

Jul 30, 2024

Rating and Investment Information, Inc. (R&I) has announced the following:

## **Societe Generale** (Sec. Code: -)

### **[Affirmed]**

Issuer Rating: A, Stable

Bond Rating: A

Dated Sub. Bond Rating: A-

TLAC or Similar Debt Rating: A-

### **RATIONALE:**

Societe Generale (SG) is a major financial institution based in France. SG runs the businesses of retail banking, leasing, investment banking and others in and outside France. SG has a solid franchise in France. In light of the diversified sources of earnings and other factors, the earning capacity stands at an adequate level. The asset quality is on a trend of improvement and there is no problem with liquidity. Based on this recognition, R&I has affirmed the Issuer Rating of A. In accordance with the 2026 Strategic Plan whereby SG has committed itself to strengthening the regulation-based capital buffer, it has been pushing ahead with the initiatives of restructuring the operations in Africa and other regions. Eyes are on whether SG will be able to strengthen risk resilience continuously by making progress in risk reduction and capital accumulation.

SG has comparatively diversified sources of earnings and its earning capacity is commensurate with the rating's suggestions. It maintains a relatively balanced mix of earnings among the three major segments i.e. retail banking, leasing services and investment banking in and outside France. Although the net interest margin has been placed under downward pressure coming from rising funding costs, recovery in net interest margin can be expected given that the negative impacts of the European Central Bank's (ECB) funding scheme (TLTRO) ending and the unwinding of low interest rate hedging transactions, among other factors, are diminishing.

In the 2026 Strategic Plan, SG has set itself the target of achieving average annual revenue growth between 0% and 2% over 2022-2026, along with the target of cost-to-income ratio below 60% in 2026. The target of revenue growth is set at a comparatively low level in order to constrain the pace of organic Risk Weighted Assets (RWA) growth below 1% per annum on average from 2024 to 2026. Eyes are on whether SG will be able to reach the targeted milestones that it envisages in the strategic plan and strengthen its earning capacity.

The asset quality stays on an improving trend. In 2022, SG decided to withdraw from its operations in Russia, a move followed by the determination to exit six African countries by the end of 2023. As for the business of international retail banking whose credit cost ratio is the highest among the three major segments, the ratio is on a declining trend thanks partly to the initiatives of risk reduction. According to the company's net cost of risk guidance for 2024, the credit cost ratio is projected between 25 and 30 basis points, with no major change from the previous year. For the target period of the strategic plan, the guidance is set at the same range.

While the risk resilience matches the rating's suggestion, further improvement can be expected if SG makes progress in risk reduction and capital accumulation. Under the 2026 Strategic Plan, SG raised the target of the Common Equity Tier 1 (CET1) ratio, post so-called Basel 4 implementation. As SG has a distribution policy based on the target of payout ratio range between 40% and 50% of reported net income, combining dividends and share buybacks, R&I will keep a close eye on the progress in the accumulation of retained earnings.

In addition to a solid deposit base, the loan to deposit ratio is below 100%. The average liquidity coverage ratio (LCR) for the January-March 2024 period stood at a high 167%, above the regulatory requirement of 100%. In the 2026 Strategic Plan, SG has set itself the target of maintaining the level of LCR at 130% or above throughout the economic cycle. There is no element of concern about liquidity.

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**R&I RATINGS:****ISSUER: Societe Generale****[Affirmed]**

	Rating		Rating Outlook	
Issuer Rating	A		Stable	
	Issue Amount	Issue Date	Maturity Date	Rating
Japanese Yen Bonds No.9	JPY 4,100 mn	Jun 3, 2016	Jun 3, 2026	A
Japanese Yen Sub. Bonds No.1	JPY 27,800 mn	Jun 12, 2015	Jun 12, 2025	A-
Japanese Yen Sub. Flt. Rate Bonds No.3	JPY 2,500 mn	Jun 12, 2015	Jun 12, 2025	A-
Japanese Yen Sub. Bonds No.4	JPY 15,000 mn	Jun 3, 2016	Jun 3, 2026	A-
JPY Sub. Callable Notes due 30 June 2031	JPY 7,000 mn	Jun 30, 2021	Jun 30, 2031	A-
JPY Sub. Callable Notes due 20 October 2032	JPY 10,000 mn	Oct 20, 2022	Oct 20, 2032	A-
JPY Sub. Callable Notes due 19 October 2033	JPY 5,100 mn	Oct 19, 2023	Oct 19, 2033	A-
Japanese Yen Senior Non-Preferred Bonds No.2	JPY 42,400 mn	May 26, 2017	May 26, 2027	A-
Japanese Yen Senior Non-Preferred Bonds No.4	JPY 14,500 mn	Oct 12, 2018	Oct 10, 2025	A-
Japanese Yen Senior Non-Preferred Bonds No.5	JPY 30,100 mn	Oct 12, 2018	Oct 12, 2028	A-

Primary rating methodologies applied:

R&amp;I's Basic Methodology for Corporate Credit Ratings [Jun 24, 2024]

Depository Financial Institutions [Apr 4, 2022]

R&amp;I's Analytical Approach to Regulatory Capital Instruments and Financial Institutions [Dec 7, 2022]

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