S&P Global Ratings

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Societe Generale

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Table Of Contents

Societe Generale

SACP	a-

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

+

Support	+1

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

+

Additional Factors	0

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:

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

Weaknesses:

- Pressure on retail earnings from the low interest rate environment.
- Some sensitivity to litigation risks, resulting in repeated provisioning and costs.
- Still uneven efficiency throughout the group's businesses lines and geographies.

Outlook: Stable

S&P Global Ratings' stable outlook on Société Générale (SG) reflects our expectation that the group will steadily raise its additional loss-absorbing capacity (ALAC) ratio to 6.0%-7.0% in the next 18-24 months, which is above our 5.00% threshold for incorporating one notch of ALAC support in our ratings. We also expect that SG will keep a focused strategy and continue to increase over time its earnings capacity, despite the low interest rates that weigh on retail banking revenues in France. We expect our risk-adjusted capital (RAC) ratio to be in the 8.0%-8.25% range over our two-year rating horizon. The outlook also reflects our view that SG will continue to demonstrate a measured risk appetite, in particular regarding acquisitions. The stable outlook on core insurance subsidiary Sogécap--which we rate one notch below the parent bank and at the level of the unsupported group credit profile (UGCP) for SG--reflects notably that we see no particular upward or downward pressure on this UGCP.

We could lower our ratings on SG if earnings prospects remained subdued, be it because of growth in expenses durably outpacing that in revenues, or substantially higher litigation costs compared with current reserves. In particular, we will continue to monitor the performance of the group's domestic retail segment in the current low-interest-rate environment, as well as that of the investment banking division amid more demanding regulatory rules.

We could raise our ratings if SG improved its earnings profile, notably through better efficiency and stronger synergies from its various businesses, but without increasing its risk appetite. At the 'A' rating level, comparatively average earnings generation capacity is a factor that limits rating upside. Beyond our two-year outlook horizon, we think that SG may build up a high amount of bail-in-able debt, bringing our ALAC ratio close to the 8.00% of S&P Global Ratings' risk-weighted assets (RWA) we consider appropriate for a second notch of uplift for SG. But before considering an upgrade, we would assess whether SG's core operating subsidiaries would merit an 'A+' rating in comparison with other similarly rated peers in Europe and beyond.

Rationale

We base our ratings on SG on our 'bbb+' anchor, as well as our view of its strong business position, including stable and well-entrenched retail banking activities in France and a sustainable franchise in corporate and investment banking. SG also has leading positions in financial services to corporates. We view the group's capital and earnings as adequate. This is commensurate with our forecast that its RAC ratio, before benefits for diversification, will range between 8.0% and 8.25% in the next 18-24 months. Our assessment of SG'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 due to potential litigations. We view the group's funding as average and its liquidity as adequate. Our assessment of SG's UGCP is 'a-', and the long-term counterparty credit rating is 'A', which incorporates one notch of ALAC support. SG announced that it will continue tapping the senior nonpreferred market, which will support a ramp-up of its total loss-absorbing capital (TLAC) ratio comfortably above regulatory requirements, and along with the regulatory phasing until Jan. 1, 2022, which we expect will translate into an increase of our ALAC ratio to 6.0%-7.0% in the next 18-24 months.

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 SG incorporates its geographically diverse assets and the French banking system's industry risk. We assess 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, 10% in the Americas, 5% in Eastern Europe (outside the EU), 5% in Asia-Pacific, 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 benefits from a growing population. In our view, the economy's resilience to adverse external developments has been reduced by a relatively high public debt burden, high unemployment projected to decline only slowly, and decreased external competitiveness of the corporate sector. Low interest rates, domestic demand and the growth momentum in the eurozone have more recently supported an economic catch-up phase after several years of stagnation in France (forecast for France +1.8% in 2017 and 2018, but still below the eurozone average GDP growth) and net government debt expected to stabilize at about 91% of GDP as of year-end 2017. Residential property prices have been increasing again in 2017, a trend that may be sustained by low interest rates in 2018 before slowing down. We anticipate that French banks' will post credit losses on domestic operations at historical lows for 2017, before a slight increase in 2018 from provisioning on loans to small and midsize firms and, to a lesser extent, consumer loans, as well as slightly higher provisions on corporate loans. We believe, however, that the banking sector will maintain sound domestic asset quality. We project stable economic risk.

