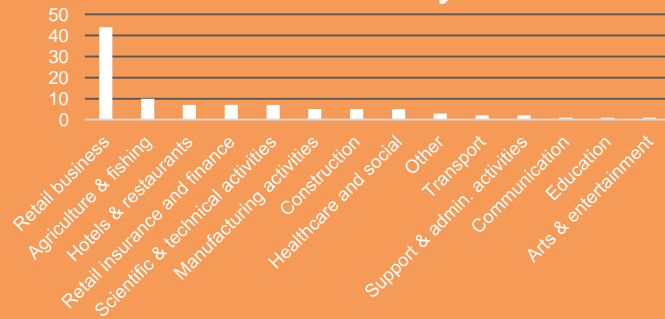
€ 48k loan amount
on average

	National	Eligible	Not eligible
Inhabitant by zip code	10 564	11 879	10 229
Unemployment rate	12%	15%	11%
Poverty rate	14%	18%	13%
Level of business creation	8,5%	6%	9%
Non-graduate rate	30%	35%	29%

Type of borrower



Sectorial activity



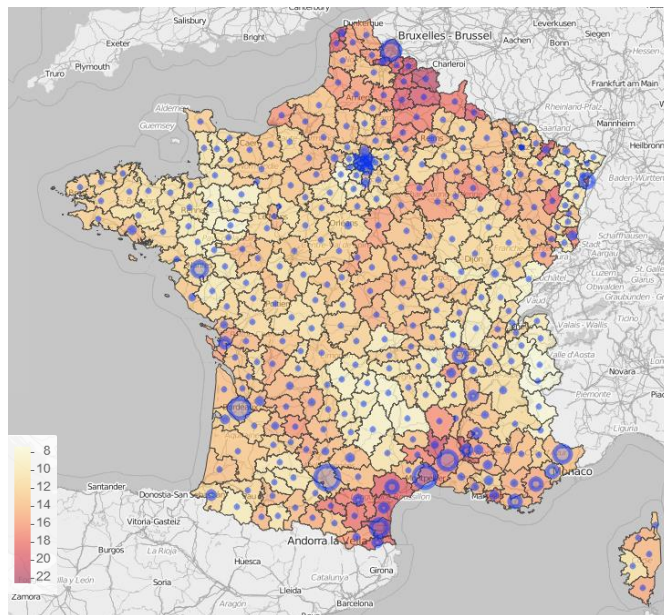
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*Process for
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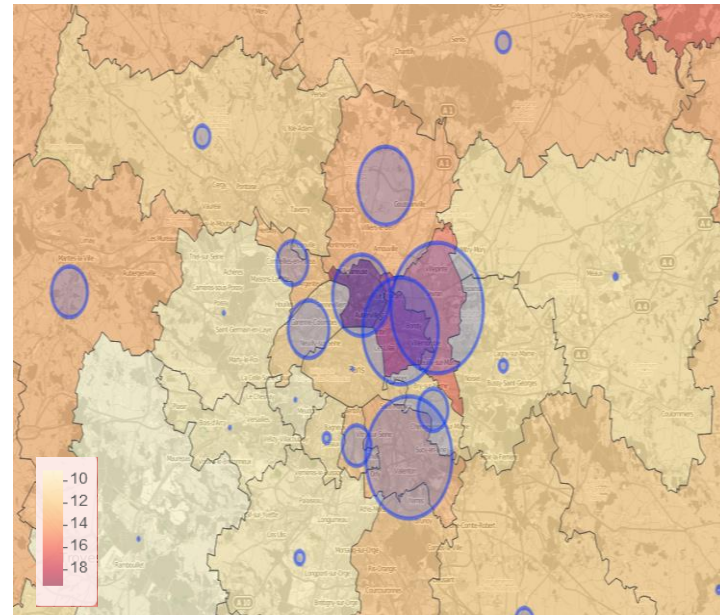
● Bond proceeds targeting illustration

- Illustration with unemployment rate (color) and eligible asset pool (bubble)

