

JUNE 2019 / N° 116

# LETTER TO SHAREHOLDERS

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**THE FUTURE  
IS YOU**



**SOCIETE  
GENERALE**

# NEWS

## SHARE PRICE

Closing price at 21/05/2019: **€25.24**



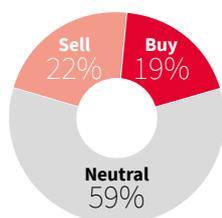
## MORE INFORMATION ABOUT SOCIETE GENERALE

The Integrated Report 2018-2019 – presented at the Annual General Meeting

[www.societegenerale.com/integrated-report](http://www.societegenerale.com/integrated-report)  
[www.societegenerale.com](http://www.societegenerale.com)

## ANALYST RECOMMENDATIONS

Source: Bloomberg.



<b>Average Bloomberg target price</b>	<b>€31</b>
Low	€20
High	€38

## DIARY

### 18 June 2019

Meeting with shareholders in Lyon, France

### 1 August 2019

Publication of second quarter and first half 2019 results

### 26 September 2019

Meeting with students in Lille, France

### 6 November 2019

Publication of third quarter 2019 results

### 14 November 2019

Meeting with shareholders in Bordeaux, France

## HOW TO CONTACT US?

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# EDITORIAL

“Dear Shareholders,

At the Annual General Meeting on 21 May, you voted to renew my mandate as a Director. I would like to thank you for placing your trust in me. I am humbled by this vote and am fully aware of the responsibility it gives me.

My ambition to continue to build our Group’s future is stronger than ever. As I begin this new term of office, I will devote all my energy and determination to three key priorities. Firstly, I intend to complete the transformation of the retail banking networks in France and our market activities, as well as the refocusing of our business model. My second goal is to maintain our position as one of the most innovative French and European banks. And my third priority is to achieve our strategic and financial goals, confirming our sustainable, profitable and responsible growth.

Our ambition is to be a leading banking group in Europe, serving our customers by supporting them with their positive transformations and creating value for our shareholders.

Over time, our success will draw on our capacity to combine responsibility and innovation. Our first commitment must be responsibility. This means acting ethically in everything we do and contributing to the sustainable development of our economies and societies. In particular, we will continue with our commitment to fighting climate change and helping economies and clients with the energy transition.

On 23 May, we announced new measures to further reduce our involvement in coal. Our second ambition is to remain at the cutting edge of innovation. We have successfully embarked on our digital transformation and stimulated a culture of open



**FRÉDÉRIC OUDÉA**  
*Chief Executive Officer*

innovation in all our business lines. In the coming years, we will continue adapting our services to our customers’ changing expectations and inventing the bank of the future.

I would like to thank you once again for your loyalty and the trust you have placed in our Group.”

## Renewal of Board mandates



**KYRA HAZOU AND GÉRARD MESTRALLET**

Three Directors’ mandates were renewed for a period of four years:

**Frédéric Oudéa**, Director since 2009 and Chief Executive Officer;

**Kyra Hazou**, Independent Director since 2011, member of the Audit and Internal Control Committee and member of the Risk Committee; and

**Gérard Mestrallet**, Independent Director since 2015, Chairman of the Nomination and Corporate Governance Committee and member of the Compensation Committee.

The Board of Directors has 14 members, including two Directors elected by members of staff. It has five female members elected by the Annual General Meeting and five international members. Independent Directors account for over 91.6% of the Board.

# ANNUAL GENERAL MEETING

**SOCIETE GENERALE'S ANNUAL GENERAL MEETING WAS HELD ON 21 MAY, 2019 IN PARIS LA DÉFENSE, CHAIRED BY LORENZO BINI SMAGHI. QUORUM WAS MET AT 54.51%. FRÉDÉRIC OUDÉA'S MANDATE AS A DIRECTOR WAS RENEWED AT 96.22%**

Lorenzo Bini Smaghi reviewed the key points of 2018, a year of considerable achievements and contrasting results. Societe Generale made progress with the different areas of its strategic plan: growth initiatives, refocusing of activities, establishing a culture of responsibility, optimisation efforts and the far-reaching transformation, in particular in digital matters, are all beginning to show results. However, since mid-2018, the outlook in terms of interest rates, economic conditions and the political environment have changed considerably. In these conditions, which are less favourable for the whole European banking sector, the Group adjusted its strategic plan and its



financial goals. Diony Lebot, Deputy Chief Executive Officer, presented the Group's results for 2018 and the first quarter of 2019, and Frédéric Oudéa, Chief Executive Officer, set out the Group's strategy. Lorenzo Bini Smaghi then provided an update on corporate governance and Jean-Bernard Lévy, in his role as Chairman of the Compensation Committee, presented the Group's policy in this area. All the resolutions presented to the meeting were approved. The dividend for 2018 was set at €2.20 per share, with the option to receive payment in shares.

FOR FURTHER INFORMATION ON THE RESOLUTION VOTES VISIT:  
[www.societegenerale.com/annual-general-meeting-vote](http://www.societegenerale.com/annual-general-meeting-vote)

**“Societe Generale has built a solid and resilient banking model over the recent years.”**

## **Robust results and ongoing transformation**

The Group actively continued its transformation in 2018 and delivered robust results thanks to strong commercial momentum. The last three major legal disputes with the US authorities were settled in 2018, for a total of \$2.7 billion. This figure was covered by provisions and therefore had no impact on the Group's results. In recent years, Societe Generale has made considerable efforts to strengthen its control systems and processes, and instil shared culture and conduct principles across all its activities.

In 2018, underlying Net banking income rose by 0.6%. Underlying Group net income was stable against 2017 at €4.5 billion and Reported net income rose sharply, by 37.7%. Return on equity improved in relation to 2017, with underlying ROTE of 9.7% and reported ROTE of 8.8%.

In French Retail Banking, growth initiatives are proving effective, but low, even negative, interest rates continued to weigh on revenues, as is the case for most of our European peers. For International Retail Banking and Financial Services, growth was very strong in all business lines and regions. Global Banking and Investor Solutions recorded more contrasting trends.



### Major changes over the past 10 years

Our French Retail Banking networks are going through a major period of adjustment as customer expectations change, in particular given the growth of new technologies. The changes, considerable in their extent, gathered pace in late 2015, and apply to all organisations, all commercial procedures and all members of staff. We have made our International Retail Banking and Financial Services activities a major driver of profitable growth for the Group, and this core business recorded net income of €2 billion in 2018, compared with less than €500 million in 2014. Global Banking and Investor Solutions activities have made in-depth changes to their business models, moving away from transaction-focused models to a more client-focused approach.

### Innovative business models to drive long-term growth

Alongside these major transformation projects, Societe Generale has never lost sight of the need to remain an enterprising bank, developing year after year business models able to deliver growth. The expansion of our insurance activities, Boursorama, or our vehicle fleet management subsidiary, ALD Automotive, are prime examples. Our capacity for innovation is also evident in the rapid rollout of digital technology and new ways of working across all our business lines and functions. We have also forged relations with startups through partnerships, investments, acquisitions and in-house business creations, with the aim of building new activities.

### A business model that creates value

Societe Generale has built a solid and resilient banking model over the recent years, one that will enable it to continue growing in the future. At the same time, Net tangible asset value per share, which represent the Group's intrinsic value, have steadily increased to stand at €55.80 at year-end 2018. Over the long term, the return over 10 years is higher than the average of eurozone banks. The fall in Societe Generale's share price at the start of this year reflected doubts in the financial community. Beyond the European banking sector in general having limited appeal at the moment, investors raised concerns about the level of our capital and the profitability of our Corporate and Investment Banking activities.

We are in the process of delivering a rapid response to these two concerns. Our CET1 capital ratio rose sharply between the end of 2018 and March 2019. We aim to meet our 2020 target of 12% as soon as possible.

We are working on a more selective capital allocation policy and have begun to reduce the amount of capital allocated to market activities. We are also continuing to refocus the Group. Regarding the profitability of our Corporate and Investment Banking business, and our market activities in particular, we have announced an ambitious strategic and operational restructuring plan.

### Combining responsibility and innovation over the long term

The challenge for the years to come will be to combine innovation and responsibility. The transformation of our business lines must continue. The second challenge will be to develop new business models in line with new social trends. And, lastly, we intend to engage in the positive transformations of our customers and economies, especially in the area of energy transition.

For over 10 years, the Group has offered world-class expertise in renewable energy financing and in 2018 was ranked as the leading French bank and second bank overall for renewable energy financing in our main market of Europe, Middle East and Africa<sup>(1)</sup>. While supporting its clients, Societe Generale has reduced its activities related to fossil fuels and stopped financing certain activities, including projects dedicated to coal, Arctic oil production and the production of oil from bituminous sands. Sustainable development in Africa is one of the main issues facing the planet, and Europe in particular. Societe Generale has a real role to play in this area, even as international banks are tending to withdraw from the continent. More broadly, the Group intends to benefit from its positioning in business lines and regions that offer strong growth potential. Market conditions will remain challenging in Europe and Societe Generale's positioning in more bullish regions provides it with a real competitive advantage.

(1) Dealogic ranking



# QUESTIONS FROM SHAREHOLDERS

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**WATCH THE FULL VIDEO OF THE ANNUAL GENERAL MEETING AT [WWW.SOCIETEGENERALE.COM](http://WWW.SOCIETEGENERALE.COM)**

## **What make Societe Generale group confident it can meet the targets it has set for 2020?**

The Group has set two targets: a profitability target and a target capital level, since profitability boosts capital. In terms of its profitability, the Group has lowered its interest rates scenarios for French Retail Banking and is continuing the transformation of its retail banking networks. In Corporate and Investment Banking, the Group has completed a detailed review of the profitability of its activities, which identified those it should stop or adjust. We now have a clear view of the revenue shortfall and savings arising from our refocusing plan.

**“The Group has set two targets: a profitability target and a target capital level, since profitability boosts capital.”**

For our capital base, the target we have set for the end of 2020 takes into account the following: capital generation from profits, the dividend policy, strict control of the allocation of capital to each business line, the downsizing of our market activities, the effect of disposals, the review of our internal regulatory capital models, the option to receive the dividend in shares and the global employee share ownership plan. Our targets also allow for some leeway.

## **What was the total cost of settling litigation in recent years?**

The Group's litigation issues are estimated to have cost €4 billion over the past five years. Societe Generale signed settlement agreements with the US and French authorities in 2018. We have put our major legal disputes behind us and the Bank is now fully committed to fulfilling all the obligations set out in the remediation programmes arising from these settlements.

## **Can the Group survive on its own? Is it not time to join forces with a French or European bank?**

Consolidation on the European banking market will most likely take place once the banking union is complete, which is far from being the case. A number of uncertainties

remain. The European banking market is still fundamentally fragmented. While the idea was to build a fully integrated borderless banking market, national rules are still preventing the free circulation of capital and money and there are still uncertainties about the different types of resolution mechanisms. A merger may seem simple on paper, but it is well known that nothing is more complicated than a business merger, and it is not necessarily the right solution. Our priority of completing our roadmap over the coming quarters will create much more value in the near term.

### **Why do Societe Generale group's banks have different pricing policies?**

The Group has three banks in France – Boursorama, Crédit du Nord and Societe Generale. Each bank has its own personality and targets different customers, who have different expectations in terms of service quality and price. For example, Boursorama's customers want an online bank that is the cheapest on the market, which Boursorama has been for the past 11 years. Societe Generale's individual customers require digital services and the possibility of interacting with an adviser and experts. Societe Generale has strong franchises among business, private banking and wealth management customers, and also offers services for young people. Crédit du Nord has regional banks with a very strong presence in their local areas.

### **Won't cutting the number of branch employees affect customer service quality?**

Societe Generale offers its customers many means of communication. Our branches are an important part of this, but customers also appreciate our call centres which allow them to sign up for products, set an appointment with an adviser or get answers to their questions. Our wide range of



communication channels works well. To provide value-added advice and expertise to those customers who visit branches, the Group continues to invest in the training of its staff. Branch managers are the backbone of Societe Generale.

### **“Societe Generale offers its customers many means of communication.”**

### **How are you aligning your activities with global warming targets?**

The Group has been developing its expertise in renewable energy financing for more than ten years. It has pledged to help raise €100 billion in financing for the energy transition by 2020 and has already raised €78 billion. In 2016, it made proactive responsible commitments regarding coal financing. We were one of the first banks to apply a number of exclusion policies by no longer financing projects related to coal and reducing the amount of coal in the energy production mix financed by the Group. The Group will continue to align its methodologies in line with the Paris climate agreement for other sectors of activity and will undertake further commitments beyond 2020. For example, we recently signed the Katowice Commitment with four other banks.

### **How do you expect interest rates to evolve?**

Following a period of extremely bullish expectations for growth and higher interest rates in late 2017, a turnaround occurred in mid-2018 when forecasts instead began to anticipate a slowdown in growth and low interest rates for a much longer period. We are not expecting interest rates to rise because we are living in a world of low inflation, and this remains the European Central Bank's priority.



# SOCIETE GENERALE FURTHER REDUCES ITS INVOLVEMENT IN COAL

Since 2015, we have committed ourselves to progressively aligning our activities by 2020 with the goals of the International Energy Agency and the Paris Agreement.

This commitment by the Group led to the adoption of a proactive and responsible policy of assisting clients with their energy transition by increasing our support for renewable energies while progressively reducing involvement with carbon-intensive energy sources.

**As part of our ongoing divestment from coal**, in May 2019 Societe Generale announced we would no longer provide new products or services to client companies for whom thermal coal accounts for over 50% of their activity or those for whom thermal coal mining accounts for between 30% and 50% of their activity and who do not have a strategy to reduce this percentage to 30% by 2025, or who have plans to expand their thermal coal capacity. Our new coal sector policy incorporating these commitments will be published before 1 July 2019.

**Societe Generale was one of the first banks to reduce its exposure to the coal sector** by ending coal-related project financing in 2016. At the end of 2018 – two years ahead of schedule – the Group had reached its 2020 objective of limiting to 19% the presence of coal in its energy production financing mix. Renewable energy accounts for nearly half of our energy production financing mix. The Group is also continuing to align its methodology with the Paris Agreement in other business sectors and intends to undertake new commitments beyond 2020. It made this promise in the Katowice Commitment signed during the COP 24 in December 2018.

## Key figures

- **Target of €100bn** in financing for the energy transition between 2016 and 2020, 78% of which had been raised by the end of March 2019
- **€21.5bn** for the renewable energy sector as of end-March 2019
- **€56.bn in green bonds** as of end-March 2019
- **€11.9bn in Sustainable and Positive Impact Financing**, including €6.5bn in 'green' financing as of end-2018

# INNOVATION, A DRIVER OF TRANSFORMATION

Societe Generale group's digital transformation strategy is focused on offering its customers ever more innovative services and a first-class client relationship experience.

This approach is based on enhanced relations with startups, training in key digital skills for the entire Group and the creation of new commercial models. It also makes use of technological progress such as hybrid cloud environments and APIs.

**Societe Generale is constantly expanding its open innovation policy** by establishing close relationships with startups and Fintechs and increasing contact and partnerships with them. The objective for the Group is twofold: to share its expertise with them and to draw on their know-how in user experience and methodology. By cooperating more with these players, Societe Generale

is able to identify which startups will create value for its activities from among the thousands of innovative startups on the market. The Group has also set up Societe Generale Ventures, a €150 million cross-business innovation fund that invests in internal and external startups.

"Our business lines are changing fast and extensively so they can better serve our customers. We are ramping up our open innovation strategy so we can offer them relevant partnerships, combine their efforts in innovation and provide them with the digital expertise they need for their transformation," explains Claire Calmejane, Chief Innovation Officer at Societe Generale group.

## GLOBAL MARKETS INCUBATOR: HELPING FINTECHS SPECIALISING IN GLOBAL MARKETS



Global Markets Incubator, the incubator launched by Societe Generale Corporate and Investment Banking's Global Markets division, illustrates a pioneering approach. After a call for candidates, six Fintechs were selected with a diverse range of expertise connected to the Bank's activities, including anomaly detection, risk management, digital trading operations and alternative data treatment. Expert guidance will be provided for the development of these innovative solutions, along with direct access to our trading room, the largest in Continental Europe, as well as the possibility of establishing partnerships with Societe Generale.

## MOONSHOT-INTERNET: ONE OF THE MOST INNOVATIVE INSURTECHS

In April 2019, Societe Generale Assurances, one of France's leading bancassurers, and Roadzen, a leading international Fintech in mobility and artificial intelligence, signed a strategic agreement to create a European leader in digital contextual insurance. Roadzen will acquire a significant minority stake in Moonshot-Internet, Societe Generale Assurances' Insurtech startup. Moonshot-Internet was incubated within Societe Generale group and launched in March 2017 offering a wide range of affinity insurance solutions.



# ITSCHOOL, INNOVATIVE TRAINING IN JOBS FOR THE FUTURE

Digital skills are a lever for professional integration and personal development for jobseekers and workers seeking to retrain. In France, 80,000 IT jobs are currently vacant due to a shortage of qualified applicants.

Societe Generale's role as a major player in professional integration is to help promote digital inclusion and ensure that its potential benefits everyone, offering a perspective on the jobs of tomorrow. The Group is undertaking an in-depth transformation regarding digital technologies, and human support in new technologies should be a development opportunity for everyone. Societe Generale, a founding member of the *Grande Ecole du Numérique* digital school, reaffirmed its commitment to digital inclusion by launching in October 2018 the ITSchool by Societe Generale & Simplon, a social digital training network. Following the success of the first intake of students, Simplon and Societe Generale launched a second intake for Java developers in March 2019.

**The ITSchool is an inclusive school providing training in digital business** and web development. The course lasts 21 months, including 18 months of work-study experience, and is open to jobseekers and Societe Generale staff seeking to retrain in another field. "We are proud of this innovative programme we created with Simplon which encourages digital inclusion. ITSchool provides a response to our need for IT skills while increasing diversity in this sector and narrowing the digital divide. We hope these talented students will join our IT divisions on a lasting basis," said Caroline Guillaumin, Group Head of Human Resources and Group Head of Communication at Societe Generale.

## Results of the first intake of students

The 17 students in the first intake are currently in work-study programmes in Societe Generale group's IT divisions. They completed their intensive lessons at the start of the year and are now working with our teams on real projects such as the development of repositories and applications for the Bank.



## A commitment to professional integration in France and around the world

Societe Generale supports professional integration. For example, it has worked with Simplon since 2015 to provide training in disadvantaged districts in northern Marseille and Seine-Saint-Denis in France, as well as in several West African countries, Dakar in Senegal, Abidjan in Côte d'Ivoire and in Tunisia.

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