MOODY'S INVESTORS SERVICE

CREDIT OPINION

10 May 2017

Update

Rate this Research

RATINGS

Societe Generale

Domicile	Paris, France
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contact

Andrea Usai 44-20-7772-1058
Senior Vice President
andrea.usai@moodys.com

Yana Ruvinskaya 44-20-7772-1618
Associate Analyst
yana.ruvinskaya@moodys.com

Michael Eberhardt, CFA 44-20-7772-8611
VP-Sr Credit Officer
michael.eberhardt@moodys.com

Laurie Mayers 44-20-7772-5582
Associate Managing Director
laurie.mayers@moodys.com

Ana Arsov 212-553-3763
Managing Director
ana.arsov@moodys.com

Societe Generale

Update following the publication of the Q1 2017 financial results

Summary Rating Rationale

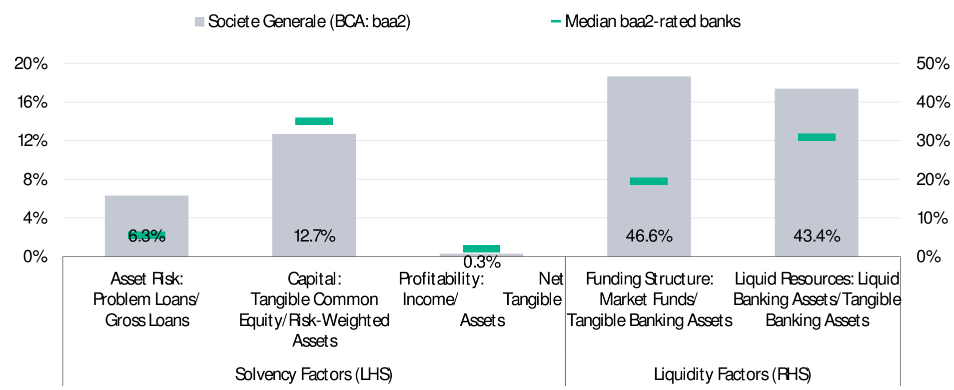
Société Générale (SG) is a France-based global systemically-important bank with sizeable international operations. We rate SG's long-term deposit and senior unsecured debt A2 with stable outlook and the bank's junior senior (senior non-preferred) debt Baa3.

SG's baa2 baseline credit assessment (BCA) reflects the bank's (1) strong franchise and well-diversified universal banking business model, (2) good and improving regulatory capitalisation, and (3) strong liquidity. The BCA is however constrained by (4) some weak exposures, mainly to Russia (Ba1 stable) and certain African countries, (5) the risks stemming from the bank's sizeable capital markets activities, and (6) an elevated but reducing stock of confidence-sensitive wholesale funding.

SG's A2 long-term deposit and senior unsecured debt ratings include a two-notch uplift resulting from the Loss Given Failure (LGF) analysis, reflecting our view that the bank's junior depositors and senior unsecured creditors face a very low loss given failure. In addition, our moderate assessment of Government Support translates into a further notch uplift included in these ratings.

Exhibit 1

Rating Scorecard- Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

» Strong franchise and well-diversified universal banking business model provide stable and predictable earnings. Profitability is, however, challenged in the current low-interest rate environment in Europe and still challenging (albeit stabilising) operating conditions in Russia

» Good and improving regulatory capitalisation, underpinned by a strong earnings generation capacity

» Liquidity is strong and broadly in line with large European peers

» Our advanced LGF analysis indicates a very low loss given failure for junior depositors and senior unsecured creditors, resulting in a two-notch uplift in the relevant ratings, from the firm's baa2 adjusted BCA

» The long-term deposit and senior unsecured debt ratings incorporate one notch of Government Support uplift

Credit Challenges

» SG has sizeable capital markets activities, which carry downside risks for creditors

» Good credit quality profile although exposures to some countries with weaker operating conditions than SG's home market weaken its credit profile and pose downside risks

» Elevated, albeit reducing, stock of confidence-sensitive wholesale funding is partly mitigated by strong liquidity, well diversified funding sources and proven access to wholesale funding markets

Rating Outlook

The ratings outlook is stable, as we expect no material changes in the bank's credit fundamentals over the next 12-18 months. The current ratings already incorporate the operating challenges from weak economic growth and protracted low interest rates in Europe, as well as the stabilisation of operating conditions in Russia.

