FitchRatings

Banks
Universal Commercial Banks
France

Societe Generale S.A.

Key Rating Drivers

Diversified Business Model: Societe Generale S.A.'s (SG) ratings reflect a diversified company profile, with leading franchises in selected segments and a significant contribution from more volatile capital markets activities. The ratings also reflect a moderate risk appetite, adequate capitalisation and a sound liquidity profile. Asset quality remains a rating weakness given the expected increase in impaired loans related to the economic downturn, although it has significantly improved in recent years.

Strategic Execution Challenges: SG successfully scaled down its non-core activities in 2019 by exiting several eastern European countries, refocusing its fixed-income and currency (FIC) business and closing its proprietary trading division. However, revenue at its French retail and commercial banking and equity derivatives businesses suffered more than those of its peers in 2020. The planned simplification of the product range of structured-equity derivatives and lower complexity is positive for risk appetite but may weaken SG's franchise.

Earnings Affected by Crisis: SG's operating profit underperformed French peers, mainly because of a bigger increase in loan impairment charges (LICs), significant losses in equity derivatives in 1H20 and revenue headwinds in French and international retail banking. SG's international retail banking businesses, insurance and leasing activities have grown strongly in recent years, except in 2020 due to the pandemic. These activities are key to SG's growth prospects and should pick up in 2021 with a gradual economic recovery in EMEA.

2021 Prospects Improving: SG targets positive jaws in 2021 and cost savings remain a key priority of its next strategic plan, notably in global markets and French retail. Fitch Ratings believes a material revenue rebound in most businesses to be necessary to support better cost efficiency in 2021 and beyond. The 4Q20 results confirmed earlier signs of a recovery, including in global markets activities.

Asset Quality to Deteriorate: We expect asset quality to deteriorate over 2021-2022, stemming mainly from loans to professionals and SMEs, which are most vulnerable to the downturn despite material state support. Asset quality deteriorated only slightly in 2020 with a low volume of additional impaired loans. SG's impaired loans ratio was adequate at 3.7% at end-2020. Coverage by loan loss allowances also increased to a satisfactory 69%.

Adequate Capital Buffers: SG's capital ratios are at the lower end of large international and domestic peers, though well in excess of the minimum regulatory requirement of about 9% for 2021. SG's fully-loaded 13.2% common equity Tier 1 (CET1) ratio is materially above the bank's target. SG will resume moderate shareholder distributions payments in 2021. SG's fully loaded regulatory leverage ratio was adequate at 4.7% end-2020 and included a 40bp temporary benefit from the exclusion of Eurosystem central bank deposits.

Conservative Funding and Liquidity: Customer deposits account for less than 50% of SG's funding due to its large capital markets activities. However, SG has well-established and diversified access to wholesale funding. Liquidity management is conservative and high-quality liquid assets (HQLA) amply cover wholesale and structured funding due within a year.

Rating Sensitivities

Significant Rating Headroom: Triggers for a downgrade would be a CET1 ratio below 11% with no credible plan to restore it above this level combined with a material and structural deterioration in profitability. These triggers could arise from a pronounced weakening in SG's operating environment, or erosion of SG's competitive position in key franchises.

Stronger Capitalisation and Asset Quality: A rating upgrade would require sustainably stronger capital ratios and targets and lower impaired loans. A lower contribution from capital markets to SG's business model, profitability and funding needs would also be rating positive.

Ratings

Societe Generale S.A.	
Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Support Rating	5
Support Rating Floor	No Floor
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDRs	AA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (February 2020)

Non-Bank Financial Institutions Rating Criteria (February 2020)

Related Research

Global Economic Outlook (March 2021)

Large French Banks: Moderate Recovery Expected in 2021 (March 2021)

Societe Generale and Credit du Nord Merger Long-Term Positive for Cost Efficiency (December 2020)

French Bancassurance Business Models (April 2021)

Global Trading and Universal Banks: Peer Review (March 2021)

Analysts

Rafael Quina, CFA
+33 1 44 29 91 81
rafael.quina@fitchratings.com

Ioana Sima, CFA
+44 20 3530 1736
ioana.sima@fitchratings.com

Related Issuer Ratings

Rating level	Compagnie Generale de Location d'Equipements S.A. (CGLE)	Credit du Nord S.A. (CdN)	Franfinance S.A.
Long-Term IDR	A-/Stable	A-/Stable	A-/Stable
Short-Term IDR	F1	F1	F1
Support Rating	1	1	1
Viability Rating	-	bbb+	-

Source: Fitch Ratings

The Issuer Default Ratings (IDRs) of French specialised lender CGLE are based on institutional support from SG. CGLE's IDRs are equalised with those of SG as we view this entity as having a key role within the group as a provider of car financing in France. We do not assign a Viability Rating (VR) to CGLE as it is a small entity compared to the size of the group (less than 1% of group assets), and it is well integrated and highly dependent on SG for its funding.

Credit du Nord S.A.'s (CdN) IDRs are aligned with those of its parent SG. This reflects CdN's key role in SG's domestic franchise as well as its strong integration within SG.

Franfinance's IDRs are equalised with those of SG, as Fitch sees an extremely high probability that Franfinance would receive support from SG, if required. Franfinance has a key role and is strongly integrated within SG as servicer of consumer loans and equipment leases for SG's domestic retail and commercial banking networks.

Debt Ratings

Fitch rates SG's long-term senior preferred debt and deposit ratings one notch above the bank's Long-Term IDR because of the protection that will accrue to senior preferred debt from debt and equity resolution buffers. Fitch expects SG to meet its total minimum requirement for own funds and eligible liabilities (MREL) without recourse to senior preferred debt within three to five years. SG already holds a buffer of subordinated and senior non-preferred debt in excess of 10% of risk-weighted assets (RWAs; 15.1% at end-2020). SG's MREL requirement is set at 24.4% and the group's MREL excluding senior preferred debt was about 28.5% of RWAs at end-2020.

The rating of senior unsecured notes issued by Societe Generale Acceptance N.V. and guaranteed by SG is aligned with SG's senior preferred debt. It reflects our expectation that the guaranteed notes would benefit from the protection provided by SG's buffer of subordinated and senior non-preferred debt. Our rating also reflects Fitch's view that SG is expected to honour its commitment as guarantor if required, as the guarantee is unconditional, irrevocable and timely.

Our ratings of subordinated debt and deeply subordinated debt issued by SG are all notched down from SG's VR in accordance with our assessment of each instrument's non-performance and relative loss severity risk profiles. We rate SG's subordinated Tier 2 debt two notches below the group's VR for loss severity as we expect recoveries to be poor for this type of debt in the event of a failure or a resolution of the bank.

