

28 May 2020 | Downgrade

Fitch Downgrades SG's Long-Term IDR to 'A-'; off RWN; Outlook Stable

Fitch Ratings-Paris-28 May 2020:

Fitch Ratings has downgraded Societe Generale S.A.'s (SG) Long-Term Issuer Default Rating (IDR) to 'A-' from 'A' and Viability Rating (VR) to 'a-' from 'a' and removed them from Rating Watch Negative (RWN). The Outlook to the Long-Term IDR is Stable.

A full list of rating actions is below.

Key Rating Drivers

IDRs, VR AND SENIOR NON-PREFERRED DEBT

The downgrade of SG reflects its more variable strategic execution record than peers' and expected medium-term negative impact of the coronavirus outbreak on its operating profitability. SG's ratings continue to reflect a diversified company profile with a significant contribution from more volatile capital-market activities, moderate risk appetite, adequate capitalisation and a sound liquidity profile. Asset quality remains a rating weakness given an expected increase in impaired loans related to the pandemic, although it had significantly improved at end-2019.

SG was successful in scaling down its activities in 2019, notably by selling subsidiaries in eight eastern European countries, refocusing its fixed income, currency and commodities (FICC) business and closing its proprietary-trading subsidiary Descartes Trading. These actions had a material positive impact on the group's common equity Tier 1 (CET1) ratio, but negatively affected revenue generation.

SG's retained international retail and commercial banking businesses, insurance and leasing activities grew firmly over the past three years. However, the group recorded a more pronounced decline in revenue at its core French retail and commercial banking business than peers. Equity capital market revenue also declined and the recent announcement of a simplification of the product range of structured-equity derivatives might put SG's leading global franchise at risk, although this decision is positive for risk appetite.

SG's earnings were materially affected by the deterioration in economic conditions and volatile

capital markets in 1Q20. The group recorded a quarterly loss and we expect operating profitability to be subdued in 2020 and to only partially recover in 2021 owing to lower revenue (-16.5% in 1Q20) and high loan impairment charges (LICs). The group guides for annual LICs of between EUR3.5 billion and EUR5 billion in 2020 (70bp-100bp of gross loans), which would represent a large portion of pre-impairment profit if revenue continues to decline throughout the year. We nevertheless expect the group's diversification and moderate sensitivity to net interest income (less than 50% of 2019 revenue) to support medium-term recovery in profitability. The group's capacity to lower costs will also be an important factor.

Asset quality only slightly deteriorated in 1Q20 with a low volume of additional impaired loans (0.1% estimated increase in the impaired loans ratio). The group successfully managed down the stock of impaired loans in 2019 (-10%) and the impaired loans ratio was adequate at 3.6% at end-2019. Coverage by loan loss allowances also increased to a high 67%. We nevertheless expect asset quality to deteriorate over the next two years, stemming mainly from loans to professionals and SMEs, which are vulnerable to the current economic contraction despite material government-support measures.

SG's risk-weighted capital ratios significantly improved in 2019. The bank's fully loaded CET1 ratio was 12.6% at end-March 2020 compared with 10.9% at end-2018. It recently benefited from the suspension of the 2019 dividend payment but was affected by higher risk-weighted assets (RWAs) as a result of the current crisis. SG guides to a 200bp-250bp margin over its supervisory capital requirement at end-2020, which would be equivalent to an 11%-11.5% CET1 ratio based on the current requirement. This would still position SG at the lower end of global trading and universal banks' and most domestic peers'.

Customer deposits account for less than 50% of SG's funding due to the size of its capital market activities. Nevertheless, SG has well-established market access and wholesale funding is diversified by tenor and instrument. The bank's liquidity management is conservative and high-quality liquid assets (HQLA) amply cover wholesale and structured funding coming due within a year. HQLAs increased by about EUR30 billion in 1Q20. SG's Short-Term IDR of 'F1' is the higher of the two possible options corresponding to an 'A-' Long-Term IDR based on the bank's sound funding and liquidity.