Factors that Could Lead to an Upgrade

The BCA could be upgraded following:

» structural improvement in the bank's funding profile,

» material reduction in the size of the capital markets activity, and/or

» much stronger capitalisation.

An upgrade of the bank's BCA would likely affect all ratings.

Factors that Could Lead to a Downgrade

The BCA could be downgraded in case of:

» deterioration in the operating environment beyond our current expectations,

» weakening in funding and liquidity,

» lower regulatory capitalisation or higher leverage, and/or;

» an increase in risk appetite.

A downgrade of the BCA would likely result in downgrades of all ratings.

Key Indicators

Exhibit 2
Societe Generale (Consolidated Financials) [1]

	12-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	Avg.
Total Assets (EUR million)	1,211,657	1,159,470	1,107,984	1,058,569	1,027,228	4.2[4]
Total Assets (USD million)	1,277,998	1,259,527	1,340,720	1,458,647	1,354,289	-1.4[4]
Tangible Common Equity (EUR million)	45,162	41,964	38,130	35,417	37,430	4.8[4]
Tangible Common Equity (USD million)	47,635	45,585	46,139	48,802	49,347	-0.9[4]
Problem Loans / Gross Loans (%)	5.7	6.1	7.0	7.6	7.2	6.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.7	11.8	10.8	10.3	11.5	11.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	39.8	42.9	47.8	52.8	50.5	46.8[5]
Net Interest Margin (%)	0.8	0.8	0.9	1.0	1.0	0.9[5]
PPI / Average RWA (%)	2.2	2.1	1.9	2.2	2.3	2.1[6]
Net Income / Tangible Assets (%)	0.3	0.3	0.3	0.3	0.3	0.3[5]
Cost / Income Ratio (%)	68.3	69.6	71.0	69.6	68.5	69.4[5]
Market Funds / Tangible Banking Assets (%)	46.6	49.7	52.5	55.6	52.4	51.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	43.4	45.0	47.2	49.3	46.4	46.3[5]
Gross Loans / Due to Customers (%)	102.3	109.0	111.2	115.2	110.4	109.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate (%). Any interim period amounts presented are assumed to be fiscal year end amounts for calculation purposes [5] Simple average of periods presented [6] Simple average of Basel III periods presented
Source: Moody's Financial Metrics

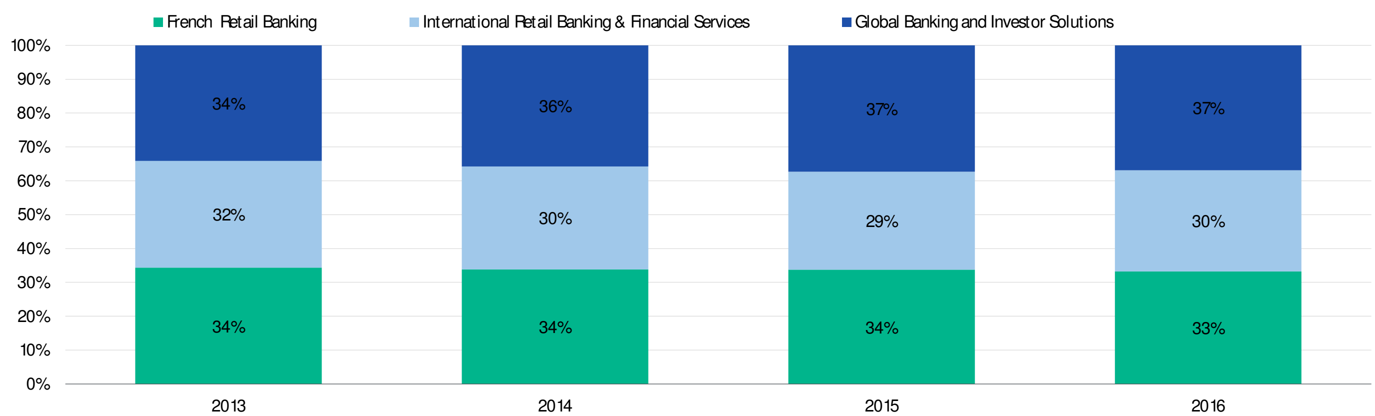
Detailed Rating Considerations

The financial data in the following sections are sourced from SG's financial statements, unless otherwise indicated.

STRONG FRANCHISE AND WELL-DIVERSIFIED UNIVERSAL BANKING BUSINESS MODEL PROVIDES STABLE AND PREDICTABLE EARNINGS. PROFITABILITY IS HOWEVER CHALLENGED IN THE CURRENT LOW-INTEREST RATE ENVIRONMENT IN EUROPE AND STILL CHALLENGING (ALBEIT STABILISING) OPERATING CONDITIONS IN RUSSIA

SG's operations are organised across three main business lines, roughly contributing equal shares to the group's revenues (Exhibit 3).

Exhibit 3
Net Banking Income by business line



Note: excludes Corporate Centre
Source: Company Reports

The French Retail Banking (FRB) division includes the group's strong domestic retail and SME banking franchise, which we view as one of its key credit strengths. It also offers good cross-selling opportunities for products and services that are offered in other divisions of the group. SG's domestic operations have historically proven very resilient to changes in operating conditions although the prolonged low interest rate environment is translating into tangible declines in net interest income in France retail for SG and the other large domestic banks, due to large volumes of mortgage renegotiations. Thus far, this has partly been offset by declining credit costs, from which we do not expect further benefits over the next 12-18 months. However, we believe that a high degree of product and geographical diversification will allow SG to offset these revenues pressures.

The International Retail Banking and Financial Services (IBFS) comprises SG's international retail activities, which are spread across a number of countries in Central and Eastern Europe, Russia and Africa. SG's franchises in most of these countries are well recognised but remains smaller than its retail franchise in France. The Financial Services (to corporates) and insurance (FSI) operations are also key franchises, as the group's sizeable bancassurance product offering includes life insurance contracts, mutual funds and other investment services, which form an important part of households' savings in France. This business line also includes Specialised Financial Services (SFS), comprising an array of different services, such as auto finance, personal finance and leasing, some of which are offered globally. The product lines within IBFS have mixed risk-return profiles and some of them in which SG is market leader (i.e. auto finance, equipment finance) generate strong profitability levels at relatively limited risk. IBFS also includes other activities (i.e. consumer finance in Italy), carrying downside risks, in our view. However, the portfolios of operations is very diversified both by product and region and the weaker exposures are contained relative to the group's sizeable loan book.

The Global Banking and Investor Solutions (GBIS) division houses the group's capital markets, financing & advisory and asset management operations. We consider SG as a tier-two global investment bank due to its multi-specialist business model, focussed on cross-asset solutions (structured equity and fixed income solutions) and flow equity derivatives. SG has strong expertise in structured products (with a global leadership in equity derivatives), exchange traded funds (under the brand Lyxor, unrated), commodities, research and market making. Management has recently announced its intention to focus on post-trade services and a plan to expand its bond origination and trading businesses with existing European clients. SG operates in the US through Société Générale Americas Securities (SGAS, Baa2 stable), a core operating subsidiary through which it conducts its institutional equities, fixed income brokerage and futures commission merchant activities in the region.

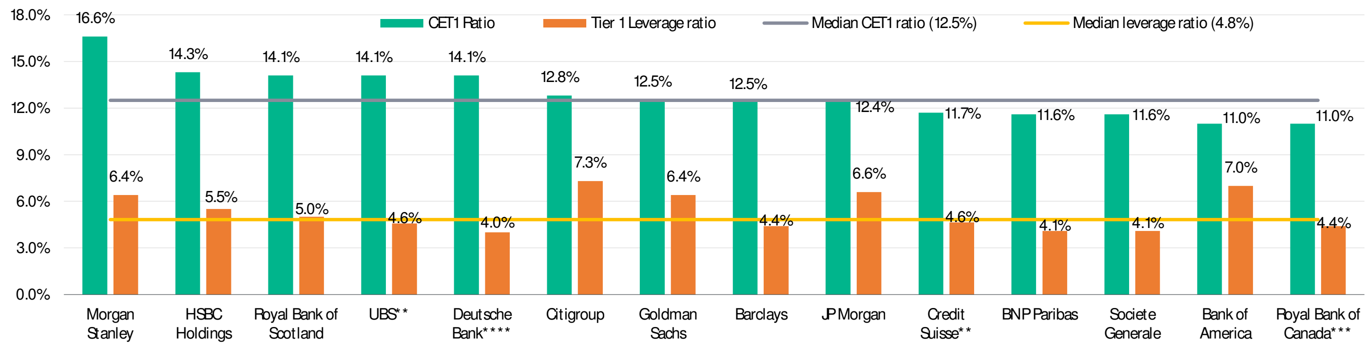
SG has historically maintained adequate profitability levels and has shown relatively low (and declining) earnings volatility, when compared with its global peers. In addition, it only has a very small legacy assets portfolio to wind-down, resulting in lower profitability headwinds compared to some its European peers. We believe that the group has benefitted from the good diversification of its operations, which we recognise with a one-notch positive adjustment for Business Diversification in the qualitative section of our BCA scorecard. However, the current challenging operating conditions, including prolonged low interest rates in Europe and still weak (albeit stabilising) operating conditions in Russia and some smaller markets in which SG operates are challenging the group's overall profitability, including management's 10% return on equity (RoE) target.

Our baa2 score for Profitability, which is in line with the bank's BCA, reflects these factors as well as our expectation that SG's profitability will gradually improve over the next 12-18 also as a result of internal reorganisation and cost-rationalisation initiatives.

GOOD AND IMPROVING REGULATORY CAPITALISATION, UNDERPINNED BY A STRONG EARNINGS GENERATION CAPACITY

We consider SG's capitalisation as good, as evidenced by its Basel III fully-applied Common Equity Tier 1 (CET1) ratio of 11.6% at end-March 2017, which is below the median for its global competitors (Exhibit 4). It also close to the group's end-2018 CET1 target ratio of between 11.5% and 12%.

Exhibit 4
CET1 ratios for Global Investment Banks as at end-March 2017



Note: (**)UBS and CS leverage ratio reflect Common Equity Tier plus Low Trigger Additional Tier 1 and High-Trigger Additional Tier 1 securities,(***)end-January 2017,(****)pro forma for early April 2017 capital raise
Source: Company Reports

SG has recently announced its new capital requirement following the conclusion of its supervisory review and evaluation process (SREP), based on pre-notification from the European Central Bank of 7.75%, from 1 January 2017. This includes a Pillar 2 capital requirement of 1.5% but excludes the Pillar 2 guidance component, which is undisclosed. SG's phased-in CET1 ratio of 11.7% at end-March, was already well above the newly set SREP requirements. In addition, management targets to maintain a buffer of between 100 and 150 basis points above its total SREP requirement.

SG had a Basel III leverage ratio of 4.1% at end-March 2017, which is in line with many large European competitors albeit lower than the median of its global peer group.

Our a3 assigned score for Capital (from baa2 previously) reflects both the firm's current good and improved capital position and our expectation that its regulatory capitalisation, including leverage, will to continue to improve over the next 12-18 monthly, mostly through earnings retention.

ELEVATED RELIANCE ON CONFIDENCE-SENSITIVE WHOLESALE FUNDING IS PARTLY MITIGATED BY STRONG LIQUIDITY, WELL-DIVERSIFIED FUNDING SOURCES AND PROVEN ACCESS TO WHOLESALE FUNDING MARKETS

