Financial Institutions Ratings
Société Générale – AT1 rating report

Security ratings

Outlook	Stable
8.25% USD 1.25bn undated deeply subordinated resettable interest rate notes	BBB-
7.875% USD 1.75bn undated deeply subordinated resettable interest rate notes	BBB-
6.75% EUR 1bn undated deeply subordinated resettable interest rate notes	BBB-
6% USD 1.5bn undated deeply subordinated resettable interest rate notes	BBB-
8% USD 1.25bn undated deeply subordinated resettable interest rate notes	BBB-
7.375% USD 1.5bn undated deeply subordinated resettable interest rate notes	BBB-
6.75% USD 1.25bn undated deeply subordinated AT1 fixed rate resettable callable notes	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BBB-/Stable the above referenced securities issued by Société Générale SA. The ratings are based on the following:

- Senior unsecured debt rating (MREL/TLAC eligible): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. At this time, we do not see other factors which would justify additional notching beyond the minimum four. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 9 October 2014. For further information on the last rating action and regulatory information please click here

Lead Analyst
Pauline Lambert
p.lambert@scoperatings.com

Associate Analyst
Alvaro Dominguez Alcalde
a.dominguez@scoperatings.com

Team Leader
Sam Theodore
s.theodore@scoperatings.com

Scope Ratings GmbH
Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Headquarters
Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Issuer credit profile

The Issuer Rating of A+ on Société Générale (SocGen) reflects the group's strong and well managed retail franchises in France and Central & Eastern Europe. As well, the group's diversified universal banking business model contributes to earnings resilience although there is room for profitability to improve.

Meaningful capital markets activities and pockets of emerging markets presence (e.g. Russia, Africa) expose the group to greater risks such as the volatility inherent in these markets and the need to ensure consistent compliance and controls across diverse geographies. The ratings also recognize the significant efforts the group has undertaken to reduce risks and to strengthen prudential metrics relating to capital and liquidity.

Summary terms

Issuer	Société Générale
Issue Date	**September 2013**
Amount	USD 1.25bn
Coupon	• 8.25% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 6.394% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable November 2018 and every 5 years thereafter
ISIN	XS0867614595

Issue Date	December 2013
Amount	USD 1.75bn
Coupon	• 7.875% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 4.979% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable December 2023 and every 5 years thereafter
ISIN	USF8586CRW49 / US83367TBF57

Issue Date	April 2014
Amount	EUR 1.0bn
Coupon	• 6.75% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 5.538% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable April 2021 and every 5 years thereafter
ISIN	XS0867620725

Issue Date	June 2014
Amount	USD 1.5bn
Coupon	• 6% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 4.067% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable January 2020 and every 5 years thereafter
ISIN	USF8586CXG25 / US83367TBH14

Issue Date	September 2015
Amount	USD 1.25bn
Coupon	• 8% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 5.873% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable September 2025 and every 5 years thereafter
ISIN	US83368JFA34 / USF43628B413

Issue Date	September 2016
Amount	USD 1.5bn
Coupon	• 7.375% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 6.238% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable September 2021 and every 5 years thereafter
ISIN	USF43628C734 / US83368JKG49

Issue Date	April 2018
Amount	USD 1.25bn
Coupon	• 6.75% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 3.929% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable April 2028 and every 5 years thereafter
ISIN	USF8586CBQ45 / US83367TBU25

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments (a) would exceed the Distributable Items of the issuer; or (b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded.
Principal Loss Absorption	• If the group's CET1 ratio falls below the trigger, the issuer needs to reduce the current principal amount of each note by the relevant write-down amount, either (1) in a sufficient proportion to bring the CET1 ratio above the trigger; or (2) if (1) is insufficient to bring the CET1 ratio above the trigger level, then by an amount necessary to reduce the current principal amount of the note to one cent. • If a positive consolidated net income is recorded at any time ("return to financial health") then the issuer may at its full discretion and subject to the MDA, increase the current principal amount of each note up to a maximum of the original principal amount on a pro-rata basis with the other notes. • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis at the point of non-viability (PONV) defined as (1) the institution failing or likely to fail; (2) there is no reasonable prospect that private action would prevent the failure and (3) a resolution action is necessary in the public interest.
Trigger for Principal Loss Absorption	Consolidated group CET1 ratio < 5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments are fully discretionary and are subject to distribution restrictions.

