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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:	Weaknesses:
• Globally systemic universal bank with well-diversified revenue by business lines and geography. • Strengthening balance sheet with steady buildup of a comfortable bail-in-able debt cushion and higher regulatory core capital ratio. • Reduced size of more volatile capital-markets activities.	• High cost base in comparison to recurring revenues due to the ongoing adaptation of the business model. • Pressure on French retail earnings due to low interest rates. • International retail banking presence spread across small economies and weaker position in insurance or asset management than other large French banks.

Outlook: Positive

The positive outlook on Société Générale reflects the possibility of raising our long-term issuer credit rating (ICR) to 'A+' if the following two conditions are met: i) the group continues to steadily build a buffer of loss-absorbing instruments to protect senior creditors in a resolution, and ii) it sustainably enhances its core profitability, reducing the gap with 'A+' rated peers.

Upside scenario

Given the amount of bail-in-able debt already issued and Société Générale's funding plans for the next year, we believe it is on track to build a debt buffer of at least 8% of our risk weighted assets (RWAs) by 2020 and beyond. This could allow us to incorporate a second notch of additional loss-absorbing capacity (ALAC) support in our long-term ICR in the course of 2020. However, a pre-requisite for an upgrade is also to sustainably improve profitability and efficiency, in line with our expectations at the time of the revision of the outlook to positive from stable in October 2018. This second condition may be more challenging to achieve than balance sheet strengthening in a low for long interest rate environment. In particular, we would like to see Société Générale's return on average common equity (ROACE) converge toward 8%-9% by 2020, and our measure of noninterest expense to operating revenue reduce toward 65%, from above 70% at mid-year 2019, with our risk-adjusted capital (RAC) ratio in the 8.5%-9.0% range.

Downside scenario

We could revise our outlook to stable in 2020 if:

- The gradual ALAC buffer buildup falls short of our expectations, for instance, because of the more rapid growth of our RWAs, or lower core capital generation due to unexpected one-off negative items, like unexpected litigation or restructuring costs; or
- The bank fails to structurally improve its core profitability and cost base in line with our expectations, and narrow the gap with 'A+' rated peers.

Rationale

Our ICR on Société Générale reflects 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. Société Générale also has leading positions in financial services to corporations like fleet leasing or equipment finance companies, and operates fully fledged retail and commercial banking activities in several countries, the largest and most successful being the Czech Republic. We believe the group has not been able to translate those strengths into strong results, partly because of the costs associated with its ongoing restructuring including in its investment banking division. It is also because Société Générale's competitive position in insurance and asset management, businesses that are complementary to retail banking and essential in France, is weaker than domestic peers'.

Capitalization is improving gradually, benefiting from a conservative financial strategy to shore up the balance sheet. The projected RAC ratio, before diversification benefits, should stand near 8.75% 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. We haven't yet observed a material improvement, as the bank's efforts are offset by an unsupportive rate environment. Société Générale'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.

The group SACP is 'a-'.

Société Générale is gradually building up a large buffer of bail-in-able debt to meet regulatory and ALAC requirements, providing greater protection to holders of senior preferred debt. By 2020, we expect the bank to build a cushion of such instruments that would make it eligible to benefit from a second notch of uplift--thereby exceeding 8% of S&P Global Ratings' RWAs.

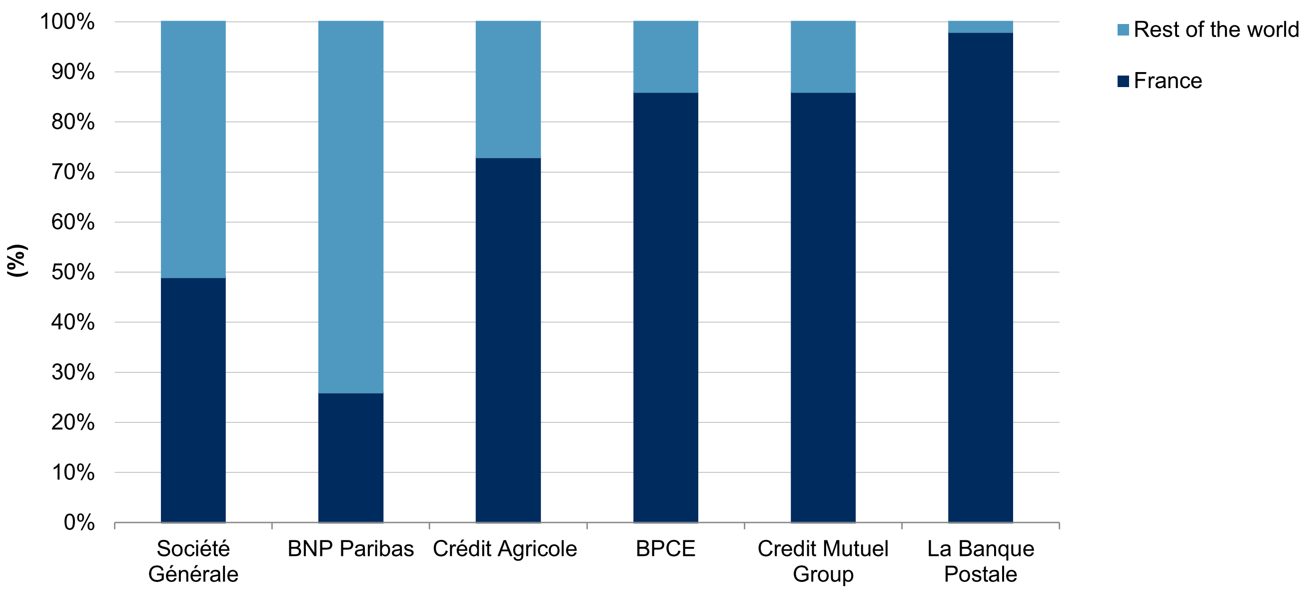
Before considering any upgrade to 'A+', we will also consider the strength of Société Générale's business model in an environment we expect to be less benign in the years to come. In the course of 2020, we will assess the progress made again, and whether the bank is capable of improving its profitability, which still lags that of higher-rated peers. We will also see if it can maintain a lower risk profile than previously, especially in its investment-banking activities.

