

## Societe Generale

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# Societe Generale

SACP	a-	+	Support	+1	+	Additional Factors	0
Anchor	bbb+		ALAC Support	+1		<b>Issuer Credit Rating</b>  <b>A/Stable/A-1</b>	
Business Position	Strong	+1	GRE Support	0			
Capital and Earnings	Adequate	0	Group Support	0			
Risk Position	Adequate	0	Sovereign Support	0			
Funding	Average	0					
Liquidity	Adequate						

## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Solid foundation of the main businesses in core markets.</li> <li>• Consistent strategy and well diversified revenues by business lines and geography.</li> <li>• Capital policy and steady build-up of a comfortable bail-in-able debt cushion.</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure on earnings from the low interest rate environment.</li> <li>• Uneven efficiency throughout the group's businesses lines and geographies.</li> </ul>

**Outlook: Stable**

S&P Global Ratings' stable outlook on Société Générale reflects our expectation that the group will steadily raise its additional loss-absorbing capacity (ALAC) ratio to well above 6.0% at end-2018, hence above our 5.0% threshold for incorporating one notch of ALAC support in our ratings. We also expect that Société Générale will implement its strategy and continue to increase its earnings capacity in the next two years, notably on the back of synergies in revenues and of cost control, and despite the low interest rates that weigh on retail banking revenues in France. This should lead our risk-adjusted capital (RAC) ratio to range between 8.5% and 9.0% over 2017-2018. The outlook also reflects our view that Société Générale will continue to demonstrate a measured risk appetite and will maintain its funding and liquidity profile. The stable outlook on core insurance subsidiary Sogécap--which we rate one notch below the rating on the parent banking group and at the level of the stand-alone credit profile (SACP) for Société Générale--reflects notably that we see no particular upward or downward pressure on this SACP.

We could lower our ratings if the group did not build ALAC as we expect, or in case of a significant deterioration in its franchise and revenues. In particular, we will continue to monitor the approach to business and profitability in the investment banking division amid more demanding regulatory rules. We could also lower our ratings if sizable unexpected risks stemmed from the group's retail operations in countries with higher economic risks or from its investment banking activities, or in case of unexpectedly elevated legal costs.

We could raise our ratings in case of a strong improvement in the group's risk position, which we do not consider a likely scenario over our rating horizon.

**Rationale**

We base our ratings on Société Générale on our 'bbb+' anchor, as well as our view of its strong business position. The group combines a stable and well-entrenched retail banking operation in France with a sustainable and profitable franchise in corporate and investment banking. It also has leading positions in financial services to corporates. We view Société Générale's capital and earnings as adequate. This is commensurate with our forecast that its RAC ratio, before benefits for diversification, will range between 8.5% and 9.0% over 2017-2018. Our assessment of the group's adequate risk position reflects its well-managed balance sheet and focused strategy, balanced with our view of higher risks inherent to investment banking activities and some exposure to countries that face higher economic risks, including Russia. We view the group's funding as average and its liquidity as adequate. Our assessment of Société Générale's SACP is 'a-', and the long-term counterparty credit rating is 'A', which incorporates one notch of ALAC support.

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

Our bank criteria 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 issuer credit rating. The 'bbb+' anchor for Société Générale incorporates its geographically diverse assets and the French banking system's industry risk. We assess the economic risk for the bank based on our calculation of its weighted-average credit exposures in the countries and regions in which it operates: 45% in France, 25% in the rest of the EU, 15% in the Americas, 5% in Eastern Europe (outside the EU), and 10% 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 a growing population. In our view, the French economy's resilience to adverse external developments has reduced since the onset of the financial crisis because of a rising public debt burden, persistent high unemployment, and decreased external competitiveness of the corporate sector, although now recovering. In the context of modest economic improvements on the back of resilient domestic demand, we expect, however, still moderate single-digit growth of the outstanding of loans provided by banks. Following a period of modest housing market correction that started in 2012, we forecast that residential real estate prices will start to increase again in 2016 and 2017 but we do not see currently major economic imbalances. Overall, we believe that the banking sector will maintain sound domestic asset quality. We project stable economic risk.