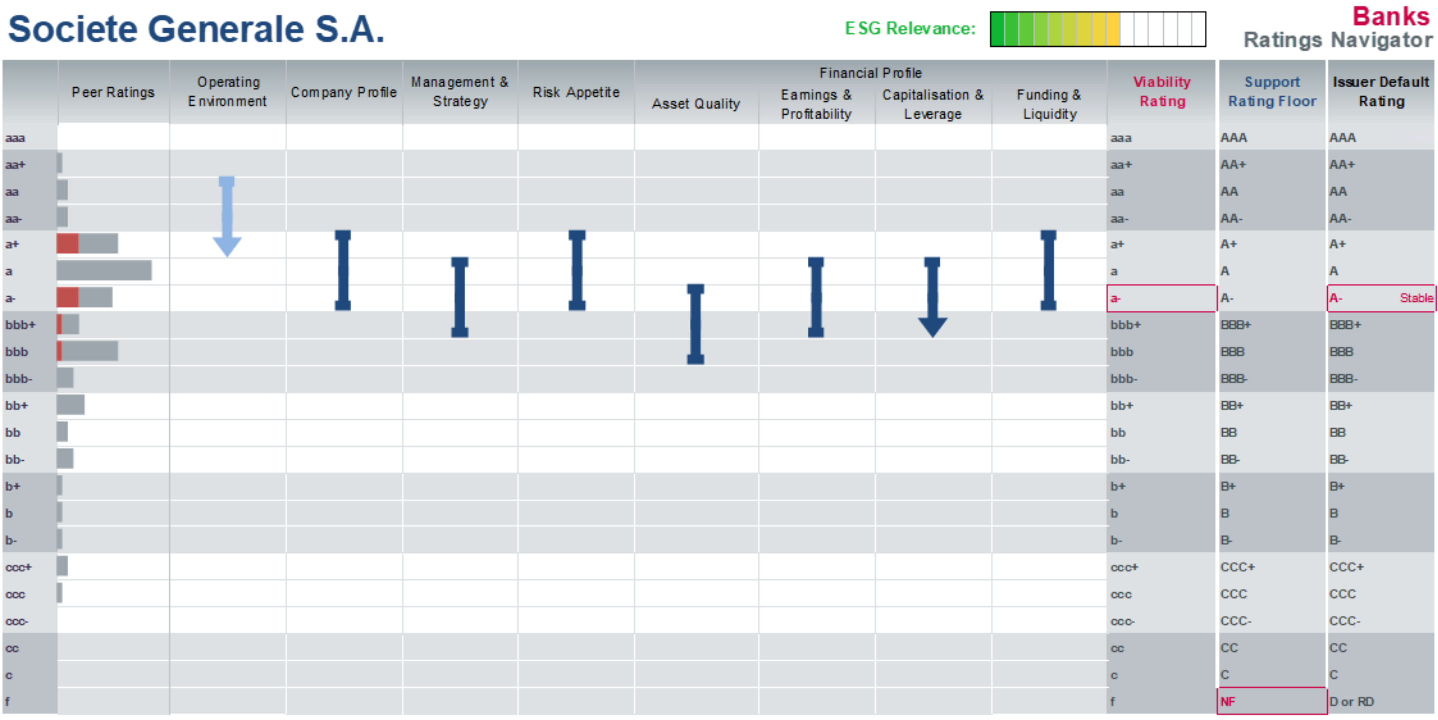
We rate SG's deeply subordinated additional Tier 1 debt four notches below the group's VR. This corresponds to two notches for loss-severity and two notches for non-performance risk. Our assessment is based on SG operating with a CET1 ratio comfortably above coupon-omission point, on the presence of material distributable reserves, and our expectation that this will continue.

Debt Rating Classes

Debt level	Rating
Societe Generale S.A.	
Deposits	A/F1
Senior preferred	A/F1
Senior non-preferred	A-
Subordinated Tier 2	BBB
Additional Tier 1	BB+
Societe Generale Acceptance N.V.	
Senior preferred	A[a]
CGLE	
Senior preferred	F1
Credit du Nord	
Senior preferred	A/F1

[a] Guaranteed by SG
Source: Fitch Ratings

Ratings Navigator



Significant Changes

Recent Strategic Move in French Retail Banking is Credit Positive

SG and CdN recently announced the planned merger of their banking networks to create a combined entity. Several other French banks also have dual retail networks, which can be a source of cost inefficiency although it can help target different client segments effectively.

We view the merger positively as it should achieve the necessary rationalisation of SG's French retail business and improve cost-efficiency over time. We believe that SG will be able to carry out this merger without material customer loss or franchise erosion, given the physical proximity between CdN's and SG's own branches.

The stated objective of the merger is to maximise client satisfaction while establishing a more cost-efficient model with significant cost reductions and a single IT system. Central and support functions will eventually be unified. The combination of the networks should be completed through the legal merger of the entities by early 2023.

The plan is to reduce the total number of branches by close to 30% to 1,500 at end-2025 from about 2,100 branches for the two networks in 2020. This multi-year project should achieve material cost savings of EUR450 million by 2025 (of which 80% will only be achieved in 2024). It will incur about EUR700 million-EUR800 million of restructuring costs in the short term, largely in 2021. SG aims to lift the return on normalised equity (RONE) for its French retail banking network back to 11.0%-11.5% by 2025 from only 6.2% in 2020 on an underlying basis.

We also view as positive SG's development plans for Boursorama, the French online banking leader. It plans to accelerate customer acquisition with the goal of reaching 4.5 million clients in 2025 (from 2.6 million at end-2020). SG expects further investments will lead Boursorama to post a cumulative moderate loss of about EUR230 million over 2021-2023, before net income rebounds to EUR 100 million in 2024 and EUR200 million in 2025 (RONE of over 25%).

Planned Sale of Lyxor Concludes SG's Refocusing Programme

SG entered in negotiation to dispose of most of Lyxor's asset management business. The bank expects the sale will conclude by February 2022. Upon completion, SG estimates its CET1 ratio will improve by about 18bp and it will record a EUR430 million capital gain, net of tax.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Company Summary and Key Qualitative Assessment Factors

Diversified Business Model, Material CIB Operations

SG is the third-largest French bank by total assets and the fourth-largest retail and commercial bank by market share (estimated at 9%-10% for loans and deposits). SG serves its clients through the SG-branded network, CdN's network, and Boursorama, the leading domestic online bank. SG is the fifth-largest savings life insurer in France and has a one of the leading domestic private banking franchises.

SG sold several subsidiaries in Central and Eastearn Europe in 2019 to refocus its foreign operations on the Czech Republic, Romania, and Russia. In Africa, SG's largest subsidiary is in Morocco, and the group also has significant franchises in Cote d'Ivoire, Senegal and Cameroon. SG has consumer finance subsidiaries in France, Germany and Italy mainly focused on auto loans and owns the second-largest fleet management company globally (ALD S.A.; BBB+/Stable/F1).

In Corporate and Investment Banking (CIB), SG is a global leader in equity derivatives. The integration of the Equity Markets and Commodities division of Commerzbank AG complements SG's franchise in this area. The contribution of capital markets activities to revenue is significant (about 20% in general), although lower than at most global trading and universal banks (GTUB) peers. SG has a well-established franchise in EMEA syndicated loans and holds strong market positions in payments, cash management and trade finance.

Strategic Execution Challenges

SG's 2017-2020 strategic plan aimed to improve the group's return on tangible equity (ROTE; 11.5% target) by increasing revenue (by more than 3% a year), improving operating efficiency (a cost/income ratio target of below 63%) and refocusing the bank on its strengths. Annual LICs were targeted at 35bp-40bp of gross loans. However, the coronavirus crisis challenged SG's execution given increased revenue headwinds, materially higher LICs and market dislocation in 1H20. These setbacks were only partly offset by material cost reductions in 2020 and further organisational simplification plans in French retail banking and CIB.

Prudent Underwriting Standards

Group risk management and controls are centralised and robust. Underwriting standards for French housing loans are conservative. They are nevertheless average for consumer loans, loans to professionals and corporates in the French networks. Consumer loans in western Europe are of good quality and mainly focus on car finance. Underwriting standards in the Czech Republic are conservative and have been significantly tightened in Romania and Russia. Loans in Africa tend to be higher risks, but we believe these are partly offset by good margins.

In CIB, SG follows an originate-to-distribute model. SG's appetite for riskier asset classes such as leverage loans is generally below GTUB peers'. SG's investment policy is fairly prudent and focuses on fixed-income securities held for liquidity purpose.

Material Exposure to Market Risk

SG has material exposure to market risk and complex instruments. Nevertheless, its appetite for traded market risk is generally below that of several GTUB peers. The equity derivatives business was severely affected by markets dislocation in 1H20, which increased hedging costs and bid-ask spreads. But we do not view this as evidence of risk management deficiencies.

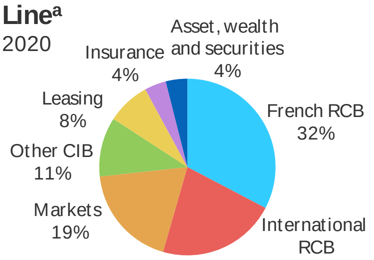
SG aims to reduce the complexity and product range of its structured equity derivatives to render them more robust amid difficult market conditions. The acquisition of the listed equity derivative products of Commerzbank (notably warrants) should lead to product simplification.

SG's value-at-risk (VaR, 99% confidence level, one-day holding period, one-year look-back period) increased sharply in 2020, reaching EUR40 million in 2Q20 before coming down to EUR30 million in 4Q20, in line with 4Q19's VaR.

Non-trading market risk mainly arises from interest-rate risk in the banking book, notably from fixed rate housing loans. SG maintains conservative interest-rate sensitivity limits and has sophisticated interest-rate risk models. Interest-rate risk from SG's insurance activities is mitigated by a substantial policyholder participation reserve, and a low minimum guaranteed rate on the general account life insurance contracts, in line with the French market.