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 Société Générale's geographically diverse credit exposure, including to countries with higher risk than France and the French banking system's industry risk. Société Générale's customer loans reflect a higher geographic diversification, outside of the domestic market, than most of its French peers (see chart 1). We assess economic risk for Société Générale based on our calculation of the bank's weighted-average credit exposures in the countries and regions in which it operates: at about 50% in France, about 25% in the rest of the EU, 10% in the Americas, 5% in Eastern Europe (outside the EU), 5% in Asia-Pacific, and 5% elsewhere.

Chart 1

Societe Generale's Geographical Breakdown Of Customer Loans Versus French Peers



Data as of end-2018. Source: EBA.

Our economic risk score for France is '3'. Our view of economic risk reflects the generally resilient domestic economic conditions. We deem the French economy to be stable and wealthy, benefiting from an increasing population. Partly offsetting these strengths, in our view, are France's relatively high general government debt that could hamper the economy's resilience to adverse external developments, as well as its persistent current account deficits and still-high unemployment, although the latter is now declining. We expect 1.3% GDP growth in France in 2020, with the economic environment remaining relatively supportive for French banks. Domestic credit growth is on an upward trajectory, outpacing other European countries, but not to the extent that would indicate a significant credit bubble, in our view. Historically low interest rates have fueled loan production in the housing market and prices have been on the rise. We expect the market will regulate itself closer to long-term averages in the next few years (we forecast nominal house prices will reduce to 2.0% in 2022). We project French banks' credit losses on domestic operations will slightly increase in 2019 and 2020 from record lows of about 20 basis points (bps) in 2019. We believe, however, that the banking sector will maintain sound domestic asset quality.

Regarding industry risk, banks are operating in a less favorable environment, with low interest rates compounded by regulated-rate savings that constrain revenue generation. That said, diverse business models at large banks, low credit risk, and market-share stability should help banks preserve their overall revenue, although retail revenue will likely reduce further. Cost efficiency is a weakness for French banks compared with their European peers, notably due to a still-dense branch network, the dominance of cooperative banking groups--which have fewer incentives to maximize profits than listed ones--and very low margins on some products such as housing loans. We also consider the sustained pace of growth of household credit, mostly granted at fixed rates, 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 save in nonbank saving vehicles and regulated savings. It also benefits from the depth of the domestic financial market, among other factors.

Table 1

Societe Generale Group -- Key Figures					
		--Year ended Dec. 31--			
(Mil. €)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	1,242,807	1,141,510	1,110,182	1,242,287	1,196,143
Customer loans (gross)	456,311	432,586	416,663	417,745	401,347
Adjusted common equity	43,608	41,336	38,237	38,966	40,300
Operating revenues	18,483	25,261	25,066	25,057	25,199
Noninterest expenses	13,224	17,595	17,633	16,988	16,893
Core earnings	3,268	4,210	4,403	3,503	3,666

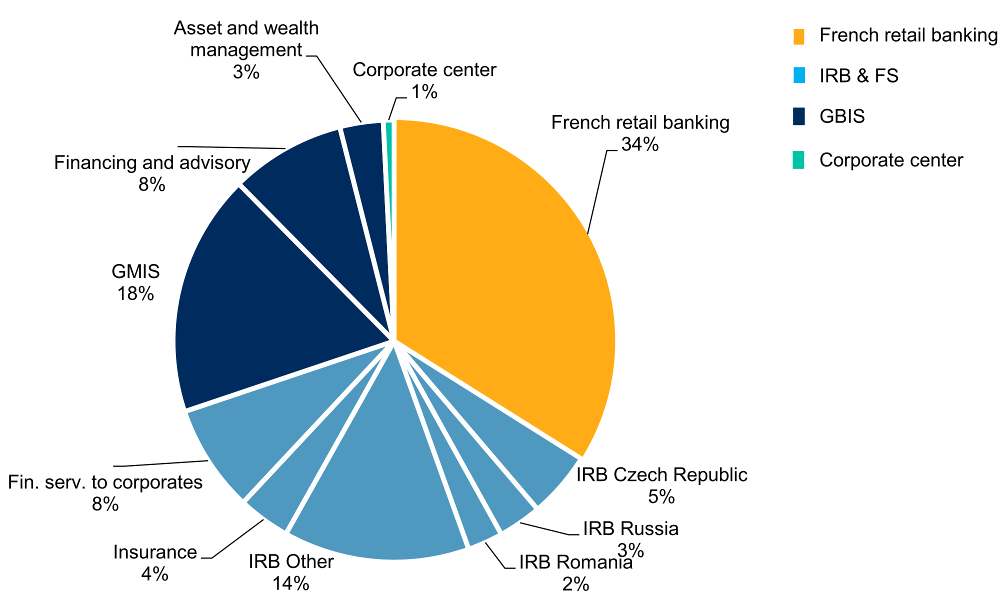
*As of end-September.

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

Société Générale is a globally systematically important bank with a large asset base of €1,411 billion at end-September 2019, along with being one of the largest European banks. The group has leading retail banking operations in France, as well as in corporate and investment banking internationally. Société Générale has other leading positions in financial services to corporations, 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. However, these strengths do not translate into strong earnings, as they typically do for 'A+' rated peers. Asset management, insurance, and wealth-management each make a more limited contribution to the group's franchise, which is a weakness in the French retail market where cross-selling is essential.

Chart 2

Societe Generale'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.

Société Générale's diverse business activities are varied and result in good stability 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 leading universal listed bank peers in Europe. As we expect Société Générale's one-off expenditure to be smaller going forward , we assume its ROACE should gradually improve but the catch-up with peers (including BNP Paribas, ING, KBC, Nordea, Lloyds Banking Group, Citigroup, and Bank of America) may take more time in a less favorable rate environment. This is due to the bank's heavy cost base, as we expect cost to income at group level will likely exceed 70% at end-2019. Cost optimization is a key focus of Société Générale's medium-term plan.