DERIVATIVE COUNTERPARTY RATING, DEPOSIT RATINGS AND SENIOR PREFERRED DEBT

SG's long-term senior preferred debt and deposit ratings have been downgraded by one notch to 'A' from 'A+' and the Derivative Counterparty Rating (DCR) to 'A(dcr)' from 'A+(dcr)'. They remain one notch above SG's Long-Term IDR because of the protection that accrues from buffers of subordinated and senior non-preferred debt, which we expect to exceed 10% of RWAs on a

sustained basis. The sum of the two buffers was 13% of RWAs at end-2019 and we expect SG to continue to issue a significant volume of senior non-preferred and subordinated debt to cover the group's minimum requirement for own funds and eligible liabilities (MREL).

SUBSIDIARY

The Long- and Short-Term IDRs of SG's French specialised lender Compagnie Generale de Location d'Equipements S.A (CGLE) are based on institutional support from SG. CGLE's IDRs are equalised with those of SG as we view this entity as having a key role within the group as a provider of car financing in France. CGLE is also well-integrated with its parent and SG provides almost all its funding. We do not assign a VR to CGLE as it is difficult to analyse this entity meaningfully in its own right.

GUARANTEED DEBT

Fitch has downgraded the senior debt issued by Societe Generale Acceptance N.V. guaranteed by SG to 'A' from 'A+', in line with SG's senior preferred debt. We expect the guaranteed notes to benefit from the protection provided by the buffer of subordinated and senior non-preferred debt. Our ratings also reflect Fitch's view that SG is expected to honour its commitment as guarantor if required, as the guarantee is unconditional, irrevocable and timely.

SUBORDINATED DEBT AND JUNIOR SUBORDINATED DEBT

Subordinated debt and deeply subordinated debt issued by SG are all notched down from SG's VR in accordance with our assessment of each instrument's non-performance and relative loss severity risk profiles.

Fitch has downgraded SG's subordinated Tier 2 debt ratings to 'BBB' from 'BBB+'. We rate the instruments two notches below the group's VR for loss severity as we expect recoveries to be poor for this type of debt in case of default/non-performance of the bank.

Fitch has downgraded SG's deeply subordinated additional Tier 1 (AT1) debt with fully discretionary coupons to 'BB+' from 'BBB-'. We rate AT1 debt four notches from the group's VR. This corresponds to two notches for loss-severity and two notches for non-performance risk. Our assessment is based on SG operating with a CET1 ratio comfortably above coupon-omission point, on the presence of material distributable reserves and our expectation that this will continue.

SUPPORT RATING AND SUPPORT RATING FLOOR

SG's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that, although possible, sovereign support cannot be relied on. In our view, legislative, regulatory and policy

initiatives (including the implementation of the EU's Bank Recovery and Resolution Directive) have substantially reduced the likelihood of sovereign support for EU commercial banks in general.

This implies that senior creditors would probably be required to participate in losses, if necessary, instead of, or ahead of, the bank receiving sovereign support, despite SG's systemic importance.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

We have assigned a Stable Outlook on SG's Long-Term IDR as we believe the bank has significant rating headroom before being downgraded to the 'BBB' category. Triggers for a downgrade would be a CET1 ratio significantly below 11% with no credible plan to restore it above this level combined with material and structural deterioration in profitability. These could stem from a further pronounced deterioration in the group's operating environment linked to the pandemic or a further erosion of SG's competitive position in some key franchises.

A fall in the strength of SG's funding and liquidity profile could result in the Short-Term IDR being downgraded to 'F2', all else remaining equal.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The most likely trigger for an upgrade would be stronger capital ratios and lower impaired loans. A lower contribution of capital market revenue and funding needs would also be positive for the ratings.

An upward revision of the Support Rating Floor is unlikely given current EU legislation and regulation on recovery and resolution.

DCR, DEPOSIT RATINGS AND SENIOR DEBT

SG's DCR, senior debt and deposit ratings are primarily sensitive to changes in SG's IDRs. We would downgrade the DCR, long-term senior preferred and non-preferred debt and deposit ratings by a notch shall the size of the combined buffer of subordinated and senior non-preferred debt sustainably fall below 10% of RWAs provided that we also expect the group to rely on senior preferred debt to comply with its total MREL over the medium-term, which is currently not the case.

SUBSIDIARY

CGLE's ratings are sensitive to changes in SG's IDRs and changes in the subsidiary's importance to

the group or integration within SG.

GUARANTEED DEBT

The ratings of the debt issued by Societe Generale Acceptance N.V. guaranteed by SG are primarily sensitive to SG's Long-Term IDR.

SUBORDINATED DEBT AND JUNIOR SUBORDINATED DEBT

Subordinated debt and deeply subordinated debt are primarily sensitive to a change in SG's VR. In addition, deeply subordinated AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

The ratings of CGLE and of the long-term debt issued by Societe Generale Acceptance N.V. that is guaranteed by SG are all driven by the ratings of SG.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG

Relevance Scores, visit www.fitchratings.com/esg.

Societe Generale Acceptance N.V.

----Senior preferred; Long Term Rating; Downgrade; A; RW: Off

Societe Generale S.A.; Long Term Issuer Default Rating; Downgrade; A-; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

; Viability Rating; Downgrade; a-; RW: Off

; Support Rating; Affirmed; 5

; Support Rating Floor; Affirmed; NF

; Derivative Counterparty Rating; Downgrade; A(dcr); RW: Off

----subordinated; Long Term Rating

-----EUR 259.5 mln Floating Rate Subordinated Notes 12 Jun 2023 XS0365796092; Long Term Rating; Downgrade; BBB; RW: Off

-----EUR 400 mln Floating Rate Subordinated Notes 15 Apr 2023 XS0355115394; Long Term Rating; Downgrade; BBB; RW: Off

-----EUR 495.1 mln 6.363% Subordinated Notes 6 Apr 2023 XS0355119115; Long Term Rating; Downgrade; BBB; RW: Off

-----EUR 1 bln 4% Subordinated LT2 Notes 7 Jun 2023 XS0867612466; Long Term Rating; Downgrade; BBB; RW: Off

-----USD 1 bln 5% Subordinated Unrestricted Notes 17 Jan 2024 F8590LAA4; Long Term Rating; Downgrade; BBB; RW: Off

-----USD 1 bln 5% Subordinated Restricted Notes 17 Jan 2024 83367TBG3; Long Term Rating; Downgrade; BBB; RW: Off

-----EUR 1 bln Tier II Fixed to Reset Notes 16 Sep 2026 XS1110558407; Long Term Rating; Downgrade; BBB; RW: Off

-----EUR 1.25 bln 2.625% Subordinated Tier II Notes 27 Feb 2025 XS1195574881; Long Term Rating; Downgrade; BBB; RW: Off

-----EUR 150 mln Subordinated Tier II Notes 7 Apr 2026 XS1218773338; Long Term Rating; Downgrade; BBB; RW: Off

-----AUD 125 mln 5.5% Subordinated Tier 2 Notes 2 Jun 2027 XS1240208675; Long Term Rating; Downgrade; BBB; RW: Off

-----CNY 1.2 bln Callable Fixed to Fixed Resettable Subordinated Tier II Notes 3 Jun 2025 XS1240913068; Long Term Rating; Downgrade; BBB; RW: Off

-----USD 1.5 bln 4.25% Subordinated Tier II Notes 14 Apr 2025 F8586CH21; Long Term Rating; Downgrade; BBB; RW: Off

-----USD 1.5 bln 4.25% Subordinated Tier II Notes 14 Apr 2025 83367TBJ7; Long Term Rating;

Downgrade; BBB; RW: Off
-----AUD 50 mln 5.7% Subordinated Tier II Notes 10 Jun 2025 XS1244831829; Long Term Rating;
Downgrade; BBB; RW: Off
-----JPY 13.3 bln Subordinated Callable Bonds 12 Jun 2025 JP525016BF65; Long Term Rating;
Downgrade; BBB; RW: Off
-----JPY 27.8 bln 2.195% Subordinated Bonds 12 June 2025 JP525016AF66; Long Term Rating;
Downgrade; BBB; RW: Off
-----JPY 2.5 bln Subordinated Floating Rate Bonds 12 Jun 2025 JP525016CF64; Long Term Rating;
Downgrade; BBB; RW: Off
-----USD 50 mln 5.4% Subordinated Notes 23 Jul 2035 XS1265349909; Long Term Rating;
Downgrade; BBB; RW: Off
-----EUR 70 mln Variable Rate Lower Tier 2 Subordinated Notes 21 Oct 2026 XS1308623658; Long
Term Rating; Downgrade; BBB; RW: Off
-----USD 1 bln 4.75% Subordinated Notes 24 Nov 2025 83367TBR9; Long Term Rating; Downgrade;
BBB; RW: Off
-----USD 1 bln 4.75% Subordinated Notes 24 Nov 2025 USF8586CBS01; Long Term Rating;
Downgrade; BBB; RW: Off
-----USD 500 mln 5.625% Subordinated Notes 24 Nov 2045 USF8586CBU56; Long Term Rating;
Downgrade; BBB; RW: Off
-----USD 500 mln 5.625% Subordinated Notes 24 Nov 2045 83367TBT5; Long Term Rating;
Downgrade; BBB; RW: Off
-----SGD 425 mln 4.3% Subordinated Tier 2 Notes 19 May 2026 XS1413590610; Long Term Rating;
Downgrade; BBB; RW: Off
-----JPY 15 bln 1.834% Subordinated Tier II notes 03-Jun-2026 JP525016DG62; Long Term Rating;
Downgrade; BBB; RW: Off
-----JPY 27.7 bln Fixed-to-Floating Subordinated Tier II notes 03-Jun-2026 JP525016EG61; Long
Term Rating; Downgrade; BBB; RW: Off
-----USD 500 mln 5.1% Subordinated Notes 27-Jun-2036 XS1432505128; Long Term Rating;
Downgrade; BBB; RW: Off
-----AUD 325 mln 5% Tier 2 Subordinated Note 20-Jul-2028 XS1452343285; Long Term Rating;
Downgrade; BBB; RW: Off
-----USD 1 bln 4.25% bond/note 19-Aug-2026 83368JKF6; Long Term Rating; Downgrade; BBB; RW:
Off
-----USD 1 bln 4.25% bond/note 19-Aug-2026 F43628C65; Long Term Rating; Downgrade; BBB; RW:
Off
-----AUD 150 mln 4.875% bond/note 13-Oct-2026 XS1503159219; Long Term Rating; Downgrade;
BBB; RW: Off
-----JPY 10 bln 2.5% bond/note 16-Dec-2026 XS1530901658; Long Term Rating; Downgrade; BBB;

RW: Off

-----AUD 200 mln 5% bond/note 24-Jan-2029 XS1555090403; Long Term Rating; Downgrade; BBB;

RW: Off

-----AUD 650 mln 5% bond/note 19-May-2027 XS1615104244; Long Term Rating; Downgrade; BBB;

RW: Off

-----JPY 5 bln Variable bond/note 23-Jun-2027 XS1636119023; Long Term Rating; Downgrade; BBB;

RW: Off

-----JPY 5 bln bond/note 20-Jul-2027 XS1647693644; Long Term Rating; Downgrade; BBB; RW: Off

-----EUR 1 bln 1.375% Subordinated Notes 23-Feb-2028 FR0013320033; Long Term Rating;

Downgrade; BBB; RW: Off

-----JPY 6.5 bln Fixed to Floating Subordinated Notes 07-Mar-2028 XS1789500615; Long Term Rating; Downgrade; BBB; RW: Off

-----JPY 6.5 bln Fixed to Floating Subordinated Notes 13-Apr-2028 XS1806519697; Long Term Rating; Downgrade; BBB; RW: Off

-----JPY 6.5 bln Fixed to Floating Subordinated Notes 17-Apr-2028 XS1808495482; Long Term Rating; Downgrade; BBB; RW: Off

-----JPY 13.1 bln Fixed to Floating Subordinated Tier 2 Notes 24-Oct-2028 FR0013374147; Long Term Rating; Downgrade; BBB; RW: Off

-----AUD 300 mln Resettable Rate Subordinated Tier 2 Notes 18-Apr-2034 FR0013415106; Long Term Rating; Downgrade; BBB; RW: Off

-----JPY 20 bln 2.043% Subordinated Tier 2 Notes 30-Sep-2025 JP525016AFM0; Long Term Rating; Downgrade; BBB; RW: Off

---long-term deposits; Long Term Rating; Downgrade; A; RW: Off

---junior subordinated; Long Term Rating; Downgrade; BB+; RW: Off

---Senior preferred; Long Term Rating; Downgrade; A; RW: Off

---Senior non-preferred; Long Term Rating; Downgrade; A-; RW: Off

---Senior preferred; Short Term Rating; Affirmed; F1

---short-term deposits; Short Term Rating; Affirmed; F1

Compagnie Generale de Location d'Equipements S.A.; Long Term Issuer Default Rating; Downgrade; A-; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

; Support Rating; Affirmed; 1

---Senior preferred; Short Term Rating; Affirmed; F1

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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