

Defense & Security sector policy



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1. INTRODUCTION

Within the framework of its Corporate Social Responsibility policy, and as a signatory of the Principles for Responsible Banking, Societe Generale and its subsidiaries (the Group) intends to take into account the environmental, social (E&S) and governance issues associated with all its activities, to better control their impact and promote good practices, with an objective of continuous improvement.

The Group published [E&S general principles](#) which define the overall framework of its E&S risk management system for a responsible engagement in its banking and financial activities. Within this framework, transversal statements addressing issues common to all sectors have been developed, as well as sector policies where the Group looks more specifically into certain sectors identified as sensitive from an E&S standpoint and in which it plays an active role. The Defense & Security sector has been identified as one such sector.

Societe Generale welcomes the improvements in international law concerning the regulation of arms trade, and in particular the adoption of the Arms Trade Treaty which was negotiated under the aegis of the United Nations. As an international financial institution, Societe Generale wishes to promote the highest standards of international law. It remains attentive to the evolution of national and multilateral arms control initiatives.

The Group is paying close attention to the challenges of international arms trade, including the risk of corruption and illegal taking of interests, arms diversion and trafficking, weapons of mass destruction proliferation, fuelling regional conflicts, disintegration of States, violations of human rights, dissemination of dual-use goods, fuelling criminal networks and terrorism. As such, it is in line with the Common Position 2008/944 of the European Union Council which defines common rules relating to the export of military technology and equipment.

Societe Generale acknowledges and respects the right of sovereign States to ensure their internal security and defence through the production, possession, exchange and use of legitimate means in the light of international law, as well as recognizing the need for participation in regional and global collective security mechanisms.

It is within this framework that the Group provides a range of banking and financial products and services to public and private players in the Defence and Security sector.

2. COMMITMENT

Societe Generale is committed to implementing a process to manage the specific risks arising from the nature of certain weapons and equipment, the counterparties involved in the financing and transactions and the final destination of arms use.

The Group implements enhanced due diligence procedures, with the primary concern being the compliance with national legislation, United Nations and European Union treaties, embargoes, sanctions and resolutions.

This Sector Policy may evolve in time, according to legislative or regulatory evolutions and as a result of the discussions between the Group and its various stakeholders.

3. RISK MANAGEMENT

While it is incumbent on the Groupe's clients to manage the risks associated with their own operations, it is important to Societe Generale to evaluate the consistency of its engagements with clients against the E&S principles of the Group. The Defence sector is under particular scrutiny considering the potential for misuse of its products.

In addition to the applicable regulations, the Group defines in this policy additional exclusion and evaluation criteria that must be met by its clients and counterparties in order to benefit from its products and services.

4. SCOPE

The policy is implemented by all Societe Generale entities, businesses, subsidiaries and joint ventures over which the Groupe has operational control.

The scope of this Sector Policy covers:

- all banking and financial operations, products and services, and transactions carried out by Societe Generale Group entities, to customers and counterparties involved in the manufacture, integration, trade, storage, maintenance or implementation of weapons or defense and security equipment, including small arms and light weapons, explosives and ammunition for civil and military use;
- discretionary asset management (excluding index management) for own account or on behalf of third parties of corporate securities and market instruments deriving from the Defense & Security sector, as well as their subsidiaries under direct control.

Within the framework of external funds distribution, asset managers are encouraged to adopt the same standards.

The specific issue of nuclear non-proliferation is also addressed in Société Générale's "Civil Nuclear Power" Sector Policy.

5. SECTOR-SPECIFIC STANDARDS AND CRITERIA

Societe Generale being active worldwide, the laws and regulations its clients have to comply with vary from one country to another or one region to another. At a minimum, Societe Generale requests them to comply with the laws and regulations of each relevant country, while encouraging them to apply the Group's E&S standards.

In particular, Societe Generale expects its counterparties and customers to comply with the obligations to obtain export or re-export licenses and the international conventions ratified by the States in which they operate, as well as all regulations applicable to the trade of arms, security equipment and services and dual-use goods.

Societe Generale recognizes that the legitimate concerns of civil society stakeholders have played an important role in the fact that international regulation contributes to improving arms trade control.

The Group recognises and supports this move towards greater control and transparency. International conventions, regional agreements and embargoes have been developed to better address the social impacts resulting from the sector activities.

Based on the analysis of this framework and of the best practices of multilaterals and financial institutions, Societe Generale has defined the following criteria which are incorporated into its decision-making process when considering provision of banking and financial services in the Defense & Security sector.

5.1. Exclusions of weapons and equipment

Societe Generale excludes a certain number of weapons and equipment from its activities because of their prohibition by international conventions or by European Union regulations. The following are concerned:

- Cluster munitions as defined by the 2008 Oslo Convention;
- Anti-personnel mines as defined by the 1999 Ottawa Convention;
- Biological or toxin weapons as defined by the 1972 Convention;
- Chemical weapons as defined by the 1993 Paris Convention;
- Nuclear weapons and military programmes of non-nuclear-weapon States under the 1970 Non-Proliferation Treaty;
- Depleted uranium ammunition, as prohibited by the Belgian law of 1999;

- Equipment having "no practical use other than the imposition of death penalty, torture or other cruel, inhuman or degrading treatment or punishment", as defined by Regulation 1236/2005 of the Council of the European Union.

The Group will not participate in any transaction whose underlying asset is composed of these excluded weapons and equipment as well as their key and dedicated components.

5.2. Exclusion of certain counterparties

Societe Generale excludes:

- The direct supply of products or services to companies involved in the development, manufacture, acquisition, integration, storage, retention, supply, disposal, import, export, re-export, trade, brokerage, transfer or use of weapons and equipment excluded in point 5.1 and their key and dedicated components.
- Investment in market instruments issued by or involving companies excluded in the previous point.
- The parent company or holding company of an excluded company and all subsidiaries and entities under the effective and direct control of the excluded companies are also excluded.
- The only exception to these exclusions concerns transactions and companies involved in the neutralisation, destruction or storage for the purpose of destroying excluded weapons and equipment.

5.3. Exclusion of certain transactions

In order to manage the risks of arms trafficking, diversion, corruption and terrorism, Societe Generale also excludes arms transactions:

- For which it would be impossible to unequivocally identify all the physical and legal counterparts involved.
- Involving a private buyer and/or intermediary who would not act in a verifiable manner on behalf of a State, except for intra-community transfers defined by the European Union and transactions involving weapons strictly related to hunting, leisure and sports shooting.
- Involving an exporter located in a State that is not a party to the Arms Trade Treaty and for which the verification of obtaining of an end-user certificate and an export permit is impossible.
- Whose final destination would be excluded by the policy (see below).

5.4. Exclusion of certain countries of final destination

Societe Generale excludes all transactions involving weapons or security and defence equipment destined for countries:

- towards which an arms trade embargo, or a sanctions regime applicable to the defence sector, has been decreed by the UN, the European Union or the OSCE;
- in which the transaction would pose a clear risk of non-compliance with human rights and international humanitarian law.

The only exceptions to these exclusions are transactions on behalf of an organisation operating under a United Nations mandate or a regional security organization recognized by the United Nations.

5.5. Evaluation of transactions, customers and counterparties

In addition to the exclusions defined above, Societe Generale assesses the sensitivity of the underlying assets, clients, direct counterparties and transactions falling within the scope of the policy. As such, the Group:

- With regard to clients: assesses their sensitivity, in particular when entering into a relationship (onboarding), during periodic reviews of the relationship and during the analysis of any new

transactions for clients affected by internal restrictions (in particular anti-money laundering and embargoes), particularly with regard to :

- potential convictions by a national court or report by the United Nations within the past 5 years relating to a non-compliance with national legislation on arms trade or a direct violation of an embargo or an international sanctions regime on weapons and equipment covered by this policy;
 - potential convictions by a national court within the last 5 years for acts of corruption, illegal taking of interest or misappropriation of public funds in connection with transactions relating to weapons and equipment covered by this policy;
 - the client's potential economic activity in territories excluded by the policy, even if it is not the subject of the relationship with Société Générale.
- With regard to transactions covered by the policy, assesses:
 - the sensitivity of the transaction depending on the underlying asset. The Group ensures that civilian explosives and small arms and light weapons benefit from the same level of vigilance as heavy weapons and military equipment;
 - the sensitivity of the transaction in terms of corruption risks, with particular attention to intermediaries, offsets and financial arrangements;
 - the acceptability of the transaction according to the sensitivity of the final destination (in particular countries where is actively taking place or countries participating in a declared war as per international law or an armed conflict); and in the light of the criteria defined by the common position of the Council of the European Union and by the United Nations ATT.

This assessment is based on the documentation of the transactions by the parties involved. When national secrecy protection mechanisms apply, the Group requests a written commitment of compliance from the counterparty concerned.

The Group deserves the right to refuse certain customers or transactions following this assessment, even if the exclusion criteria defined in the policy are not applicable.

6. IMPLEMENTATION PROCESS

As established in the E&S General Guidelines, Societe Generale integrates the assessment of potential E&S risks and impacts into its decision-making processes both at client assessment level and, where necessary, at transaction assessment level.

Societe Generale decisions are based on the information made available to the Group. Societe Generale puts all its reasonable endeavours to ensure the quality and reliability of this information.

7. INTERNAL CONTROL

The application of the policy is controlled by Societe Generale's Internal Control mechanisms.

8. SCHEDULE – REVISIONS

This Defense & Security Sector Policy is applicable starting from the date of its publication to all services provided therefrom.

Procedures will be put in place where necessary, and progressively, throughout the Group to enable the integration of these requirements in usual decision processes. Review mechanisms will allow for continuous improvement. Societe Generale reserves the right to modify this Sector Policy at any time. This document cannot be interpreted as a contractual commitment.