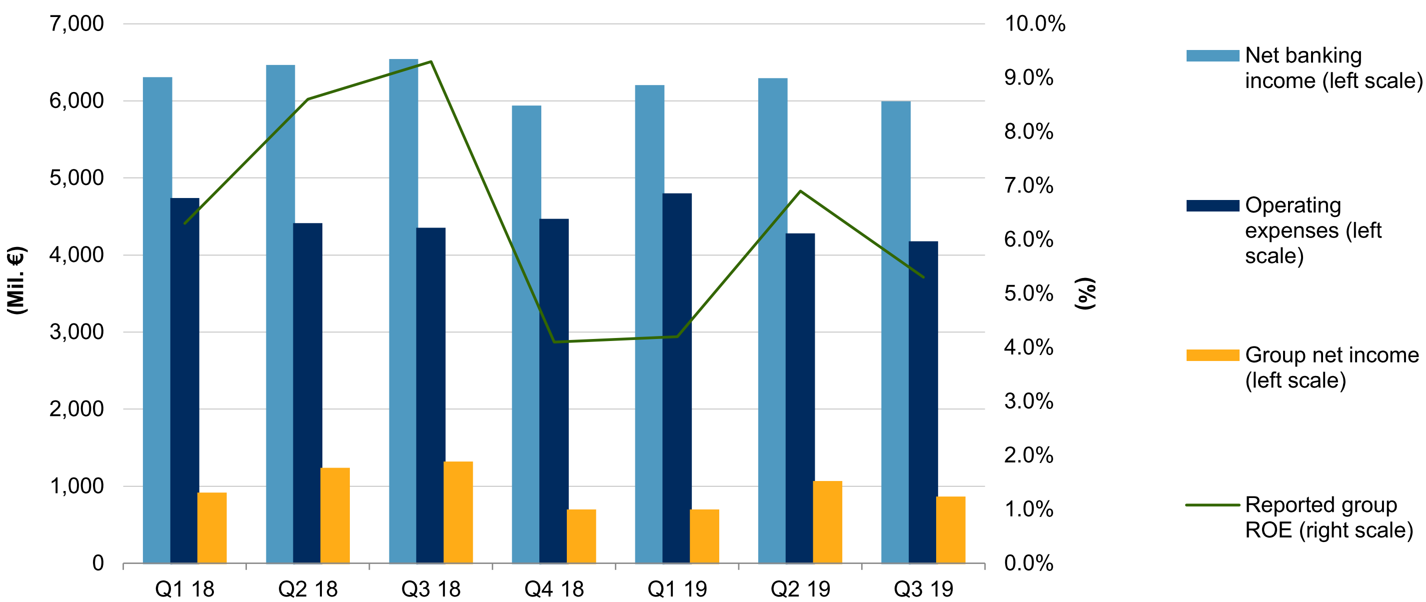
The performance of Société Générale's French retail division is under pressure, as is the case for peers, due to low interest rates, fierce competition, and the costly ongoing transformation of its business models, in particular the branch network. In this context, Société Générale expects retail banking 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 its insurance, asset management, and its private banking businesses, which are of smaller relative size than those of peers like BNP Paribas or Credit Agricole, and which are essential for cross-selling.

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. Revenue 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 revenue. Even if the bank benefits in some areas from its global expertise (like equities, and ambitions have been evidenced by the acquisition of Commerzbank's equities and commodities activities in 2018), it has downsized substantially its presence in fixed income, currencies, and commodities (FICC), for which profitability was subpar and below the group's cost of equity. However, we think that the restructuring of capital market operations remains a priority to improve the group's risk-adjusted profitability.

We note the strengthening performance of international operations in Russia and Romania, which faced substantial stress in recent years, while the Czech operations (Komercni Banka) are one of the most profitable in the group. While Société Générale is successful in many countries, including in Africa, and has ambitions to develop a long-term growth strategy, this setup does not yet 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/Italy, UniCredit in Austria/Germany, or ING in Belgium/Germany. We note that as part of its medium-term plan, Société Générale is focusing on group entities that have stronger market positions, disposing of or closing subscale entities, or entities with limited synergies with the rest of the group. Société Générale aims to save about 80 bps to 90 bps of the regulatory CET1 ratio through these disposals. In mid-December 2019, Société Générale announced an agreement with Nordea to sell its equipment finance and factoring activities in Scandinavia, leading to an expected €100 million impairment of goodwill and fixed assets to be booked at the end of 2019.

Chart 3

Volatility Of Societe Generale's Reported Quarterly Performance



Source: Société Générale. ROE--Return on equity.

In November 2017, Société Générale unveiled its medium-term strategic plan up to 2020, called "Transform to grow." 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. We believe Société Générale has succeeded in strengthening its balance sheet. The fully loaded CET1 ratio reached 12.5% in third-quarter 2019 (more than 100 bps than the third-quarter 2018 level), with ample buffer above regulatory requirements. Société Générale is also regularly issuing bail-in-able instruments. Other goals related to the shoring-up of profitability are proving more difficult to reach, due to the changing cycle, the costs to digitally transform the retail offer, the very tough price competition on housing loans in France, and regulatory costs. Avoiding the erosion of revenue and adjusting the cost base are the biggest challenges we see, and the 9%-10% return on tangible equity objective set by the group looks ambitious to us. If the management cannot bring profitability closer to top rated European banks, we may question our currently "strong" assessment of its business position.

Table 2

Review Of Societe Generale Group's Medium-Term Performance Targets Versus Actual Data

	Strategic performance indicators	Feb. 2019 strategic update	Actual data at end Sept. 2019 (9M)	Nov. 2017 investor day
Group	Group return on tangible equity	9.0%-10.0%	6.7%	circa 11.5%
	Group cost to income ratio	-	71.6%	<63% by 2020
	Cost base	-	€17.6 bil.*	# €17.8 bil. by 2020
French retail banking	Cost to income	-	72.7%	<65%
	Return on normative equity	11.5%-12.5% range	10.6%	circa 14.5%
International Retail Banking & Financial Services	Cost to income	-	54.6%	<53%
	Return on normative equity	17.0%-18.0% range	17.8%	circa 17%
Global Banking & Investor Solutions	Cost to income	-	85.6%	circa 68%
	Return on normative equity	11.5%-15.5% range	5.7%	circa 14%