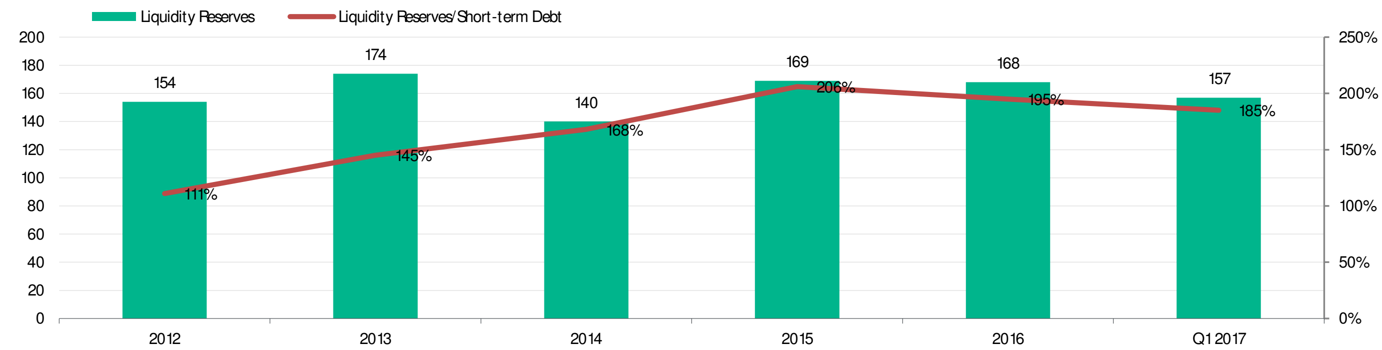
Similar to the other French banks and some of its international peers with sizeable capital markets operations, SG has a high stock of wholesale funding on its balance sheet. We believe this exposes these firms to changes in market conditions and renders them more sensitive to swings in investor confidence compared to those banks that have a greater proportion of deposits.

SG had an elevated funding stock of EUR220 billion, or 29% of its funded balance sheet at end-March 2017, driven by large trading and investment portfolios. Around 38% of the bank's total funding was short-term (including the portion of long-term debt maturing within the following 12 months). Our b1 assigned score for Funding Structure reflects the bank's elevated reliance on wholesale funding, whose associated refinancing risk is partly mitigated by the a good diversification of the wholesale funding sources both by investor base and currency.

SG has however a strong liquidity position, which has been improving over the last few years and is now in line with most of its international peers. At end-March 2017, SG had a liquidity buffer of EUR157 billion, which covered more than 2x the correspondent stock of short-term funding, inclusive of the long-term debt maturing within the following 12 months (Exhibit 5). SG's strong liquidity position is also evidenced by its liquidity coverage ratio (LCR) of 129% at end-March 2017. Our assigned score of a1 for Liquid Resources reflects these considerations and partly mitigates the weak Liquid Resource rating factor, resulting in a Combined Liquidity Score of baa3.

Exhibit 5

Societe Generale's Liquidity Buffer and Short Term Debt Coverage (EUR billions)



Source: Company reports

IMPROVED CREDIT QUALITY PROFILE ALTHOUGH EXPOSURES TO SOME COUNTRIES WITH WEAKER OPERATING CONDITIONS THAN ITS HOME MARKET WEAKEN ITS CREDIT PROFILE AND POSE DOWNSIDE RISKS

SG's 'Strong' Macro Profile is largely driven by its exposure to France (Macro Profile: 'Strong+') and its sizeable operations in the US (Macro Profile: 'Very Strong-') partly offset by the group's operations in Central and Eastern Europe, Russia and Africa, which have weaker Macro Profiles.

French banks benefit from operating in a country with a large and broadly diversified economy, a robust institutional framework and a very low susceptibility to event risk. Nevertheless, France's medium and long-term economic performance will continue to be constrained by weak economic growth that coupled with institutional and political constraints, poses for the material reduction in the government's high debt burden.

The main risk to which SG is exposed to is credit risk, representing around 82% of risk-weighted assets (RWAs) at end-March 2017, which mainly relates to lending in France, Central and Eastern Europe and Russia. SG's customer loan book of EUR483 billion at end-March 2017 is exposed to country and sector concentration risks. Exposures to a few relatively large corporates in its financing activities and notable industry concentrations to the financial services sector in the capital market operations also affect SG's asset risk.