Operating Income Per Business Line[a]

2020



[a] Excluding Corporate Centre
RCB stands for retail and commercial banking
Source: Fitch Ratings, SG

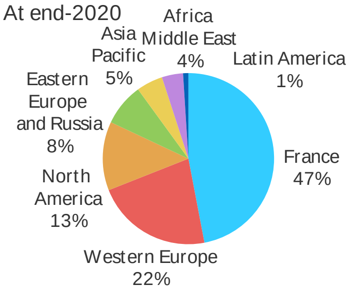
2021 Guidance

	Achieved 2020	Guidance 2021
Fully loaded CET1 ratio	13.2	>11%[a]
Revenue (yoy change) (%)	-10	Up
Operating costs (yoy change) (%)	-5	Slightly up
Underlying ROTE (%)	1.7	n.a.
LICs/gross loans (bp)	64	<64

[a] SG communicated a CET1 target of at least 200bp above MDA restriction at any point in time and expects its 2021 CET1 ratio to remain materially above this target.
Source: Fitch Ratings, SG

Exposure at Default by Geography

At end-2020



Source: Fitch Ratings, SG

Key Financial Metrics – Latest Developments

Asset Quality to Deteriorate

LICs reached 64bp of gross loans in 2020, which was slightly better than SG's 2020 guidance of 70bp. We expect LICs will gradually decline in 2021 but still remain above 2019 levels. Similar to other French banks, Stage 3 loans declined in 4Q20. They accounted for 3.7% of gross loans, which is satisfactory and only marginally higher than at end-2019 (+10bp). However, material downside risks remain due to uncertainties around the economic recovery. SG's Stage 2 loans nearly doubled in 2020, which contrasts with most French peers, where Stage 2 loans increased less. This increase mainly relates to the production of state-guaranteed loans (20% of which are Stage 2) and to a prudent migration of performing exposures in vulnerable corporate sectors.

Exposure to higher-risk sectors is significant and generally higher than at large French peers but does not present major concentrations. Among more vulnerable sectors, exposure to oil and gas was the largest at about EUR19 billion or 40% of CET1 capital at end-2020. Exposures to accomodation, leisure and catering, airlines and shipping were more moderate at between 10%-20% of CET1 capital each. Direct exposure to companies under LBOs is granular and contained at about 11% of CET1 capital. SG's exposure to SMEs was about 5% of EAD and was mainly in France, but with weaker asset quality than domestic peers'.

Earnings Impacted by Crisis, Cost Focus Set to Continue

SG's 2020 revenue declined by 10% yoy, mainly owing to losses in equity derivatives in 1H20 and revenue headwinds in French (minus 6% yoy) and international retail banking. Despite normalisation in equity derivatives revenue in 2H20, this division's revenue declined by almost 50% yoy. In contrast, FIC performed well (+15% yoy), although at the lower end of GTUB peers. Revenue from other businesses was more resilient, with international retail banking and financial services declining slightly at constant scope and exchange rate.

Costs declined by about 5% in 2020, owing to the bank's multi-year cost savings plan. This was nevertheless insufficient to offset the decline in revenue and the increase in LICs, which were 2.6 times higher yoy. SG's cost efficiency lags French and international peers (cost/income ratio above 75% in 2020) but we expect a material improvement from 2021. The bank confirmed its target to continue reducing costs over the next years. Planned cost savings in global markets from 2022/2023 and in French retail banking by 2025 represent about 5% of 2020 operating costs.

Adequate Buffers Above Capital Requirements

SG's fully-loaded CET1 ratio increased by 50bp yoy to 13.2% at end-2020, well above its target of over 200bp above the regulatory requirement. The increase primarily resulted from the cancellation of the 2019 dividend. This offset a negative 36bp impact from the targeted review of internal models in 4Q20, to be followed by an additional 30bp in 2021. SG will resume moderate dividend payments in 2021. It also plans a share buyback in 4Q21, which would have a 13bp negative impact on the CET1 ratio.

We expect SG's CET1 ratio to remain well above the bank's target in 2021. Beyond 2021, the implementation of Basel IV should have a manageable impact on SG's capital ratios, which SG estimates at around 115bp of its CET1 ratiofrom 2023. The disposal of most of Lyxor's asset management activities, which is expected to conclude by early 2022, should improve SG's CET1 ratio by 18bp. This sale would conclude SG's refocusing programme which would have led to a cumulative 80bp to 90bp positive impact on capital ratios.

Stable Funding, Conservative Liquidity Management

SG has maintained its loans-to-deposits ratio at a satisfactory level over recent years, between 100% and 110% and we expect it will slightly decline in 2021 on further deposit inflows. Access to markets is well established and diversified by tenor, currency, and instrument. SG also uses private placements of structured notes.

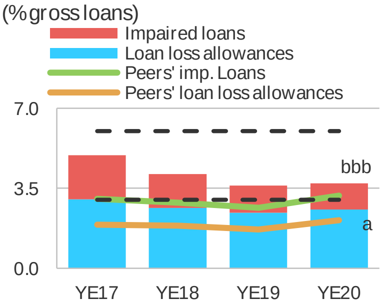
SG's central bank deposits and HQLA strengthened significantly throughout 2020 and reached about 18% of total assets excluding insurance assets. This was due to deposit inflows and record TLTRO III drawings (EUR63 billion outstanding or 6% of total funding at end-2020). As a result, SG's liquidity coverage ratio was a high 149% at end-2020.

Note on Charts

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category like France.
Peer average includes SG (VR: 'a-'), Banco Santander S.A. (a-), BNP Paribas S.A. (a+), Barclays plc (a), Credit Agricole (a+), Credit Suisse Group AG (a-), ABN AMRO Bank N.V. (a) and Deutsche Bank AG (bbb).

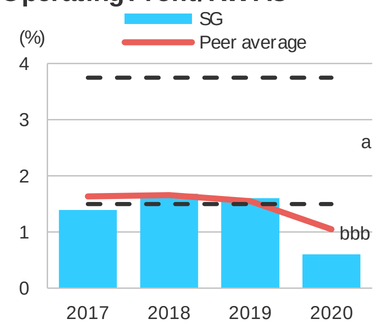
Asset Quality

(% gross loans)



