FITCH AFFIRMS SOCIETE GENERALE'S IDR AT 'A'; UPGRADES SENIOR PREFERRED TO 'A+'

Fitch Ratings-London-28 September 2017: Fitch Ratings has affirmed Societe Generale's (SG) Long-Term Issuer Default Rating (IDR) at 'A', Short-Term IDR at 'F1' and Viability Rating (VR) at 'a'. The Outlook is Stable.

At the same time, Fitch has upgraded SG's senior unsecured long-term preferred debt to 'A+' from 'A' and SG's Derivative Counterparty Rating (DCR) to 'A+(dcr)' from 'A(dcr)'. It has also assigned SG deposit ratings of 'A+'/'F1'.

The upgrade reflects Fitch's view that the bank's qualifying junior debt buffer (QJD) and senior non-preferred debt now is sufficient to protect senior preferred creditors, which include derivative counterparties and depositors, from default in case of failure. A full list of rating actions is available at the end of this rating action commentary.

The rating actions have been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Banks (GTUBs), which comprise 12 large and globally active banking groups.

KEY RATING DRIVERS

IDRS, VR AND SENIOR DEBT

SG's IDRs, VR and senior non-preferred debt ratings reflect Fitch's view that the bank's sound company profile, which benefits from franchise strengths across selected products and geographies, has allowed SG to generate adequate profitability. SG has a sound presence in domestic and international retail banking and in providing financial services to corporates in France and abroad. A sound corporate franchise in the eurozone also benefits SG's securities business, where the bank has leading positions in euro-denominated debt capital markets and equity derivatives.

The ratings also reflect Fitch's view that the bank's asset quality is weaker than its peers'. SG's gross impaired loan ratio has improved to 5.3% at end-2Q17, from 7.7% at end-2013, but this ratio remains higher than at most French and GTUB peers'. Fitch expects the gross impaired loan ratio, which partly reflects slower write-off practices in France, to fall further as asset quality in a number of foreign businesses should improve further.

SG has continued to generate sound profitability, which in 2Q17 benefited from improved performance in international retail banking, notably in Russia, amid more challenging conditions for sales and trading and continued pressure on domestic retail activities. In Fitch's opinion, further improving fee revenue in French retail will be important for the bank to offset pressure from low interest rates as net interest income in the business decreased 7% yoy in 2Q17. International retail banking and financial services are likely to remain the group's main earnings driver as that division's pre-tax profit rose 34% yoy in 2Q17 and contributed 44% of the operating divisions' pre-tax profit.

SG's capital ratios are at the lower end of GTUB peers', which in Fitch's opinion is mitigated by the bank's strong internal capital generation. The bank's fully-loaded CET1 ratio stood at 11.7% at end-2Q17 and fully-loaded Basel III leverage ratio was 4.2%. Regulatory capital ratios are largely in line with the bank's end-2017 targets of an 11.5%-12% CET1 ratio and an 18% total capital ratio. By end-2Q17, SG had issued EUR5.2 billion senior non-preferred debt, a new debt class introduced in France after a legislative change in December 2016, which in a resolution ranks junior to other senior creditors and is eligible for inclusion in total loss-absorbing capacity (TLAC).

The Stable Outlook reflects our expectation that the bank will continue generating sound profitability while progressing towards its capital targets and gradually improving its asset quality metrics.

SG's senior non-preferred debt, which is the reference liability for the bank's IDRs, is rated in line with the IDRs.

Fitch has withdrawn ratings of six issues due to insufficient information. These include three market-linked notes (ISINs XS0408840253, XS0225888774 and XS0408839834) issued by Societe Generale Acceptance N.V., two senior preferred notes (ISINs XS0355766733 and XS0588952704) and a subordinated note (ISIN FR0010482174) issued by Societe Generale S.A.

SUPPORT RATING AND SUPPORT RATING FLOOR
SG's Support Rating and Support Rating Floor reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the French sovereign in the event that the group becomes non-viable. In Fitch's view, the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

DERIVATIVE COUNTERPARTY RATING, DEPOSIT RATINGS AND SENIOR PREFERRED DEBT
SG's DCR and long-term senior preferred debt and deposit ratings are one notch above the bank's Long-Term IDR because derivatives, deposits and structured notes have preferential status over the bank's large buffer of QJD and senior non-preferred debt. Short-term deposits, rated at 'F1', are at the lower of the two short-term ratings that map to the long-term deposit rating as there is no clear liquidity enhancement at instrument level.

Rated senior debt issued by Societe Generale Acceptance N.V., SG Option Europe and SG Structured Products Inc., which benefits from a guarantee from SG, is rated in line with SG's senior preferred debt because Fitch expects the guaranteed notes to benefit from the protection provided by the buffer of QJD and senior non-preferred debt.

Fitch estimates that SG's buffer of QJD and senior non-preferred debt at end-1H17 was equal to about 8.2% of risk-weighted assets (RWA), which we expect to be sufficient to recapitalise the bank after a resolution without causing losses to senior preferred creditors. We expect the bank to issue further senior non-preferred debt, which should result in a further increase of the buffer, and which we view as sustainable since SG will have to meet TLAC requirements.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid securities issued by SG are all notched down from its VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

Subordinated Tier 2 debt is rated one notch below the VR for loss severity, reflecting below-average recoveries.

Additional Tier 1 instruments are rated five notches below the VR. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be written down well ahead of resolution. In addition, they are notched down three times for very high non-performance risk due to fully discretionary coupon omission.

Legacy Tier 1 securities are rated four notches below the VR, comprising two notches for higher-than-average loss severity, and two further notches for non-performance risk due to partly discretionary coupon omission.

SUBSIDIARY AND AFFILIATED COMPANY

The Long- and Short-Term IDRs and Support Rating of SG's French specialist car financing subsidiary, Compagnie Generale de Location d'Equipement, are based on institutional support from SG. The subsidiary is rated using Fitch's Global Non-Bank Financial Institutions Criteria. Compagnie Generale de Location d'Equipements' Long-and Short-Term IDRs are equalised with those of SG and the subsidiary's Outlooks are the same as the parent's. This is because we view this entity as a core subsidiary given its importance to and integration with its parent.

RATING SENSITIVITIES

IDRS, VR AND SENIOR NON-PREFERRED DEBT

SG's IDRs, VR and senior non-preferred debt ratings would come under pressure if the bank's internal capital generation weakens from deterioration of earnings. Ratings would also come under pressure if gross impaired loans increase, or if the bank increases its risk appetite. Although currently not expected, outsized losses resulting from legal or misconduct cases that would materially dent capital would also be rating-negative.

Upside to the ratings is currently limited and would require a material improvement in asset quality while maintaining sustainable earnings, sound capitalisation and an unchanged risk appetite.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of SG's Support Rating and upward revision to the Support Rating Floor would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

DERIVATIVE COUNTERPARTY RATING, DEPOSIT RATINGS AND SENIOR PREFERRED DEBT

SG's DCR and long-term senior preferred debt and deposit ratings are notched from the bank's IDR and are therefore primarily sensitive to changes to the Long-Term IDR. The ratings would no longer be rated one notch above the Long-Term IDR if the buffer of QJD and senior non-preferred debt falls to below the expected recapitalisation amount of about 8%, which we do not expect because the bank will have to meet minimum TLAC requirements.

Societe Generale Acceptance N.V.'s, SG Option Europe's and SG Structured Products Inc.'s senior debt ratings are sensitive to the same factors that drive a change in SG's senior preferred debt rating.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital ratings are primarily sensitive to a change in SG's VR. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the respective issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example. The ratings are also sensitive to a change in Fitch's assessment of each instrument's loss severity, which could reflect a change in the expected treatment of liability classes during a resolution.

SUBSIDIARY AND AFFILIATED COMPANY

The ratings of Compagnie Generale de Location d'Equipements are sensitive to changes in SG's IDRs and could also be sensitive to changes in the subsidiary's strategic importance to the rest of the group.

The rating actions are as follows:

Societe Generale
Long-Term IDR affirmed at 'A'; Outlook Stable
Short-Term IDR affirmed at 'F1'
Viability Rating affirmed at 'a'
Support Rating affirmed at '5'
Support Rating Floor affirmed at 'No Floor'
Derivative Counterparty Rating upgraded to 'A+(dcr)' from 'A(dcr)'
Senior non-preferred debt affirmed at 'A'
Senior preferred debt long-term rating upgraded to 'A+' from 'A' and short-term rating affirmed at 'F1'
Senior preferred notes XS0355766733 and XS0588952704 withdrawn
Long-term deposit rating assigned at 'A+'
Short-term deposit rating assigned at 'F1'
Market-linked securities upgraded to 'A+emr' from 'Aemr'
Lower Tier 2 notes affirmed at 'A-'
Subordinated note FR0010482174 withdrawn
Additional Tier 1 capital affirmed at 'BB+'

Societe Generale Acceptance N.V.
Market-linked guaranteed notes upgraded to 'A+emr' from 'Aemr'
Market-linked notes XS0408840253, XS0225888774 and XS0408839834 withdrawn
Senior preferred guaranteed notes upgraded to 'A+' from 'A'
Short-term guaranteed notes affirmed at 'F1'

SG Option Europe
Senior preferred long-term programme rating upgraded to 'A+' from 'A' and senior preferred short-term programme rating affirmed at 'F1'

SG Structured Products Inc.
Senior preferred guaranteed notes upgraded to 'A+' from 'A'

Compagnie Generale de Location d'Equipements
Long-Term IDR affirmed at 'A'; Outlook Stable
Short-Term IDR affirmed at 'F1'
Support Rating affirmed at '1'
Certificate of deposit programme affirmed at 'F1'

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Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051
Global Non-Bank Financial Institutions Rating Criteria (pub. 10 Mar 2017)
https://www.fitchratings.com/site/re/895236