SG's credit quality has improved in recent quarters and problem loans accounted for EUR23 billion at end-March 2017, equal to 4.8% of gross customer loans (including interbank loans). High levels of doubtful loans tend to reflect protracted workout practices, in common with other French banks, which are partly mitigated by collateral and provisions. However, SG's problem loans remain higher than most domestic players due to the firm's exposure to Eastern Europe and Russia and its large presence in the mid-corporate French market.

At end-March 2017, the coverage ratio was adequate at 65%, including specific and portfolio-based provisions. Over the last few quarters, SG's cost of risk has been trending down (24 basis points in Q1-2017 compared to 46 basis points in Q1-2016), driven by improved credit condition in France on the back of prolonged low interest rates and a stabilisation of economic conditions in Russia. We have reflected these factors in an increase in the Assigned Score for Asset Risk to baa2 (from baa3 previously). We expect cost of risk to remain broadly unchanged from the current level, over the next 12-18 months.

SG's operations in Russia, which accounted to EUR16 billion of EAD at end-2016, representing around 2% of the group's total at the same reporting date, are currently under pressure due to weak operating conditions. Our stress test shows that even in an adverse scenario, the negative impact on SG's capital would be limited. However, the potential volatility of the economy in the country and the heightened geopolitical risk mean that SG's exposures to Russia remains a key, albeit decreasing, risk (SG disclosed EUR2.9 billion equity and EUR0.6 billion of intra-group funding (subordinated loan) to SG's Russian subsidiaries at end-March 2017). SG reported a net profit in Russia of EUR8 million in 2016 and EUR9 million for Q1 2017, which is in line with our expectation. In our view the operating environment in Russia will continue to normalise over the next 12-18 months. Emerging signs of the country's macroeconomic stabilisation, banks' enhanced risk absorption capacity and lower refinancing risk, have led us to change recently the outlook on the Russian banking system to stable from negative.

SG HAS SIZEABLE CAPITAL MARKETS ACTIVITIES, WHICH CARRY DOWNSIDE RISKS FOR CREDITORS

Market risk has significantly decreased over the last two years as evidenced by market risk RWAs of EUR18 billion representing 5% of the total, at end-March 2017. The average Value-at-Risk, which was EUR30 million during Q1-2017, is limited. In addition, counterparty risk and operational risk arise from SG's capital markets activities, particularly from its large stock of financial assets and derivatives.

We believe that the firm's market risk appetite has reduced, and its risk management capabilities has been overhauled in recent years, following the financial crisis and in response to the rogue trader fraud in 2008. However, securities and client trading assets of EUR160 billion at end-March 2017 remain higher than some of SG's peers (as a percentage of the total cash balance sheet) due to the large and liquid equity trading assets portfolio and the large securities book held to meet Basel III liquidity requirements.

Our baa2 assigned score for Asset Risk takes into account the risks associated with the group's investment banking activities and indicates that, overall, asset risk remains a modest weakness for SG's BCA.

We estimate that pure capital markets activities, represented around 25% of total revenues in Q1 2017. Although this proportion is lower than some of its global peers, it bring elements of earnings volatility, confidence sensitivity and complexity that reduce the value we attribute to these franchises. The high degree of volatility of capital markets revenues, and the inherently greater risks carried by these types of activities currently constrains the credit profile of SG and those of its global peers and is reflected in a one-notch adjustment for Opacity and Complexity in the qualitative section of our BCA scorecard.

Notching Considerations

LOSS GIVEN FAILURE

We apply our advanced Loss Given Failure (LGF) analysis to SG as the bank is incorporated in France, which we consider to be an Operational Resolution Regime because it is subject to the EU Bank Recovery and Resolution Directive (BRRD). For this analysis we assume that equity and losses stand at 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% run-off of "junior" wholesale deposits and a 5% run-off in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt. These are in line with our standard assumptions. We apply a standard assumption for European banks that 26% of deposits are junior.

Our advanced LGF analysis indicates a very low loss given failure for junior depositors and senior unsecured creditors, resulting in a two-notch uplift in the relevant ratings, from the firm's baa2 adjusted BCA. For junior senior creditors, due to the subordination of these instruments, our advanced LGF analysis indicates likely high loss severity in the event of the bank's failure, leading to a position one notch below the bank's adjusted BCA.