Our '3' industry risk score reflects our view that financial institutions are operating in a less favorable environment, with low interest rates compounded by a wave of residential loan interest rate renegotiations and regulated-rate savings constraining prospective revenues. As for many neighboring peers, the capacity to control operating costs, notably in the retail businesses, will be key in the next two years as investments in technology remain important. French banks have generally made progress in improving their funding and liquidity metrics over the past five years, even though the large ones remain dependent on short-term wholesale funding to fund large securities portfolio, and we expect this will continue. We project stable industry risk.

Table 1

Société Générale Group -- Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2017***	**2016**	**2015**	**2014**	**2013**
Adjusted assets	1,189,542	1,242,287	1,196,143	1,180,742	1,107,859
Customer loans (gross)	412,017	417,745	401,347	371,592	358,912
Adjusted common equity	39,218	38,966	40,300	37,776	36,012
Operating revenues	12,891	25,057	25,199	23,912	24,509
Noninterest expenses	8,813	16,988	16,893	16,016	15,953
Core earnings	2,481	3,503	3,666	3,328	3,404

*Data as of June 30.

Business position: Solid business foundations in domestic retail, corporate and investment banking, and financial services to corporates, and business diversity

SG's business position is strong, in our opinion. Its main businesses have long-standing and solid foundations in its core markets. The group combines dynamic retail banking operations in France with sustainable franchises in corporate and investment banking. SG has leading positions in financial services to corporates, namely in equipment financing and 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. Asset and wealth management services and securities services--operating under the Global Banking and Investor Solutions (GBIS) division--make a more limited contribution to the group's franchise.

SG's business activities are varied and result in good diversity of earnings by business type and geography, but its reported return on equity (ROE), at about 7% in the past years, remains below the average of universal bank peers in Europe. 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 SG's strategy as consistent, with increased business focus, and we expect that it will continue to prudently expand in its areas of expertise. On Nov. 28, 2017, SG unveiled its medium-term strategic plan up to 2020, called "Transform to grow", which we see as very much in line with the strategy pursued by the group in the past years. This plan includes further adapting businesses in reply to changes in the operating environment, and in particular to the digitalization of the industry. SG plans to generate a limited average annual compound revenue growth for the French retail activities of above 1% over the four years 2017-2020, while it expects revenue growth of above 2.5% in the GBIS division and above 5.5% in the IBFS division. Costs control remains at the center of the strategy, and the group targets recurring cost savings of €1.1 billion from 2020, set to be well distributed across the group. The objectives set up under the new plan are realistic, in our view. Up to 2020, the group plans to bring its consolidated cost-to-income ratio down below 63%, from 68% achieved in 2016. The group also intends to further strengthen its balance sheet, proactively managing its TLAC and leverage ratios, while achieving a ROE of 10% in 2020. SG commented that it may further optimize capital allocation with up to the equivalent of 5% of its regulatory RWA that can be either reallocated or redistributed, which was not incorporated in the disclosed medium-term plan and capital trajectory.

French retail banking: Stable but pressured by the low interest rates. SG is well anchored as France's fourth-largest player in domestic retail banking. As per the bank's businesses, at end-2016, this division represented 29% of the total regulatory RWA and 33% of revenues (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 share of affluent customers. The franchise with corporate customers is durable and solid, in our view. As part of its medium-term plan, SG confirmed its intention to accelerate the rationalization of its branch network and of its back-offices.

The division relies on an innovative, multibrand, multichannel strategy. Business is conducted through complementary networks: the bank's own network as well as through 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 SG, 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 franchise. At end-2016, GBIS accounted for 38% of total regulatory RWA and 37% of revenues (excluding the corporate center). This division encompasses Global Markets and Investors Services, Financing and Advisory, and Asset and Wealth Management.

