S&P Global Ratings

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Societe Generale

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Societe Generale

SACP	a-	+	Support	+1	+	Additional Factors	0

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A/Positive/A-1

Resolution Counterparty Rating
A+/--/A-1

Major Rating Factors

Strengths:

- Solid foundation in domestic retail, corporate, and investment banking, as well as financial services to corporates.
- Globally systemic universal bank with well-diversified revenues by business lines and geography.
- Steady build-up of a comfortable bail-in-able debt cushion.

Weaknesses:

- Pressure on French retail earnings due to low interest rates and ongoing adaptation of the business model.
- Volatility of revenues from sizable investment banking activities and varying efficiency throughout the group.
- Wide international retail banking presence spread across relatively small economies.

Outlook: Positive

S&P Global Ratings' outlook on Société Générale (SG) is positive. It reflects our expectation that we may raise our long-term ratings on the France-based bank to 'A+' in the next two years if the group continues to steadily build a buffer of loss-absorbing instruments protecting senior creditors while delivering on its medium-term strategic objectives. This could occur if SG builds up a sustainable buffer of bail-in-able debt representing an equivalent of at least 8% of our risk-weighted assets (RWAs) and, in our view, such a strategy strengthens the bank's balance sheet. We believe SG will likely build such a buffer, given its medium-term strategy to comply with total loss-absorbing capacity (TLAC) requirements and the minimum requirement for own funds and eligible liabilities (MREL) mainly by issuing a material amount of senior nonpreferred instruments. The strengthening of loss-absorption capacity would lead us to incorporate a second notch of support for additional loss-absorbing capacity (ALAC) in our long-term issuer credit ratings, likely toward the end of our two-year outlook horizon, around mid-2020, all else being equal.

For us to consider an upgrade, we would also need to observe an improvement in profitability and efficiency, both of which are a relative weakness for SG compared with its 'A+' rated peers, in our view. In particular, we expect SG's return on average common equity to converge toward 8%-9% by 2020, while our measure of noninterest expenses to operating revenues should reduce toward 65%. We expect our risk-adjusted capital (RAC) ratio will be in the 8.5%-9.0% range over our two-year rating horizon.

Lastly, the outlook also reflects our view that SG will continue to demonstrate a measured risk appetite, in particular regarding acquisitions.

If we were to factor an additional notch of ALAC uplift into our issuer credit rating, this would have no impact on our issue ratings on hybrid debts, since we notch them from our assessment of SG's unsupported group credit profile (UGCP), which would not change.

We could revise our outlook to stable if:

- The gradual build-up of SG's ALAC buffer falls short of our expectations, for instance because of more rapid growth of S&P Global Ratings' RWAs, or lower core capital generation due to unexpected exceptional items, for instance substantially higher litigation costs compared with current reserves; or
- The bank fails to sufficiently structurally improve its profitability and cost base, and we expect its performance to compare negatively with that of 'A+' rated peers. In such a case, we may use a notch of adjustment to reflect those unfavourable peer relativities.

Rationale

Our ratings on SG reflect its diversified business model, in particular its stable and well-entrenched retail banking activities in France and its sustainable franchise in corporate and investment banking. SG also has leading positions in financial services to corporates like fleet leasing or equipment finance, and operates retail and commercial banking activities in a number of countries including the Czech Republic, Russia, Romania, and in the African region. Capitalization is improving gradually, benefiting from a conservative financial strategy to shore up balance sheet. The projected RAC ratio, before benefits for diversification, should range between 8.5% and 9.0% in the next 18-24 months. Profitability is a relative weakness compared with peers, and trimming the elevated cost base is one of the key objectives of the bank's strategic plan. SG's market risks have abated in recent years due to the gradual reduction in complex and risky capital market activities, although they still represent a sizable portion of activities. Complexity as well as legal and reputation risks are also inherent to large and diversified international banking business models. We view funding and liquidity as in line with that of universal banking peers.

Our assessment of SG's UGCP is 'a-', and the long-term issuer credit rating (ICR) is 'A', which incorporates one notch of ALAC support. SG announced that it will continue tapping the senior nonpreferred market, which will support a ramp-up of its TLAC ratio comfortably above regulatory requirements, and along with the regulatory phasing until Jan. 1, 2022, which we expect will translate into our ALAC ratio increasing above 8% in the next 18-24 months.

Anchor: 'bbb+', reflecting geographically diverse assets and the industry risk in the French banking system

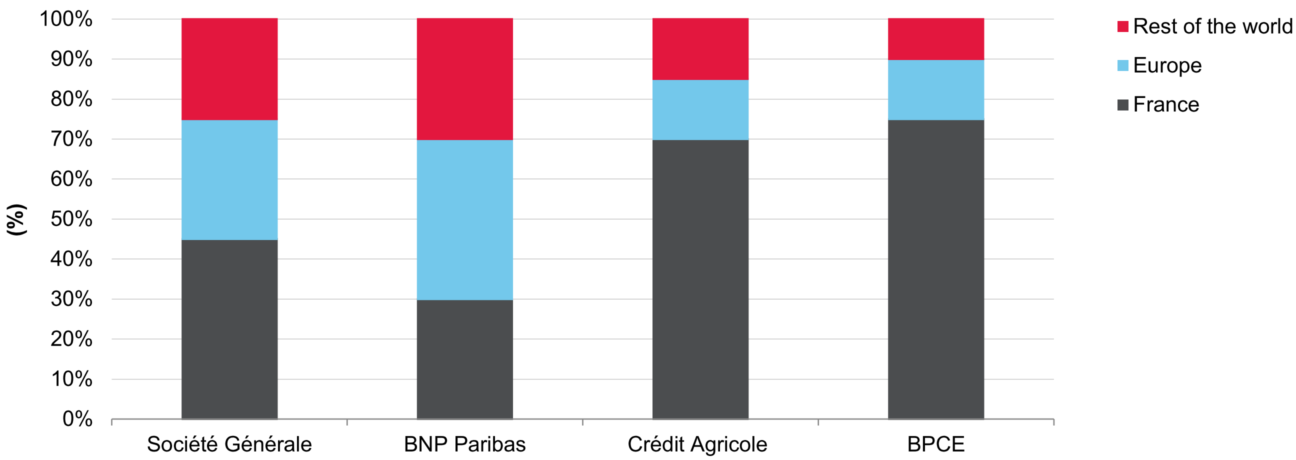
We use our Banking Industry Country Risk Assessment methodology and our economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. The 'bbb+' anchor incorporates SG's geographically diverse credit exposure, including to countries with higher risk than France and the French banking system's industry risk. We assess economic risk for SG based on our calculation of the bank's weighted-average credit exposures in the countries and regions in which it operates: 45% in France, 30% in the rest of the EU, 10% in the Americas, 5% in Eastern Europe (outside the EU), 5% in Asia-Pacific, and 5% elsewhere

Our '3' economic risk score for France reflects our view that its economy is stable and wealthy with low private-sector credit risk, and that it benefits from an expanding population. In our view, the economy's resilience to adverse external developments has been reduced by a relatively high public debt burden; elevated unemployment that is projected to decline only slowly; and decreased external competitiveness of the corporate sector. We expect France to post GDP growth of 1.6% in 2018-2020, with the economy now in a more mature phase of the cycle. Domestic credit growth is on an upward trajectory, outpacing other European countries, but we do not believe it has reached a magnitude that would indicate significant credit bubbles. On the housing market, low interest rates have fueled loan production (included renegotiations in 2017), but the market is now likely to regulate itself back closer to long-term averages (around 2% nominal price increase in 2019 after 2.7% in 2018) for the next two years. We anticipate that credit losses will remain very low in 2019-2020, increasing from the recent record low level of about 20 basis points (bps) in 2017-2018.

French banks are currently operating in a less favorable environment, with low interest rates compounded by regulated-rate savings constraining prospective revenues. We consider there is room for improvement in cost efficiency, which is a relative weakness for French banks compared with their European peers, notably due to a still-dense branch network. We also considered the sustained pace of growth of household credit, mostly granted at fixed rate, particularly in relation to the effect on banks' balance sheet structures. The system's relatively heavy reliance on wholesale funding is partly attributable to households' propensity to make use of nonbank saving and regulated savings. It also benefits from the depth of the domestic financial market.

Chart 1

Société Générale's Credit Exposures By Geography Versus French Peers



Figures are rounded. Data as of end-2017. Source: banks, S&P Global Ratings.

Table 1

Société Générale Group -- Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2014**	**2015**	**2016**	**2017**	**2018**
Adjusted assets	1,180,742	1,196,143	1,242,287	1,110,182	1,155,810
Customer loans (gross)	371,592	401,347	417,745	416,663	432,586
Adjusted common equity	37,776	40,300	38,966	38,237	N.A.
Operating revenues	23,912	25,199	25,057	25,066	25,261
Noninterest expenses	16,016	16,893	16,988	17,633	17,595
Core earnings	3,328	3,666	3,503	4,403	4,961

N.A.--Not Available

Business position: Diverse business model by geography and segment, but challenges for earnings

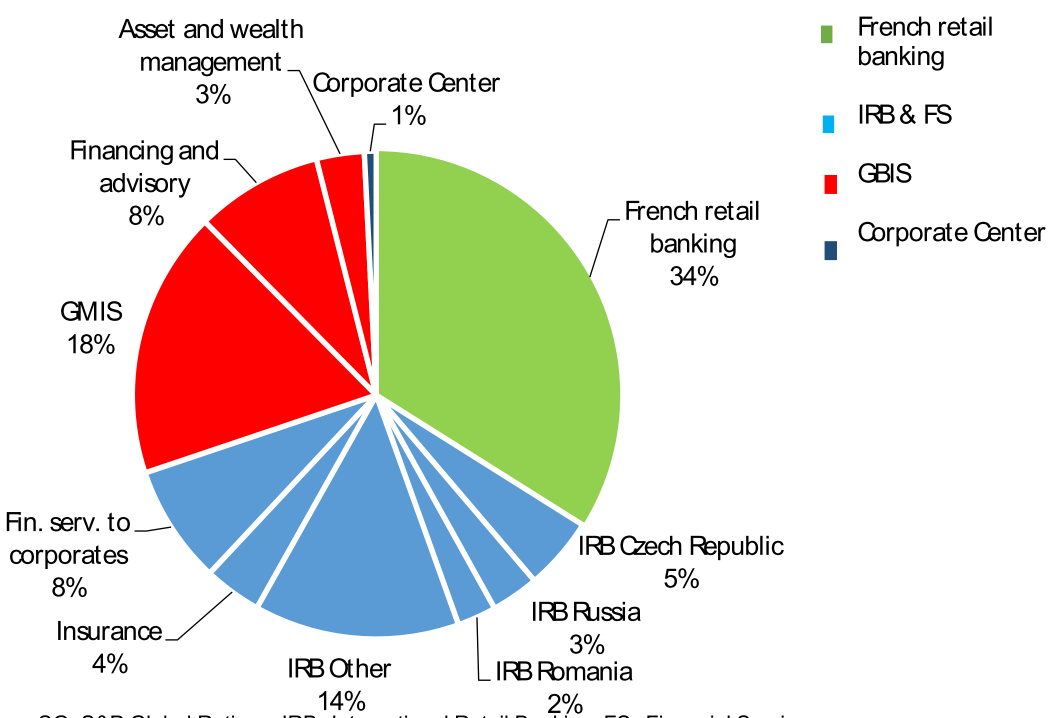
SG is a globally systemically important bank with an asset base of €1,155 billion at end-2018, and one of the largest European banks. SG's main businesses have long-standing and solid foundations in its core markets. The group combines some leading retail banking operations in France with sustainable franchises in insurance, as well as corporate and investment banking. SG has other leading positions in financial services to corporates, namely in equipment financing and fleet leasing. The group's international retail banking operation is geographically diverse, with a sizable presence in the Czech Republic, Romania, and Russia, as well as growing retail businesses in Africa and consumer finance operations across Western Europe. Asset- and wealth-management services and securities services each make a more limited contribution to the group's franchise.

SG's business activities are varied and result in good diversity of earnings by business type and geography, but its reported return on equity (ROE), averaging about 7% in past years, remains below the average of universal bank peers in Europe. Since we expect SG's one-off expenditures to be smaller than in previous years, we assume its return on average common equity will converge toward the peer average in the next two years, standing between 8% and 9% by 2020. Cost optimization is a key focus of SG's medium-term plan.

The performance of SG's French retail division is under pressure, as is the case for peers, due to low interest rates, fierce competition, and the costly ongoing transformation of its business models, in particular the branch network. In this context, SG expects retail banking will contribute a limited amount to revenue growth in 2019-2020. A strategic challenge for the bank's efficiency improvement in retail banking is deriving more synergies with the insurance, asset management, and its private banking business. Amid more stringent regulation, the investment banking division managed to cautiously adapt its approach to business and profitability, and we expect that it will continue to do so. Revenues from investment banking (that is, equity, fixed income, currencies, and commodities, which are all operated through Global Markets as part of the Global Banking and Investor Solutions [GBIS]) account for about 20% of the group's consolidated revenues. By nature, the contribution of this segment to total earnings tends to be more volatile. However, we note that the size of capital market operations is reducing and more predictable earnings from other business lines help the group generate adequate risk-adjusted profitability.

Chart 2

Société Générale's Operating Revenue Distribution in 2018 By Division

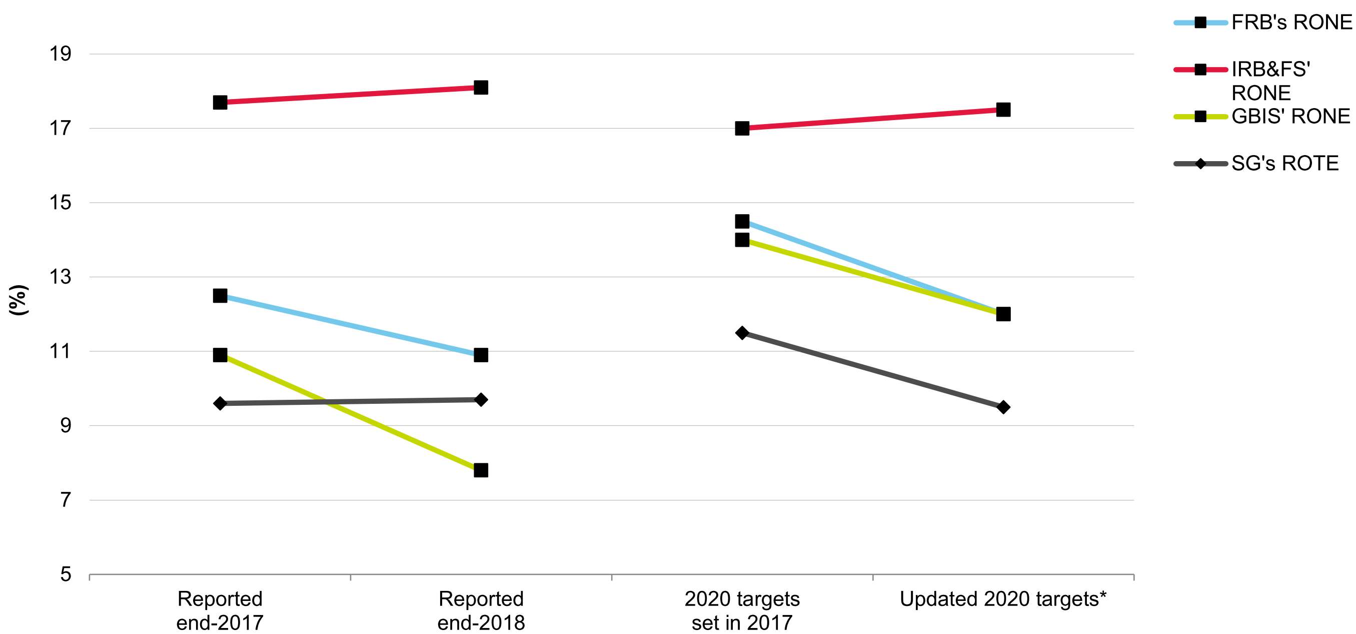


Source: SG, S&P Global Ratings. IRB--International Retail Banking. FS--Financial Services. GM&IS--Global Market and Investor Services. GBIS--Global Banking & Investor Solutions.

We regard SG's strategy as consistent and ambitious in some areas given challenges the group needs to address, in particular pressure on margins. In November 2017, SG unveiled its medium-term strategic plan up to 2020, called "Transform to grow", which we see as very much in line with the strategy pursued by the group in past years. An update of key strategic financial targets was communicated in February 2019 to factor in the expectation of more challenging operating conditions, mainly prevailing low interest rates. While SG maintained its 12% common equity tier 1 (CET1) target, it lowered its financial performance targets (see chart 3).

Chart 3

Société Générale's Actual Performance Indicators And Performance Targets



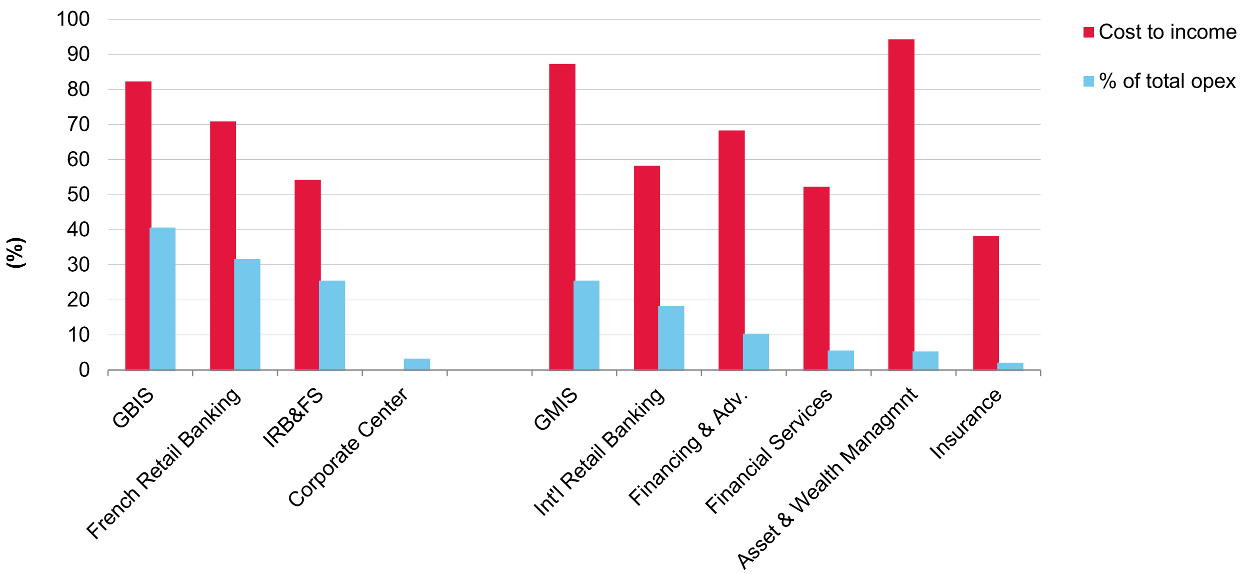
Source: Société Générale, S&P Global Ratings. All figures are average of the range. FRB--French retail banking. IRB&FS--International Retail Banking & Financial Services. GBIS--Global Banking & Investor Solutions. ROTE--Return on tangible equity (SG definition). RONE: return on normalized equity (SG definition). *Updated in Feb. 2019.

Costs control remains at the center of the strategy, and the group targets cumulative recurring cost savings of €1.1 billion by 2020 while investing €1.5 billion over the period. Efforts are set to be well distributed across the group. As part of its strategic update in February 2019, the bank reemphasized the need to adapt its GBIS division further, and find an additional €500 million in cost savings.

Transforming French retail operations is also a major challenge. The group intends to operate with fewer branches (1,700 units by 2020 compared with about 2,200 at end-2015) and continue to develop its leading domestic franchise in digital banking, including with Boursorama Banque targeting 2 million clients by 2020 (1.7 million at end-2018). The cost of client acquisition remains an impediment to the French Retail Banking (FRB) division's contribution to revenue.

Chart 4

Société Générale's Reported 2018 Cost To Income Ratios By Business Lines



Source: Société Générale. S&P Global Ratings. GBIS--Global Banking & Investor Solutions. IRB&FS--International Retail Banking & Financial Services. GMIS--Global Markets & Investor Services. Opex--Operating expenditures.

SG's international retail banking segment features some diversification by geography, and we note the strengthening performance of operations across various countries, especially in Russia and Romania, which faced substantial stress in the past years. Still, with the exception of Czech operations (Komercni Banka), the group's presence in Central and Eastern Europe and Africa is spread across a variety of relatively small countries and entities. While SG is successful in many of these countries, this setup does not provide the same strength as a second home market or larger Pan-European presence, in our view, like that of some European competitors, including BNP Paribas in Belgium or Italy, UniCredit in Austria, or ING in Belgium and Germany. The group's largest reported retail loan book outside of France at end-2018 was in the Czech Republic (€24.6 billion).

We note that as part of its medium-term plan, SG is actively managing its presence in some areas to focus on group entities that have stronger market positions. SG intends to continue disposing or closing subscale entities, or entities with limited synergies with the rest of the group. SG aims to save about 80 bps to 90 bps of the regulatory CET1 ratio through these disposals. It estimated that the positive impact of this refocusing strategy was +37 bps during fourth-quarter 2018 (announced disposals, see table 2 below). We also expect the bank to focus on organic growth. This is likely to impact its CET1 ratio by -50 bps over the period according to SG. We believe some focused acquisitions remain possible. For instance, in fourth-quarter 2018 SG acquired Commerzbank's equity, markets, and commodities business in Germany.

Table 2

Société Générale's Divestments And Acquisitions Announced In 2018

		Expected impact on regulatory RWAs (bil. €)	Expected impact on CET1 ratio (bps)
December	Sale of SG's 35% stake in La Banque Postale Financement	(0.60)	+5
December	Sale of SG Serbia.	(1.95)	+8
November	Sale of Euro Bank, a retail bank in Poland.	(2.00)	+8
August	Sale of SG's majority stakes in SG Expressbank (Bulgaria) and SG Albania.	(3.00)	+12
July	Acquisition of Commerzbank's Equity Markets & Commodity business.	N/A	N/A
July	Sale of SG private banking activities in Belgium.	N/A	N/A

RWA--Risk-weighted assets. CET1--Common equity tier 1. bps--Basis points. SG--Société Générale. N/A--Not available.

Table 3

Société Générale Group -- Business Position

	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Total revenues from business line (mil. €)	25,053	25,344	26,309	26,178	24,285
Commercial banking/total revenues from business line	17.9	8.8	9.0	9.5	8.3
Retail banking/total revenues from business line	53.9	63.9	60.7	60.8	64.8
Commercial & retail banking/total revenues from business line	71.9	72.7	69.7	70.3	73.1
Investment banking/total revenues from business line	20.8	22.4	22.6	22.8	19.0
Return on equity	7.5	3.9	6.1	6.8	4.7

Capital and earnings: Stable and adequate capitalization

Capitalization continues to strengthen thanks to the bank's conservative financial strategy, but regulatory ratios remains average in a European context. We expect earnings to improve only moderately in 2019-2020. We forecast that our RAC ratio (before diversification) will be in the range 8.5%-9.0% in the next 18-24 months, supported by stable underlying income and low-single-digit growth in S&P Global Ratings' RWAs.

According to its strategic plan, SG expects to generate about 25 bps of core capital annually. Given our more conservative risk weights and the group's strategy to rebalance slightly its loan portfolio in favor of better remunerated lending opportunities, mainly outside of France, we believe that S&P Global Ratings' RWAs are likely to increase by about 3% year on year, with more modest growth of the lending portfolio (about 2% per year).

At end-2017, the group's RAC ratio stood at 8.2% (7.9% at end-2016). We estimated the first-time application of IFRS9 as of Jan. 1, 2018, represented a 20 bps reduction of the RAC ratio pro forma at end-2017, which largely explains why we do not expect any meaningful strengthening of the ratio in 2018.

We expect SG to maintain unchanged capital management along with its announced objective to report a CET1 ratio above 12.0% in 2020 under the full implementation of Basel III compared with 10.9% achieved at end-2018. SG estimated that its CET1 ratio would have stood at 11.5% at the same date, pro forma the signed disposals and acquisitions and taking into account an assumption of a 50% subscription rate for the final 2018 dividend in shares.

Based on the latest update of the regulatory capital requirements under the supervisory review and evaluation process (SREP), the minimum requirement was set at 9.9% as of March 1, 2019, due to the additional phasing-in of buffers.

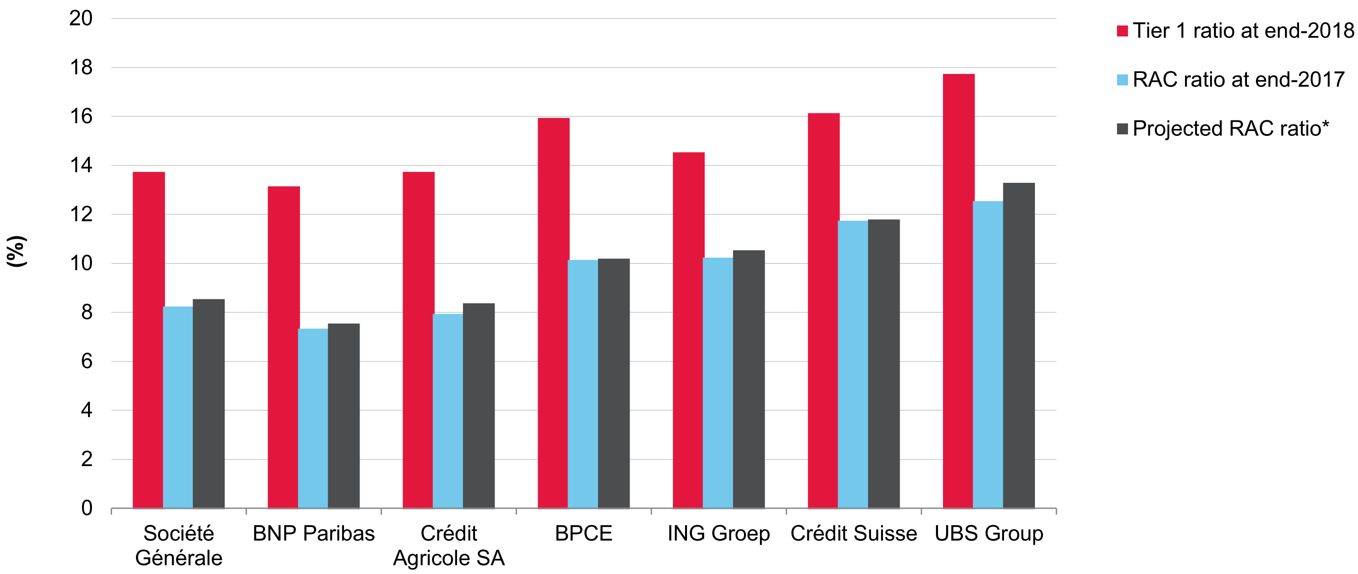
The bank announced its plan to issue additional tier 1 (AT1) and dated subordinated debt together totalling an average €2.5 billion-€3.0 billion per year through 2020. While we think that the net issuance of dated subordinated debt, although set to remain limited, can marginally add to the group's total capital, we expect that future issuance of junior subordinated debt will hardly replace that maturing over the same period. Consistently, our forecast of an incremental increase in the RAC ratio reflects primarily our view of the group's earnings capacity and its plans to maintain a 50% payout ratio.

We believe that persistent low interest rates will continue to hamper SG's net interest margin in its domestic activities. We think that contractual interest rates lowered as a consequence of renegotiations--which we observed widely in the French mortgage loans industry--and lower reinvestment yields, are weighing on SG's interest margin. In 2018, revenues from French retail activities reduced by 2% from 2017 to €7.8 billion compared owing to lower interest rates, despite 4% growth of the loan book over the year.

We expect SG's consolidated income (excluding minority interests) to be about €4.0 billion-€4.5 billion on average in 2018 and 2019, reflecting solid underlying profits, supported by a continuously low cost of risk and contained costs, below 30 bps in 2018-2019. We believe that the bank's earnings will be less impacted by nonrecurring items, such as additional provisions for litigation, than in the past two years. We expect earnings to increase in coming years, with ROE gradually converging to 9% and return on assets to 0.5%.

Chart 5

Société Générale's Key Capital Ratios Versus Selected European Peers'



*Middle of the range. RAC--Risk-adjusted capital. Source: Banks, S&P Global Ratings.

Reported underlying operating expenses increased by 3% in 2018. We anticipate a stabilization of the cost base going forward. We believe the group will continue to leverage synergies to reduce operating costs. In our view, SG has sound operating performance supported by diversified earnings streams, but it suffers from a relatively high cost base compared with European peers. We estimate the average for the top-50 largest European banks at around 60%.

Table 4

Société Générale Group -- Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Criteria reflected in RAC ratios	2017 RAC Criteria	2018 RAC Criteria	2017 RAC Criteria	2010 RAC Criteria	2010 RAC Criteria
Tier 1 capital ratio		13.8	14.5	13.5	12.6
S&P Global Ratings' RAC ratio before diversification	N.A.	8.2	7.9	8.3	8.0
S&P Global Ratings' RAC ratio after diversification	N.A.	9.9	9.4	10.7	10.3
Adjusted common equity/total adjusted capital	N.A.	85.0	85.2	86.9	86.3
Net interest income/operating revenues	43.6	41.6	37.8	36.9	41.8
Fee income/operating revenues†	21.9	27.2	26.7	26.5	27.1
Market-sensitive income/operating revenues	20.4	21.5	25.2	27.1	20.4
Noninterest expenses/operating revenues	69.7	70.3	67.8	67.0	67.0

Table 4

Société Générale Group -- Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Preprovision operating income/average assets	0.7	0.6	0.6	0.6	0.6
Core earnings/average managed assets	0.4	0.3	0.3	0.3	0.3

N.A.--Not available. RAC--Risk-adjusted capital.

Table 5

Société Générale Group Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	228,759	8,963	4	7,490	3
Of which regional governments and local authorities	16,775	1,109	7	830	5
Institutions and CCPs	95,699	14,229	15	23,650	25
Corporate	296,476	154,988	52	238,940	81
Retail	196,560	58,327	30	103,072	52
Of which mortgage	109,922	19,278	18	35,155	32
Securitization§	18,983	2,037	11	5,095	27
Other assets†	21,907	20,900	95	45,448	207
Total credit risk	858,384	259,445	30	423,696	49
Credit valuation adjustment					
Total credit valuation adjustment	--	3,763	--	14,058	--
Market risk					
Equity in the banking book	2,501	3,075	123	16,743	669
Trading book market risk	--	14,800	--	18,710	--
Total market risk	--	17,875	--	35,453	--
Operational risk					
Total operational risk	--	49,000	--	76,088	--
		Basel III RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		353,295		549,295	100
Total diversification/concentration adjustments		--		(94,712)	(16)
RWA after diversification		353,295		454,583	84
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		48,907	13.8	45,011	8.2
Capital ratio after adjustments‡		48,907	13.8	45,011	9.9

Table 5

Société Générale Group Risk-Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk position: Credit risk in selected areas, with market and operational risks inherent to the business model

We note that market risks have decreased in line with the rebalancing of the revenues mix toward more stable business and the reduction of capital-market activities in recent years. Still, SG remains a complex group that operates in many jurisdictions, including emerging markets, and in potentially risky or volatile segments, like investment banking. We believe risk controls and framework have improved as the group learned from past crises and litigations, which severely hurt its financial profile. The latest significant litigation risks were settled in third-quarter 2018, but we recognize that SG, like any large global corporate and investment bank, remains exposed to conduct or litigation risks.

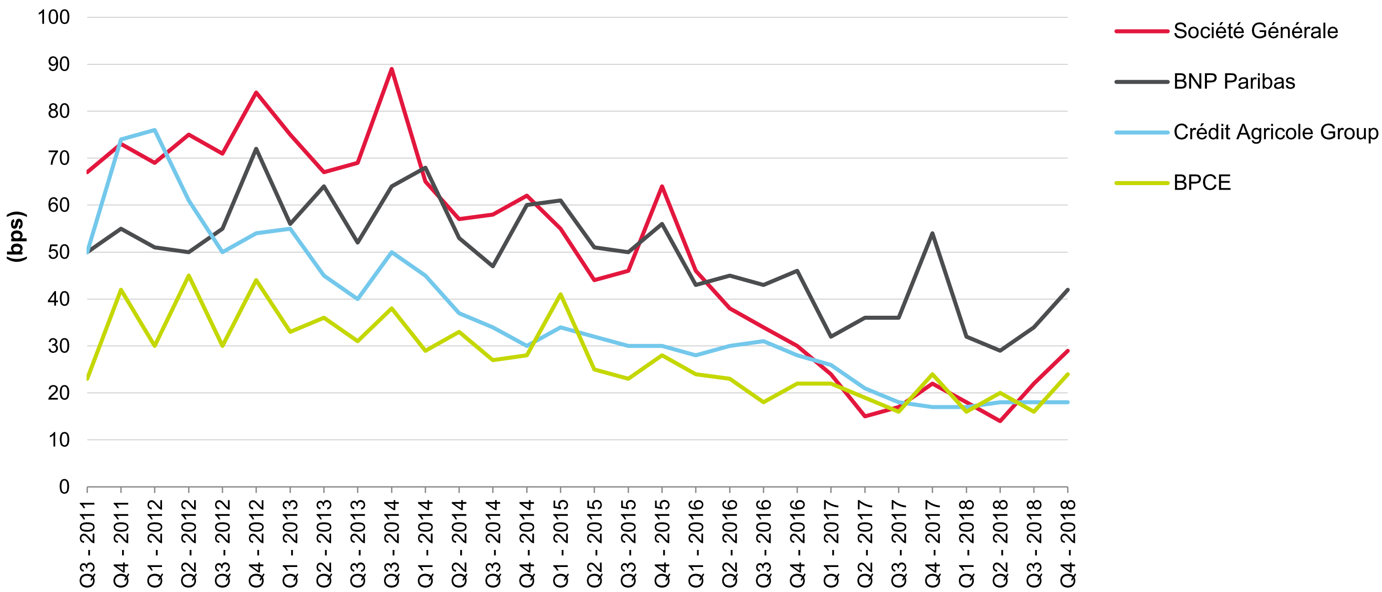
Credit risk mainly stems from large corporate exposures and to some extent emerging markets. The group's leveraged buyout portfolio represented a manageable 3% of total corporate credit exposure at end-2018 and is closely monitored. The amount of level III assets was €8.5 billion at end-2018--including €3.5 billion of trading derivatives and €1.7 billion of equity securities--and we estimate it represented less than 20% total adjusted capital, which is in line with that of French peers. The quality of the French and Czech portfolios is good. Historically, most of the credit risks emanated from the Russian operations, which diminished in size greatly over years due to stricter underwriting policies. SG's operations in Russia picked up in 2017, and are now profit-making after several years of losses. Russia represents a low 1.6% of group's exposure at default. Romania and Africa represent other pockets of risk, although small in the group context.

At end-2018, SG reported doubtful loans of €18 billion (€20.9 billion at end 2017) and an improved ratio of nonperforming loans to total loans of 3.6% (4.4% at end-2017; including in total loans, in addition to customer loans, deposits at banks, and loans due from banks). On this basis, coverage of doubtful loans by Stage 3 provisions stood at 54%.

SG's reported cost of risk was €1.0 billion in 2018 (versus €949 million in 2017). The group's cost of risk balances its presence in relatively high-risk emerging markets, such as Russia and Romania, and consumer finance activities, with lower credit risk incurred from its domestic mortgage lending and GBIS activities. We do not expect substantial deterioration over the outlook horizon, but, like for peers, we expect to see a normalization of the cost of risk after years of below-average figures. Similarly, SG reported a cost of risk at 21 bps in 2018 and expects that it will range between 25 bps and 30 bps in 2019.

Chart 6

Société Générale's Cost Of Credit Risk Versus Peers'



Data is as a percentage of gross customer loans outstanding, exluding impairment on Greece and restated in Q2 2015 of the impact of additional provision for litigation. bps--basis points. Source: Banks' financial presentations.

Financial performance has been weighed down by nonrecurring items in recent years, in particular provisions for litigation. SG has made meaningful progress in the settlement of legal disputes. Since early June 2018, SG reached agreements with various authorities to resolve their investigations for a total amount of about €2.4 billion (see table 6). This amount was covered by the bank's provision for disputes. We also understand that in March 2018, the deputy CEO left the bank unexpectedly due to matters relating to one of these legal disputes. We do not assume other large litigation expenses in the near term.

Table 6

Société Générale's Recent Agreements To Close Legal Investigations	
June 4, 2018 Communication	Agreements reached with the U.S. Department of Justice (DOJ) and the U.S. Commodity Futures Trading Commission (CFTC) to resolve their investigations relating to SG's interbank offered rate (IBOR) submissions, and with the DOJ and the French Parquet National Financier (PNF) to resolve their investigations relating to certain transactions involving Libyan counterparties.
	SG agreed to pay penalties totaling approximately $1.3 billion to the U.S. and French authorities.
Nov. 19, 2018 Communication	Agreements reached with certain U.S. authorities to resolve their investigations relating to certain U.S. dollar transactions processed by SG involving countries, persons or entities that are the subject of U.S. economic sanctions and implicating New York State laws.
	SG agreed to pay penalties totaling approximately $1.3 billion to the U.S. authorities.

Source: Société Générale, S&P Global Ratings.

SG reported an average trading value at risk of €21 million during the fourth quarter of 2018, moderately increasing throughout the year (€15 million during first-quarter 2018). We believe the group monitors its structural exposure to interest rates well through gap analysis, value sensitivity of the balance sheet, and stress tests. Residual exposure is macro-hedged using interest rate swaps.

We think that the group's diversified business profile leaves it exposed to potential operational risk. We believe most of this risk lies in GBIS and the group's asset-gathering operations.

Table 7

Société Générale Group -- Risk Position					
		--Year-ended Dec. 31--			
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	3.8	(0.3)	4.1	8.0	3.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	(17.2)	(16.4)	(22.9)	(22.3)
Total managed assets/adjusted common equity (x)	N.A.	33.3	35.5	33.1	34.6
New loan loss provisions/average customer loans	0.2	0.2	0.4	0.6	0.7
Gross nonperforming assets/customer loans + other real estate owned	4.2	5.0	5.7	6.1	6.9
Loan loss reserves/gross nonperforming assets	63.5	60.4	62.4	62.7	62.1

N.A.--Not available. RWA--Risk-weighted assets.

Funding and liquidity: Sound position, but structural wholesale funding needs remain

We regard SG's funding as average and its liquidity as adequate. The group remains reliant on wholesale funding markets and is an active borrower in confidence-sensitive wholesale markets. We note that its funding and liquidity profile has improved markedly since 2011 and compares well with domestic peers', despite still somewhat lagging those of international peers.

In our view, SG's funding structure has a number of strengths, notably residing in its loyal retail deposit base in France, but also in the Czech Republic. We expect the loan to deposit ratio to remain in the 105%-110% range in 2018-2019. The sale of structured products and private placements also represents a major competitive advantage. Funding diversity has been regularly enhanced and is now complemented by the issuance of secured bonds and securitization deals. The group indicated that it had raised €35.7 billion in medium- and long-term funding as of end-September 2018. As of the same date, the bank had completed its targeted funding for the year.

Typical from a universal bank with capital market activities, SG is a large user of wholesale funding. Short-term wholesale funding typically represents 30%-35% of total funding, which might appear high, but is essentially used to fund short-term assets, in particular the non-loan assets (securities, reverse repos, etc.) from the investment banking platform.

We believe that the group has adequate liquidity management and contingency plans. Its liquid assets buffer reached €175.7 billion at end-September 2018, resulting in an estimated Basel III liquidity coverage ratio of close to 131%. As of end-June 2018, our measure of the group's broad liquid assets to short-term wholesale funding was 1.34x and our stable funding ratio stood at 100.1%, which indicates limited maturity mismatch risks (for definitions of these metrics, see "Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions," published July 17, 2013). Of note, as long as the residual maturity exceeds one year, we do not classify as short-term the refinancing that has been provided by the European Central Bank (ECB) from March 2016 under the form of Targeted Longer-Term Refinancing Operations II. We see SG's access to ECB funding as opportunistic.

Table 8

Société Générale Group -- Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	44.4	45.6	43.8	40.5	38.7
Customer loans (net)/customer deposits	108.7	105.7	103.8	111.4	111.7
Long-term funding ratio	69.2	69.1	65.4	60.7	57.8
Stable funding ratio	99.9	102.9	99.7	95.4	91.1
Short-term wholesale funding/funding base	32.8	32.9	36.8	41.7	44.7
Broad liquid assets/short-term wholesale funding (x)	1.4	1.4	1.3	1.2	1.1
Short-term wholesale funding/total wholesale funding	58.1	59.6	64.6	69.2	72.0

External support: Buffer of bail-in-able is likely to increase materially

We incorporate in our long-term rating one notch of ALAC uplift because we consider that the buffer of ALAC eligible instruments will stand above 5% of S&P Global Ratings' RWAs. We estimated that it stood at 5.1% at end-2017, and we also expect it will increase steadily to above 8% in the next 18-24 months. Our views are informed by SG's announced objective to comply with TLAC requirements and transition toward higher total amounts of required buffers. Between end-2016 and end-2017, SG issued about €13 billion of senior nonpreferred debt. We factor in our forecast the issuance of about €6 billion of senior nonpreferred debt instruments per year, which is in the lower range of the €6 billion-€7 billion SG publicly communicated. We expect that the bank will gradually replace maturing capital instruments, and that future regulatory requirements will lead SG to steadily increase its outstanding buffer of loss-absorbing capacity.

We view the French resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. We believe that the prospect of extraordinary government support for the French banking sector is uncertain as a result of the full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, since Jan. 1, 2016. We do not completely exclude the possibility of such support, but we believe the French government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework. Therefore, we consider that France's tendency to support private sector commercial banks is uncertain, and we do not include uplift for government support in the long-term ICR on SG.

We included in our ALAC assessment all capital instruments issued by SG, because we believe they have capacity to absorb losses without triggering a default on senior obligations and they meet our other requirements for inclusion. We also included in our measure of ALAC the bank's "senior nonpreferred" debt instruments (a new category of debt which was established by the Sapin II law enacted on Dec. 9, 2016), considering that these debt instruments will be eligible for inclusion in the EU MREL requirement and the equivalent Financial Stability Board's TLAC.

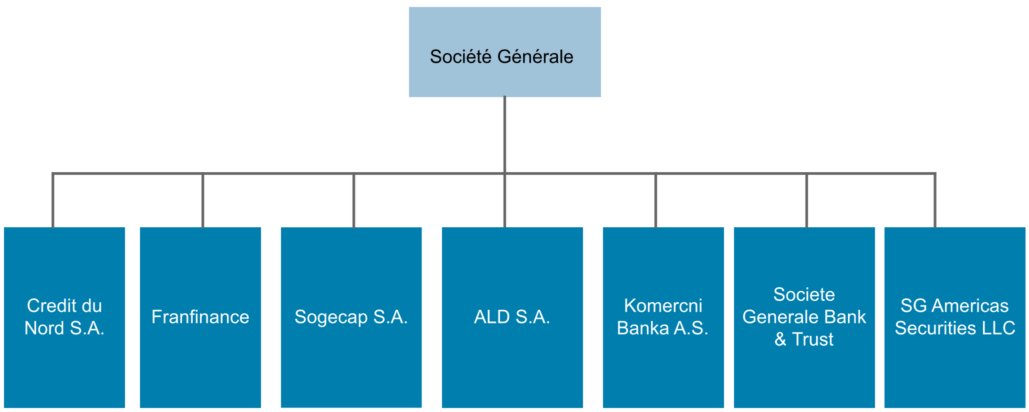
Consistent with our view that insurance activities would not be in the scope of the bail-in process, we did not include in our assessment the €800 million in subordinated debt issued by Sogécap.

Additional rating factors: None

There are no additional rating factors.

Rated subsidiaries

Chart 7
Simplified Overview Of Société Générale Group Structure (Rated Entities)



Source:S&P Global Ratings.

We equalize our long-term rating on Komercni Banka A.S., the group's Czech operations, with that on parent SocGen, given the bank's core status within the SocGen group. Komercni Banka is SocGen's largest and most profitable foreign subsidiary. We view Komercni Banka as integral and strategic to SocGen's objectives, and consider that SocGen would be willing to provide support to the bank under all circumstances and in a timely manner.

We regard the insurance subsidiary Sogecap S.A. as a core entity. Therefore, we equalize the long-term issuer credit and insurer financial strength ratings on Sogécap with SG's UGCP. This reflects our view that a resolution of Sogécap would be separate from that of SG, meaning that any outstanding ALAC instruments at the group level would not be available for the insurance operations. For this reason, the outlook on Sogécap is stable.

SG's insurance activities (life insurance, personal protection, and property and casualty) are operated under the Sogécap subgroup. It contributes indirectly to the revenues of the French retail networks, which distributes its insurance products. It had €115 billion of amounts outstanding in life insurance contracts at end-2018 (26%

unit-linked), which is modest compared to that of domestic peers already more entrenched in bancassurance activities. The direct contribution of the insurance segment to the group's net income was close to 10% in 2018. SG intends to develop its franchise in this sector, increasing intragroup synergies in revenues through its bancassurance model.

We regard ALD S.A., a global leader in car leasing and fleet management company, as a strategically important subsidiary, given its absolute contribution to group results, but also revenue diversification by geography and alternative sources of revenues in a low interest rate environment.

We also regard the fully owned subsidiary Credit du Nord S.A. and the consumer-finance specialist Franfinance as core subsidiaries of the group. We consider the two entities as highly integrated within the group's risk-management structure and strengthening its competitive positioning within the French retail banking market.

Ratings on hybrid instruments

We rate the bank's senior nonpreferred and subordinated debts by notching down from our assessment of SG's 'a-' UGCP.

Our 'BBB+' rating on the bank's senior subordinated debt (that is senior nonpreferred notes) is one notch lower than our assessment of the bank's UGCP, owing to our view that such notes are subordinated (although not labelled as such) to more senior obligations, and do not carry additional default risk relative to that represented by the UGCP. Indeed, we believe that senior nonpreferred notes would be subject to a possible conversion or write-down only in resolution, and that, in particular, they would be excluded from any burden sharing under state-aid rules (see "Societe Generale's Proposed Inaugural Senior Nonpreferred Notes Rated 'BBB+'," published Dec. 14, 2016)

Our 'BB+' ratings on the bank's AT1 instruments are four notches lower than our assessment of the bank's UGCP. This reflects the deduction of one notch for subordination, two notches to reflect the notes' standard risk of coupon nonpayment and considering their regulatory tiering, and one notch as we believe that the notes would absorb losses through principal in application of a mandatory contingent capital clause (be contractual or statutory). This 'BB+' rating factors in our expectation that the group will maintain sufficient buffer against the trigger for potential regulatory restrictions on paying coupon on AT1 instruments (maximum distributable amount).

Resolution counterparty ratings (RCR)

We have assigned RCRs to entities within the group as we assess the resolution regime to be effective in France and consider that the bank is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. We position the long-term RCR up to one notch above the long-term ICR when the ICR ranges from 'BBB-' to 'A+'.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
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- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- The Top Trends Shaping European Bank Ratings In 2019, Feb. 28, 2019
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- Komercni Banka A.S., Dec. 7, 2018
- Societe Generale Outlook Revised To Positive On Plans For Loss Absorption Buildup; 'A/A-1' Ratings Affirmed, Oct. 24, 2018
- ALD Upgraded To 'BBB+' On Business Growth And Strategic Importance To Societe Generale; Outlook Stable, Oct. 24, 2018
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- ABN AMRO Bank And Societe Generale Ratings Unaffected By The Sale Of Soc Gen Belgian Private Banking To ABN AMRO, July 31, 2018
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- 31 European Banking Groups Assigned Resolution Counterparty Ratings; Four Collateralized Notes Upgraded; UCO Removed, June 12, 2018
- Société Générale Ratings Unaffected By Litigation Settlements Relating To IBOR And Libya Investigations, June 5,

2018

- French Bank Société Générale Ratings And Outlook Unchanged On News Of Deputy CEO's Departure , March 15, 2018
- Societe Generale's Proposed Inaugural Senior Nonpreferred Notes Rated 'BBB+', Dec. 14, 2016

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	**bbb+**	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of March 15, 2019)

Societe Generale		
Issuer Credit Rating		A/Positive/A-1
Resolution Counterparty Rating		A+/--/A-1
Commercial Paper		
Foreign Currency		A/A-1
Local Currency		A-1
Junior Subordinated		BB+
Junior Subordinated		BBB-
Senior Subordinated		BBB+
Senior Unsecured		A
Senior Unsecured		A-1
Subordinated		BBB
Issuer Credit Ratings History		
23-Oct-2018	*Foreign Currency*	A/Positive/A-1
02-Dec-2015		A/Stable/A-1
25-Oct-2012		A/Negative/A-1
23-Oct-2018	*Local Currency*	A/Positive/A-1
02-Dec-2015		A/Stable/A-1
25-Oct-2012		A/Negative/A-1
Sovereign Rating		
France		AA/Stable/A-1+

Ratings Detail (As Of March 15, 2019) (cont.)	
Related Entities	
ALD S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Credit du Nord S.A.	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Franfinance	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Komercni Banka A.S.	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
SG Americas Securities LLC	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A/--/A-1
Societe Generale Bank & Trust	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Societe Generale (New York Branch)	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Societe Generale SCF	
Senior Secured	AAA/Stable
Short-Term Secured Debt	A-1+
Societe Generale, Taipei Branch	
Issuer Credit Rating	
Taiwan National Scale	twAA+/Positive/twA-1+
Sogecap S.A.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Subordinated	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of March 15, 2019) (cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.