Finally, for SG's junior securities our LGF analysis shows a high loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for junior subordinated and preference share instruments reflecting coupon suspension risk ahead of failure.

GOVERNMENT SUPPORT

We assess a moderate probability of Government Support for SG's long-term senior unsecured and junior depositors, resulting in a one-notch uplift incorporate in the relevant A2 ratings.

For other junior securities, we continue to believe that potential government support is low and these ratings do not include any related uplift.

Rating Methodology and Scorecard Factors

Exhibit 6

Societe Generale

Macro Factors		
Weighted Macro Profile	**Strong**	**100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	6.3%	ba1	←→	baa2	Quality of assets	Market risk
Capital						
TCE / RWA	12.7%	baa1	↑	a3	Capital retention	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.3%	ba3	←→	baa2	Return on assets	Loan loss charge coverage
Combined Solvency Score		baa3		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	46.6%	b1	←→	b1	Term structure	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	43.4%	a1	←→	a1	Stock of liquid assets	
Combined Liquidity Score		baa3		baa3		
Financial Profile				baa2		
Business Diversification				1		
Opacity and Complexity				-1		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa2		
Scorecard Calculated BCA range				baa1-baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	in-scope (EUR million)	% in-scope	at-failure (EUR million)	% at-failure
Other liabilities	480,918	48.1%	517,698	51.8%
Deposits	360,589	36.1%	323,809	32.4%
Preferred deposits	266,836	26.7%	253,494	25.4%
Junior Deposits	93,753	9.4%	70,315	7.0%
Senior unsecured bank debt	99,179	9.9%	99,179	9.9%
Junior senior unsecured bank debt	3,637	0.4%	3,637	0.4%
Dated subordinated bank debt	14,645	1.5%	14,645	1.5%
Preference shares (bank)	10,106	1.0%	10,106	1.0%
Equity	29,971	3.0%	29,971	3.0%
Total Tangible Banking Assets	999,045	100%	999,045	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + Subordination	Sub-ordination	Instrument volume + Subordination	Sub-ordination	De jure	De facto				
Counterparty Risk Assessment	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a2 (cr)
Deposits	22.8%	5.8%	22.8%	15.8%	2	3	2	2	0	a3
Senior unsecured bank debt	22.8%	5.8%	15.8%	5.8%	2	1	2	2	0	a3
Junior senior unsecured bank debt	5.8%	5.5%	5.8%	5.5%	-1	-1	-1	-1	0	baa3
Dated subordinated bank debt	5.5%	4.0%	5.5%	4.0%	-1	-1	-1	-1	0	baa3
Junior subordinated bank debt	4.0%	4.0%	4.0%	4.0%	-1	-1	-1	-1	-1	ba1 (hyb)
Non-cumulative bank preference shares	4.0%	3.0%	4.0%	3.0%	-1	-1	-1	-1	-2	ba2 (hyb)

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1 (cr)	--
Deposits	2	0	a3	1	A2	A2
Senior unsecured bank debt	2	0	a3	1	A2	A2
Junior senior unsecured bank debt	-1	0	baa3	0	Baa3	Baa3
Dated subordinated bank debt	-1	0	baa3	0	Baa3	Baa3
Junior subordinated bank debt	-1	-1	ba1 (hyb)	0	(P)Ba1	Ba1 (hyb)
Non-cumulative bank preference shares	-1	-2	ba2 (hyb)	0	Ba2 (hyb)	Ba2 (hyb)

Source: Moody's Financial Metrics

Ratings

Exhibit 7

Category	Moody's Rating
SOCIETE GENERALE	
Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A2
Subordinate	Baa3
Jr Subordinate	Ba1 (hyb)
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
SG ISSUER	
Outlook	Stable
Bkd Senior Unsecured	A2

Source: Moody's Investors Service

REPORT NUMBER 1065590

Contact

Andrea Usai 44-20-7772-1058
Senior Vice President
andrea.usai@moodys.com

Yana Ruvinskaya 44-20-7772-1618
Associate Analyst
yana.ruvinskaya@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE