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CREDIT OPINION
10 March 2020

Update

Rate this Research

RATINGS

Societe Generale

Domicile	Paris, France
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Societe Generale

Update to credit analysis following the publication of the YE 2019 financial results

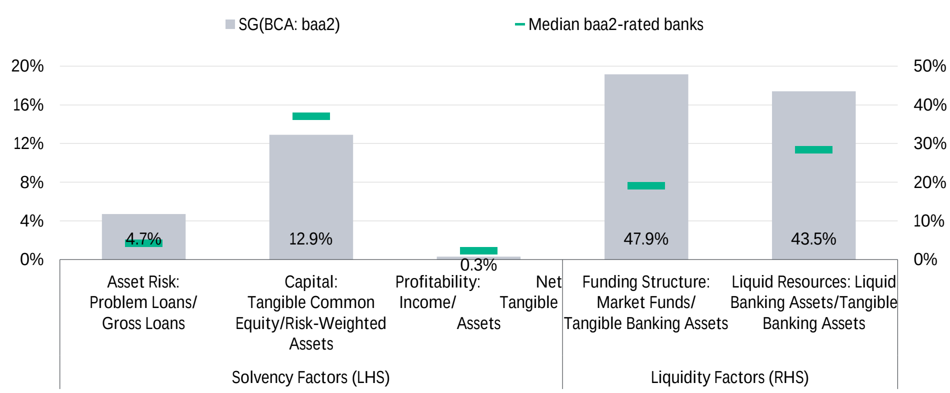
Summary credit rationale

Société Générale (SG) is a global systemically important bank based in France (Aa2 stable) with sizeable international operations.

SG's baa2 BCA reflects the bank's (1) strong franchise and well-diversified universal banking business model, (2) good and improving regulatory capitalisation, despite higher leverage than many of its global peers, and (3) strong liquidity. The BCA is, however, constrained by (4) some weak exposures, mainly to Russia (Baa3 stable) and certain African countries; (5) the risks stemming from the bank's sizeable capital market activities; (6) limited profitability growth prospects over the next 12-18 months; and (7) an elevated stock of confidence-sensitive wholesale funding.

SG's A1 long-term deposit and senior unsecured debt ratings include a three-notch uplift resulting from our advanced Loss Given Failure (LGF) analysis, reflecting our view that the bank's junior depositors and senior unsecured creditors face an extremely low loss-given-failure. In addition, our moderate assessment of government support translates into a further notch uplift included in these ratings.

Exhibit 1
Rating scorecard - key financial ratios



Source: Moody's Banking Financial Metrics

Credit strengths

» Well-diversified universal banking business model provides stable and predictable earnings but we expect profitability to remain constrained over the next 12-18 months.

» Regulatory capitalisation is good and improving, underpinned by a strong earnings generation capacity though leverage is higher than many of its global peers.

» Liquidity is strong and broadly in line with large European peers.

» Our advanced LGF analysis indicates an extremely low loss-given-failure for junior depositors and senior unsecured creditors, resulting in a three-notch uplift in the relevant ratings, from the firm's baa2 adjusted BCA.

» The long-term deposit and senior unsecured debt ratings incorporate one notch of government support uplift.

Credit challenges

» SG has sizeable capital market activities, which carry tail risks for creditors.

» Credit quality profile is good, although exposures to some countries with weaker operating conditions than SG's home market weaken its credit profile and pose downside risks.

» Elevated stock of confidence-sensitive wholesale funding is partly mitigated by strong liquidity, well-diversified funding sources and proven access to wholesale funding markets.

Rating outlook

The ratings outlook is stable, as we expect no material changes in the bank's credit fundamentals over the next 12-18 months. The current ratings already incorporate the operating challenges from weak economic growth and protracted low interest rates in Europe, as well as the stabilisation of operating conditions in Russia.

Factors that could lead to an upgrade

The BCA could be upgraded in case of:

» structural improvement in the bank's funding profile

» strengthened profitability

» significantly higher capitalisation

» a material reduction in capital markets activity

A higher BCA would likely lead to rating upgrades.

Factors that could lead to a downgrade

The BCA could be downgraded in case of:

» a deterioration in operating conditions in SG's main markets, beyond our current expectations

» a weakening in funding and liquidity

» lower regulatory capitalisation or higher leverage

» a material risk management failure or increase in risk appetite

A lower BCA would likely result in a downgrade of all ratings.

SG's ratings could also be downgraded if management deviates from its committed funding plan in a way that would lead to a reduction in expected debt issuance; or a more rapid increase in assets, than what we currently expect, increasing loss-given-failure for its creditors.

Key Indicators

Exhibit 2

Societe Generale (Consolidated Financials) [1]

	06-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	1,282,215.0	1,200,523.0	1,156,141.0	1,198,338.0	1,159,470.0	2.9[4]
Total Assets (USD Million)	1,460,182.0	1,372,371.3	1,388,291.0	1,263,949.6	1,259,526.8	4.3[4]
Tangible Common Equity (EUR Million)	46,610.9	45,938.7	43,718.3	45,162.2	41,963.6	3.0[4]
Tangible Common Equity (USD Million)	53,080.3	52,514.6	52,496.8	47,634.9	45,584.9	4.4[4]
Problem Loans / Gross Loans (%)	3.9	4.2	5.0	5.7	6.1	5.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.9	12.2	12.4	12.7	11.8	12.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	29.5	31.4	37.2	39.8	42.9	36.1[5]
Net Interest Margin (%)	1.0	0.9	0.9	0.8	0.8	0.9[5]
PPI / Average RWA (%)	1.9	1.8	1.5	2.1	1.9	1.8[6]
Net Income / Tangible Assets (%)	0.3	0.3	0.3	0.3	0.3	0.3[5]
Cost / Income Ratio (%)	72.6	73.7	76.7	69.7	72.0	73.0[5]
Market Funds / Tangible Banking Assets (%)	50.1	47.1	46.2	47.5	50.2	48.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	46.2	43.5	45.5	47.6	48.6	46.3[5]
Gross Loans / Due to Customers (%)	104.8	106.0	102.9	102.3	109.0	105.0[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully-loaded or transitional phase-in; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.

Source: Moody's Investors Service; Company Filings

Profile

SG's operations are organised across three main business lines.

The French Retail Banking (FRB) division includes the group's strong domestic retail and small to medium-sized enterprise banking franchise.

The International Retail Banking and Financial Services (IBFS) comprises SG's international retail activities, which are spread across a number of countries in Central and Eastern Europe, Russia and Africa. SG's franchises in most of these countries are well recognised, but remain smaller than its retail franchise in France. The Financial Services (to corporates) and Insurance (FSI) operations are also key franchises, as the group's sizeable bancassurance product offering includes life insurance contracts, mutual funds and other investment services, which form an important part of household savings in France. This business line also includes Specialised Financial Services (SFS), comprising an array of different services, such as auto finance and leasing, some of which are offered globally.

The Global Banking and Investor Solutions (GBIS) division houses the group's capital markets, financing and advisory, and asset management operations. We consider SG a tier-two global investment bank due to its multi-specialist business model, focussed on cross-asset solutions (structured equity and fixed-income) and flow equity derivatives. SG has strong expertise in structured products (with a global leadership in equity derivatives), exchange-traded funds (under the brand Lyxor), commodities, research and market making.

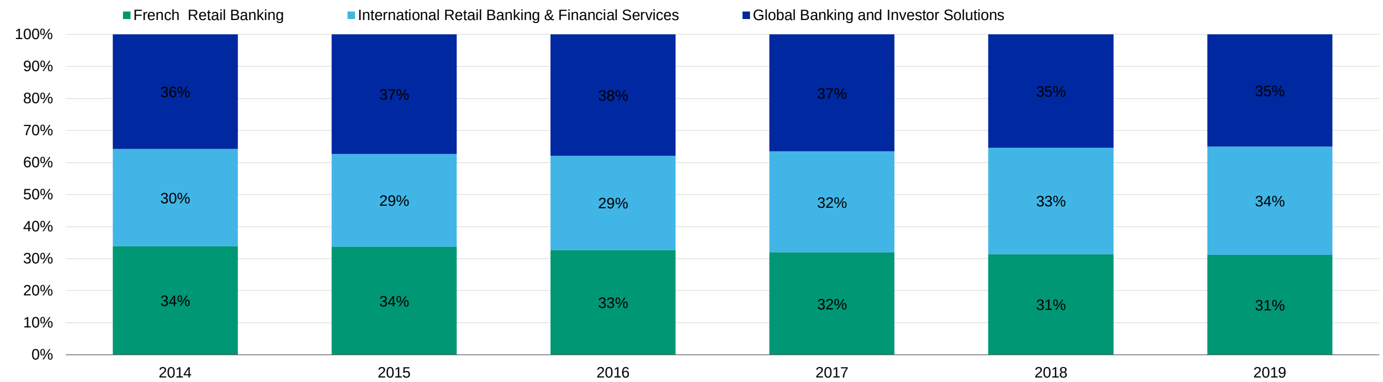
Detailed credit considerations

Well-diversified universal banking business model provides stable and predictable earnings but we expect profitability to remain constrained over the next 12-18 months

SG's three main businesses contribute roughly equal shares to the group's revenue (see Exhibit 3).

Exhibit 3

SG's net banking income breakdown by business line



Source: Company reports

We consider **FRB** as one of SG's key credit strengths and it also offers good cross-selling opportunities for products and services from the other divisions of the group. SG's domestic operations have historically proven very resilient to changes in operating conditions, although the prolonged low interest rate environment has translated into tangible declines in net interest income in French retail for SG and the other large domestic banks, due to large volumes of retail mortgage renegotiations. Thus far, this has partly been offset by declining credit costs, from which we do not expect further benefits over the next 12-18 months. However, we believe that a high degree of product and geographical diversification will allow SG to continue to mitigate these revenue pressures.

The product lines within **IBFS** have mixed risk-return profiles, and some of them in which SG is a European market leader (i.e., auto leasing and fleet managment, equipment finance) generate strong profitability levels at relatively limited risk. IBFS also includes consumer finance activity in Italy, carrying downside risks. However, the portfolios of operations are very diversified, both by product and region. Weaker exposures are contained compared with the group's sizeable loan book and the bank continues to plan exit from non-synergetic businesses. For instance, it recently finalised the disposal of its Private Banking activities in Belgium, Societe Generale Albania, Express Bank in Bulgaria and La Banque Postale Financement and announced the disposal of its activities in Slovenia, Serbia, Montenegro, Moldova and Macedonia.

In 2019 management announced its intention to refocus its **GBIS activities**, with the planned closure of OTC commodities and of its proprietary trading subsidiary, more selectivity in Prime Services and a downsizing of Fixed Income and Currencies operations. SG targets to cut the division's risk-weighted assets by €10 billion (including €8 billion in Global Markets), which the bank already achieved in 2019, a year a head of schedule. On the cost side, the bank aims to achieve €500 million of cost savings, of which 44% was delivered in 2019 against a target of 20%-30% for the year, with the aim to reduce the division's operating costs to €6.8 billion in 2020 (€7.1 billion in 2019). SG aims to refocus growth on relevant franchises such as structured and asset finance, transaction banking or investment solutions and improve returns of GBIS operations that have been declining steadily since 2014.

SG has engaged in a digital transformation of all business segments, aiming to develop a fully digital bank in the medium term relying on open banking platforms and infrastructure and enhanced customer experience at a lower cost. The bank is on track to put around 200 data projects (or use cases) into production by 2020, to implement more than 4000 new Application Programming Interfaces (APIs) and to achieve 80% migration of infrastructure to the Cloud by 2020.

SG has historically maintained adequate profitability levels and has shown lower (and declining) earnings volatility compared with many of its global peers. We believe that the group has benefitted from the good diversification of its operations, which we recognise with a positive one-notch adjustment for Business Diversification in the qualitative section of our BCA scorecard.

SG's 2019 results reflected a slight decrease in revenues, particularly in investment banking, but continued control on costs. Group's revenues were down -1.5%[1], despite a solid fourth quarter (+7% year-on-year). FRB revenues were broadly stable in the year (+0.3%) as rapid loan growth to retail customers (+7%) and corporates (+7%) mitigated margin and fee pressures. IBFS revenues were up 4.6% at constant scope and exchange rates, supported by growth in all international retail businesses, equipment finance and solid insurance inflows. In contrast, GBIS revenues declined 3% in 2019, mainly stemming from the impact of restructuring in Global Market activities and the disposal of Belgium Private Banking. Excluding those effects, revenues were broadly stable and were boosted by a strong rebound in Q4 revenues from equities and prime services (+9% year-on-year) and fixed income, currencies and commodities (FICC, +27%). For the whole year operating expenses were down 1% reflecting the 70% implementation of EUR1.1 billion cost saving program and 44% execution of the additional EUR500 million additional cost savings plan at GBIS. Group's cost of risk remained stable in the fourth quarter (29 bps) and was slightly up in 2019 (25 bps in 2019 versus 21 bps) but remained at the bottom of SG's 2019 guidance. The group also revised slightly its profitability targets for 2020 as it commits to increase group profitability, without maintaining the 9%-10% return on tangible equity (ROTE) range initial target for 2020.

We assess that the bank's profitability prospects will remain constrained over the next 12-18 months, challenging the group's overall profitability, due to the current challenging operating conditions, including prolonged low interest rates in Europe. Despite continued investment costs related to the ongoing digitalisation of its distribution platforms and businesses transformation, we expect that strict cost discipline can still provide positive jaws effect in 2020.

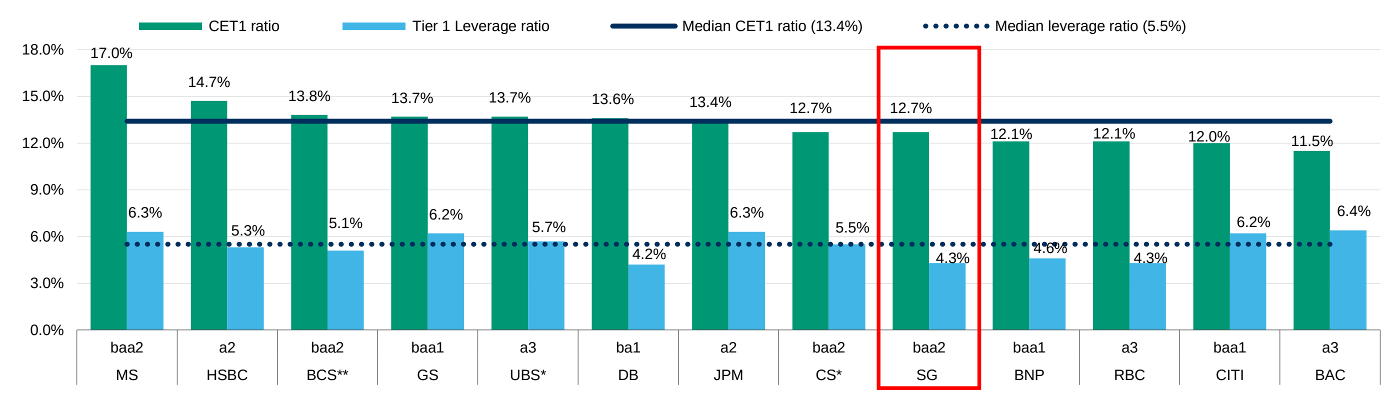
Our ba1 score reflects the bank's profitability challenges, while recognising the very low level of earnings volatility, which SG has demonstrated in recent years.

Regulatory capitalisation is good and improving, underpinned by a strong earnings generation capacity though leverage is higher than many of its global peers.

SG's regulatory capital improved in 2019, with a fully loaded common equity tier 1 (CET1) ratio of 12.7% (+180 bps in the year and +20 bps from Q3 2019). This quarter on quarter increase was mainly supported by earnings generation (+13 bps) and the finalisation of several announced disposals of non-strategic businesses (+10 bps). Although above the announced capital trajectory for 2020, and around 270 bps above the Maximum Distributable Amount of 10.02% for 2020 notified by the European Central Bank, the ratio remains slightly lower than the global peer group (Exhibit 4). We expect the bank to maintain their CET1 ratio above 12% with a buffer around 200 basis points above regulatory requirements, in anticipation of the finalisation of Basel 3 transposition in Europe.

Exhibit 4

CET1 and Tier1 leverage ratios for Global Investment Banks, as at end-2019



Source: Company reports

The leverage ratio went slightly down in the fourth quarter to 4.3% from 4.4%. With a Total Loss Absorbing Capacity ratio of 24.9% at YE 2019, SG already meets 2019 and 2022 expected requirements of 19.5% and 21.5% without countercyclical buffers respectively. SG also meets the 24.4% Minimum Requirements for own funds and Eligible Liabilities (MREL) ratio notified to the bank in 2018.

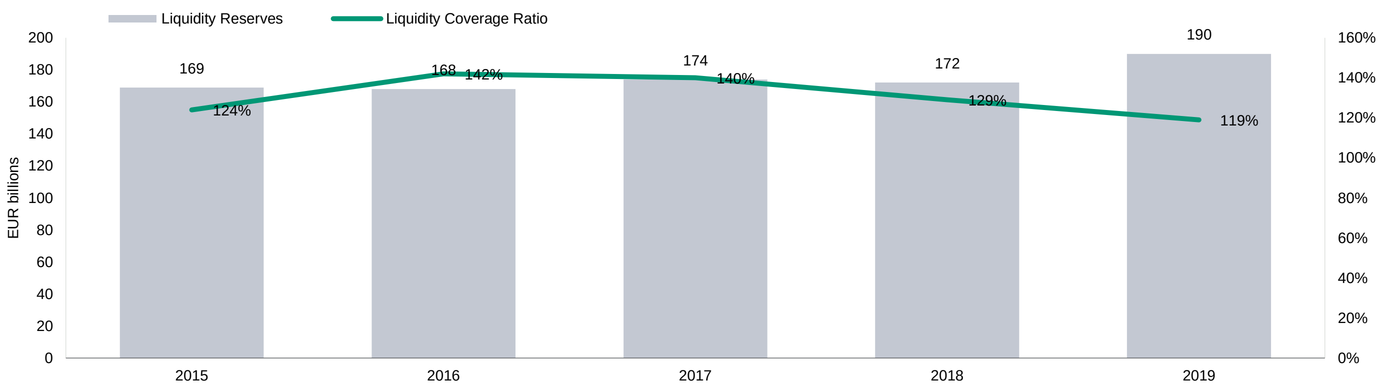
Our a3 assigned score for Capital reflects both the bank's current good and improved capital position, and our expectation that its regulatory capitalisation, including leverage, will continue to improve over the next 12-18 months, mostly through earnings retention.

Elevated stock of confidence-sensitive wholesale funding is partly mitigated by strong liquidity, well-diversified funding sources and proven access to wholesale funding markets

We assign a baa3 Combined Liquidity Score to SG, derived from an assigned ba3 Funding Structure score and an assigned a2 Liquid Resources score. Similar to other French banks and some of its international peers with sizeable capital markets operations, the combined liquidity score reflects SG's high stock of wholesale funding on its balance sheet, which exposes the bank to changes in market conditions and renders them more sensitive to swings in investor confidence compared with banks that have a greater proportion of deposits. SG's reliance on market funds is mitigated by high level of liquid assets. Our ba3 is one notch higher than the macro-adjusted initial score of b1. This one notch positive adjustment reflects the diversification of the wholesale funding, both by investor base and currency, and the lengthening maturity of the bank's long-term funding as it materially increases its MREL and TLAC eligible debt (for instance SG issued €8.5 billion of senior non-preferred debt in 2019, with maturities all beyond 5 years). The positive adjustment also reflects SG' stable deposit base illustrated by LCR-weighted deposit outflows of around 25% of total deposits.

SG has a strong liquidity position, which has been improving over the last few years and is now in line with most of its international peers. As of YE 2019, SG had a liquidity buffer of €190 billion, which covered around 2x the correspondent stock of short-term funding, inclusive of the long-term debt maturing within the following 12 months (see Exhibit 5). SG's high liquidity position is also illustrated by its liquidity coverage ratio of 119% as at YE 2019 (124% on average in Q4). Our assigned score of a2 for Liquid Resources incorporates one notch negative adjustment from the initial macro-weighted score of a1, which reflects a moderate level of encumbered assets, given the material size of its capital markets activities and the adverse impact this has on encumbering a sizeable portion of assets designated as liquid in our initial ratio score.

Exhibit 5
SG's liquidity reserves and liquidity coverage ratio



Source: Company reports

Credit quality profile is good, although exposures to some countries with weaker operating conditions than France weaken the bank's credit profile and pose downside risks

SG's Strong Macro Profile is largely driven by its exposure to France (Aa2 positive, Macro Profile: Strong+) and its sizeable operations in the US (Aaa stable, Macro Profile: Very Strong-), partly offset by the group's operations in Central and Eastern Europe, Russia and Africa, which have weaker Macro Profiles.

French banks benefit from operating in a country with a large and broadly diversified economy, a robust institutional framework and a very low susceptibility to event risk. Nevertheless, France's medium- and long-term economic performance will remain constrained by weak economic growth, which, coupled with institutional and political constraints, poses challenges for the material reduction in the government's high debt burden.

The main risk to which SG is exposed to is credit risk, which represented around 81% of the group's risk-weighted assets (RWA) as of YE 2019 and mainly relates to lending in France, Central and Eastern Europe, and Russia. SG's customer loan book of around €450 billion as of YE 2019 is exposed to country and sector concentration risks. Exposures to a few relatively large corporates in its financing activities and notable industry concentrations to the financial services sector in the capital market operations also affect SG's asset risk assessment.

SG's credit quality has improved in 2019, and problem loans were equal to 3.9% of gross customer loans at H1 2019 (4.2% at YE 2018), mainly driven by accelerated write-off measures and sales of non-performing loans. We expect this strategy to continue in the future, in view of the adoption by the European Council in April 2019 of new rules introducing a common minimum loss coverage for banks' non-performing loans, known as "prudential backstop". In particular, we expect SG to accelerate sales of NPLs from its French loan books. Although NPLs continued to decline in 2019, SG's problem loans relative to its loan book remain higher than those of most domestic banks due to the firm's exposure to Eastern Europe, Russia and Africa, and its large presence in the mid-corporate French market. As of H1 2019, the coverage ratio was adequate at 65%, including specific and portfolio-based provisions.

For the whole year group's cost of risk stood at 25 bps (21 bps in 2018) in line with SG's 2019 targets (between 25 and 30 bps), although cost of risk slightly increased to 29 bps in Q4 2019 from a very low 21 bps in Q1 2019, mainly due to increasing provisions in Africa retail and GBIS' financing activities. SG expects cost of risk to be between 30 and 35 bps in 2020, slightly below the previous guidance of 35 to 40 bps. In line with this new target, we expect that SG's credit quality will remain broadly stable despite a modest pick-up in credit costs from current very low levels.

SG's diversified operations in Russia, which amounted to €17.8 billion of exposure at default (EAD) as of end-2019, representing around 2% of the group's total at the same reporting date, are benefiting from economic recovery although operating conditions remain weaker than in other European countries SG operate in. SG has also confirmed in recent years its Africa expansion strategy, which differentiates the group fro most large international peers. Although very diversified (19 countries) and focused in regions with more stable operations, such as West Africa, the group's expansion will increase the continent's share of the group risk exposure, in particular in the more vulnerable SME segment. As of YE 2019, Africa and Middle East represented 4% of group credit risk exposure but around 20% of group cost of risk.

SG has sizeable capital market activities, which carry tail risk for creditors

Market risk has significantly decreased over the last two years, as illustrated by market risk RWA of around €15 billion, representing only 4% of the total, as of end-2019. The average value-at-risk, which was €28 million in Q4 2019, is limited. In addition, counterparty risk and operational risk arise from SG's capital market activities, particularly from its large stock of financial assets and derivatives.

We believe that the firm's market risk appetite has declined and its risk management capabilities have been overhauled in recent years, following the financial crisis and in response to the rogue trader fraud in 2008.

Our baa2 assigned score for Asset Risk takes into account the risks associated with the group's investment banking activities.

We estimate that pure capital market activities, represented around 21% of total revenue as at YE 2019. Although this proportion is lower than those of some of the bank's global peers, it brings elements of earnings volatility, confidence sensitivity and complexity that reduce the value we attribute to these franchises. The high degree of volatility in capital market revenue and the inherent greater risks carried by these types of activities currently constrain the credit profile of SG and those of its global peers, and are reflected in a one-notch adjustment for Opacity and Complexity in the qualitative section of our BCA Scorecard.

Environmental, social and governance considerations

Environmental risk

The global banking sector has been classified as "Low" risk in our environmental risk heatmap. Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

In line with our general view for the banking sector, SG has a low exposure to Environmental risks, although any shortfall on ESG risks would particularly affect the bank given its high interconnectedness to global capital markets. As a result, SG has been actively working at incorporating sustainability principles in all its business lines, and we are not aware of any particular environmental risk drivers potentially affecting the credit profile of SG at present.

Social risk

The global banking sector has been classified as "Moderate" risk in our social risk heatmap. Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases. Pressure on profitability can be particularly severe for small banks that have limited options to mitigate declines in net interest income, their main revenue source. By contrast, large institutions equipped with resources to invest in new businesses or technology will be somewhat able to overcome these challenges.

In line with our general view for the banking sector, SG has a moderate exposure to Social risks, although any shortfall on ESG risks would particularly affect the bank given its high interconnectedness to global capital markets. We are not aware of any particular social risk drivers potentially affecting the credit profile of SG at present, mainly owing to the high diversification of its business lines and global business model.

Governance risk

Corporate governance is highly relevant to all banks' creditworthiness. Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA.

Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates due to poor governance, such as break-down in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

Due to the complexity of its global operations, SG has a one-notch downward adjustment for Opacity and Complexity in the qualitative section of our BCA scorecard. A complex legal structure and global footprint increases management challenges and the risk of strategic errors. In the case of SG and other global investment banks, it is also combined with complex capital market activities, with significant exposure to derivatives and structured products, which also makes reporting and oversight more challenging, as illustrated during the last financial crisis. However, for SG and its peers, we believe that governance frameworks and related controls and processes have materially improved since the financial crisis. Nonetheless, corporate governance remains a key credit consideration given new emerging risks and continues to be a subject of our ongoing monitoring.

Support and structural considerations

Loss Given Failure

We apply our advanced LGF analysis to SG as the bank is incorporated in France, which we consider to be an operational resolution regime because it is subject to the EU Bank Recovery and Resolution Directive (BRRD). For this analysis, we assume that equity and losses stand at 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% run-off of junior wholesale deposits and a 5% run-off in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt. These are in line with our standard assumptions. We apply a standard assumption for European banks that 26% of deposits are junior.

Our advanced LGF analysis indicates an extremely low loss-given-failure for junior depositors and senior unsecured creditors, resulting in a three-notch uplift in the relevant ratings from the firm's baa2 Adjusted BCA. For junior senior creditors, due to the subordination of these instruments, our advanced LGF analysis indicates likely low loss severity in the event of the bank's failure, leading to a position in line with the bank's adjusted BCA.

The Assigned LGF notchings for long-term deposit, senior unsecured debt and junior senior unsecured bank are positioned one notch higher than the correspondent LGF notching guidance. This reflects our expectation that SG will continue to issue debt in line with its medium-term funding plan, to which management committed in November 2017, and will be able to maintain continued access to the capital markets. SG has communicated planned issuance of around €10 billion of bail-in-able liabilities in 2020 (broadly in line with 2019) despite already complying with its minimum TLAC requirement for 2019 and 2022 and MREL initial requirement (the first notification indicates a requirement of 8% Total Liabilities & Own Funds equivalent to 24.36% of RWAs as of end-December 2016), to strengthen further its loss absorbing capacity.

Finally, for SG's junior securities, our LGF analysis shows a high loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for junior subordinated and preference share instruments, reflecting coupon suspension risk ahead of failure.

Government support

We assess a moderate probability of government support for SG's long-term senior unsecured and junior depositors, resulting in a one-notch uplift to the relevant A1 ratings. For other junior securities, we continue to believe that potential government support is low and these ratings do not include any related uplift.

Counterparty Risk Rating

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

The counterparty risk rating of A1 reflects the Adjusted BCA of baa2, three notches of uplift reflecting the extremely low loss-given failure from the high volume of instruments that are subordinated to CRR liabilities. The CRR also benefits from one notch of systemic support, as an assumption of a very high likelihood of government support. The short-term CRR is P-1.

Rating methodology and scorecard factors

Exhibit 6

Societe Generale

Macro Factors							
Weighted Macro Profile	**Strong**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.7%	baa2	↑	baa2	Quality of assets	Market risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	12.9%	baa1	↑	a3	Capital retention	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.3%	ba3	←→	ba1	Return on assets	Loan loss charge coverage
Combined Solvency Score		baa3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	47.1%	b1	←→	ba3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	43.5%	a1	←→	a2	Asset encumbrance	
Combined Liquidity Score		baa3		baa3		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				1		
Opacity and Complexity				-1		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa2		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	448,734	48.0%	482,153	51.6%
Deposits	327,643	35.1%	294,223	31.5%
Preferred deposits	242,456	26.0%	230,333	24.7%
Junior deposits	85,187	9.1%	63,890	6.8%
Senior unsecured bank debt	93,034	10.0%	93,034	10.0%
Junior senior unsecured bank debt	13,400	1.4%	13,400	1.4%
Dated subordinated bank debt	13,618	1.5%	13,618	1.5%
Junior subordinated bank debt	217	0.0%	217	0.0%
Preference shares (bank)	9,483	1.0%	9,483	1.0%
Equity	28,025	3.0%	28,025	3.0%
Total Tangible Banking Assets	934,153	100.0%	934,153	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	23.7%	23.7%	23.7%	23.7%	3	3	3	3	0	a2
Counterparty Risk Assessment	23.7%	23.7%	23.7%	23.7%	3	3	3	3	0	a2 (cr)
Deposits	23.7%	6.9%	23.7%	16.9%	2	3	2	3	0	a2
Senior unsecured bank debt	23.7%	6.9%	16.9%	6.9%	2	2	2	3	0	a2
Junior senior unsecured bank debt	6.9%	5.5%	6.9%	5.5%	-1	-1	-1	0	0	baa2
Dated subordinated bank debt	5.5%	4.0%	5.5%	4.0%	-1	-1	-1	-1	0	baa3
Junior subordinated bank debt	4.0%	4.0%	4.0%	4.0%	-1	-1	-1	-1	-1	ba1
Non-cumulative bank preference shares	4.0%	3.0%	4.0%	3.0%	-1	-1	-1	-1	-2	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	1	A1	A1
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1(cr)	
Deposits	3	0	a2	1	A1	A1
Senior unsecured bank debt	3	0	a2	1	A1	A1
Junior senior unsecured bank debt	0	0	baa2	0	Baa2	Baa2
Dated subordinated bank debt	-1	0	baa3	0	Baa3	Baa3
Junior subordinated bank debt	-1	-1	ba1	0	(P)Ba1	Ba1 (hyb)
Non-cumulative bank preference shares	-1	-2	ba2	0	Ba2 (hyb)	Ba2 (hyb)

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
SOCIETE GENERALE	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Junior Senior Unsecured	Baa2
Junior Senior Unsecured MTN	(P)Baa2
Subordinate	Baa3
Jr Subordinate	Ba1 (hyb)
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

1 When adjusted for group structure and at constant scope and exchange rates

REPORT NUMBER 1215196

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE