FitchRatings

Banks
Universal Commercial Banks
France

Societe Generale S.A.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns
Sovereign Risk (France)	
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 (September 2022)

Non-Bank Financial Institutions Rating Criteria (January 2022)

Related Research

Fitch Affirms Societe Generale at 'A-'; Outlook Stable (September 2022)

Large European Banks Quarterly Credit Tracker - June 2022

Global Economic Outlook - September 2022

Bank Debt-Class Visualisation Tool (June 2022)

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Key Rating Drivers

Societe Generale S.A.'s (SG) ratings mainly reflect the group's adequate capitalisation and more variable earnings and execution than large French and higher-rated global trading and universal bank (GTUB) peers'. SG's diversified business profile and moderate risk appetite support the ratings. Asset quality is satisfactory following gradual improvements but remains a rating weakness relative to higher-rated peers.

Diversified Business Profile: SG has a diversified business profile with strong franchises in key activities. The bank's earnings are more reliant on corporate and investment banking (CIB) and capital-market businesses than those of most large French banks, which partly explains its more volatile performance in recent years.

SG is the fourth-largest retail and commercial bank in France. Its profitable retail-banking activities in Czech Republic, Romania and in French-speaking Africa, and its growing leasing and consumer-finance activities, provide good earnings diversification. While more variable than higher-rated peers over the longer run, SG's execution has improved since the 2020 trough with marked progress in repositioning its CIB and the ongoing merger of its two French retail banking networks.

Moderate Asset-Quality Risks: SG has a higher impaired loans ratio than higher-rated French and European peers, although it has improved materially due to more active management of its impaired loan stock and tighter underwriting standards. Fitch Ratings expects SG's impaired loans ratio to remain contained at below 4% in 2022 and 2023, despite moderate risks from lending to small French companies, African retail banking and CIB, which are the main sources of impaired loan inflows.

Improved Earnings Generation: SG has historically been less profitable than higher-rated European GTUBs, but the bank is implementing strategic measures to improve the level and stability of its earnings.

Fitch expects that SG will maintain operating profits/risk-weighted assets (RWAs) of above 1.5% in 2022 and 2023. This should be driven by lower earnings variability in its capital markets unit, structural cost efficiency progress across divisions, and strong growth in the bank's leasing and fleet management activities. We also expect 2022–2023 loan impairment charges (LICs) to remain contained and below the group's 10-year average of around 50bp, as estimated by Fitch.

Adequate Capital Buffers: SG's capitalisation is commensurate with risks and adequate in relation to its planned growth, shareholder distributions and increased regulatory requirements. Fitch expects SG's fully loaded common equity Tier 1 (CET1) capital ratio will remain above its 12% target in 2022 and 2023, despite the negative impact on capital from planned acquisitions, RWA inflation and shareholder distributions.

SG disposed of its Russian operations in 1H22 with a modest cumulative negative capital impact of around 20bp on its CET1 ratio. While SG has recently revised its medium-term CET1 ratio target upwards, to 12% post Basel III final rules, it remains towards the low end of large European banks' targets.

Conservative Funding and Liquidity: SG has a diversified funding base and well-established market access. Customer deposits represent less than half of the bank's funding, and its large capital-market business structurally leads to material short-term funding needs. The bank has sound liquidity, however, with cash and high-quality liquid assets representing about 18% of its balance sheet (excluding insurance assets) at end-June 2022. This largely covers short-term financing needs, including maturing long-term debt.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Larger-than-anticipated LICs, a weaker revenue backdrop and the materialisation of execution risk on its planned restructuring are the main downside risks to our baseline scenario and could lead to pressure on SG's ratings.

Triggers for a downgrade would be a CET1 ratio below 11% for an extended period with no credible plan to restore it above this level, in combination with sustained deterioration in the operating profit/RWA ratio to consistently below 1%. We believe this could result from greater asset-quality deterioration than we expect or from an erosion of SG's competitive position in some key franchises, which we currently do not expect.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of SG would require strengthened asset quality and a longer record of improved earnings levels and stability. The bank maintaining an impaired loan ratio close to or below 3%, and an operating profit/RWA ratio sustainably above 1.6%, without an increase in risk appetite, are both likely triggers for an upgrade.

A successful execution on the bank's restructuring in CIB and French retail banking, a longer record of robust through-the-cycle performance in capital-market activities and a fully-loaded CET1 ratio consistently above 12% would also be rating-positive.

Other Debt and Issuer Ratings

Debt Rating Classes

Societe Generale S.A.		
Rating level	**Rating**	**Rating Watch**
Deposits: Short-Term	F1	n.a.
Deposits: Long-Term	A	n.a.
Senior Preferred Debt: Long-Term	A	n.a.
Senior Preferred Debt: Short-Term	F1	n.a.
Senior Non-Preferred Debt	A-	n.a.
Tier 2 subordinated debt	BBB	n.a.
Additional Tier 1 notes	BB+	n.a.

Source: Fitch Ratings

Derivative Counterparty Rating (DCR), Deposit Ratings and Senior Preferred Debt

SG's DCR, long-term senior preferred debt and deposit ratings are one notch above the Long-Term IDR because of the protection that accrues to these liabilities from the bank's buffers of subordinated and senior non-preferred debt, which we expect to exceed 10% of RWAs on a sustained basis (end-June 2022: estimated at 17%). We also expect SG to meet its total minimum requirement for own funds and eligible liabilities (MREL) without recourse to senior preferred debt. SG's MREL ratio was 29.2% of RWAs, excluding senior preferred debt, at end-June 2022, which is materially above SG's 2022 total requirement of 25.2%.

Subordinated Debt and Junior Subordinated Debt

Fitch rates SG's subordinated Tier 2 debt 'BBB', two notches below the bank's VR, for loss severity, as Fitch expects recoveries to be poor for this type of debt in case of default/non-performance of the bank.

Deeply subordinated additional Tier 1 (AT1) debt with fully discretionary coupons is rated four notches below the bank's VR, comprising two notches each for loss-severity and for non-performance risk. Our assessment is based on SG operating with comfortable buffers (of about 350bp when considering fully loaded ratios at end-June 2022) above coupon-omission points and on the presence of material distributable items.

Significant Changes from Last Review

Weaker Macroeconomic Prospects, Increased Likelihood of Gas Rationing

Fitch lowered its 2022 and 2023 GDP forecasts in its September 2022 Global Economic Outlook for most of the eurozone and central and eastern European (CEE) countries in which SG operates. Fitch now projects the French GDP to grow by only 1.1% and 1.9% in 2023 and 2024, respectively, following a 2.5% expansion in 2022. However, we expect the unemployment rate to remain below 8% and to be lower than the last four-year average, which should limit the magnitude of the increase in LICs in French retail banking.

Fitch also believes that growth prospects in Europe could be further dimmed as the likelihood of gas rationing materially increased, in the context of disruptions in gas imports from Russia and lack of short-term available alternative sources. Weaker economic conditions would in turn translate into lower business volumes and increased LICs for European banks overall.

Fitch estimates that for France (50% of SG's 2021 operating income), which has a lower dependence on Russian gas flows relative to other European economies, value added (VA) would be reduced by 0.5pp should there be a 10% gas rationing, and by 0.8pp in the case of a total loss of Russian flows. However, a recession in Germany stemming from gas rationing for industrial users could have additional spill-over effects on the rest of the region. For CEE economies such as the Czech Republic (about 5% of SG's 2021 operating income), which have heavier reliance on Russia for gas imports and for which gas is a key industrial production input, the negative impact on GDP growth would be significantly larger (minus 0.7pp and minus 6.1pp, respectively).

Updated Medium-Term Plan Consistent with Recent Initiatives

SG's 2025 main financial targets are consistent with the bank's previous plan (2017–2020), with similar targets for revenue growth and capitalisation, a slightly better cost-efficiency target and lower LICs/gross loans guidance despite a less supportive operating environment.

SG's targets are generally consistent with those recently disclosed by other large French banks, with the exception of the return on total equity (ROTE) target, which is slightly lower at SG relative to peers'. SG aimed for a relatively low cost of credit risk of 30bp by 2025 below its own long-term average (about 50bp, as estimated by Fitch). This is considering structural improvement in asset quality over recent years, reduced exposure to riskier countries, and the sizeable reserves for expected credit losses built in 2020.

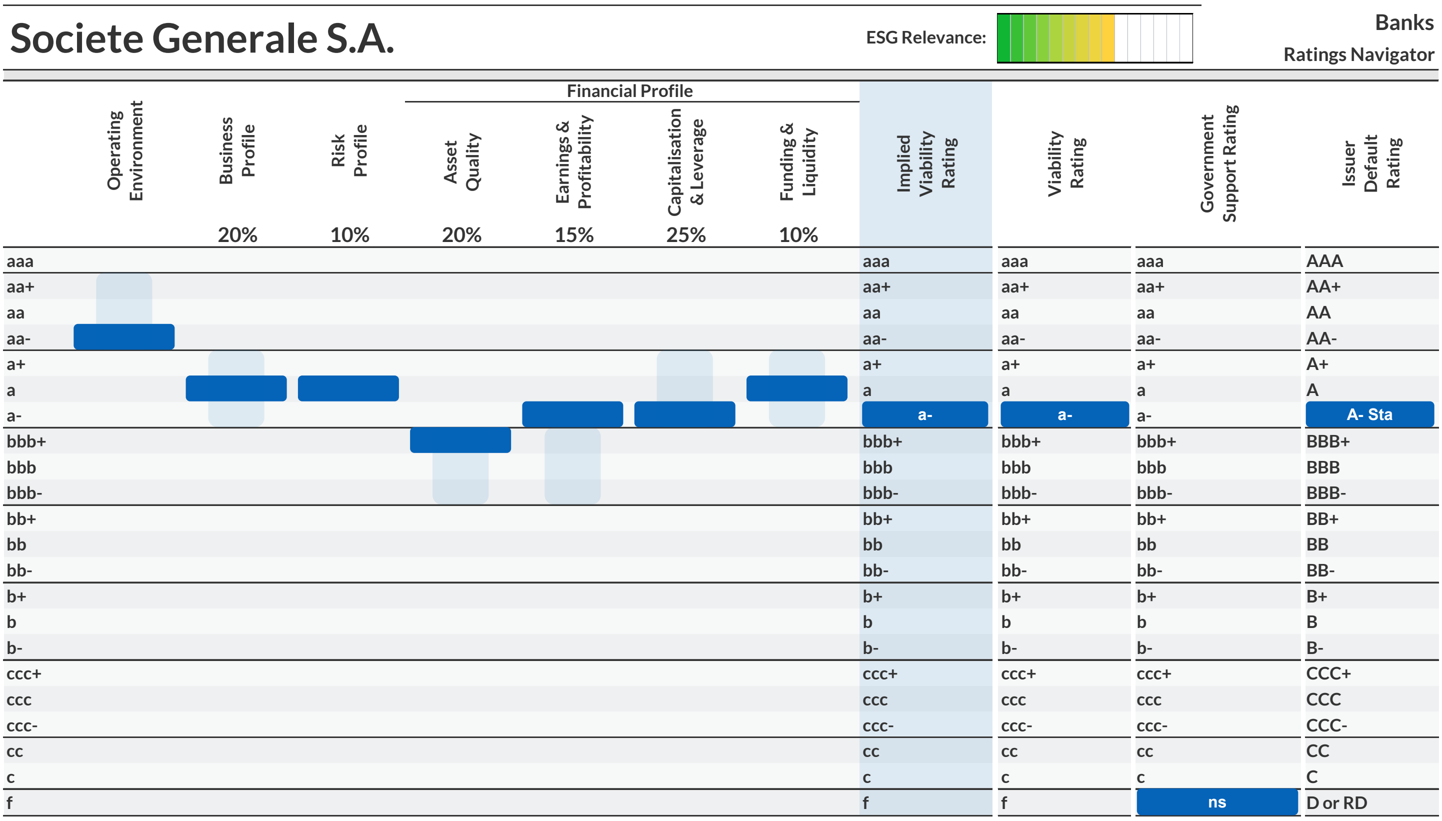
Selected Financial Targets

	1H22 as published	2021–2025 plan	2017–2020 plan[c]
Fully loaded CET1 ratio (%)	12.8	12	≥12
Revenue (yoy change) (%)	+12.8	≥+3	>+3
Cost/income ratio[a] (%)	62.1	≤62	<63
Underlying ROTE[b] (%)	10.5	≥10	~11.5
LICs/gross loans (bp)	27	~30	35–40

[a] Based on underlying revenue and excluding resolution fund contributions (68% as published in 1H22).
[b] ROTE: return on tangible equity; excluding restructuring costs and other one offs (notably the one-off loss booked on the disposal of the Russian subsidiaries)
[c] 2020 targets as initially published by SG
Source: Fitch Ratings, SG

SG continues to single out online banking and mobility as key differentiating drivers of growth and intends on consolidating its strong franchises in French and international retail and commercial banking and CIB, albeit with more efficient cost and capital allocation. The turnaround in SG's CIB unit is almost complete and has benefitted from largely favourable capital market conditions in 2021 and 1H22. On the other hand, the restructuring of the French retail and commercial banking operation, which mainly rests on the merger of SG's and Credit du Nord S.A.'s (CdN) commercial networks, is expected to unlock most of its budgeted cost savings towards the end of the strategic plan.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The earnings and profitability score of 'a-' is above the 'bbb' category implied score because of the following adjustment reason: Historical and future metrics (positive).

Company Summary and Key Qualitative Factors

Business Profile

Diversified Business Model, Material CIB Operations and Growing Appetite for Car Leasing

SG is the third-largest French bank by total assets and the fourth-largest domestic retail and commercial bank by market shares (estimated at 9%–10% for loans and deposits). SG serves its French retail clients through two soon-to-be-merged physical branch networks and Boursorama, the leading online bank in France. SG is among the five largest life insurers in France and has one of the leading domestic private-banking franchises.

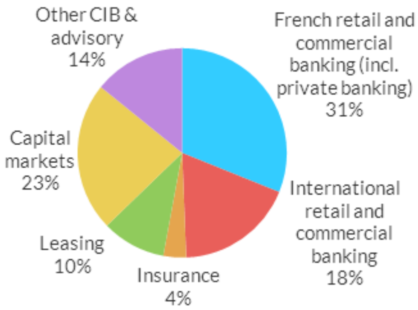
International retail and commercial banking are key for SG, and typically represent close to a fifth of total revenue. SG has sound market shares in Czech Republic and Romania and in some African countries (mainly in French-speaking Northern and Western Africa), through its local subsidiaries. It owns the largest fleet lessor in Europe (ALD S.A.; BBB+/Stable/F1) and has consumer finance subsidiaries mainly focused on auto loans, with material franchises in France, Germany and Italy. Fitch expects that a successful integration of LeasePlan Corporation NV (BBB+/Stable/F2), which remains subject to regulatory and antitrust approvals, into ALD would improve SG's pre-tax profit and earnings stability over time. We calculate that car-leasing and fleet-management services could grow to represent more than 15% of group revenue and 25% of pre-tax profits by 2025.

The contribution of capital markets activities to SG's revenue is significant (typically about 20% or more), although lower than at most GTUB peers. SG is a global leader in structured equity derivatives products, a subset of the global equities market, and has established franchises and a European focus in broader product lines such as rates, credit and currencies. SG also has a well-established franchise in EMEA syndicated loans and holds strong market positions in payments, cash management and trade finance.

Experienced Management Team, Planned Leadership Change

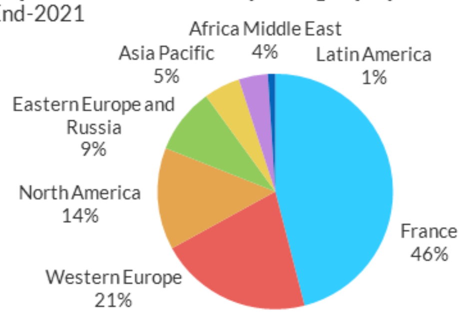
Fitch views SG's management as having a high degree of depth and experience. The bank is to announce a replacement for its long-tenured chief executive before year-end to oversee the implementation of the new medium-term plan. We believe key-person risk to be well managed given the strong ownership of strategy implementation by divisional heads.

Operating Income by Business Line
1H22



Source: Fitch Ratings, SG; Excl. corporate center

Exposure at Default by Geography
End-2021



Source: Fitch Ratings, SG

Risk Profile

Prudent Underwriting Standards

SG's risk management and controls are centralised and robust. The bank's underwriting standards are conservative for home loans and in line with market practice for consumer lending and loans to businesses 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. SG's loan exposures in Africa are significantly riskier (with a Stage 3 exposure ratio of about 9% at end-2021) but represent only about 5% of SG's loans and are mitigated by high net interest margins.

SG is increasingly operating its CIB division under an originate-to-distribute model, whereby it arranges financings that it sells on to third-party investors with limited residual risk. SG's appetite for riskier asset classes such as leveraged loans is generally below that of GTUB peers, and its investment policy is fairly prudent and focused on liquidity management.

Material Market Risk Exposure

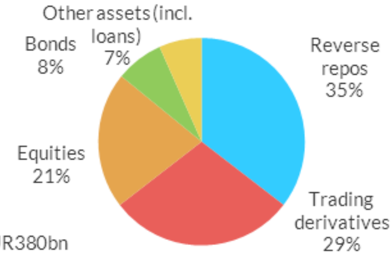
SG's exposure to market risk and complex financial instruments is material, but the bank has generally lower appetite for traded risk than most GTUBs. Its capital markets activities suffered from large losses in equity derivatives in 1H20 due to market dislocation and a lack of business diversification compared to some other European GTUBs. This activity has, however, rebounded strongly due to supportive market conditions, and we view the completion of the bank's simplification and risk-reduction measures as positive for the bank's risk profile. Despite challenging market conditions and volatility spikes in 1H22, SG's stressed VaR (1-day, 99%) remained within a contained range of about EUR20 million to EUR50 million.

Non-trading market risk mainly arises from interest-rate risk in the banking book, notably from fixed-rate home loans. SG maintains conservative interest-rate sensitivity limits and has sophisticated interest-rate risk models. At end-June 2022, it estimated that a 200bp upward parallel shift in interest rates would have a positive impact of close to EUR1 billion on its revenue (or 9% of 2021 net interest income and 4% of revenue) and a moderate impact on the net asset value of the banking book, resulting in a decrease of its Tier 1 capital by 5%, which is lower than typically at other large French banks.

Interest-rate risk from SG's insurance activities is mitigated by substantial policyholder participation reserves, and low minimum guaranteed rates on life insurance contracts, in line with French banking peers.

Large Trading Book

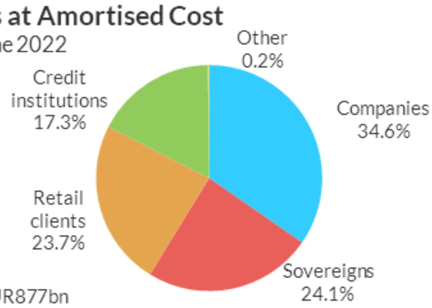
Fair-valued assets at end-June 2022



Total: EUR380bn
Source: Fitch Ratings, SG

Assets at Amortised Cost

End-June 2022



Total: EUR877bn
Source: Fitch Ratings, SG

Financial Profile

Asset Quality

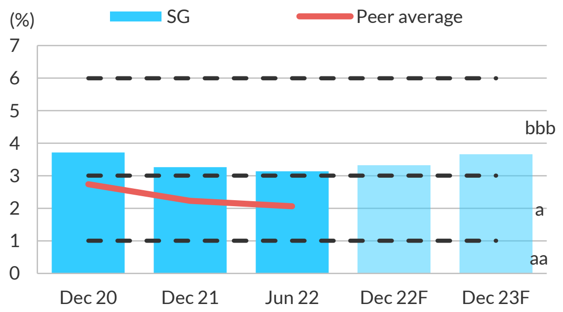
Subdued LICs, Moderate Asset-Quality Risks

SG recorded moderate LICs of around 30bp in 1H22, broadly in line with the average for European peers, against a weakening operating environment. This follows benign levels of credit risk provisioning in 2021 of just 15bp as eurozone economies rebounded from the pandemic-induced slowdown and SG reversed some Stage 1 and 2 provisions (EUR249 million). We expect that SG's LICs will reach and potentially exceed the high end of the bank's 30bp to 35bp guidance in 2022 and 2023 as the group's exposure to SMEs and small businesses – about 5% of the group's total exposure at default – could deteriorate as a result of acute inflationary pressures and weaker growth.

SG's remaining exposure to Russia was EUR2.6 billion at end-June 2022, down from EUR18.6 billion at end-2021, and consisted of offshore exposure to mostly large corporates as it sold its local operations. SG assesses its net risk on the remaining exposure to be below EUR1 billion as it set aside about EUR0.4 billion in loan loss allowances and because the majority of its exposure is in the form of trade-finance transactions, secured either by a pledge on commodities or by guarantees obtained from highly-rated export credit agencies.

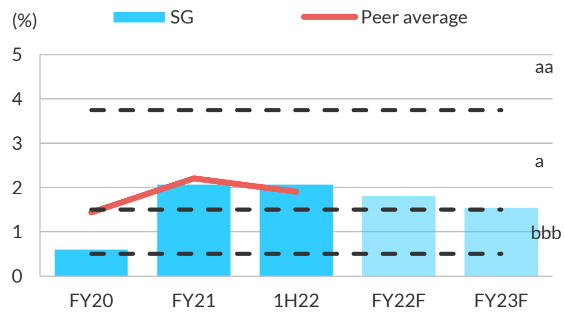
SG's banking book securities portfolio is of good quality and primarily consists of sovereign bond holdings. Exposure to peripheral and lower-rated sovereigns appears manageable, although Fitch views it as higher than at some other large French banks.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/RWAs



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Improved Underlying Profitability

SG's underlying profitability has consistently remained higher than long-term averages following the 2020 trough on strong performance across divisions, and most notably in the capital markets and leasing and fleet-management units. We expect that SG will maintain operating profits/RWAs of above 1.5% in 2022–2023 (1H22: 2.1%). This is despite expected slower loan growth, due to softer credit demand and weaker economic performance. More challenging capital markets and the loss of revenue from the Russian operations (3% of 2021 group revenue) will also dampen the positive effect from higher interest rates on SG's revenue base over 2022 and 2023.

Fitch expects that SG will reach its 2022 underlying cost/income guidance of between 64% and 66% as it secures cost savings and delivers revenue growth in excess of costs. This level still lags behind that of French and international peers but we expect a material improvement after SG completes its restructuring. The CIB restructuring and the merger of the bank's two French retail banking networks aim to deliver large cost savings of about EUR450 million each, by 2023 and 2025, respectively. This amounts to about 5% of the bank's run-rate annual operating costs and, coupled with an expected decline in regulatory levies, paves the way for further improvements in the cost/income ratio by 2025.

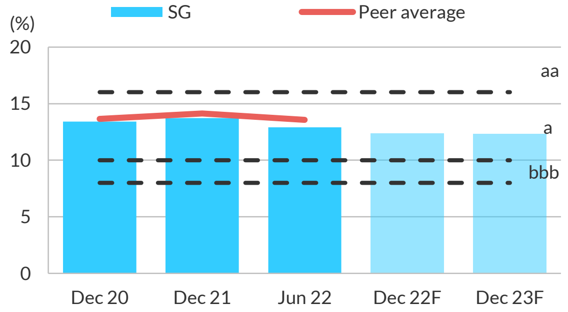
Capital and Leverage

Adequate Capitalisation, Modest Capital Impact from Russia Sale

SG's fully loaded CET1 ratio of 12.8% at end-June 2022 is adequate and broadly in line with the average for GTUB peers'. The swift disposal of its local Russian operations in May only had an additional modest 7bp negative impact (following -14bp in 1Q22 due to negative rating migration). We expect that SG will be able to maintain its CET1 ratio close to 12.5% in 2022–2023 considering upcoming acquisitions (-40bp expected from consolidating LeasePlan) and the group's planned RWA growth. This would leave it with over 300bp of buffer above its capital requirements, which we view as adequate. SG's leverage ratio was adequate at 4.1% at end-June 2022, although this remains at the low end of large European banks.

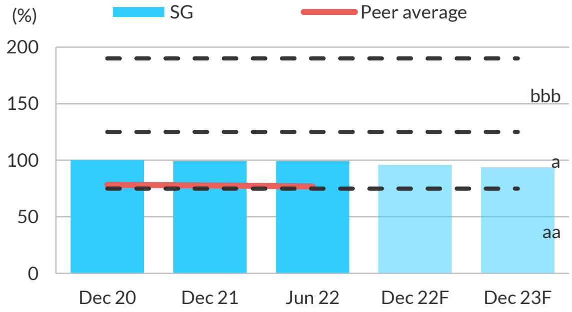
The bank recorded a moderate 23bp negative impact on its CET1 capital in 1H22 from mark-to-market devaluations on its securities portfolios accounted at fair-value through other comprehensive income (mainly in its liquidity buffer and insurance operations). Further falls in bond prices, particularly for European sovereign debt, could have larger impacts. However, SG is less vulnerable to these capital swings than some French peers with larger insurance activities.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Stable and Diversified Funding, Well-Established Market Access

Customer deposits account for about 45% of SG's total funding, which is lower than for most French and GTUB peers, but SG's deposit base has been resilient also during periods of stress. SG's loans/deposits ratio improved to about 99% at end-June 2022 (105% over the past four years) as it benefitted from large pandemic-related customer deposit inflows among its key retail and corporate banking franchises.

SG has well-established market access and its wholesale funding is diversified by tenor, currency and instrument types. Funding with short-term debt and repos is material (about a quarter of total funding) and is primarily linked to the capital markets business whose assets are also short-term.

Like many large European peers, SG's liquidity metrics have considerably improved, due to large TLTRO III drawings at the ECB (EUR72 billion at end-June 2022 or 7% of total funding), of which a significant part has remained deposited at the central bank.

SG had executed 85% of its planned wholesale funding for the year by mid-2022, despite challenging market conditions and reputational risk from its involvement in Russia. Similar to peers, issuance in 1H22 primarily focused on senior instruments, while SG was slightly behind schedule on its subordinated and hybrid issuance plans.

About Fitch Forecasts

The forecasts in the charts in this section reflect Fitch's forward view on SG's core financial metrics under Fitch's Bank Rating Criteria. They are based on a combination of Fitch's economic forecasts, sector-level outlook and bank-specific considerations. As a result, our forecasts may materially differ from the guidance provided by the rated entity to the market. To the extent Fitch is aware of material non-public information, with respect to future events, such as planned recapitalisations or merger and acquisition activity, we will not reflect these non-public future events in our published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

The dashed lines represent indicative ranges and implied scores for Fitch's core metrics for banks operating in environments scored in the 'aa' category.

The peer averages include Banco Santander, S.A. (VR: a-), Barclays plc (a), BNP Paribas S.A. (a+), Citigroup Inc. (a), Credit Agricole (a+), Credit Suisse Group AG (bbb), Deutsche Bank AG (bbb+), The Goldman Sachs Group, Inc. (a) and UBS Group AG (a+).

Financials

Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)	Audited - unqualified (emphasis of matter)
Summary income statement					
Net interest and dividend income	5,617	5,408	10,831	10,528	11,310
Net fees and commissions	2,706	2,605	5,320	4,917	5,257
Other operating income	6,582	6,337	9,653	6,671	7,975
Total operating income	14,905	14,350	25,804	22,116	24,542
Operating costs	10,166	9,787	17,590	16,714	17,727
Pre-impairment operating profit	4,740	4,563	8,214	5,402	6,815
Loan and other impairment charges	808	778	700	3,306	1,278
Operating profit	3,931	3,785	7,514	2,096	5,537
Other non-operating items (net)	-3,417	-3,290	521	-696	-327
Tax	706	680	1,697	1,204	1,264
Net income	-192	-185	6,338	196	3,946
Other comprehensive income	1,993	1,919	1,121	-1,432	684
Fitch comprehensive income	1,801	1,734	7,459	-1,236	4,630
Summary balance sheet					
Assets					
Gross loans	528,343	508,657	499,313	451,923	441,430
- Of which impaired	16,614	15,995	16,261	16,807	15,976
Loan loss allowances	11,126	10,711	10,980	11,601	10,727
Net loans	517,218	497,946	488,333	440,322	430,703
Interbank	57,048	54,922	45,788	42,116	38,198
Derivatives	137,108	131,999	113,725	172,581	153,087
Other securities and earning assets	547,983	527,565	503,200	532,286	518,407
Total earning assets	1,259,356	1,212,432	1,151,046	1,187,305	1,140,395
Cash and due from banks	190,293	183,203	179,969	168,179	102,311
Other assets	148,523	142,989	133,434	106,468	113,597
Total assets	1,598,172	1,538,624	1,464,449	1,461,952	1,356,303
Liabilities					
Customer deposits	532,328	512,493	502,395	450,523	409,852
Interbank and other short-term funding	407,141	391,971	337,699	334,275	271,771
Other long-term funding	154,555	148,796	113,899	153,842	169,426
Trading liabilities and derivatives	150,382	144,779	171,572	219,272	200,234
Total funding and derivatives	1,244,406	1,198,039	1,125,565	1,157,912	1,051,283
Other liabilities	280,943	270,475	268,021	237,061	236,450
Preference shares and hybrid capital	8,657	8,334	8,334	10,095	9,933
Total equity	64,167	61,776	62,529	56,884	58,637
Total liabilities and equity	1,598,172	1,538,624	1,464,449	1,461,952	1,356,303
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, SG

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.1	2.1	0.6	1.6
Net interest income/average earning assets	0.9	0.9	0.9	1.0
Non-interest expense/gross revenue	68.2	68.2	75.6	71.9
Net income/average equity	-0.6	10.6	0.3	6.9
Asset quality				
Impaired loans ratio	3.1	3.3	3.7	3.6
Growth in gross loans	1.9	10.5	2.4	2.0
Loan loss allowances/impaired loans	67.0	67.5	69.0	67.1
Loan impairment charges/average gross loans	0.3	0.2	0.7	0.3
Capitalisation				
Common equity Tier 1 ratio	12.9	13.7	13.4	12.7
Fully loaded common equity Tier 1 ratio	12.8	13.6	13.2	12.7
Tangible common equity/tangible assets	3.7	3.7	3.3	3.6
Basel leverage ratio[a]	4.1	4.9	4.8	4.3
Net impaired loans/common equity Tier 1	11.2	10.6	11.0	12.0
Funding and liquidity				
Gross loans/customer deposits	99.3	99.4	100.3	107.7
Liquidity coverage ratio	141.0	129.0	149.0	119.0
Customer deposits/total non-equity funding	47.8	49.5	45.6	45.2
Net stable funding ratio	112.0	110.0	n.a.	n.a.

[a] SG's Basel leverage ratio without applying the temporary exemption of central bank exposures from the leverage ratio exposure was 4.4% at end-2021 and 4.4% at end-2020.
Source: Fitch Ratings, Fitch Solutions, SG

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA/ Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

SG's GSR of 'ns' reflects 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.

Subsidiaries and Affiliates

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
Shareholder Support Rating	a-	a-	a-
Viability Rating	-	a-	-

Source: Fitch Ratings

The Shareholder Support Ratings (SSRs) and IDRs of SG's subsidiaries, CdN, CGLE and Franfinance S.A., are based on support from SG.

CdN's IDRs are aligned with those of SG. This reflects CdN's key role in SG's domestic retail and commercial banking franchise as well as its strong integration within SG. We expect that CdN will be merged into SG by early 2023 as part of the group's strategic initiative to improve cost-efficiency in its French retail banking business.

CGLE's and Franfinance's IDRs are also equalised with those of SG as we view both entities as having a key role within the group as providers of car financing (CGLE), and consumer finance and equipment leases (Franfinance) in France. The two subsidiaries are well-integrated within their parent and SG provides almost all of their funding.

We rate Franfinance's senior preferred debt in line with SG's. SG follows a single-point-of-entry resolution strategy and Franfinance is within its parent's resolution group. We consequently rate the long-term senior preferred debt of Franfinance one notch above the Long-Term IDR, in line with SG's, as we expect it to benefit from the protection provided by SG's buffer of subordinated and senior non-preferred debt in case of failure or a resolution.

Environmental, Social and Governance Considerations

Overall ESG

5
4
3
2
1

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.

Environmental (E)

General Issues	Score	Impact	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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	Score	Impact	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	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference	G Scale
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
					1

Unless otherwise disclosed in this section, the 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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.