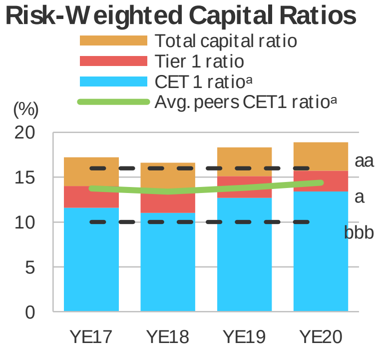
Source: Fitch Ratings, banks

Operating Profit/RWAs



Source: Fitch Ratings, banks

Risk-Weighted Capital Ratios



Source: Fitch Ratings, banks

Summary Financials and Key Ratios

	31 Dec 20		31 Dec 19	31 Dec 18	31 Dec 17
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited – unqualified (emphasis of matter)	Audited - unqualified	Audited – unqualified (emphasis of matter)
Summary income statement					
Net interest and dividend income	12,808	10,528.0	11,310.0	11,166.0	10,919.0
Net fees and commissions	5,982	4,917.0	5,257.0	5,524.0	6,823.0
Other operating income	8,116	6,671.0	7,975.0	8,571.0	6,357.0
Total operating income	26,906	22,116.0	24,542.0	25,261.0	24,099.0
Operating costs	20,334	16,714.0	17,727.0	17,931.0	17,838.0
Pre-impairment operating profit	6,572	5,402.0	6,815.0	7,330.0	6,261.0
Loan and other impairment charges	4,022	3,306.0	1,278.0	1,005.0	1,349.0
Operating profit	2,550	2,096.0	5,537.0	6,325.0	4,912.0
Other non-operating items (net)	-847	-696.0	-327.0	-208.0	226.0
Tax	1,465	1,204.0	1,264.0	1,304.0	1,708.0
Net income	238	196.0	3,946.0	4,813.0	3,430.0
Other comprehensive income	-1,742	-1,432.0	684.0	435.0	-2,352.0
Fitch comprehensive income	-1,504	-1,236.0	4,630.0	5,248.0	1,078.0
Summary balance sheet					
Assets					
Gross loans	549,809	451,923.0	441,430.0	432,586.0	416,752.0
- Of which impaired	20,447	16,807.0	15,976.0	17,818.0	20,642.0
Loan loss allowances	14,114	11,601.0	10,727.0	11,435.0	12,525.0
Net loans	535,696	440,322.0	430,703.0	421,151.0	404,227.0
Interbank	51,238	42,116.0	38,198.0	42,588.0	44,322.0
Derivatives	209,962	172,581.0	153,087.0	135,220.0	148,754.0
Other securities and earning assets	647,579	532,286.0	518,407.0	495,731.0	467,677.0
Total earning assets	1,444,475	1,187,305.0	1,140,395.0	1,094,690.0	1,064,980.0
Cash and due from banks	204,607	168,179.0	102,311.0	96,585.0	114,404.0
Other assets	129,529	106,468.0	113,597.0	118,153.0	95,744.0
Total assets	1,778,610	1,461,952.0	1,356,303.0	1,309,428.0	1,275,128.0
Liabilities					
Customer deposits	548,106	450,523.0	409,852.0	399,410.0	394,228.0
Interbank and other short-term funding	406,679	334,275.0	271,771.0	267,760.0	262,059.0
Other long-term funding	187,164	153,842.0	169,426.0	156,207.0	151,206.0
Trading liabilities and derivatives	266,766	219,272.0	200,234.0	197,854.0	195,722.0
Total funding	1,408,715	1,157,912.0	1,051,283.0	1,021,231.0	1,003,215.0
Other liabilities	288,408	237,061.0	236,450.0	222,388.0	207,876.0
Preference shares and hybrid capital	12,282	10,095.0	9,933.0	9,910.0	9,366.0
Total equity	69,205	56,884.0	58,637.0	55,899.0	54,671.0
Total liabilities and equity	1,778,610	1,461,952.0	1,356,303.0	1,309,428.0	1,275,128.0
Exchange rate		USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382

Source: Fitch Ratings, Fitch Solutions, SG

Summary Financials and Key Ratios

	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.6	1.6	1.7	1.4
Net interest income/average earning assets	0.9	1.0	1.0	1.0
Non-interest expense/gross revenue	75.6	71.9	71.1	74.3
Net income/average equity	0.3	6.9	8.8	6.3
Asset quality				
Impaired loans ratio	3.7	3.6	4.1	5.0
Growth in gross loans	2.4	2.0	3.8	-0.3
Loan loss allowances/impaired loans	69.0	67.1	64.2	60.7
Loan impairment charges/average gross loans	0.7	0.3	0.3	0.2
Capitalisation				
Common equity Tier 1 ratio	13.4	12.7	11.0	11.6
Fully loaded common equity Tier 1 ratio	13.2	12.7	10.9	11.4
Tangible common equity/tangible assets	3.3	3.6	3.6	3.5
Basel leverage ratio[a]	4.8	4.3	4.2	4.3
Net impaired loans/common equity Tier 1	11.2	12.0	15.5	20.2
Funding and liquidity				
Loans/customer deposits	100.3	107.7	108.3	105.7
Liquidity coverage ratio	149.0	119.0	129.0	140.0
Customer deposits/funding	45.6	45.2	44.7	46.0
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

[a] Phased in regulatory leverage ratio. End-2019 excludes the expected dividend distribution which was initially planned in 2020. Adjusting for this cancelled dividend, the pro-forma leverage ratio was 4.5% at end-2019
Source: Fitch Ratings, Fitch Solutions, SG

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	

No reliance on Sovereign Support Assumed in Ratings

SG's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that, although possible, sovereign support cannot be relied on. In our view, legislative, regulatory and policy initiatives (including the implementation of the EU's Bank Recovery and Resolution Directive) have substantially reduced the likelihood of sovereign support for EU commercial banks in general.

This implies that senior creditors would probably be required to participate in losses, if necessary, instead of, or ahead of, the bank receiving sovereign support, despite SG's systemic importance.

Environmental, Social and Governance Considerations

FitchRatings **Societe Generale S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Societe Generale S.A. has 5 ESG potential rating drivers				Overall ESG Scale
Societe Generale S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	key driver	0	issues	5
Governance is minimally relevant to the rating and is not currently a driver.	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

SG's highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.