Our '3' industry risk score reflects our view of financial institutions' reduced ability to extract revenues from their domestic market. The industry faces the challenges of protecting revenues from the effects of low interest rates and of continuing to improve efficiency, while investing into digitalization to meet customers' needs. Domestic funding remains underpinned by stable domestic customer deposits stemming from a high household savings rate and by deep domestic capital markets. We project stable industry risk.

Table 1

Société Générale Group Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	2016*	2015	2014	2013	2012
Adjusted assets	1,317,430	1,196,143	1,180,742	1,107,859	1,129,943
Customer loans (gross)	408,182	401,347	371,592	358,912	371,861
Adjusted common equity	40,694	40,300	37,776	36,012	36,310
Operating revenues	12,568	25,199	23,912	24,509	24,270
Noninterest expenses	8,621	16,893	16,016	15,953	16,438
Core earnings	1,627.0	3,666.0	3,327.6	3,404.0	3,026.1

\*Data as of June 30.

### Business position: Solid foundations in core markets and business diversity

Société Générale's business position is strong, in our opinion. Its main businesses have long-standing and solid foundations in its core markets. The group combines a stable and successful retail banking operation in France with sustainable and profitable franchises in corporate and investment banking. Société Générale has leading positions in financial services to corporates, namely in equipment financing and operational car leasing under the International Retail Banking and Financial Services (IBFS) division. The group's international retail banking operation is strengthening and geographically diverse, with a sizable presence in Czech Republic, Romania, and Russia, as well as growing retail businesses in Africa and consumer finance operations across Western Europe. Securities services, and asset and wealth management services--operating under the Global Banking and Investor Solutions (GBIS) division--make a more limited contribution to the group's franchise.

Société Générale's business activities are varied and result in good diversity of earnings by business type and geography. Revenues from investment banking (that is, equity, fixed income, currencies and commodities--all operated through Global Markets, part of GBIS) traditionally account for about 20% of the group's consolidated revenues. The

inherent volatility in this segment of business is reflected in its uneven contribution to total earnings, in our opinion. However, more predictable earnings from other business lines help the group generate adequate risk-adjusted profitability.

We regard Société Générale's strategy as consistent with increased business focus along with the implementation of the three-year plan presented in 2014. We expect the group to unveil an update of its strategy and medium-term plan during 2017. We expect that it will continue to prudently expand in its areas of expertise, reinforcing cross-selling while focusing on enhancing its return on equity (ROE). This is illustrated by the ROE target of more than 10%, which had been introduced in 2014. In our view, persistent low interest rates and global economic growth, and increased regulatory capital requirements have undermined the feasibility of this objective in the short term. Cost control also remains at the center of the group's strategy.

Since 2010, Société Générale has been active in reinforcing its financial structure and managing its portfolio of businesses. It disposed of legacy assets and scaled down or exited activities with low cross-selling potential or where access to funding has been scarce. These measures, in our view, have contributed to reducing the group's liquidity and funding needs, while steadily reinforcing capitalization.

**French retail banking: Stable and successful.** Société Générale is well anchored as France's fourth-largest player in domestic retail banking. As per the bank's businesses, this division represented 29% of the average total allocated capital and 34% of revenues in 2015 (excluding the corporate center).

Historically, the bank has been one of the most consistent performers in this segment. Its networks are primarily in France's urban areas, where they have an above-average franchise of affluent customers. The franchise with corporate customers is durable and solid, in our view. In November 2015, Société Générale disclosed its strategy to speed-up digitalization and, in parallel, to adapt its back-office resources, as well as its network so as to cut the number of branches by 20% by 2020. The bank announced that it has already reduced the number of branches by about 2% over the first nine months of 2016.

The division relies on an innovative, multi-brand, multi-channel strategy. Business is conducted through complementary networks: the bank's own network, the outlets of fully-owned core subsidiary Crédit du Nord S.A. (and its regional banks), and Boursorama Banque, the leading domestic player in online banking. The division also includes consumer finance specialist Franfinance. Although Société Générale, like most French banks, faces the challenge of preserving its revenue base amid low interest rates, we believe it is well placed to continue building synergies and improving efficiency.

**Global Banking and Investor Solutions (GBIS): A sustainable and profitable franchise.** GBIS accounted for 43% of average total allocated capital and 37% of revenues in 2015 (excluding the corporate center). This division encompasses Global Markets, Financing and Advisory, Asset and Wealth Management, and Securities Services and Brokerage.

Société Générale's GBIS division enjoys leading and profitable positions in targeted markets. It is client oriented and operates under an originate-to-distribute model, and its set-up is efficient, in our view. Investment banking activities (Global Markets) have traditionally accounted for more than half of the division's revenues, and have been well balanced in recent years between the equity capital market segment and the fixed income derivatives and

commodities segment.

Historically, Société Générale's platform has been geared toward a higher contribution from equity capital market activities than its peers, which was based on the group's long-standing worldwide franchise in equity derivatives. Société Générale has successfully expanded in euro-denominated fixed-income capital markets, and enjoys forefront ranking in bond issuance. Outside France, the group's position in corporate finance remains limited, in our view. Financing and advisory activities traditionally account for about one-quarter of the division's revenues. The group also enjoys leadership positions in structured and trade finance. Amid more demanding regulatory rules, the investment banking division managed to cautiously adapt its approach to business and profitability, and we expect that it will continue to do so.

With €113 billion of managed assets as of year-end 2015, Société Générale's private banking operations remain rather modest, in our opinion.

Of note, in November 2015, Société Générale and Crédit Agricole S.A. completed the initial public offering of their joint subsidiary Amundi, one of the top two asset managers in continental Europe, which they created in 2009 by combining their asset management businesses. Société Générale also announced complete disposal of its 20% stake in Amundi, while reaffirming their industrial partnership, as Amundi will remain the bank's chosen provider of savings and investment solutions to its retail banking and insurance networks.

***The International Retail Banking and Financial Services (IBFS): Developing, but with a mixed performance.*** The IBFS division represented 28% of average allocated capital and 29% of revenues in 2015 (excluding the corporate center). Through this division, Société Générale is present in Central and Eastern Europe, Russia, the Mediterranean basin, Sub-Saharan Africa, and France's overseas territories, and notably has a well-established and profitable position in Czech Republic. The Specialized Financial Services segment was grouped under IBFS in 2013.

This division is expanding but still posts a mixed performance. Société Générale's largest subsidiaries by total assets are: the Czech Republic's third-largest retail bank, Komerční Banka A.S., Russia's third-largest private retail bank, Rosbank, and the second-largest bank in Romania, BRD. Russia hosts a large banking market, but it is also among the world's riskiest banking systems, in our view. After a difficult 2015, Société Générale's operations in Russia have gradually been picking up and we expect a close to break-even contribution to net income in 2016, resulting from curbed cost of risk and lower operating expenses. In Romania, the contribution to the group's profit over the first nine months of 2016 was €40 million—twice that achieved one year before. This is a confirmation of the turnaround of the Romanian operations after a loss-making stretch until 2014.

The group has a leading position in equipment financing, with Société Générale Equipment Finance; and a strong franchise in car leasing, with ALD, which both rank No. 1 in Europe and No. 3 worldwide.

Société Générale is also present in insurance (life insurance, personal protection, and property and casualty), with notably €97 billion outstanding in life insurance at end-September 2016. This business is operated under Groupe Sogécap, which is roofed under IBFS, but also contributes indirectly to the revenues of the French retail networks, which distribute its insurance products. The direct contribution of the insurance segment to the group's net income was below 10% in 2015. Société Générale is developing rapidly its insurance activities, with the ambition to consolidate its franchise in this sector and to increase intra-group synergies in revenues.

Table 2

Société Générale Group Business Position					
(%)	--Year-ended Dec. 31--				
	2016*	2015	2014	2013	2012
Total revenues from business line (mil. €)	13,512.0	26,178.3	24,285.2	25,201.0	24,575.0
Commercial banking/total revenues from business line	8.9	9.5	8.3	7.1	6.4
Retail banking/total revenues from business line	58.8	60.8	64.8	64.5	67.5
Commercial & retail banking/total revenues from business line	67.8	70.3	73.1	71.6	74.0
Trading and sales income/total revenues from business line	22.9	22.8	19.0	19.3	18.7
Payments and settlements/total revenues from business line	N/A	N/A	4.3	3.7	4.3
Asset management/total revenues from business line	3.7	4.5	4.3	4.4	4.5
Other revenues/total revenues from business line	5.6	2.4	(0.7)	1.0	(1.5)
Investment banking/total revenues from business line	22.9	22.8	19.0	19.3	18.7
Return on equity	8.1	6.8	4.7	3.8	1.1

\*Data as of June 30. N/A--Not applicable.

### Capital and earnings: Adequate capitalization, primarily supported by retained earnings

We assess Société Générale's capital and earnings as adequate. The group's capitalization has been on an upward trend over the past two to three years, which benefits its financial profile. We forecast that our RAC ratio (before diversification) will range between 8.5% and 9.0% over 2017-2018, supported by contained single-digit growth in S&P Global Ratings' risk-weighted assets (RWA), an incremental increase in recurring income, and maintenance of tier 1 hybrid outstanding debt close to the level at end-2015.

As of Dec. 31, 2015, our RAC ratio for the group stood at 8.3%. The improvement from the 8.0% we calculated at year-end 2014 stemmed primarily from retained earnings, and reflected a moderate 2.5% increase in S&P Global Ratings' RWA before diversification.

We expect Société Générale to maintain unchanged capital management along with its objectives of a common equity tier 1 (CET1) ratio in the 11.5%-12.0% range in the medium term (11.4% achieved at end-September 2016 under the full implementation of Basel III, that is, not incorporating phase-in arrangements), and minimum 18% total capital ratio by end-2017. We note that earlier this month, the group disclosed the update of its regulatory capital requirements as of Jan. 1, 2017, which disposes for a lower CET1 requirement, at 7.75%, compared with 10.0%, as of the same date, under the prior supervisory review and evaluation process (SREP). The difference stems primarily from a strong reduction in the Pillar 2 requirement, only partially offset by an increase in the countercyclical and GSIB (global systemically important bank) buffers. A lower CET1 requirement will mechanically create a sizable buffer, in respect of the regulatory rules for potential prevention of coupon payment on hybrids capital instruments (Maximum Distributable Amount mechanism). Besides, we note that the CET1 requirement will be phased-in to reach 9.5% as of Jan. 1, 2019, and that the requirement is complemented by "guidance"--the level of which was not made public--but that the group will be expected to meet under the new supervisory disposals.

Of note, after Société Générale announced its intention of calling one of its tier 1 capital instruments in February 2016 (the residual outstanding amount of which was €356 million), this instrument no longer formed part of the bank's tier 1 regulatory capital as of year-end 2015, and we also excluded it from our total-adjusted capital (TAC) measure. Another

€0.8 billion in subordinated debt was issued in 2014 by the group's insurance subsidiary Sogécap, which does not contribute to regulatory capital. We did not include this subordinated debt in our TAC measure either.

We expect Société Générale to continue to issue subordinated debt, although to a lesser extent in the form of tier 1 instruments, which will help the group grow its buffer of bail-in-able liabilities in the coming years.

Despite pressure on revenues, we expect the consolidated income (including minority interests) to be not very far from €5.0 billion in 2016, supported by low cost of risk and contained costs. Our expectation also factors in the sizable nonrecurring items that contributed altogether about €0.5 billion in net income over the first nine months of 2016, and compares with a net income of €4.4 billion achieved in 2015. We expect the earning capacity of the group to further increase, but incrementally, in 2017 and 2018 (not including possible further provisioning for disputes).

On the first nine months of 2016, we estimated that the group's core earnings were about €2.8 billion, compared with €3.7 billion over the full-year 2015, which comforts our expectations of at least stable profitability over the full year. Our measure of core earnings reflects the adjustments that we apply to the net income to exclude for litigation costs, write-downs on goodwill, changes in fair value of own debt, as well other nonrecurring items such as gains or losses on disposals and profits and losses from other assets. In 2015, these adjustments cancelled each other when including related tax effects. Conversely, in computing our core earnings we deducted dividends paid on subordinated debt and not accounted for in the reported profit and loss account, which resulted in a sizable adjustment of €0.7 billion to the 2015 reported figure of €4.4 billion.

We believe that persistent low interest rates will continue to affect Société Générale's net interest margin in its domestic activities, as they will those of the other French banks. We expect that contractual interest rates lowered as a consequence of the renegotiations--which we observed widely in the French mortgage loans industry--as well as lower reinvestment yields, have been weighing on Société Générale's interest margin in 2016. Illustrating this, on the first nine months of the year, the revenues from the bank's French retail activities were down by 3.5% compared with the same period in 2015 (reported down by 2.7%, without neutralizing the impact from provisions on the Plan Epargne Logement and Comptes Epargne Logement deposits). In our view, this decrease is magnified by the fact that, in 2015, up-front recognition of early repayment penalties mitigated the pressure from lowered contractual rates on revenues.

We expect roughly stable expenses in 2016, flattered by the €218 million refund by the European Commission of part of the fine paid by Société Générale in 2013 in the Euribor affair. We believe that expenses will remain contained in the coming years, as the group will reap the benefits of its reinforced cost-control strategy. Indeed, as planned, Société Générale cut recurring expenses by €900 million over 2013-2015, while posting less than €500 million in one-time costs over the same period. We note that the group has announced its intention to roll out a new cost reduction plan over 2016-2017, with expected similar benefits and costs as achieved under the first one.

We believe that in 2016 the Russian subsidiary will achieve a gradual recovery, illustrated by the close to breakeven performance achieved in the third quarter of 2016. The group expects an improved contribution to the consolidated income from 2017 onward.

Based on our calculation, the group's three-year average earnings buffer--which measures the capacity for earnings to cover normalized losses--is stable, at close to 1% of S&P Global Ratings' RWAs.



Table 3

Société Générale Group Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2016*	2015	2014	2013	2012
Tier 1 capital ratio	13.6	13.5	12.6	13.4	12.5
S&P RAC ratio before diversification	N.A.	8.3	8.0	7.6	6.7
S&P RAC ratio after diversification	N.A.	10.7	10.3	10.0	8.8
Adjusted common equity/total adjusted capital	87.0	86.9	86.3	90.2	91.0
Net interest income/operating revenues	39.2	36.9	41.8	41.2	46.6
Fee income/operating revenues	26.7	26.5	27.1	26.5	28.7
Market-sensitive income/operating revenues	23.6	27.1	20.4	22.8	13.2
Noninterest expenses/operating revenues	68.6	67.0	67.0	65.1	67.7
Preprovision operating income/average assets	0.6	0.6	0.6	0.7	0.6
Core earnings/average managed assets	0.2	0.3	0.3	0.3	0.2

\*Data as of June 30. RAC--Risk-adjusted capital. N.A.--Not available.

Table 4

Société Générale Group Risk-Adjusted Capital Framework Data					
(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
<b>Credit risk</b>					
Government and central banks	197,989	18,219	9	12,328	6
Institutions	45,563	12,666	28	13,969	31
Corporate	298,526	161,012	54	255,343	86
Retail	188,041	54,423	29	100,094	53
Of which mortgage	106,951	17,093	16	32,368	30
Securitization§	16,053	2,754	17	5,370	33
Other assets	9,773	10,391	106	12,480	128
Total credit risk	755,946	259,465	34	399,583	53
<b>Market risk</b>					
Equity in the banking book†	3,988	8,438	305	21,569	541
Trading book market risk	--	19,325	--	25,372	--
Total market risk	--	27,763	--	46,941	--
<b>Insurance risk</b>					
Total insurance risk	--	--	--	52,963	--
<b>Operational risk</b>					
Total operational risk	--	43,850	--	61,713	--
		<b>Basel II RWA</b>		<b>S&amp;P Global Ratings' RWA</b>	<b>% of S&amp;P Global Ratings' RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification		356,866		561,200	100
Total Diversification/Concentration Adjustments		--		(128,348)	(23)

Table 4

Société Générale Group Risk-Adjusted Capital Framework Data (cont.)				
RWA after diversification	356,866		432,852	77
	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
<b>Capital ratio</b>				
Capital ratio before adjustments	48,112	13.5	46,381	8.3
Capital ratio after adjustments†	48,112	13.5	46,381	10.7

\*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, 2015, S&P Global Ratings.

### Risk position: Underpinned by tight balance sheet management

We view Société Générale's risk position as adequate. In our opinion, it shows a reasonable appetite for growth, focused on core areas of expertise and clientele, with an average track record compared with peers'. We factor in our assessment of its adequate risk management of its large balance sheet and wide geographic coverage, which entails complexity. Over recent years, the group has reduced its risk appetite and moved toward a more centralized approach. Derisking measures have been well implemented and included reducing most illiquid assets and trading positions.

We note that the exposure at default (EAD) to Eastern European countries outside the EU was a small 3% of Société Générale's total at mid-2016. On the same date, the group's EAD included a low 1.7% from Russia (of which off-shore and large corporates represented about one quarter each, and of which 8% comprised car loans, 18% mortgages, and 7% consumer lending). On that same date, the group's total commitment to Russia in the form of equity and intragroup funding was €3.2 billion, which we consider a manageable exposure, in light of its risk diversification and financial profile (this amount includes €0.9 billion relating to the revaluation of the forex exposure which has already been deducted from the group's reported equity). We will continue to closely monitor the group's strategy and operations in Russia in the context of geopolitical tensions and the current operating environment.

At mid-2016, Société Générale reported an exposure to the oil and gas sector at about 2.5% of its total EAD. Over 60% of the exposure was concentrated on state, integrated, or upstream companies, and the portion relating to the oil services sector was marginal. Also mitigating risks relating to this exposure, in our view, the group reported that its exposures are largely with short- to medium-term maturities, and are well diversified by geographies.

Our measure of Société Générale's gross nonperforming loans (NPLs) to total loans stood at 6.0% at mid-2016, and NPLs were well provisioned with a coverage ratio of 63.0%, which has been increasing steadily from 58.8% in 2012. 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 the GBIS activities. It decreased in 2015, notably in retail banking activities in France and Romania, and despite some provisioning on oil and gas exposures and elevated credit risk in Russia. Excluding a €0.2 billion allocation to collective provision for dispute, the cost of risk was €1.4 billion in the first nine months of 2016, and we expect that it will be close to €2.0 billion for the full year, compared with €2.5 billion in 2015 (excluding a €0.6 allocation to collective provision for dispute). We do not anticipate our measure of new loan loss provision to average gross customer loans to significantly exceed 50 basis points (bps) in the coming two years. The cost of risk in Global Markets

will remain contained in 2016, in our view. We also expect that it will further decrease in the French retail banking activities, as illustrated by the performance already achieved on the first three quarters of 2016. We do not rule out the possibility of further hits to profitability from litigation charges after the €1.7 billion allocation to collective provisions for dispute during the period 2012-2015, and the further €200 million posted in the second quarter of 2016.

Société Générale reported an average trading value at risk of €21.5 million in 2015, after €24.0 million in 2014. We believe the group also monitors well its structural exposure to interest rates through gap analysis and value sensitivity of the balance sheet, as well as stress tests. Residual exposure is macro-hedged using interest rate swaps.

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

**Table 5**

<b>Société Générale Group Risk Position</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2016*</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Growth in customer loans	3.4	8.0	3.5	(3.5)	(6.6)
Total diversification adjustment / S&P RWA before diversification	N.A.	(22.9)	(22.3)	(23.5)	(24.7)
Total managed assets/adjusted common equity (x)	35.9	33.1	34.6	34.3	34.4
New loan loss provisions/average customer loans	0.5	0.6	0.7	1.0	0.9
Gross nonperforming assets/customer loans + other real estate owned	6.0	6.1	6.9	7.7	7.2
Loan loss reserves/gross nonperforming assets	63.0	62.7	62.1	60.6	58.8

\*Data as of June 30. RWA--Risk-weighted assets. N.A.--Not available.

### **Funding and liquidity: Rebalanced funding profile and building liquidity reserves**

We regard Société Générale'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. 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. 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 €25.1 billion in medium- and long-term funding as of Oct. 12, 2016 (not including €3.9 billion raised through subsidiaries), which represented 87% of its issuance plan for the year.

As a principle, Société Générale uses short-term wholesale funding to fund short-term assets. We believe that the group has adequate liquidity management and contingency plans. Its liquid assets buffer reached €175 billion at mid-2016, resulting in an estimated Basel III liquidity coverage ratio of close to 150%. At the same date, our measure of broad liquid assets to short-term wholesale funding for the group was 1.23x and our stable funding ratio stood at 96.5% (for definitions of these metrics, see "Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions," published July 17, 2013). Of note, we normally consider refinancing by the European Central Bank (ECB) to be short term, regardless of actual maturity. This includes the Targeted Longer-Term Refinancing Operations

(TLTRO), which affected our metrics negatively. Nevertheless, as long as the residual maturity exceeds one year, we do not reclassify to short-term the refinancing that has been provided by the ECB from March 2016 under the form of TLTRO II (see "ECB Backing For Eurozone Banks Remains Solid Amid Waning Government Support," published April 8, 2016"). We see Société Générale's access to ECB funding as opportunistic.

**Table 6**

<b>Société Générale Group Funding And Liquidity</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2016*</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Core deposits/funding base	39.5	40.5	38.7	36.9	36.5
Customer loans (net)/customer deposits	107.7	111.4	111.7	111.3	123.1
Long term funding ratio	59.3	60.7	57.8	56.1	58.1
Stable funding ratio	96.5	95.4	91.1	92.1	90.0
Short-term wholesale funding/funding base	43.0	41.7	44.7	46.2	44.2
Broad liquid assets/short-term wholesale funding (x)	1.2	1.2	1.1	1.1	1.0
Net broad liquid assets/short-term customer deposits	34.8	21.8	14.0	6.4	4.1
Short-term wholesale funding/total wholesale funding	70.4	69.2	72.0	72.7	69.2
Narrow liquid assets/3-month wholesale funding (x)	3.1	3.0	1.4	1.3	1.5

\*Data as of June 30.

### **External support: One notch of ALAC support**

Our long-term rating on Société Générale is one notch higher than the SACP. We incorporate one notch of uplift within our group credit profile (GCP), and so within the long-term ratings on Société Générale and its core banking subsidiaries, because we consider that the group is likely to increase and maintain ALAC above our 5.00% threshold. 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, and we consider that systemically important French institutions such as Société Générale face years of structural and balance sheet reforms to address their "resolvability" (mitigating the systemic impact if they fail). Nevertheless, 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 under our criteria, and we no longer include one notch of uplift for government support in the long-term counterparty credit rating on Société Générale (see "Société Générale Outlook Revised To Stable And 'A/A-1' Ratings Affirmed On Government Support And ALAC Review," published Dec. 3, 2015).

We calculated that our ALAC ratio was 4.11% of S&P Global Ratings' RWA at year-end 2015. We expect that this ratio will increase steadily to well above 6.0% at end-2018, and hence will be higher than the 5.00% threshold for Société Générale that we consider necessary for one notch of uplift. This projection factors in our expectation that the bank will gradually replace maturing capital instruments, and that future regulatory requirements will lead Société Générale

to steadily increase its existing buffer of loss-absorbing capacity.

We used two adjustments for the threshold, which cancel each other out. Indeed, we qualitatively adjusted down the threshold by 25 bps for the group's insurance operations, which we expect French resolution framework would exclude from the required bail-in process. For the record, insurance activities represented close to 10% of our calculation of S&P Global Ratings' RWAs at end-2015. Conversely, we adjusted the threshold up by 25 bps to reflect the prepositioning risk, as defined by our criteria.

We included in our ALAC assessment all capital instruments issued by Société Générale because we believe they have capacity to absorb losses without triggering a default on senior obligations and they meet our other criteria for inclusion. We have announced that we also expect to include in our measure of ALAC the bank's "senior non-preferred" debt instruments, a new category of debt which was established by the Sapin II law enacted on Dec. 9, 2016. For the record, Société Générale recently issued for the first time €1.0 billion in such debt (see "Societe Generale's Proposed Inaugural Senior Nonpreferred Notes Rated 'BBB+', published December 14, 2016"). Our central scenario is that the law set a framework that will enable these new debt instruments to be eligible for inclusion in the EU minimum requirement for own funds and eligible liabilities (MREL) and the equivalent Financial Stability Board's total loss-absorbing capacity (TLAC). Last, 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.

We equalize the long-term counterparty credit and insurer financial strength ratings on insurance subsidiary Sogécap, which we see as core to the group, with Société Générale's unsupported GCP. This reflects our view that a resolution of Sogécap would be separate from that of Société Générale, meaning that any outstanding ALAC instruments at group level would not be available for the insurance operations.

#### **Additional rating factors: None**

There are no additional rating factors.

#### **Related Criteria And Research**

##### **Related Criteria**

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Standard & Poor's National And Regional Scale Mapping Tables, June 01, 2016
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Commercial Paper I: Banks, March 23, 2004
- Guarantee Criteria – October 21, 2016

## Related Research

- Societe Generale's Proposed Inaugural Senior Nonpreferred Notes Rated 'BBB+', Dec. 14, 2016
- France's New Senior Nonpreferred Notes: An Additional Route To Building Loss-Absorbing Capacity, Dec. 13, 2016
- The Road More Traveled: The Latest EC Proposals Bring EU Banks Closer To Completing A 10-Year Regulatory Overhaul, Nov. 29, 2016
- Ratings Component Scores For The Top 50 European Banks--September 2016, Sep. 28, 2016
- Bulletin: Societe Generale Ratings Not Affected By The Versailles Court Of Appeal Ruling On Kerviel's Case, Sep. 26, 2016
- Russian Federation Outlook Revised To Stable From Negative On Abating External Risks; Ratings Affirmed, Sep. 16, 2016
- For France's Largest Banks, Capital Will Remain A Neutral Rating Factor, Despite Continuous Improvement, Aug. 25, 2016
- French Banque Kolb, Banque Tarneaud, Banque Rhone Alpes 'A/A-1' Ratings Affirmed; Then Withdrawn At The Banks' Request, Aug. 19, 2016
- Top 50 West European Banks: Capital Continues To Rise, But Ranges Widely By Country, Aug. 1, 2016
- Europe's Stress Test Results Show That Most Rated Banks Improved Their Resilience, Aug. 1, 2016
- Banking Industry Country Risk Assessment: France, May 24, 2016
- ECB Backing For Eurozone Banks Remains Solid Amid Waning Government Support, April 8, 2016
- Credit FAQ: Drilling Down Into Western European Banks' Commodities Exposures, Apr. 6, 2016
- One Greater China Regional Scale Bank Debt Rating Raised And Two Lowered On Updated National And Regional Scale Criteria, Feb. 8, 2016
- Large French Banks Should Remain Resilient To 2016's More Complex Operating Conditions, Jan. 21, 2016
- Société Générale Outlook Revised To Stable And 'A/A-1' Ratings Affirmed On Government Support And ALAC Review, Dec. 3, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Dec. 3, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015

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 December 23, 2016)

**Societe Generale**

Counterparty Credit Rating A/Stable/A-1

**Counterparty Credit Ratings History**

02-Dec-2015 A/Stable/A-1

25-Oct-2012 A/Negative/A-1

23-Jan-2012 A/Stable/A-1

**Sovereign Rating**

France (Republic of) AA/Stable/A-1+

**Related Entities****ALD International S.A.**

Issuer Credit Rating BBB/Stable/A-2

Senior Unsecured BBB

Short-Term Debt A-2

**Catalyst Re International Ltd.**

Financial Strength Rating

*Taiwan National Scale* twAA/Stable/--

Issuer Credit Rating

*Taiwan National Scale* twAA/Stable/--**Franfinance**

Issuer Credit Rating A/Stable/A-1

Commercial Paper

*Local Currency* A-1

Senior Unsecured A

**Komerčni Banka A.S.**

Issuer Credit Rating A/Stable/A-1

**Rusfinance Bank**

Issuer Credit Rating BB+/Negative/B

*Russia National Scale* ruAA+/--/--Senior Unsecured  
*Russia National Scale* ruAA+

Senior Unsecured BB+

**SG Americas Securities LLC**

Issuer Credit Rating A/Stable/A-1

**Societe Generale Bank & Trust**

Issuer Credit Rating A/Stable/A-1

**Societe Generale (New York Branch)**

Issuer Credit Rating A/Stable/A-1

**Societe Generale SCF**

Senior Secured AAA

Senior Secured AAA/Stable

Short-Term Secured Debt A-1+

**Societe Generale, Taipei Branch**

Issuer Credit Rating

*Taiwan National Scale* twAA+/Stable/twA-1+

**Ratings Detail (As Of December 23, 2016) (cont.)****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.

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