Creditreform Bank Rating

Société Générale SA (Group) as parent of Crédit du Nord SA

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Rating object	Rating information		
Société Générale SA (Group) as parent of Crédit du Nord SA	**Long Term Issuer Rating / Outlook:** **BBB+ / stable**		**Short Term:** **L2**
Creditreform ID: 400987944 Incorporation: 1864 (Main-) Industry: Banks Management: Lorenzo Bini Smaghi (Chairman of the Board), Frédéric Oudéa (CEO), Philippe Heim (CFO)	**Rating of Bank Capital and Unsecured Debt Instruments:**		
	Senior Unsecured **BBB+**	Tier 2 **BB**	Additional Tier 1 **BB-**
	Rating Date: **31 August 2018** Monitoring until: withdrawal of the rating Rating Type: **unsolicited** Rating Methodology: bank ratings; rating of bank capital and unsecured debt instruments		

Our rating of Crédit du Nord SA is reflected by our rating opinion of Société Générale SA (Group) due to its group structure. Therefore we refer to our rating report of Société Générale SA (Group) from 23 May 2018:

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SWOT-Analysis

Strengths

+ One of the largest European banking groups
+ Global systemically important bank (G-SIB)
+ Stable and diversified business model
+ Good asset quality
+ Low cost of risk

Weaknesses

- Low interest environment cuts into net interest margin
- Profitability sub-par; trend negative
- Below average capitalization, increasing capital requirements may necessitate action

Opportunities / Threats

+/- Comprehensive ‘2020 Strategic Plan’ with potential to turn group around
+/- High reliance on French home market
+/- Digital transformation in full swing

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Company Overview

Société Générale SA (in the following Société Générale or SG) was founded in 1864 and thus belongs to one of the three oldest commercial banks in France. It is one of the largest European financial services groups and operates a diversified, universal banking model. SG employs more than 145,000 people in 66 countries and serves 31 million clients.

SG operates three core businesses. Retail banking in France contains the Société Générale branch network, Credit du Nord (a regional network of banks), and Boursorama (a leading online bank). These three networks serve 12 million customers in France.

International retail banking, insurance and financial services to corporates is another core business. International retail banking offers business in 65 countries, serving 18 million individual clients and 13 million insurance clients. Financial services offer insurance, vehicle leasing and fleet management as well as vendor and equipment finance.

The corporate and investment banking, private banking, asset management and securities services branch is another core business, running under the name Global Banking and Investor Solutions.

The operating income by business line as well as geography for 2017 is outlined by Charts 1 and 2 below:

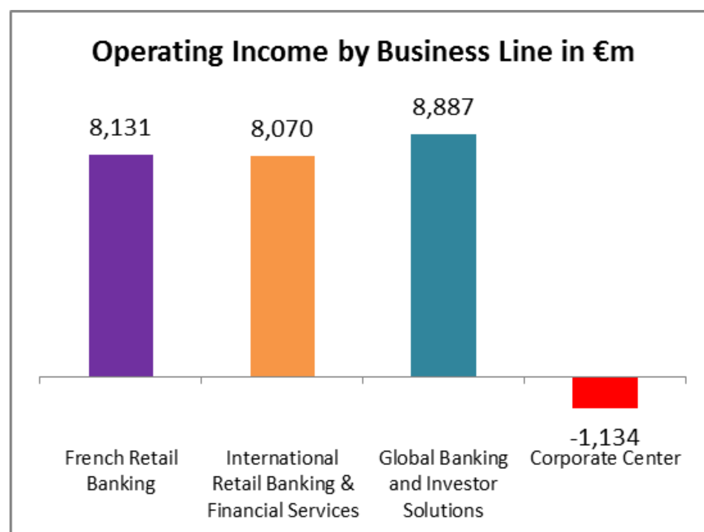

Chart 1: Operating Income by Business Line
(Source: Financial Statements and Notes 2017 of SG)

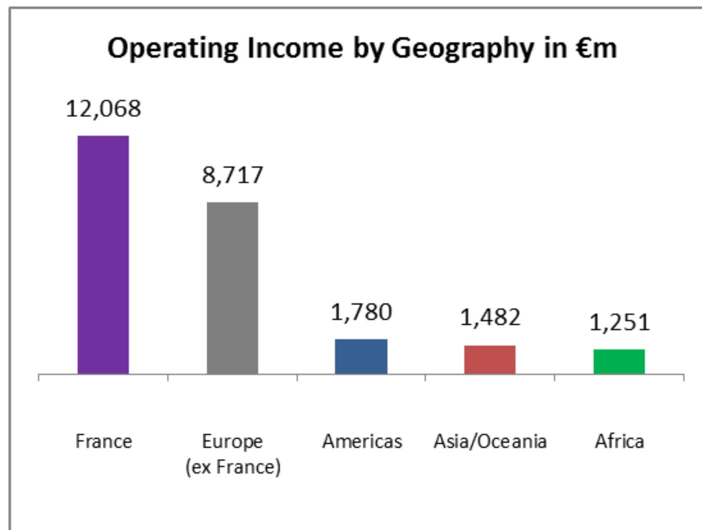

Chart 2: Operating Income by Geography
(Source: Financial Statements and Notes 2017 of SG)

In November 2017, the group announced the “2020 Strategic and Financial Plan”. The main emphasis rests on five strategic and operational priorities, namely to maintain healthy growth, to accelerate ongoing transformation processes, especially in the digital realm, to maintain cost discipline as well as fostering a culture of responsibility throughout the company. A major pillar of this plan is the acceleration of the adaptation of the French Retail Banking network, which itself was announced previously in 2016. The initiative puts special emphasis on digitalization and transformation of the French retail network, which includes the rationalization of the branch network, meaning fewer branches and employees, fewer back office centers as well as further automation of processes.

The breakdown of capital as of 31 December 2017 is as follows:

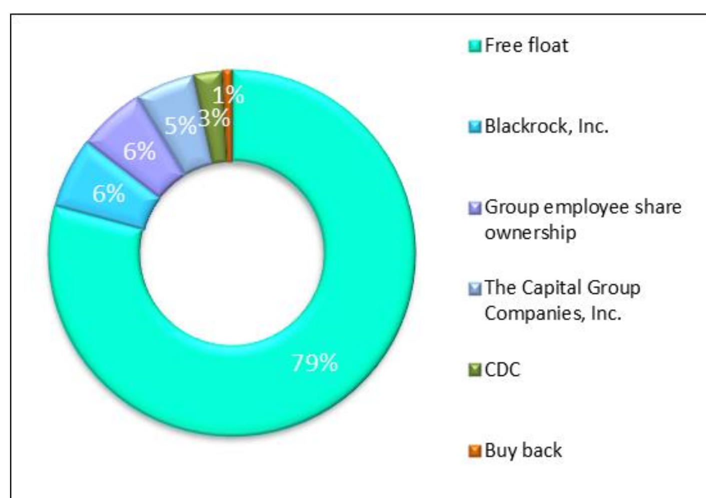

Chart 2: Major shareholders of Société Générale as of 31 December 2017
(Source: Website of Société Générale)

Business Development

Profitability

Operating Income of the consolidated group added up to €25.2bn last year and remained largely unchanged compared to the previous fiscal year.

Of the operating income, net interest income contributed the largest share with 41%, and considerably increased by 10% YOY (+€0.95bn). While both interest income and expense fell in a low interest environment, interest expense fell almost €2bn while interest income declined by about €1bn. The biggest net increase was reported in transactions involving hedging derivates with almost €1.2bn.

Fees and commissions were responsible for 27% of the operating income, and advanced 2% YOY (+€0.12bn). Both fee income as well as expense increased YOY. Fee expense rose relatively more, but less in absolute terms. Transactions with customers were responsible for the biggest fee increase with €0.3bn, while the largest increase in fee expense came from other fees with almost €0.13bn.

Of the three main drivers of operating income, Net trading income contributed the smallest share with 22%, and significantly decreased by 13% YOY (-€0.80bn). Responsible for this decrease was both the net gains and losses on financial instruments at fair value as well as net gains and losses on available-for-sale financial assets, which both decreased YOY respectively by €0.65bn and €0.67bn.