France



île de France

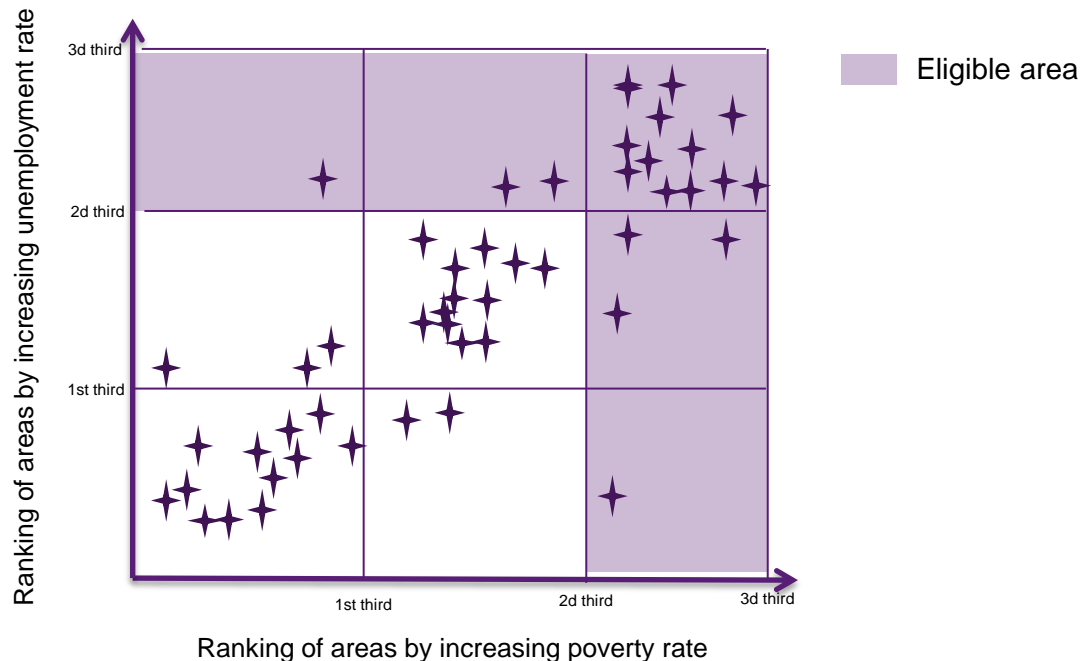


Source : Maps computed through R software

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*Process for
Evaluation and
Selection*

- Illustration of the selected criteria : focus on poverty rate and unemployment rate



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Reporting

- Annual reporting, produced by MLT Funding & Investor relations team and validated by the Sustainable Development Bond Governance Committee, will include several measures
 - # of loans (number of loans granted to small businesses and number of projects granted to non-profit organizations)
 - # of customers
 - Split of projects per zone's employment rate, and poverty rate
 - # of jobs at recipient business (estimated through data available in SIRENE data base)
 - Examples of financed projects (with a focus on the qualitative aspects such as sustainability of jobs, ESG aspects of the company)
 - Independent survey in order to address and evaluate the impacts on creation, preservation and quality of jobs

DEFINITIONS AND ADDITIONAL INFORMATION

- Small business : company with an annual turnover below or equal to €3million
- Non profit organization : non profit organization according to French Association law 1901 with an annual budget below or equal €3million
- Open source data used are from data.gouv.fr
- Last available data are used (end of 2014 today)
- Eligible asset pool amount based on stock at 31/01/2018
- Sectorial activities are flagged through French nomenclature of activities (NAF)
- Loans targeted are free from encumbrance and not earmarked for any other specific refinancing scheme (EIB, CDC ...)
- Unemployment :The unemployed in the sense of the census (INSEE) of the population are persons (aged 15 or over) who declared themselves not to be looking for a job (registered or not at Pôle Emploi), also persons (aged 15 or over) who did not self-identify as either employed or unemployed, but who nonetheless declared that they were looking for a job.