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions. As well, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the Maximum Distributable Amount (MDA). The MDA is calculated when the issuer does not meet its combined buffer requirement.

We do not consider distributable items to be a constraining factor for SocGen to pay coupons. As of year-end 2017, SocGen had available distributable items of EUR 13.4bn.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. To determine whether the MDA needs to be calculated, banks supervised by the ECB should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, we estimate that SocGen will need to maintain a CET1 ratio of at least 9.7%, a Tier 1 capital ratio above 11%, and a total capital ratio above 13% to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 requirement of 1.5% does not change and the capital conservation buffer is fully phased-in to 2.5%. In June 2018, France's High Council for Financial Stability announced that it would set a countercyclical buffer of 0.25% with effect from July 2019. In our projections below, we have included an estimate of the impact on SocGen's countercyclical buffer.

While the group's CET1 position in 1Q 2018 was negatively impacted by the implementation of IFRS 9 and payments related to resolution and deposit guarantee funds, management targets a CET1 ratio of 11.5% in 2018 and at least 12% for 2020 and beyond.

Table 1: Distance to estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions	**7.8%**	**8.7%**	**9.7%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.50%	0.75%	1.00%
- Countercyclical	0.05%	0.07%	0.20%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Societe Generale Group CET1, transitional (%)	11.6%	11.3%	
Distance to CET1 requirement incl. CBR (%)	**3.8%**	**2.6%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**13.3**	**9.3**	
Societe Generale Group Tier 1, transitional (%)	14.0%	13.6% fully loaded	
Required Tier 1, incl. CBR (%)	9.3%	10.2%	11.2%
Distance to Tier 1 requirement incl. CBR (%)	**4.7%**	**3.4%**	
Societe Generale Group total capital, transitional (%)	17.2%	16.8% fully loaded	
Required total capital, incl. CBR (%)	11.3%	12.2%	13.2%
Distance to total capital requirement incl. CBR (%)	**5.9%**	**4.6%**	
RWAs (EUR bn)	353	356	

Note: Countercyclical buffer in 2019 includes an estimate based on a 0.25% countercyclical buffer for French exposures.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary writedown.

The securities have one trigger:

- consolidated group CET1 ratio < 5.125% on a transitional basis

Pursuant to the terms and conditions of the notes, the principal amount of the notes will be written down when SocGen's consolidated CET1 ratio breaches the 5.125% trigger. The CET1 ratio used to determine whether the trigger has been breached reflects the group's insurance activities through the computation of RWAs rather than through deductions (i.e. the Danish compromise). At its discretion, the group may write-up the principal amount of the notes if it reports a profit, subject to the constraint of the MDA.

Distance to trigger

As of 31 March 2018, SocGen's transitional CET1 ratio was 11.3%, well above the trigger of 5.125% (Table 2). Considering the group's minimum CET1 requirements (SREP plus G-SIB buffer) and management's 12% plus CET1 target (for 2020), we expect the group to remain solidly positioned against the trigger level.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	5.125%	5.125%	5.125%
Societe Generale Group CET1, transitional (%)	11.6%	11.3%	
Distance to trigger (%)	**6.4%**	**6.2%**	
Distance to trigger (EUR bn)	**22.8**	**22.0**	

Source: Company data, Scope Ratings

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris
33 rue La Fayette
F-75009 Paris

Phone +33 1 82885557

London
Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Madrid
Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Milan
Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo
Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

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