The position of other noninterest income was negative in the fiscal year 2017. This differs from the posted positive noninterest income (+€0.89bn) of the consolidated group due to a different income statement structure assumed by Creditreform Rating AG for comparison reasons. Separated are (but not limited to) the insurance activities, leasing activities and a nonrecurring expense involving the settlement with the Libyan Investment Authority (LIA).

Operational expense was €17.7bn for the consolidated group last year, and increased by 2% YOY (+€0.33bn).

Personnel expense accounted for over 55% of total expense last year, and increased markedly by 3% YOY (+€0.29bn). Responsible for the increase was mainly higher employee compensation, along increases in social security charges and payroll taxes.

Other expenses accounted for 23.9% of total expenses last year, and significantly decreased by 6% YOY (-€0.29bn). This position again is subject to a different income statement structure assumed by this rating agency. Separated items include, but are not limited to, the €0.39bn expense associated with the acceleration in the adaption of French Retail Banking networks as well as leasing and insurance expense.

As a result, the pre-impairment operating profit stood at €7.6bn, 5% lower than a year prior. In turn, asset write-downs were 50% less over the previous year, and the lowest in the observed period, mostly due to decreased “cost of risk” and fewer impairment losses on equity instruments.

The group reported non-recurring revenue of €276m and non-recurring expense of €1.65bn. Responsible for €203m of the non-recurring revenue was the acquisition of the remaining 50% share of Antarius (life insurance company) by the group, which resulted in a positive fair value adjustment of the share held by Credit du Nord, a subsidiary of the group, before the acquisition. The sale of a 49% stake of SG Fortune (asset manager) accounted for €73m in additional revenue. Responsible for the non-recurring expense

was, amongst others, the LIA settlement (-€963m) and the acceleration in the adaption of French Retail Banking network (-€390m).
The reported Pre-tax Profit of €5.14bn hence was 18.5% lower than last year. The net profit was €3.4bn last year, markedly lower by 21% YOY (-€0.91bn) compared to the previous fiscal year.

A detailed group income statement for the years of 2014 through 2017 can be found in Figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	9,999,000	42.0%	9,306,000	35.7%	9,467,000	37.4%	10,416,000	41.3%
Net Fee & Commission Income	6,475,000	27.2%	6,678,000	25.7%	6,699,000	26.5%	6,823,000	27.1%
Net Insurance Income	428,000	1.8%	212,000	0.8%	294,000	1.2%	294,000	1.2%
Net Trading Income	4,820,000	20.3%	7,310,000	28.1%	6,243,000	24.7%	5,441,000	21.6%
Equity Accounted Results	213,000	0.9%	231,000	0.9%	129,000	0.5%	92,000	0.4%
Dividends from Equity Instruments	432,000	1.8%	722,000	2.8%	460,000	1.8%	503,000	2.0%
Rental Revenue	75,000	0.3%	-19,000	-0.1%	24,000	0.1%	-1,000	0.0%
Lease and Rental Revenue	2,263,000	9.5%	2,366,000	9.1%	2,539,000	10.0%	2,711,000	10.8%
Other Noninterest Income	-924,000	-3.9%	-774,000	-3.0%	-559,000	-2.2%	-1,062,000	-4.2%
Operating Income	**23,781,000**	**100%**	**26,032,000**	**100%**	**25,296,000**	**100%**	**25,217,000**	**100%**
Expenses (€000)								
Depreciation and Amortisation	856,000	5.2%	879,000	5.0%	901,000	5.2%	1,000,000	5.7%
Personnel Expense	9,049,000	55.3%	9,476,000	54.0%	9,455,000	54.6%	9,749,000	55.2%
Occupancy & Equipment	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Tech & Communications Expense	NA	0.0%	2,069,000	11.8%	2,126,000	12.3%	2,265,000	12.8%
Marketing and Promotion Expense	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Provisions	372,000	2.3%	704,000	4.0%	327,000	1.9%	415,000	2.4%
Other Expense	6,081,000	37.2%	4,408,000	25.1%	4,515,000	26.1%	4,223,000	23.9%
Operating Expense	**16,358,000**	**100%**	**17,536,000**	**100%**	**17,324,000**	**100%**	**17,652,000**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**7,423,000**		**8,496,000**		**7,972,000**		**7,565,000**	
Asset Writedowns	3,204,000		2,548,000		2,087,000		1,057,000	
Net Income (€000)								
Nonrecurring Revenue	335,000		161,000		943,000		276,000	
Nonrecurring Expense	200,000		0		521,000		1,646,000	
Pre-tax Profit	**4,354,000**		**6,109,000**		**6,307,000**		**5,138,000**	
Income Tax Expense	1,376,000	31.6%	1,714,000	28.1%	1,969,000	31.2%	1,708,000	33.2%
Discontinued Operations	0		0		0		0	
Net Profit	**2,978,000**		**4,395,000**		**4,338,000**		**3,430,000**	