SG'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) accounted for 50% of the division's revenues in 2015 and 2016, and are traditionally rather well balanced between the equity capital market segment and the fixed-income, currencies, and commodities segment.

Historically, SG'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. SG 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 GBIS 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 €116 billion of managed assets as of year-end 2016 (€113 billion at end-2015), SG's private banking operations remain rather modest, in our opinion.

The International Retail Banking and Financial Services (IBFS): Developing, with performance increasing and becoming more consistent across geographies. At end-2016, the IBFS division represented 33% of total regulatory RWA and 30% of revenues (excluding the corporate center). Through this division, SG is present in Central and Eastern Europe, Russia, the Mediterranean basin, Sub-Saharan Africa, and France's overseas territories, has consumer finance operations across Western Europe, and some leadership positions in financial services to corporates, notably in equipment finance and car leasing.

SG's international retail banking segment feature some diversification by geography, with steady development and strengthening performances of its operations across the various countries. SG's largest subsidiaries by total assets are: the Czech Republic's third-largest retail bank, Komercni Banka A.S., Russia's third-largest private retail bank, Rosbank, and the second-largest bank in Romania, BRD. SG's operations in Russia have gradually been picking up and posted positive quarterly contributions to SG's consolidated income since end-2016, but the profitability over the first nine months of 2017 remained lower than that achieved by the rest of group. In Romania, the contribution to SG's profit over the first nine months of 2017 was €105 million, up from €40 million achieved over the same period in 2016 and €19 million in 2015. 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. 3 worldwide and No. 1 in Europe (excluding financial leasing companies and captives).

SG is also present in insurance (life insurance, personal protection, and property and casualty), and had €112.9 billion outstanding in life insurance at end-September 2017. This business is operated under the Sogécap sub-group, 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 close to 10% in 2016. SG ambitions consolidating its franchise in this sector and to increase intra-group synergies in revenues.

Table 2

Société Générale Group -- Business Position					
		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. €)	13,136	26,309	26,178	24,285	25,201
Commercial banking/total revenues from business line	8.5	9.0	9.5	8.3	7.1
Retail banking/total revenues from business line	61.9	60.7	60.8	64.8	64.5
Commercial & retail banking/total revenues from business line	70.5	69.7	70.3	73.1	71.6
Asset management/total revenues from business line	3.9	3.8	4.5	4.3	4.4
Other revenues/total revenues from business line	1.4	3.9	2.4	(0.7)	1.0
Investment banking/total revenues from business line	24.2	22.6	22.8	19.0	19.3
Return on equity	5.5	6.1	6.8	4.7	3.8

*Data as of June 30.

Capital and earnings: Stable and adequate capitalization

We assess SG's capital and earnings as adequate. We forecast that our RAC ratio (before diversification) will be in the range 8.0%-8.25% in the next 18-24 months, supported by stable underlying income and low-single digit growth in S&P Global Ratings' RWA.

At end-2016, we estimated the group's RAC ratio at 7.9%, pro forma our revised methodology (see "Risk-Adjusted Capital Framework Methodology," published July 20, 2017, on RatingsDirect). We note that the impact from the revision of our methodology on SG's RAC ratio was a negative 47 basis points (bps), primarily reflecting our approach to central counterparty (clearing houses), credit value adjustment, and insurance activities. Excluding this impact, the ratio at end-2016 would have been 8.3%, hardly higher than that at end-2015, and reflecting retained earnings of €2.1 billion, balanced with 6.3% growth in risk exposures as measured under S&P Global Ratings' RWA. Of note, same as what we did at end-2015, we did not include in our end-2016 measure of TAC the €0.8 billion in subordinated debt issued in 2014 by the group's insurance subsidiary Sogécap and which does not contribute to regulatory capital.

We expect SG to maintain unchanged capital management along with its announced objective to report a common equity tier 1 (CET1) ratio at or above 12.0% in 2020 under the full implementation of Basel III, that is, not incorporating phase-in arrangements (11.7% achieved at end-September 2017). The latest update of the regulatory capital requirements under the supervisory review and evaluation process (SREP) disposed for a lower CET1 requirement, at about 8.7% as of Jan. 1, 2018 (on a transitional basis, i.e. including phasing-in arrangements). This leaves SG with a sizable buffer above the CET1 reference used in respect of the regulatory rules for potential prevention of coupon payment on hybrids capital instruments (Maximum Distributable Amount mechanism). However, we note that this CET1 requirement is set to rise to 9.6% due to the additional phasing-in of buffers, scheduled as of Jan. 1, 2019, and that it is complemented by a CET1 "guidance"--the level of which was not made public--but that the group is expected to meet under the supervisory disposals.

We believe that, in the coming years, SG will continue to issue subordinated debt, but to a lesser extent as it will grow its buffer of bail-in-able liabilities primarily by tapping the senior non-preferred market. The bank announced its plan to issue annually, up to 2020, an average €2.5 billion-€3.0 billion in additional tier 1 (AT1) and dated subordinated debt altogether. While we think that the net issuance of dated subordinated debt, although set to remain limited, can marginally add to the group's total capital, we expect that future issuance of junior subordinated debt will hardly replace that maturing over the same period. Consistently, our forecast of an incremental increase in the RAC ratio reflects primarily our view of the group's solid earnings capacity and its plans to maintain a 50% payout ratio. Conversely, we factored in our forecast a negative impact on the capital base from the first-time application of IFRS-9 in 2018. We expect that the average annual growth in S&P Global Ratings' RWA should be low-single digit, consistently with the group's plan to post a +3% average annual compound growth of its regulatory RWA over the four-year period 2017-2020.

We believe that persistent low interest rates will continue to affect SG's net interest margin in its domestic activities, as they will those of the other French banks. We think that contractual interest rates lowered as a consequence of renegotiations--which we observed widely in the French mortgage loans industry--and lower reinvestment yields, are weighing on SG's interest margin. Illustrating this, in the first nine months of 2017, revenues from the bank's French retail activities were down 3.6% compared with the same period in 2016 (down 2.9%, without neutralizing the impact from provisions on the Plan Epargne Logement and Comptes Epargne Logement deposits). In particular, the net interest margin was affected by a €88 million one-time charge in the third quarter of 2017, in acknowledgment of maturity mismatches stemming from housing loan renegotiations, addressed under SG's interest rate risk management. Conversely, the positive trend in fees supported revenues.

We expect the consolidated income (including minority interests) to be in a range €4.0-€4.5 billion in 2017 and in 2018, reflecting very solid underlying profit, supported by continuously low cost of risk and contained costs. Our estimates for 2017 factors in the contribution from strong underlying profits realized in the first half of year, and our expectation of a sizable impact from nonrecurring items that altogether already dented the net income after tax by €0.9 billion over the first nine months of the year. This included a sizable negative contribution from dispute settlement costs and net provisioning, which we estimated to be around €1.0 billion and a negative €0.1 billion from change in fair value of SG's own debt, balanced by €0.2 billion in net gain on other assets. This compared with €4.3 billion of reported net income in 2016, also incorporating a number of one-time impacts and noneconomic elements, but which cancelled each other out. We note that SG announced in January 2018 that it will post an additional one-time charge in the fourth quarter of 2017, for a gross amount of less than €0.5 billion. This will, for the most part, reflect the accounting impact in differed tax assets from the ongoing U.S. tax reform. We expect the overall impact on our RAC ratio calculation to be immaterial. We expect earnings to increase in coming years, but, in our view, this improvement could be gradual if further provisioning for disputes was required.

We anticipate a contained increase in reported expenses in 2017, although the amount posted in 2016 was cushioned by a €218 million refund by the European Commission of part of the fine paid by SG in 2013 in the Euribor affair. We believe that the group will continue to leverage on synergies to reduce its operating costs. In our view SG has sound operating performance, supported by diversified earnings streams. However, the group still suffers from a relatively high cost base compared with European peers, since its consolidated cost-to-income ratio is structurally in the

65%-70% range.

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 about 0.8% of S&P Global Ratings' RWAs.

Table 3

Société Générale Group -- Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	N/A	2017 RAC Criteria	2010 RAC Criteria	2010 RAC Criteria	2010 RAC Criteria
Tier 1 capital ratio	14.4	14.5	13.5	12.6	13.4
S&P Global Ratings' RAC ratio before diversification	N/A	7.9	8.3	8.0	7.6
S&P Global Ratings' RAC ratio after diversification	N/A	9.4	10.7	10.3	10.0
Adjusted common equity/total adjusted capital	85.3	85.2	86.9	86.3	90.2
Net interest income/operating revenues	40.8	37.8	36.9	41.8	41.2
Fee income/operating revenues	26.8	26.7	26.5	27.1	26.5
Market-sensitive income/operating revenues	23.4	25.2	27.1	20.4	22.8
Noninterest expenses/operating revenues	68.4	67.8	67.0	67.0	65.1
Preprovision operating income/average assets	0.6	0.6	0.6	0.6	0.7
Core earnings/average managed assets	0.4	0.3	0.3	0.3	0.3

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Société Générale Group Risk-Adjusted Capital Framework Data					
(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	211,313	7,360	3	9,211	4
Institutions and CCPs	92,480	16,286	18	26,874	29
Corporate	308,049	159,097	52	270,201	88
Retail	189,789	55,435	29	103,423	54
Of which mortgage	106,196	18,207	17	32,873	31
Securitization§	17,815	2,225	12	5,565	31
Other assets†	20,679	21,496	104	56,073	271
Total credit risk	840,126	261,900	31	471,346	56
Credit valuation adjustment					
Total credit valuation adjustment	--	5,088	--	8,466	--
Market risk					
Equity in the banking book	2,873	6,249	218	18,821	655
Trading book market risk	--	16,875	--	21,748	--
Total market risk	--	23,124	--	40,569	--
Operational risk					
Total operational risk	--	44,375	--	62,203	--

Table 4

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

	Basel III RWA		S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments				
RWA before diversification	355,478		582,585	100
Total diversification/concentration adjustments	--		(95,637)	(16)
RWA after diversification	355,478		486,948	84
	Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	51,548	14.5	45,740	7.9
Capital ratio after adjustments‡	51,548	14.5	45,740	9.4

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2016, S&P Global.

Risk position: Tight balance sheet management but with some sensitivity to litigation risks

We view SG's risk position as adequate. In our opinion, it will continue to show a reasonable appetite for growth, focused on core areas of expertise and clientele. We factor in our belief that the group benefits from adequate risk management of its large balance sheet and wide geographic coverage, which entails complexity. Over recent years, SG has reduced its risk appetite and moved toward a more centralized approach.

We note that the exposure at default (EAD) to Eastern European countries outside the EU was a small 3% of SG's total at mid-2017. The group's EAD included a low 1.7% from Russia (of which off-shore and large corporates represented 44% altogether, and of which 8% comprised car loans, 18% mortgages, and 8% 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. We note that SG's operations in Russia picked up in 2017, and are profit-making.

Our measure of SG's gross nonperforming loans (NPLs) to total loans stood at 5.3% at mid-2017, and NPLs were well provisioned with a coverage ratio of 61.4%. 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. We do not anticipate our measure of new loan loss provision to average gross customer loans to significantly exceed 40 basis points (bps) in the next couple of years, which is similar to the group's expectation of a cost of risk in the 35-40 bps in 2020.

Excluding a €0.2 billion allocation (net of reversal) to collective provisions for disputes, SG's cost of risk was close to €0.7 billion in the first nine months of 2017, and we expect it to be €0.9 billion-€1.0 billion for the full year, compared to €1.7 billion in 2016 (this was excluding the net allocation to collective provision for dispute, which amounted to €350 million). We note that at end-September 2017, SG's collective reserve for disputes amounted €2.2 billion. In addition, the bank posted to "revenues from other activities" a charge of €963 million as a result of the settlement signed with the Libyan Investment Authority (LIA), but we understand the impact was broadly balanced in net income by a €0.75 billion reversal from the collective reserve for disputes (we incorporated this reversal in the €0.2 billion net allocation that we calculated for the first nine months of 2017). We will continue to closely monitor litigation risks and potential settlement costs, including ongoing discussions with the U.S. administration regarding the actions against the bank referred to as "Libor" and "LIA," as well as the investigations and proceedings that are under way in reference to the economic sanctions ordered by the U.S. authorities (the dispute is referred to as OFAC, "Office of Foreign Assets Control"). Although the sizable provision built by SG is set to cushion the potential impact of litigation risks on profitability, we do not rule out the possibility of further charges following the repeated allocations to collective provisions for disputes since 2012.

SG reported an average trading value at risk of €21 million in 2016, very close to the level achieved in 2015. We believe the group also monitors its structural exposure to interest rates well 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 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

Société Générale Group -- Risk Position

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	(2.7)	4.1	8.0	3.5	(3.5)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(16.4)	(22.9)	(22.3)	(23.5)
Total managed assets/adjusted common equity (x)	34.4	35.5	33.1	34.6	34.3
New loan loss provisions/average customer loans	0.2	0.4	0.6	0.7	1.0
Gross nonperforming assets/customer loans + other real estate owned	5.3	5.7	6.1	6.9	7.7
Loan loss reserves/gross nonperforming assets	61.4	62.4	62.7	62.1	60.6

*Data as of June 30. N/A--Not applicable. RWA--Risk-weighted assets.

Funding and liquidity: Improving funding and liquidity

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

In our view, SG's funding structure has a number of strengths, notably residing in its loyal retail deposit base. 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 €24.1 billion in medium- and long-term funding as of Oct. 12, 2017 (not including €3.7 billion raised through subsidiaries), which represented 98% of its issuance plan for the year.

As a principle, SG 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 €158 billion at mid-2017, resulting in an estimated Basel III liquidity coverage ratio of close to 123%. At the same date, our measure of broad liquid assets to short-term wholesale funding for the group was 1.38x and our stable funding ratio stood at 102.2% (for definitions of these metrics, see "Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions," published July 17, 2013). Of note, as long as the residual maturity exceeds one year, we do not classify as short-term the refinancing that has been provided by the European Central Bank from March 2016 under the form of Targeted Longer-Term Refinancing Operations II (see "ECB Backing For Eurozone Banks Remains Solid Amid Waning Government Support," published April 8, 2016). We see SG's access to ECB funding as opportunistic.

Table 6

Société Générale Group -- Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	43.9	43.8	40.5	38.7	36.9
Customer loans (net)/customer deposits	104.4	103.8	111.4	111.7	111.3
Long-term funding ratio	66.0	65.4	60.7	57.8	56.1
Stable funding ratio	102.2	99.7	95.4	91.1	92.1
Short-term wholesale funding/funding base	36.2	36.8	41.7	44.7	46.2
Broad liquid assets/short-term wholesale funding (x)	1.4	1.3	1.2	1.1	1.1
Net broad liquid assets/short-term customer deposits	36.3	32.8	21.8	14.0	6.4
Short-term wholesale funding/total wholesale funding	63.6	64.6	69.2	72.0	72.7
Narrow liquid assets/3-month wholesale funding (x)	3.9	3.9	3.0	1.4	1.3

*Data as of June 30.

External support: One notch of ALAC support

Our long-term rating on SG is one notch higher than the UGCP. We incorporate one notch of ALAC uplift because we expect that our ALAC ratio will increase steadily to 6.0%-7.0% in the next 18-24 months, which is higher than the 5.00% threshold for SG 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 SG to steadily increase its outstanding buffer of loss-absorbing capacity.

We calculated that our ALAC ratio was 4.01% of S&P Global Ratings' RWA at year-end 2016, close to the 4.11% we calculated at end-2015. The variation included a negative 40-bps impact from the revision of our methodology, stemming mostly from our approach to insurance activities. Excluding this impact, the variation was +30 bps, which reflected a strengthening of the buffer of bail-in-able debt in 2016, partially balanced by the 6.3% increase in S&P Global Ratings' RWA.

We used two adjustments for the threshold, which cancel each other out: we qualitatively adjusted down the threshold by 25 bps considering the impact in our ALAC calculation of the group's insurance operations and car lease operations, which we expect French resolution framework would exclude from the required bail-in process; conversely, we adjusted the threshold up by +25 bps to reflect the prepositioning risk, as defined by our criteria.

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 counterparty credit rating on SG.

We included in our ALAC assessment all capital instruments issued by SG because we believe they have capacity to absorb losses without triggering a default on senior obligations and they meet our other requirements for inclusion. We also included in our measure of ALAC the bank's "senior non-preferred" debt instruments, (a new category of debt which was established by the Sapin II law enacted on Dec. 9, 2016) considering that these debt instruments will be eligible for inclusion in the EU minimum requirement for own funds and eligible liabilities (MREL) and the equivalent Financial Stability Board's 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 SG's UGCP. This reflects our view that a resolution of Sogécap would be separate from that of SG, meaning that any outstanding ALAC instruments at group level would not be available for the insurance operations.

Additional rating factors: None

There are no additional rating factors.

Hybrid instruments

We rate the bank's senior non-preferred and subordinated debts by notching down from our assessment of its SACP, which is 'a-'.

Our 'BBB+' rating on the bank's senior subordinated debt (that is senior non-preferred notes) is one notch lower than its SACP, owing to our view that such notes are subordinated (although not labelled as so) to more senior obligations, and do not carry additional default risk relative to that represented by the SACP. Indeed, we believe that senior non-preferred 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 its SACP. This reflects the deduction of one notch for subordination, two notches to reflect the notes' standard risk of coupon non-payment 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 level 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). If this was not the case, we could widen our notching on these notes.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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

- Does French Banks' Capital Buildup Stop Here?, Jan 18, 2018
- Société Générale 'A/A-1' Affirmed On Operating Performance, Continued Loss-Absorbing Capacity Buildup; Outlook Stable, Nov. 10, 2017
- Risk-Adjusted Capital (RAC) Ratios For The Top 50 Western European Banks: December 2017, Dec. 14, 2017
- An Illustrative Rating Path For A Systemic Bank In A Bail-In Resolution, Oct. 4, 2017
- Ratings Component Scores For The Top 50 European Banks--September 2017, Sept. 28, 2017
- Banking Industry Country Risk Assessment: France, June 20, 2017
- Societe Generale's Proposed Inaugural Senior Nonpreferred Notes Rated 'BBB+', Dec. 14, 2016
- Societe Generale Ratings Not Affected By The Versailles Court Of Appeal Ruling On Kerviel's Case, Sept. 26, 2016

Anchor Matrix

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

Ratings Detail (As Of January 19, 2018)

Societe Generale	
Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	
Local Currency	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
Counterparty Credit Ratings History	
02-Dec-2015 *Foreign Currency*	A/Stable/A-1
25-Oct-2012	A/Negative/A-1
23-Jan-2012	A/Stable/A-1
02-Dec-2015 *Local Currency*	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 S.A.	
Issuer Credit Rating	BBB/Positive/A-2
Senior Unsecured	BBB
Short-Term Debt	A-2

Ratings Detail (As Of January 19, 2018) (cont.)	
Catalyst Re International Ltd.	
Financial Strength Rating	
Taiwan National Scale	twAA/Stable/--
Issuer Credit Rating	
Taiwan National Scale	twAA/Stable/--
Credit du Nord S.A.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Franfinance	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Komercni Banka A.S.	
Issuer Credit Rating	A/Stable/A-1
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/Stable
Short-Term Secured Debt	A-1+
Societe Generale, Taipei Branch	
Issuer Credit Rating	
Taiwan National Scale	twAA+/Stable/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.

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