FitchRatings

Banks
Universal Commercial Banks
France

Societe Generale S.A.

Update

Key Rating Drivers

Capital, Earnings Drive Ratings: Societe Generale S.A.'s (SG) ratings mainly reflect the group's adequate capitalisation and improving execution record, which Fitch Ratings expects to lead to more predictive and structurally higher earnings. SG's diversified business profile and moderate risk profile are relative rating strengths. Asset quality is sound following gradual improvements and SG's focus on maintaining its impaired loans ratio at adequate levels, although it is higher than similarly rated French and international peers'.

Diversified Business Profile: SG has a diverse business profile, with strong franchises in key activities. The bank's earnings are more reliant on corporate and investment banking (CIB) and capital markets businesses than most large French banks, which partly explains its more volatile performance record of the past decade, although it is focusing on improving its earnings stability.

SG is the fourth-largest retail and commercial bank in France. Its profitable retail banking activities in the Czech Republic and Romania and its increasing leasing and consumer finance businesses provide good earnings diversification. SG's execution has gradually improved since 2020, with marked progress in repositioning its CIB where it has selective leading positions, in merging its two French retail banking networks and in acquiring LeasePlan Corporation N.V.

Prudent Risk Appetite: SG has a moderate risk profile, with centralised and robust risk management and controls. SG applies conservative underwriting standards for home loans and consumer loans, and is in line with market practice on loans to companies in France. It has tightened its risk appetite in CIB and in international retail banking. SG has material exposure to traded market risks, although less than most international global trading and universal banks.

Moderate Asset-Quality Risks: SG has a higher impaired loans ratio than higher-rated French and European peers, although it has improved materially on more active management of its impaired loan stock and tighter underwriting standards. Fitch forecasts SG's impaired loans ratio to remain contained at 3%–3.5% in 2023 and 2024, despite moderate risks from its exposure to small and mid-sized French companies, African countries and vulnerable corporate sectors in CIB. Fitch projects that loan impairment charges (LICs) will remain low in 2023.

Adequate, Improving Earnings Record: SG has historically been less profitable than higher-rated peers, but the execution of the merger of its French retail banking networks, the integration of LeasePlan, and the CIB repositioning will improve earnings diversification and stability and cost efficiency. Fitch forecasts that SG will maintain an operating profit/risk-weighted assets (RWAs) ratio of 1.5%–2% in 2023 and 2024, despite temporary pressure on its domestic net interest margin and a lower performance than in 2022.

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) ratio of 13.2% at end-September 2023 will remain materially above 12% despite RWA inflation and shareholder distributions by end-2025. SG's capital ratios will remain at the low end of European banks.

Stable 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, a lower proportion than peers', and its large capital markets unit structurally leads to material short-term funding needs. The bank has sound liquidity, however, with cash and high-quality liquid assets largely covering short-term financing needs, including maturing long-term debt.

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-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Revises Societe Generale's Outlook to Positive; Affirms at 'A-' (July 2023)

SG's 2026 Plan Sets Out a Credible Path to Improve Credit Profile (September 2023)

What Investors Want to Know: French Banks' Net Interest Margins (July 2023)

French Bank NIMs Squeezed as Deposits Reprice Faster Than Loans (August 2023)

Large European Banks Quarterly Credit Tracker (October 2023)

Global Economic Outlook - September 2023

DM100 Banks Tracker - End-1H23 (November 2023)

Bank Debt-Class Visualisation Tool (June 2023)

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Rating Sensitivities

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

We would revise the Outlook on SG's Long-Term Issuer Default Rating (IDR) to Stable if LICs increase more than expected, while the revenue backdrop turns weaker than we forecast, in particular for French retail banking. The materialisation of execution risk on its ongoing strategic initiatives, although not our baseline scenario, could also pressure SG's ratings.

Fitch views a downgrade of SG's ratings as unlikely, as reflected in the Positive Outlook and given SG's comfortable rating headroom. However, the ratings would most likely be downgraded if the CET1 ratio drops below 11% for an extended period with no credible plan to restore it above this level, combined with sustained deterioration in the operating profit/RWAs to below 1%. We believe this could result from sharp asset quality deterioration, or from an erosion of SG's competitive position in some key franchises, which we do not expect.

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

An upgrade of SG would most likely result from a longer record of improved earnings levels and stability, evidenced by an operating profit/RWAs ratio sustainably above 1.6%, especially if this reflects successful execution of the restructuring in French retail banking and CIB, and a longer record of robust through-the-cycle performance in its capital markets unit. We would also expect the bank to maintain a moderate risk profile and an impaired loans ratio close to or below 3%, while keeping a fully-loaded CET1 ratio consistently above 12%.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	A/F1
Senior preferred debt	A/F1
Senior non-preferred debt	A-
Subordinated Tier 2 debt	BBB
Additional Tier 1	BB+

Source: Fitch Ratings

Derivative Counterparty Rating, Deposit Ratings and Senior Debt

SG's derivative counterparty rating, long-term senior preferred debt and deposit ratings are one notch above the Long-Term IDR due to the protection accruing 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-September 2023: in the range of 15.5%-16%). For the same reasons, SG's senior non-preferred debt is rated in line with the Long-Term IDR.

We also expect SG to meet its total minimum requirement for own funds and eligible liabilities (MREL) without recourse to senior preferred debt, although the introduction of full depositor preference in the EU could lead to potentially lower buffers of senior non-preferred debt over the longer term. SG's end-September 2023 MREL ratio equalled about 29% of RWAs, excluding senior preferred debt, which is materially above SG's 2023 total requirement of 25.7%.

Subordinated Debt and Junior Subordinated Debt

Fitch rates SG's subordinated Tier 2 debt at '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.

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 above coupon-omission points and on the presence of material distributable items. SG's 4.2% leverage ratio at end-September 2023 is the binding constraint for maximum distributable amounts, with a distance of around 70bp over the 3.5% requirement, which we view as sufficient, as it is equivalent to around EUR10 billion.

Significant Changes from Last Review

Short-Term Margin Pressure in French Retail Drives 9M23 Results

SG continues to underperform compared to most French and European peers, resulting in an annualised operating profit/RWAs ratio of 1.6% in 9M23. Low LICs, car leasing activities, which now fully include LeasePlan, insurance and CIB have supported SG's profitability. However, the revenue squeeze in French retail banking, which exerts the main pressure on SG's performance, accelerated in 3Q23 and is more intense than at domestic peers. SG is currently suffering more than peers from the sharp rise in interest rates, largely due to the negative carry of its hedging swap portfolio, which it estimates at minus EUR0.9 billion in 2023, as the swift rise in interest rates was at odds with the expectations underpinning the bank's modelling done in 2021-1H22.

We expect revenue pressure in French retail banking to gradually abate, and SG anticipates that 2024 net interest income will exceed that of 2022. The improved carry on the swap portfolio and rising commercial margins in France should largely drive the revenue rebound. We forecast this should support the group's profitability towards an operating profit/RWAs of 2%, despite LICs rebounding to around 30bp of gross loans in 2024.

There was no sign of asset-quality weakening in 3Q23, after a limited increase in impaired loans in 1H23. SG has therefore lowered its 2023 LICs guidance to below 20bp of gross loans (15bp in 9M23), which is materially below our medium-term expectations. The 20bp–30bp year-on-year increase in the impaired loans ratio, to an estimated 3.3% at end-September, resulted from a modest increase in Stage 3 loans and loan contraction due to subdued production in the French retail network.

SG's CET1 ratio increased slightly quarter-on-quarter to 13.3%, despite 16bp of negative regulatory impacts. SG anticipates another minus 30bp–35bp from regulatory effects and a small 5bp positive impact from the sale of some African subsidiaries by end-2023. We expect SG's fully loaded CET1 ratio to remain above 12% by end-2024, when considering Basel III end-game effects.

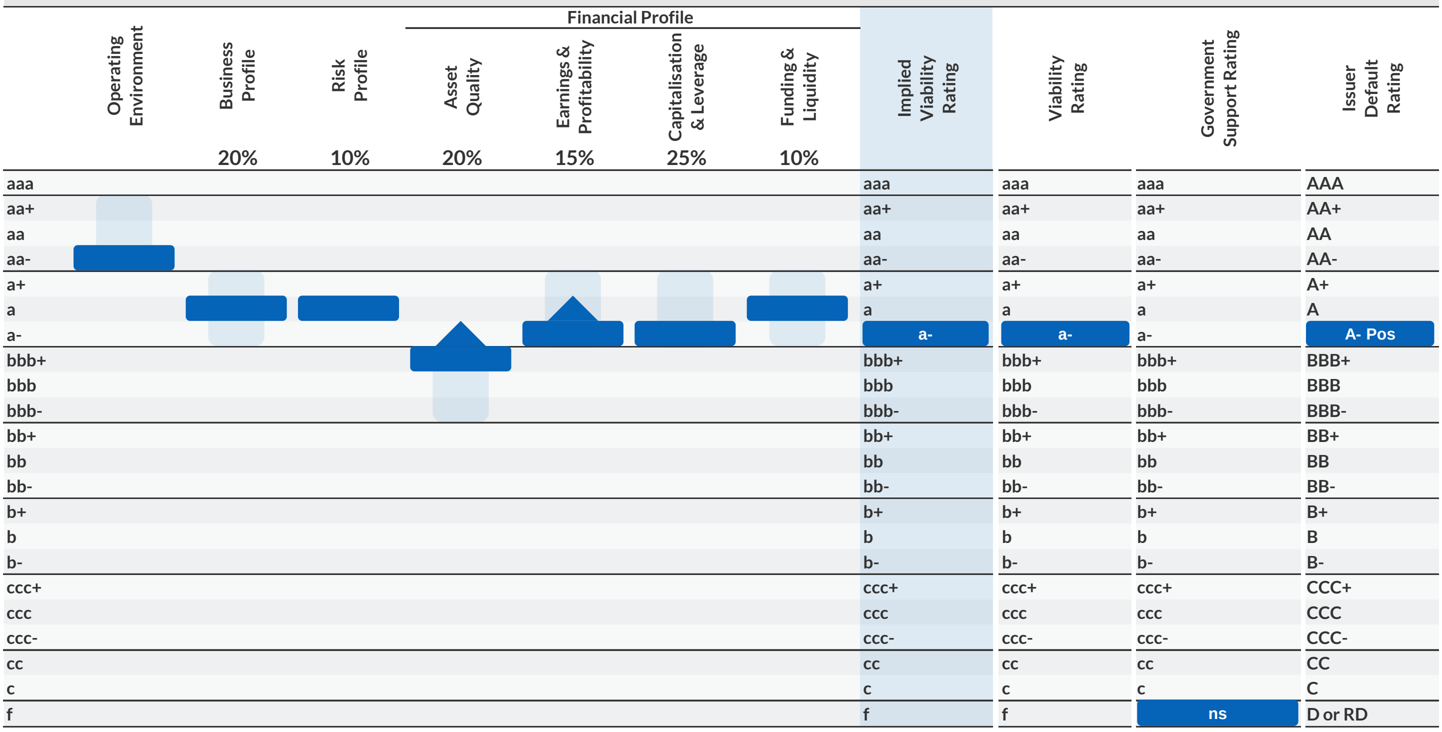
Consistent execution of the recently announced 2026 plan will be key to resolve the Positive Outlook on the bank's Long-term IDR (see: SG's 2026 Plan Sets Out a Credible Path to Improve Credit Profile, published on 19 September 2023).

Ratings Navigator

Societe Generale S.A.

ESG Relevance:

Banks
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.

Financials

Financial Statements

	30 September 2023		31 December 2022	31 December 2021	31 December 2020
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Not disclosed	Not disclosed	Audited - unqualified	Audited - unqualified (emphasis of matter)	Audited - unqualified (emphasis of matter)
Summary income statement					
Net interest and dividend income	n.a.	n.a.	11,385	10,831	10,528
Net fees and commissions	n.a.	n.a.	5,174	5,320	4,917
Other operating income	20,303	19,165	11,515	9,653	6,671
Total operating income	20,303	19,165	28,074	25,804	22,116
Operating costs	14,681	13,858	18,630	17,590	16,714
Pre-impairment operating profit	5,622	5,307	9,444	8,214	5,402
Loan and other impairment charges	703	664	1,647	700	3,306
Operating profit	4,919	4,643	7,797	7,514	2,096
Other non-operating items (net)	-456	-430	-3,290	521	-696
Tax	1,459	1,377	1,560	1,697	1,204
Net income	3,004	2,836	2,947	6,338	196
Other comprehensive income	n.a.	n.a.	428	1,121	-1,432
Fitch comprehensive income	3,004	2,836	3,375	7,459	-1,236
Summary balance sheet					
Assets					
Gross loans	516,762	487,788	507,004	499,313	451,923
- Of which impaired	n.a.	n.a.	15,687	16,261	16,807
Loan loss allowances	n.a.	n.a.	10,634	10,980	11,601
Net loans	516,762	487,788	496,370	488,333	440,322
Interbank	92,596	87,404	49,233	45,788	42,116
Derivatives	31,423	29,661	106,522	113,725	172,581
Other securities and earning assets	644,328	608,201	498,797	503,200	532,286
Total earning assets	1,285,109	1,213,054	1,150,922	1,151,046	1,187,305
Cash and due from banks	247,904	234,004	207,013	179,969	168,179
Other assets	161,441	152,389	128,883	133,434	106,468
Total assets	1,694,453	1,599,447	1,486,818	1,464,449	1,461,952
Liabilities					
Customer deposits	576,227	543,919	523,867	502,395	450,523
Interbank and other short-term funding	107,415	101,392	309,112	337,699	334,275
Other long-term funding	178,863	168,834	156,701	113,899	153,842
Trading liabilities and derivatives	482,680	455,617	168,678	171,572	219,272
Total funding and derivatives	1,345,185	1,269,762	1,158,358	1,125,565	1,157,912
Other liabilities	266,363	251,428	255,678	268,021	237,061
Preference shares and hybrid capital	12,115	11,436	9,936	8,334	10,095
Total equity	70,790	66,821	62,846	62,529	56,884
Total liabilities and equity	1,694,453	1,599,447	1,486,818	1,464,449	1,461,952
Exchange rate		USD1 = EUR0.943931	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, SG

Key Ratios

	30 September 2023	31 December 2022	31 December 2021	31 December 2020
Ratios (%; annualised as appropriate)[a]				
Profitability				
Operating profit/risk-weighted assets	1.6	2.2	2.1	0.6
Net interest income/average earning assets	1.0[a]	1.0	0.9	0.9
Non-interest expense/gross revenue	72.3	66.4	68.2	75.6
Net income/average equity	5.8	4.7	10.6	0.3
Asset quality				
Impaired loans ratio	3.3[a]	3.1	3.3	3.7
Growth in gross loans	-3.1[a]	1.5	10.5	2.4
Loan loss allowances/impaired loans	64.5[a]	67.8	67.5	69.0
Loan impairment charges/average gross loans	0.2	0.3	0.2	0.7
Capitalisation				
Common equity Tier 1 ratio	13.3	13.5	13.7	13.4
Fully loaded common equity Tier 1 ratio	13.2	13.3	13.6	13.2
Tangible common equity/tangible assets	3.9	3.7	3.7	3.3
Basel leverage ratio[b]	4.2	4.4	4.9	4.8
Net impaired loans/common equity Tier 1	11.4[a]	10.4	10.6	11.0
Funding and liquidity				
Gross loans/customer deposits	91.3[a]	96.8	99.4	100.3
Liquidity coverage ratio	147.0	141.0	129.0	149.0
Customer deposits/total non-equity funding	43.7	49.4	49.5	45.6
Net stable funding ratio	117.0	114.0	110.0	n.a.

[a] SG publishes less detailed quarterly data at end-September. Consequently, some ratios are not available at that date. We have, therefore, instead provided end-June or 1H23 data when relevant.
[b] 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-/ Stable
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 Government Support Rating of 'no support' 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

Rating level	Compagnie Generale de Location d'Equipements S.A.	Franfinance S.A.
Long-Term IDR	A-/Positive	A-/Positive
Short-Term IDR	F1	F1
Shareholder Support Rating	a-	a-

Source: Fitch Ratings

The Shareholder Support Ratings and IDRs of SG's subsidiaries, Compagnie Generale de Location d'Equipements S.A. (CGLE) and Franfinance S.A., are based on support from SG.

CGLE's and Franfinance's IDRs are equalised with those of SG, and their Positive Outlooks mirror the Positive Outlook on SG. This is because 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 resolution.

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

- 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.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	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.

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	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	G Score	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

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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.