Figure 1: Group income statement
(Source: S&P Global Market Intelligence)

The decrease in net profit resulted in lower income ratios across the board for the consolidated group.
The return on average assets (ROAA), the return on average assets (ROAE) as well the return on risk-weighted assets (RORWA) were all lower than previous year's figures.
At the same time, the peer group of Société Générale increased their respective income ratios, resulting in a relative decline of SG's profitability compared to its peers.
The net interest margin increased by 10bp over the previous year, while still falling short of the average margin of the peer group.
Due to the increase in running costs, the cost income ratio (CIR) was 1.51 percentage points higher than in the previous year at 70%. At the same time, competitors were able to decrease their CIR. The ratios for the peer group as well as SG were still comparable, however.

A detailed overview of the income ratios for the years of 2014 through 2017 can be found in Figure 2 below:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.23	0.04	0.32	0.09	0.31	-0.01	0.25	-0.06
Return on Equity (ROAE)	5.31	0.88	7.24	1.93	6.84	-0.39	5.27	-1.57
RoRWA	NA	NA	1.22	NA	1.23	0.01	0.97	-0.25
Net Interest Margin	0.84	-0.03	0.74	-0.10	0.74	0.00	0.84	0.10
Cost income Ratio ex. Trading	86.27	-1.36	93.67	7.39	90.93	-2.74	89.26	-1.67
Cost income Ratio	68.79	-3.05	67.36	-1.42	68.49	1.12	70.00	1.52
Change in % Points								

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence)

Asset Situation and Asset Quality

In terms of total assets, financial assets made up 92%, and decreased markedly by 5% YOY (-€66.9bn).
Net loans to customers contributed 35%, and remained largely unchanged over the previous year.
Total securities provided the largest fraction with 44%, but the total volume decreased sharply by 13% YOY (-€86.0bn). This change was predominantly due to reductions in the trading portfolio.
Of the three main constituents of the asset side, cash positions made up the least with 9%, and considerably increased 19% YOY (+€18.2bn).
In sum, total assets added up to €1.28tn, and considerably decreased by 6% YOY (-€79bn), mostly due to the lower volume of total securities.

A detailed look at the development of the asset side of the balance sheet for the years of 2014 through 2017 can be taken in Figure 3 below:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	57,065,000	4.4%	78,565,000	5.9%	96,186,000	7.1%	114,404,000	9.0%
Net Loans to Banks	80,709,000	6.2%	71,682,000	5.4%	59,502,000	4.4%	60,866,000	4.8%
Net Loans to Customers	370,367,000	28.3%	422,278,000	31.6%	446,105,000	32.9%	445,650,000	34.9%
Total Securities	701,434,000	53.6%	660,066,000	49.5%	643,105,000	47.5%	557,126,000	43.7%
Financial Assets	**1,209,575,000**	**92%**	**1,232,591,000**	**92%**	**1,244,898,000**	**92%**	**1,178,046,000**	**92%**
Equity Accounted Investments	2,796,000	0.2%	1,352,000	0.1%	1,096,000	0.1%	700,000	0.1%
Other Investments	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance Assets	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Noncurrent Assets HFS & Discontinued Ops	866,000	0.1%	171,000	0.0%	4,252,000	0.3%	13,000	0.0%
Tangible and Intangible Assets	22,248,000	1.7%	23,779,000	1.8%	26,318,000	1.9%	29,806,000	2.3%
Tax Assets	7,415,000	0.6%	7,367,000	0.6%	6,421,000	0.5%	6,001,000	0.5%
Total Other Assets	65,238,000	5.0%	69,131,000	5.2%	71,437,000	5.3%	60,562,000	4.7%
Total Assets	**1,308,138,000**	**100%**	**1,334,391,000**	**100%**	**1,354,422,000**	**100%**	**1,275,128,000**	**100%**