Updated versions will be posted on Societe Generale's website, where the E&S General Guidelines and all published Cross-sectorial and Sector Policies are also available.

This Sector Policy has been established in French, versions in other languages are free translations.

GLOSSARY

For the purposes of this policy, the following definitions apply:

Weapons: all devices designed or used to neutralize, injure or kill a living being and/or cause material destruction.

Note: Devices not intended to be used as weapons are therefore not affected.

Cluster munitions: refers to a conventional munition designed to disperse or release explosive submunitions, each weighing less than 20 kilograms, and includes these explosive submunitions. It does not refer to:

(a) a munition or submunition designed to launch illuminating devices, smoke bombs, pyrotechnic devices or decoys, or a munition designed exclusively for air defence purposes;

(b) a munition or submunition designed to produce electrical or electronic effects;

(c) a munition which, in order to avoid indiscriminate effects on an area and the risks posed by unexploded submunitions, has all of the following characteristics:

(i) each munition contains less than ten explosive submunitions;

(ii) each explosive submunition weighs more than four kilograms;

(iii) each explosive submunition is designed to detect and attack a target consisting of a single object;

(iv) each explosive submunition is equipped with an electronic self-destruction mechanism;

(v) each explosive submunition is equipped with an electronic self-deactivation device;

(Article 2 of the 2008 Oslo Convention)

Biological weapons: refers to

(1) Microbiological or other biological agents, as well as toxins whatever their origin or mode of production, of types and quantities which are not intended for prophylactic, protective or other peaceful purposes;

(2) Weapons, equipment or means of delivery intended for the use of such agents or toxins for hostile purposes or in armed conflicts.

Chemical weapons: 'Chemical weapons' means the following, taken together or separately:

(a) Toxic chemicals and their precursors, except those intended for purposes not prohibited by the 1993 Convention, as long as the types and quantities involved are compatible with such purposes;

(b) Ammunition and devices specifically designed to cause death or other damage by the toxic action of toxic chemicals defined in subparagraph (a), which would be released as a result of the use of such ammunition and devices;

(c) Any equipment specifically designed for use in direct connection with the use of ammunition and devices defined in subparagraph (b).

(Article 2 of the 1993 Paris Convention)

Small arms and light weapons:

In general, "small arms" refers to individual weapons, including but not limited to: revolvers and self-loading pistols; rifles and carbines; machine guns; assault rifles; and light machine guns;

"Light weapons" are generally defined as collective weapons designed for use by two or three persons, although some may be carried and used by a single person, including but not limited to: heavy machine guns; hand-held under-barrel or mounted grenade launchers; portable anti-aircraft guns; portable anti-tank guns; recoilless guns; portable anti-tank missile launchers and rocket launchers; portable anti-aircraft missile launchers; and mortars with a calibre of less than 100 mm.

(International Instrument for Identification and Traceability, UN, 2005)

Nuclear weapons: refers to explosive devices whose destructive capacity is based on the initiation of a chain atomic reaction.

Convention on Certain Conventional Weapons (CCW): officially the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects, signed on 10 October 1980 in Geneva and entered into force on 2 December 1983. Its purpose is to prohibit or limit the use of certain weapons considered to cause "excessive or unnecessary damage to combatants or to strike indiscriminately".

Counterparties: for the purposes of this policy, a "counterparty" is considered to be any natural or legal person mentioned in a contract binding Société Générale, even if the Group does not provide a product or service to such consideration.

Intermediary: is considered as an intermediary a person who intervenes on the supply or the underlying asset before the final recipient. He is not the client, nor the exporter, nor the final recipient. This definition thus differs from the OECD definition of an intermediary, that define an intermediary as a person who acts as an effective link or intervenes between one or more counterparts to a commercial transaction.

Anti-personnel mine: a mine designed to explode as a result of the presence, proximity or contact of a person and intended to disable, injure or kill one or more persons
(Art 2 of the 1997 Ottawa Convention).

Depleted uranium ammunition: inert ammunition containing depleted uranium or any other type of industrial uranium.

Defence sector: all companies and organizations having direct links with the military forces deployed by Member States of the United Nations Organisation for the defence of their territory, the protection of their population and the safeguarding of their interests or those of their allies. In the absence of a universal definition of the Sector, Societe Generale adapts its internal procedures to the different national laws applicable.

Security Sector: all companies and organizations involved in the production, implementation, supply, trade, storage or transfer of security products or services to public or private operators. In the absence of a universal definition of the Sector, Societe Generale adapts its internal procedures to the different national laws applicable.

Underlying: the economic purpose of a transaction (in this case, the weapons, ammunition and equipment covered by the policy).

Arms Trade Treaty: an international treaty regulating the arms trade under the aegis of the United Nations. The follow-up to its instruments of ratification, which entered into force on 24 December 2014, is available on the website of the United Nations Office for Disarmament Affairs (<https://www.un.org/disarmament/fr/convarms/sur-des-commerces-des-armes/>)