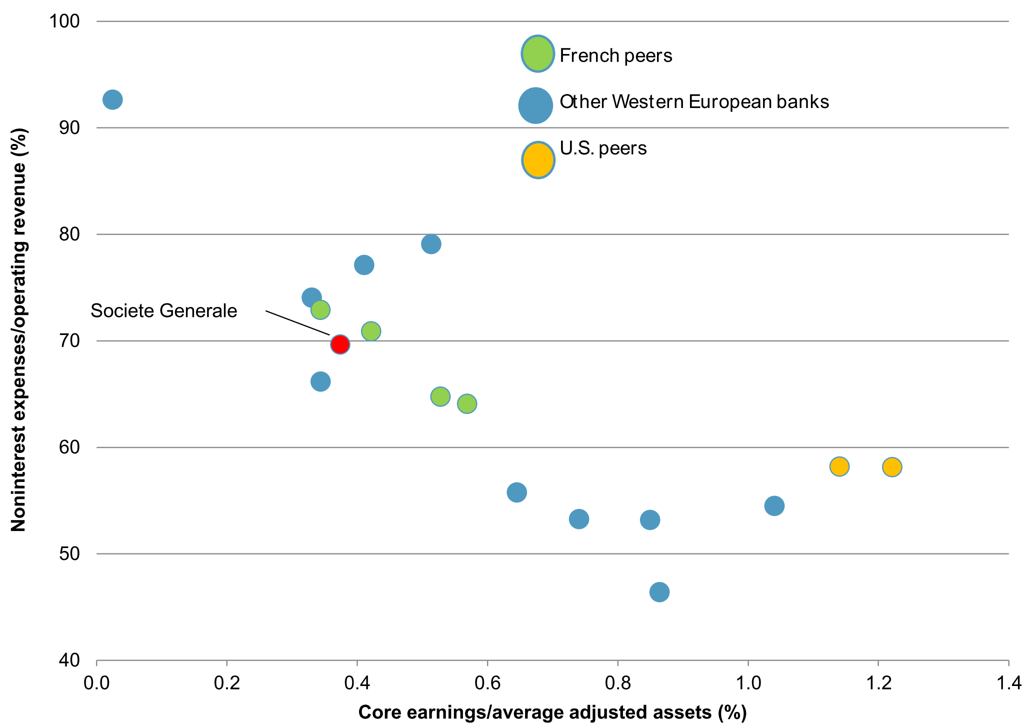
*Annualized

Cost 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. 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, given the low interest rates, high concentration among large domestic players, and fierce competition. 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, which was achieved at end-September 2019 already. Still, the cost of client acquisition remains an issue for Boursorama and an impediment to the French Retail Banking division's contribution to revenue. We consider, though, that Société Générale is well-positioned in the digital front, as an innovative digital/online retail strategy (notably via Boursorama) and continues to make the relevant investment to face the pressure from new players.

Chart 4

Societe Generale's Efficiency Measures Versus Peers (Year-End 2018)



Source: S&P Global Ratings.

Table 3

Societe Generale Group -- Business Position

		--Year ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (mil. €)	18,483	25,261	25,344	26,309	26,178
Commercial banking/total revenues from business line	11.2	17.8	8.8	9.0	9.5
Retail banking/total revenues from business line	65.4	53.3	63.9	60.7	60.8
Commercial & retail banking/total revenues from business line	76.5	71.1	72.7	69.7	70.3
Investment banking/total revenues from business line	21.2	20.6	22.4	22.6	22.8
S&P Global Ratings return on equity	6.6	6.1	3.9	6.1	6.8

*As of end-September.

Capital and earnings: Stable and adequate capitalization

Capitalization continues to strengthen thanks to the bank's conservative financial strategy, but regulatory ratios remains average when compared with the largest European banks. We expect earnings to improve only moderately in 2019-2020. At end-2018, the group's RAC ratio stood at 8.0% (8.2% at end-2017). 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.

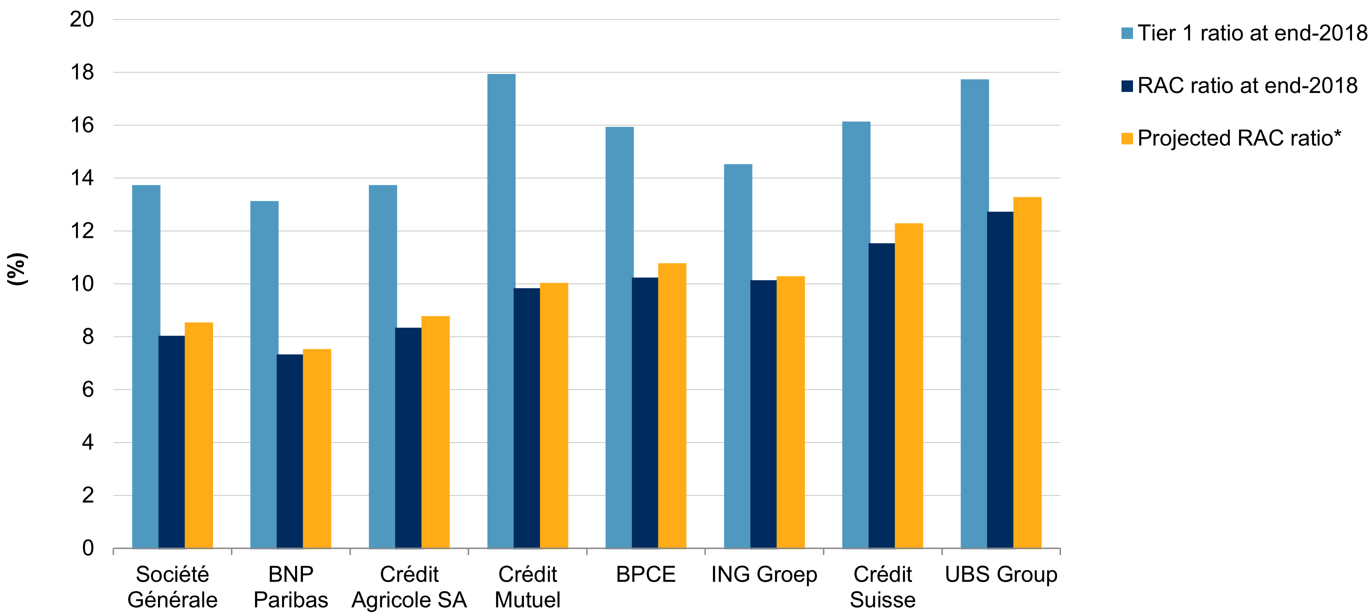
According to its strategic plan, Société Générale expects to generate about 25 bps of core capital annually. Given our more conservative risk weights and the group's strategy to rebalance slightly its loan portfolio in favor of better remunerated lending opportunities, mainly outside of France, we believe 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).

We expect Société Générale 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. This target has been met as of September 2019, with a reported CET1 ratio at 12.5%. 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 totaling €2.5 billion-€3.0 billion on average per year through 2020. Although 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 note the gradual catch-up in comparison with peers, but many still display stronger metrics.

Chart 5

Societe Generale's Key Capital Ratios Versus Selected European Peers'



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

The bank faces two large profitability challenges, i) the erosion of the net interest margin of retail banking activities in France coupled with the necessary cost of digital transformation and ii) the risk-adjusted profitability of the investment banking division.

We believe that persistent low interest rates will continue to hamper Société Générale'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 Société Générale's interest margin. For the first nine months of 2019, revenue from French retail activities reduced by 10% from the same period in 2018, while the cost base remained flat. We expect this erosion in domestic retail banking to continue in 2020, despite a 7.3% annualized growth rate of the loan book since early 2019.

We expect group income to be €3.5 billion-€3.8 billion on average in 2019-2020, reflecting solid underlying profits, a continuously low cost of risk (about 30 bps) and contained costs. We assume that the bank's earnings will be less affected by nonrecurring items, such as additional provisions for litigation or restructuring charges, than in the past two years. We expect earnings to increase in coming years, with ROE gradually converging to 8% and moderately above, and return on assets to 0.5%. We note that, given the maintenance, quarter after quarter, of different nonrecurring charges, Société Générale has not yet build a track record of improved bottom-line profitability metrics supporting a higher ICR.

Reported underlying operating expense increased by 3% in 2018, but decreased by 1.2% during the first nine months of 2019. It is too early to consider that 2019 will signal an inflexion point, given the constant need to adapt to changes in the industry, and we expect a decline in revenue larger than cost reduction once again in 2019. We believe the group will continue to leverage synergies to reduce operating costs. In our view, Société Générale has sound operating performance supported by diversified earnings streams, but it suffers from a relatively high cost base compared with European peers, in particular due to its investment-banking and domestic retail operations. We estimate the average for the 50 largest European banks at about 60%, whereas Société Générale's metric hovers around 70%.

Table 4

Societe Generale Group -- Capital And Earnings

	--Year ended Dec. 31--			
(%)	**2018**	**2017**	**2016**	**2015**
Criteria reflected in RAC ratios	2017 RAC Criteria	2017 RAC Criteria	2017 RAC Criteria	2010 RAC Criteria
Tier 1 capital ratio	13.4	13.8	14.5	13.5
S&P Global Ratings' RAC ratio before diversification	8.0	8.2	7.9	8.3
S&P Global Ratings' RAC ratio after diversification	9.4	9.9	9.4	10.7
Adjusted common equity/total adjusted capital	84.0	85.0	85.2	86.9
Net interest income/operating revenues	43.6	41.6	37.8	36.9
Fee income/operating revenues	21.9	27.2	26.7	26.5
Market-sensitive income/operating revenues	20.4	21.5	25.2	27.1
Noninterest expenses/operating revenues	69.7	70.3	67.8	67.0
Preprovision operating income/average assets	0.7	0.6	0.6	0.6
Core earnings/average managed assets	0.4	0.3	0.3	0.3

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

Table 5

Societe Generale Group -- Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government & central banks	221,063	9,847	4	6,370	3
Of which regional governments and local authorities	17,966	1,228	7	904	5
Institutions and CCPs	101,214	19,372	19	22,030	22
Corporate	332,937	165,114	50	265,776	80
Retail	202,937	53,893	27	103,666	51
Of which mortgage	112,579	14,038	12	33,402	30
Securitization§	23,224	2,268	10	6,341	27
Other assets†	27,072	22,892	85	60,736	224
Total credit risk	908,448	273,387	30	464,918	51
Credit valuation adjustment					
Total credit valuation adjustment	--	4,900	--	14,578	--
Market Risk					
Equity in the banking book	2,718	2,148	79	23,001	846

Table 5

Societe Generale Group -- Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	23,713	--	37,006	--
Total market risk	--	25,861	--	60,007	--
Operational risk					
Total operational risk	--	49,625	--	78,859	--
(Mil. €)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	376,050	--	618,362	100
Total Diversification/ Concentration Adjustments	--	--	--	(97,570)	(16)
RWA after diversification	--	376,050	--	520,792	84
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		50,511	13.4	49,186	8.0
Capital ratio after adjustments‡		50,511	13.4	49,186	9.4

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡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 2018', S&P Global Ratings.

Risk position: Low credit risk in most businesses, but market and operational risks inherent to the business model

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

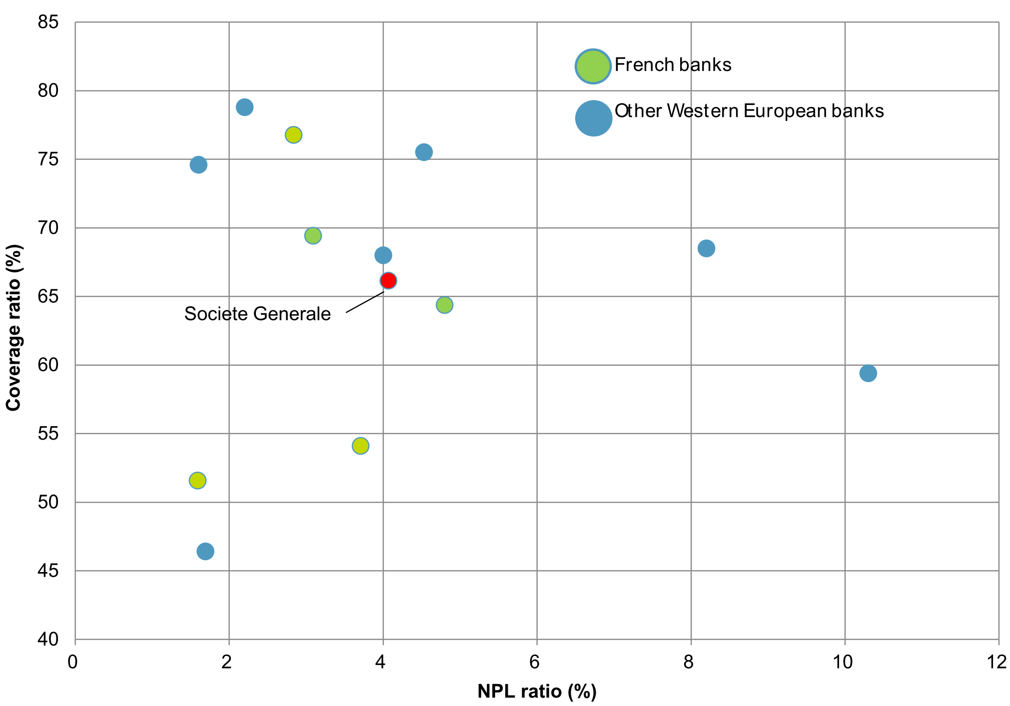
Credit risk mainly stems from large corporate exposures and to some extent emerging markets. The group's leveraged buyout portfolio represented a manageable 3% of total corporate credit exposure at end-2018, without material changes in 2019, and is closely monitored. The amount of level III assets was €8.5 billion at end-June 2019--including €3.3 billion of trading derivatives and €1.9 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 have diminished in size greatly over the years with stricter underwriting policies. Société Générale's operations in Russia picked up in 2017, and are now profit-making after several years of losses. Russia represents less than 2% of the group's exposure at default. Romania and Africa represent other pockets of risk, although small in the group context.

Société Générale reported a ratio of nonperforming loans to total loans of 3.4% at end-September 2019 on a constantly improving trend. This measure includes 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 55%.

Société Générale's reported cost of risk was €0.9 million for the first three months of 2019 (versus €1.0 billion in 2018) reflecting the expected moderate normalization of credit conditions. 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, Société Générale reported a cost of risk at 21 bps in 2018 and expects that it will range at about 30 bps in 2020. It stood at 24 bps at end-September 2019. The reported gross loan book increased by about 5% during the last 12 months.

Chart 6

Societe Generale's Asset Quality Metrics Versus Selected Peers



Source: EBA transparency exercise. Customer loans (non financial corporations and households). Data as of June 30, 2019. NPLs: Nonperforming loans. Coverage ratio: total provisions to NPLs amount.

Financial performance has been weighed down by nonrecurring items in recent years, in particular provisions for litigation. Société Générale has made meaningful progress in the settlement of legal disputes. Since early June 2018, Société Générale reached agreements with various authorities to resolve their investigations for a total amount of about €2.4 billion. This amount was covered by the bank's provision for disputes.

Société Générale reported an average trading value at risk (VAR) of €23 million during the third quarter of 2019, and relatively stable in the last two years. The average stressed VAR measure has been more volatile, peaking at €62 million during the fourth quarter 2018, and reducing to €34 million during the third quarter of 2019. 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 and international business profile leaves it exposed to a wide range of nonfinancial risk, notably reputational, compliance or operational ones. We believe most of these risks lie in GBIS and the group's asset-gathering operations. Commercial banks like Société Générale pay particular attention to issues such as financial crimes ("know your customer" procedures), and it has not been a source of concern so far. We have not observed any material conduct or misselling cases with the retail clientele in France, as opposed to countries like the U.K. or, to a lesser extent, Spain, but we are closely monitoring how Société Générale maintains high underwriting standards, also for consumer loans, to avoid any emergence of social risks.

As any large international bank, Société Générale is lender/investor to carbon-intensive industries and as such will have to manage transition risks emanating from climate change in its portfolio. Even though Société Générale has well-advanced policies to reduce, or restrict, its financing to sectors with elevated greenhouse gas emissions, the magnitude of changes needed over time to rebalance the portfolios and adjust lending criteria (and pricing), both in retail and corporate sectors, are significant. Another activity sensitive to evolving environmental norms and customer preferences is Société Générale's leading position in car fleet management, through its majority owned subsidiary ALD SA. Residual value risk, i.e. the modelling risk of second-hand car values at end of leasing contracts, has been so far adequately managed but remains an area of attention given the size of ALD's diesel fleet.

Table 6

Societe Generale Group -- Risk Position

		--Year ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	7.3	3.8	(0.3)	4.1	8.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	(15.8)	(17.2)	(16.4)	(22.9)
Total managed assets/adjusted common equity (x)	32.4	31.7	33.3	35.5	33.1
New loan loss provisions/average customer loans	0.3	0.2	0.2	0.4	0.6
Gross nonperforming assets/customer loans + other real estate owned	3.7	4.4	5.0	5.7	6.1
Loan loss reserves/gross nonperforming assets	66.9	60.0	60.4	62.4	62.7

*As of end-September. N.A.--Not available. RWA--Risk-weighted assets.

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

We regard Société Générale's funding as average and its liquidity as adequate. The group relies on wholesale funding markets and is an active borrower in the 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, Société Générale'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 €35.2 billion in medium- and long-term funding as of end-September 2019, already completing its long term funding program for 2019.

Typical from a universal bank with capital market activities, Société Générale 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 €193 billion at end-September 2019, resulting in an estimated Basel III liquidity coverage ratio of 135%. Our measure of the group's broad liquid assets to short-term wholesale funding has remained at around 1.35x in recent years and our stable funding ratio stood at around 100%, 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).

Société Générale's metrics are broadly in line with those of peers. We note that French banks in general display acceptable but weaker metrics than many European peers (see chart 7). Société Générale is only slightly better positioned than other French banks. Large amount of regulated saving plans (mostly Livret A) collected by French banks and centralized at the public body Caisse Centrale des Dépôts et Consignations, contributes to this because we adjust our metrics to reflect the fact that these deposits are not available for asset refinancing.

Chart 7

Societe Generale's S&P Global Ratings Funding And Liquidity Metrics Versus Peers
Data as of year-end 2018

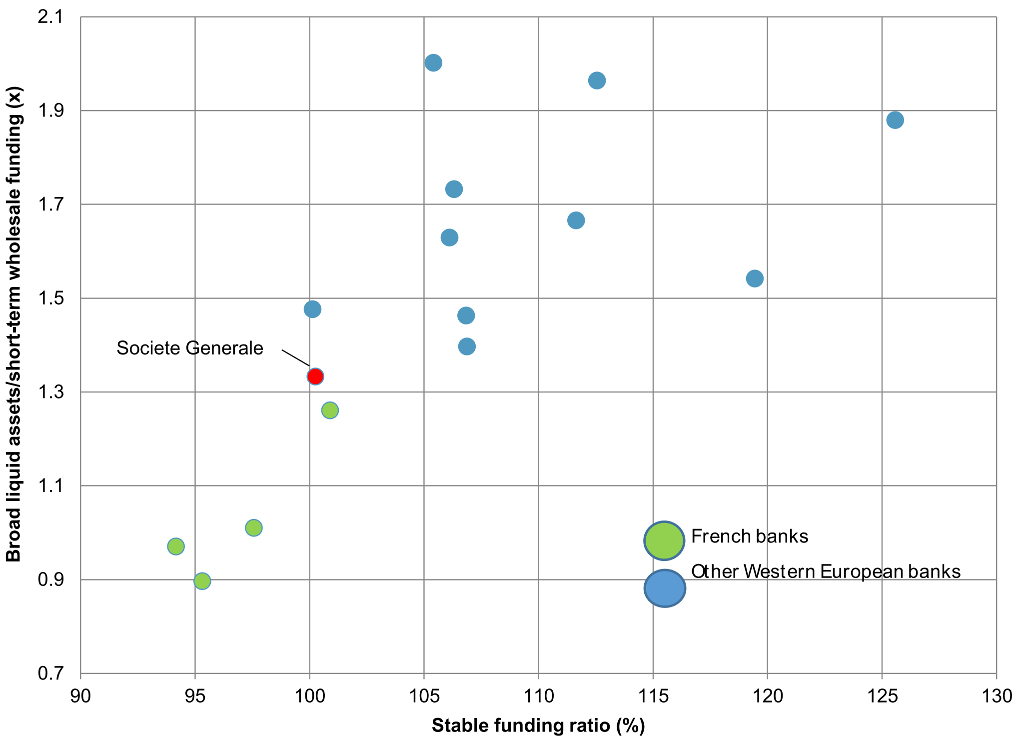


Table 7

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

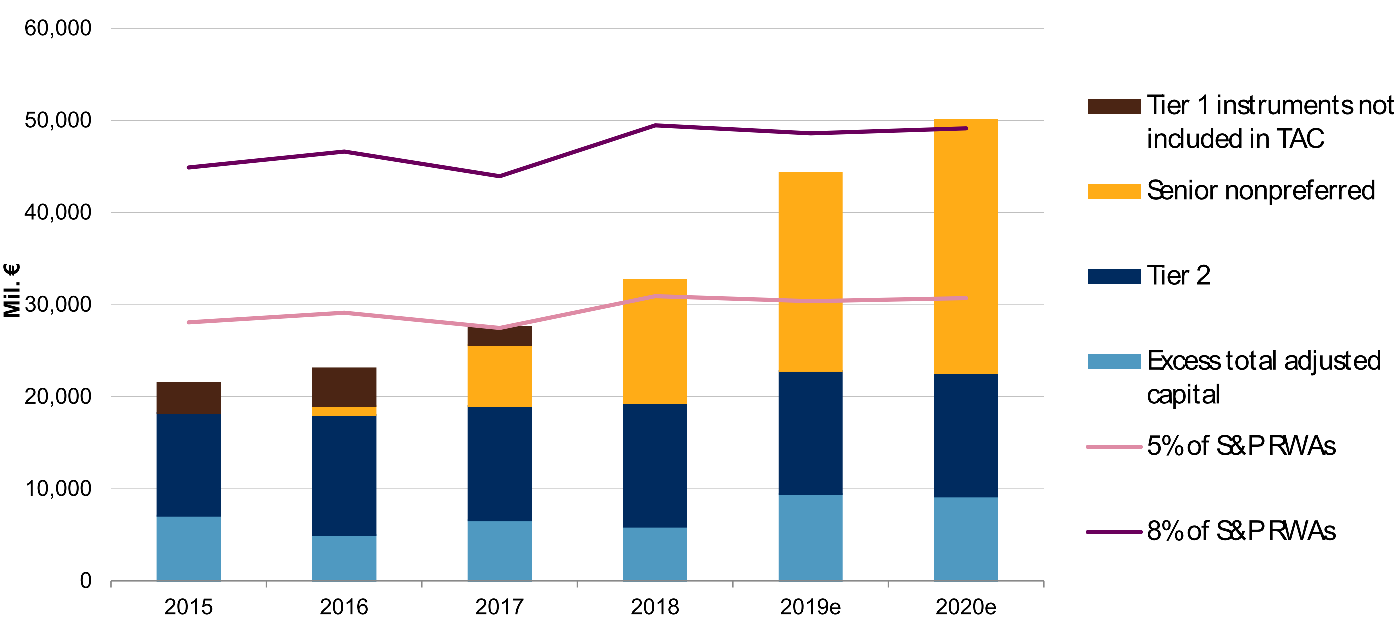
External support: Buffer of bail-in-able is likely to increase materially

We incorporate in our long-term ICR one notch of ALAC uplift because the buffer of ALAC eligible instruments stands well above 5% of S&P Global Ratings' RWAs (see chart 8). We expect that it will increase to above 8% in the course of 2020 and stay above this threshold--commensurate with a second notch of rating uplift under our ALAC methodology. Our views are informed by Société Générale's announced objective to comply with TLAC requirements and transition toward higher total amounts of required buffers. Since end-2016, Société Générale issued about €20 billion of senior nonpreferred (SNP) debt. The already issued SNP debt will start maturing in 2022. We factor in our forecast the issuance of about €6 billion of SNP debt instruments per year, which is in the lower range of the €6 billion-€7 billion Société Générale publicly communicated. We expect that the bank will gradually replace maturing capital instruments, and that future regulatory requirements will lead Société Générale to steadily increase its outstanding ALAC buffer.

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 Société Générale.

Chart 8

Societe Generale's ALAC Buildup



e--Estimates. TAC--Total adjusted capital. RWA--Risk-weighted assets.

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.

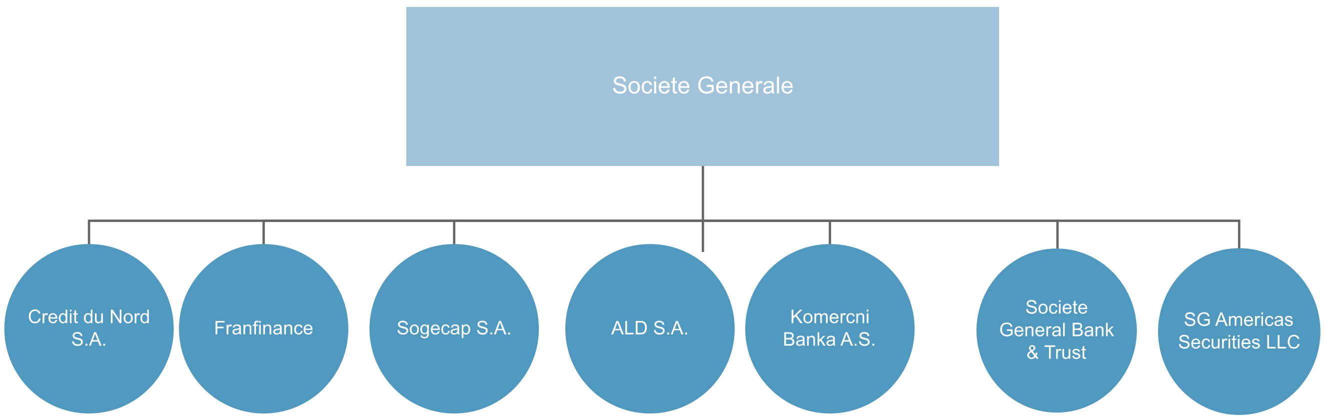
Additional rating factors: None

There are no additional rating factors.

Rated subsidiaries

Chart 9

Societe Generale Group Simplified Structure Of Group (Rated Entities)



Source:S&P Global Ratings

We equalize our long-term ICR on Komercni Banka A.S., the group's Czech operations, with that on parent Société Générale, given the bank's core status within the Société Générale group. Komercni Banka is Société Générale's largest and most profitable foreign subsidiary. We view Komercni Banka as integral and strategic to Société Générale's objectives, and consider that Société Générale 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 ICR and insurer financial strength ratings on Sogécap with the group SACP on Société Générale. This reflects our view that a resolution of Sogécap would be separate from that of Société Générale, 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.

Société Générale's insurance activities (life insurance, personal protection, and property and casualty) are operated under the Sogécap subgroup. It contributes indirectly to the revenue 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 and during the first nine months of 2019. Société Générale intends to develop its franchise in this sector, increasing intragroup synergies in revenue 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 revenue 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.

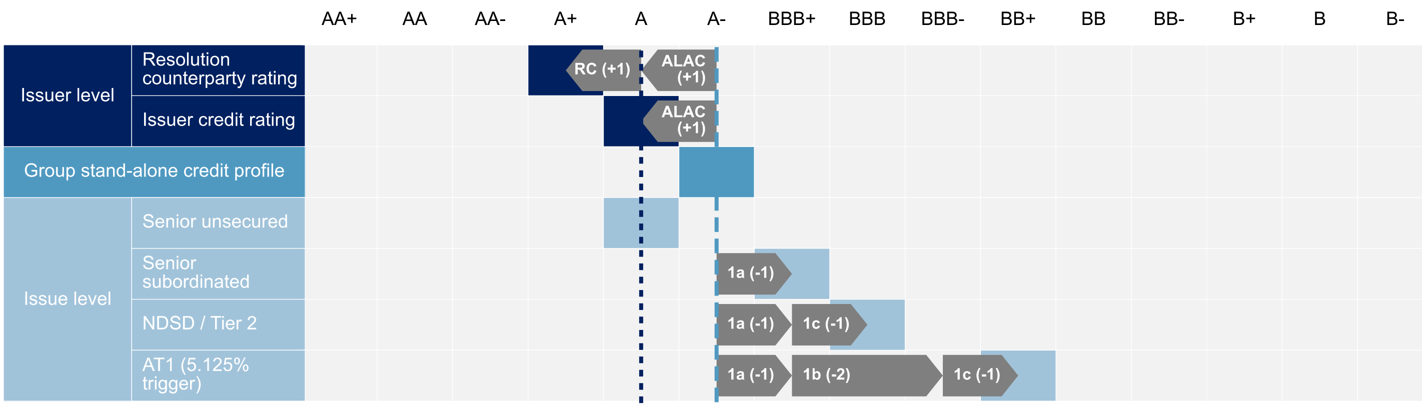
Ratings on hybrid instruments

We rate the bank's SNP and subordinated debts by notching down from Société Générale's 'a-' group SACP (see chart 10). Specifically:

- Our 'BBB+' rating on the bank's senior subordinated debt (that is SNP notes) is one notch lower than our assessment of the group SACP, 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 group SACP. Indeed, we believe that SNP 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 the group SACP. 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).

Chart 10

Société Générale: Notching



Key to notching

- - - - - Group stand-alone credit profile
- - - - - Issuer credit rating

RC	Resolution counterparty liabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

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. An 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+' (see chart 10).

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

- Komercni Banka A.S., Dec. 18, 2019
- Banking Industry Country Risk Assessment: France, Oct 25, 2019
- French Bank Societe Generale 'A/A-1' Ratings Affirmed; Outlook Remains Positive On Loss Absorption Buildup, Oct. 17, 2019
- EMEA Financial Institutions Monitor 4Q2019, Oct. 11, 2019
- Tech Disruption In Retail Banking: France's Universal Banking Model Presents A Risk, May 14, 2019
- 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

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 January 14, 2020)*

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+
Related Entities	
ALD S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2

Ratings Detail (As Of January 14, 2020)*(cont.)	
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 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.