Figure 3: Development of assets
(Source: S&P Global Market Intelligence)

As the economy of the Eurozone kept improving throughout 2017, so did the asset quality of the consolidated group.
The NPL/total loans ratio of SG decreased considerably by over half a percentage point, as did the NPL/RWA ratio. The NPL ratios of the peer group did decline less than the consolidated group's, albeit starting from a lower ratio.
In terms of non-performing loans, potential problem poans stood at 6.9%, well below that of the peer group.
The loan loss reserves on impaired loans stood at a good 61%, in tune with the average of the peer group.
The RWA ratio was very low at 27.7% of total assets, well below that of the peer group.

A detailed overview of the asset quality for the years of 2014 through 2017 can be found in Figure 4 below:

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non Performing Loans (NPL) / Loans	7.74	-0.14	6.43	-1.31	5.89	-0.54	5.21	-0.68
NPL / RWA	8.10	NA	7.31	-0.80	7.07	-0.24	6.28	-0.79
Potential Problem Loans / NPL	10.35	7.41	6.34	-4.02	5.93	-0.41	6.90	0.97
Reserved / Impaired Loans	62.34	1.69	62.95	0.61	62.67	-0.28	60.68	-1.99
Net Write-offs / Risk-adjusted Assets	NA	NA	NA	NA	NA	NA	NA	NA
Risk-weighted Assets/ Assets	27.03	NA	26.73	-0.30	26.25	-0.49	27.71	1.46
Change in % Points								

Figure 4: Development of asset quality
(Source: S&P Global Market Intelligence)

Refinancing and Capital Quality

Financial liabilities accounted for 83% of total liabilities, and significantly decreased by 7% YOY (-€80.1bn).
Customer deposits represented 34% of total liabilities, and fell by 2% YOY (-€10.4bn). Total debt represented 28% of total liabilities, and decreased markedly by 9% YOY (-€32.7bn). This change stems mostly from fewer securities sold under repurchase agreements in 2017 as well as less amounts payable on borrowed securities.
Total equity contributed for 5% of liabilities and equity, and declined by 3% YOY (-€1.7bn). The decline was predominantly influenced by the 2017 dividend, redemption of equity instruments as well as unrealized losses.

Due to Société Générale's bank capital and debt structure as well as its status as a G-SIB and a buffer of €6.6bn of non-preferred senior unsecured debt, the group's preferred senior unsecured debt instruments have not been notched down in comparison to the long term issuer rating. However, Société Générale's Tier 2 capital rating is four notches below the long term issuer rating based on SG's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long term issuer rating, reflecting a high bail-in risk in case of resolution.

A detailed overview of the development of liabilities for the years of 2014 through 2017 can be found in Figure 5 below:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	95,897,000	7.7%	102,403,000	8.1%	87,822,000	6.8%	94,225,000	7.8%
Total Deposits from Customers	349,735,000	28.0%	379,631,000	29.9%	421,002,000	32.7%	410,633,000	33.9%
Total Debt	234,647,000	18.8%	367,469,000	28.9%	368,532,000	28.6%	335,832,000	27.7%
Derivative Liabilities	236,300,000	18.9%	207,816,000	16.3%	191,192,000	14.8%	155,294,000	12.8%
Securities Sold, not yet Purchased	4,729,000	0.4%	15,549,000	1.2%	13,550,000	1.1%	6,418,000	0.5%
Other Financial Liabilities	143,214,000	11.5%	1,193,000	0.1%	1,205,000	0.1%	813,000	0.1%
Total Financial Liabilities	**1,064,522,000**	**85%**	**1,074,061,000**	**84%**	**1,083,303,000**	**84%**	**1,003,215,000**	**83%**
Insurance Liabilities	85,211,000	6.8%	87,214,000	6.9%	90,328,000	7.0%	101,315,000	8.4%
Non-Current Liab. HFS & Discontinued Ops	505,000	0.0%	526,000	0.0%	3,612,000	0.3%	0	0.0%
Unit-Linked Insurance and Investment Contr.	18,087,000	1.4%	20,043,000	1.6%	22,449,000	1.7%	29,643,000	2.4%
Tax Liabilities	1,416,000	0.1%	1,571,000	0.1%	1,444,000	0.1%	1,662,000	0.1%
Noncurrent Asset Retirement Obligations	1,811,000	0.1%	1,784,000	0.1%	1,850,000	0.1%	2,100,000	0.2%
Other Provisions	2,681,000	0.2%	3,434,000	0.3%	3,837,000	0.3%	4,017,000	0.3%
Total Other Liabilities	75,031,000	6.0%	83,083,000	6.5%	81,893,000	6.4%	69,139,000	5.7%
Total Liabilities	**1,249,264,000**	**95.5%**	**1,271,716,000**	**95.3%**	**1,288,716,000**	**95.1%**	**1,211,091,000**	**95.0%**
Total Equity	**58,874,000**	**4.5%**	**62,675,000**	**4.7%**	**65,706,000**	**4.9%**	**64,037,000**	**5.0%**
Total Passiva	**1,308,138,000**	**100%**	**1,334,391,000**	**100%**	**1,354,422,000**	**100%**	**1,275,128,000**	**100%**
Deposits from Customers Growth*	4.66	NA	8.55	3.89	10.90	2.35	-2.46	-13.36
Change in % Points								

Figure 5: Development of refinancing and capital adequacy
(Source: S&P Global Market Intelligence)

As the consolidated capital of the group declined, so did the regulatory capital ratios of the consolidated group. The smaller relative decline of risk-weighted assets (RWA) did only soften the impact.

The CET1 ratio declined about 20bp to 11.6% of RWA. The peer group posted ratios that were far in excess of that, which in addition increased 60bp on average compared to the previous year. The group's ratio was still satisfactory; however, given that regulatory requirement for 2017 set by the ECB via the SREP was 7.75% of CET1, down 200bp from the previous year, which left ample room to maneuver. The CET1-ratio set by the ECB via SREP for 2018 is 8.7%, over 90bp more than for 2017. This ratio, all else being equal, will reach 9.6% in 2019.
The group posted a Tier 1 ratio of 14%, down from 14.8% in the previous year. Competitor banks posted ratios in excess of those posted by Société Générale. The peer group's Tier 1 ratio increased over the previous year.
The Total Capital ratio also declined YOY by 97bp, while the peer group posted increases on average in excess of 30bp.
Overall, while regulatory capital ratios are by and large satisfactory, they significantly lag behind those of the group's competitors.
The posted Basel III leverage ratio of 4.3% was satisfactory. On average, the peer group posted ratios in excess of 5%.

A detailed overview of the development of capital ratios for the years of 2014 through 2017 can be found in Figure 6 below:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	53,169,000	NA	59,919,000	12.70	64,601,000	7.81	60,614,000	-6.17
Total Risk-weighted Assets	353,600,000	NA	356,725,340	0.88	355,478,000	-0.35	353,306,000	-0.61
Capital Ratios (%)								
Core Tier 1 Ratio	10.91	NA	11.42	0.50	11.80	0.39	11.57	-0.24
Tier 1 Ratio	13.40	NA	14.00	0.60	14.80	0.80	14.01	-0.78
Total Capital Ratio	15.04	NA	16.80	1.76	18.17	1.38	17.16	-1.02
Leverage Ratio	3.80	0.30	3.77	-0.03	4.20	0.43	4.30	0.10
Fully Loaded: Common Equity Tier 1 Ratio	10.13	NA	10.89	0.76	11.52	0.62	11.39	-0.13
Fully Loaded: Tier 1 Ratio	12.64	NA	13.49	0.85	14.50	1.01	13.84	-0.66
Fully Loaded: Risk-weighted Capital Ratio	14.30	NA	16.30	1.99	17.88	1.58	16.99	-0.89
Total Equity/ Total Assets	4.50	0.06	4.70	0.20	4.85	0.15	5.02	0.17
Change in %Points								

Figure 6: Development of capital ratios
(Source: S&P Global Market Intelligence)

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Liquidity

The liquidity coverage ratio (LCR) decreased by 26 percentage points compared to the previous year, remained well above the 80% threshold for the year 2017, however.

The interbank ratio was 64.6%, compared to 67.8% with the previous year, due to increased deposits from banks.

The loan to deposit ratio (LTD) stood at 103.4%, in line with the peer group's average.

As such, the overall liquidity situation was satisfactory.

A detailed overview of the development of liquidity for the years of 2014 through 2017 can be found in Figure 7 below.

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	118.00	NA	124.00	6.00	142.00	18.00	116.00	-26.00
Interbank Ratio	84.16	0.69	70.00	-14.16	67.75	-2.25	64.60	-3.16
Loan to Deposit (LTD)	105.90	-1.95	106.75	0.85	101.31	-5.44	103.55	2.25
Change in % Points								

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence)

Conclusion

The Société Générale Group has faced a year of transition in 2017. While the overall business model is stable and costs of risk keep declining, operating income is stagnant overall, while expenses keep climbing steadily. The low interest environment remains challenging for the group and its competitors, and the regulatory burden keeps on increasing. Société Générale intends to transform the group in order to tackle these challenges with its “2020 Strategic and Financial Plan” with the goal of delivering profitable and sustainable growth. The goals of this 2020 plan are to grow via ambitious initiatives, while maintaining a low risk profile. Furthermore, the group intends to further transform all of its business and services, especially in the digital realm. At the same time, cost discipline measures are aimed at reducing the CIR by one percentage point per year as well as through sale or closure of “sub-scale” and “non-synergetic” businesses.

Compared to the previous year, profitability of the Société Générale declined. Stagnant Operating Income on the one side faced rising operating expense on the other. As SG profited from far lower costs of risk than previously, it did suffer from settlements as well as increased costs in the adaptation of the French retail network. With net profit ultimately being about €1bn lower than in the previous year, income ratios suffered as a consequence.
The balance sheet shrank for the first time since 2013, as loan book growth fell flat and the trading portfolio was reduced. Despite the still-healthy Net Profit, Total Equity declined through a mix of high dividend payments, redemption of equity instruments as well as unrealized losses.
As a result, regulatory capital ratios declined in the reporting year, while many competitor banks posted a general increase in capital ratios. However, the posted capital ratios were still in excess of regulatory requirements set by the ECB through SREP, even though these are bound to increase in 2018 and 2019.
The liquidity situation in 2017 was satisfactory.

While the asset quality and liquidity remained relatively stable in comparison with the peer group, profitability, as well as capital ratios, declined relatively in direct comparison. In the light of continuously low interest rates, a rapid change of the retail banking environment as well as an ever increasing regulatory burden, Société Générale does well to tackle these imminent, emerging issues. In our view, the group must foremost engage in strengthening its capital base while the global economic environment still allows for it, in addition to maintaining strict cost discipline to counter higher costs of risk when the economic cycle nears its eventual end. It seems clear that group has recognized these issues, and engages them with a comprehensive 2020 plan. The plan, when implemented fully, should mitigate downside risks in the medium term future and should lay in a course towards sustainable growth.

In a scenario analysis, the rating would receive a significant upgrade in the “best case” scenario and slight downgrade in the "worst case" scenario.

The ratings of bank capital and (preferred) senior unsecured debt would behave similarly due to our rating mechanics. These ratings are especially sensitive to changes in total equity and to SG capital and debt structure in general.

Ratings Detail

Bank ratings

SG ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **BBB+ / L2 / Stable**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of SG.

Tier 1 (AT1): **BB-**
Tier 2 (T2): **BB**
Senior unsecured debt: **BBB+**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	31.08.2018	31.08.2018	BBB+ / BB / BB-

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	31.08.2018	31.08.2018	BBB+ / L2 / Stable

Figure 8: Ratings Detail and History

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of SG, and calculated key figures by S&P Global Market Intelligence subject to a peer group analysis were 23 competing institutes.

The information and documents processed satisfied the requirements according to the rating system of Creditreform Rating AG published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform's basic document "Rating Criteria and Definitions".

On 31 August 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Société Générale SA and the preliminary rating report was made available to it.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration, Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The ‘Basic Data’ information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the ‘Basic Data’ card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within ‘Basic Data’ information card.

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