

Equities

29 February 2012 | 18 pages

Societe Generale (SOGN.PA)

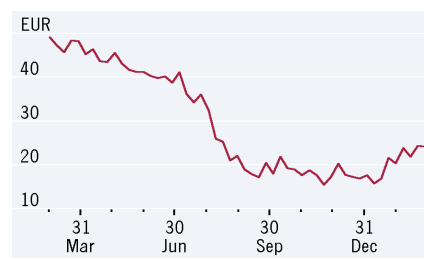
Delivering Deleveraging

- Company Update
- Estimate Change

- **Deleveraging Progressing Well, at a Reasonable Price** — SocGen has completed its \$50bn liquidity deleveraging target and close to half of its €30-40bn CIB RWA deleveraging target (Figure 1). It is becoming more evident that most of this deleveraging will occur in capital consuming, low return legacy assets. This should be done at manageable cost (c1-2% haircuts) while preserving the Financing franchise.
- **CET1 Ratio at 9% by end-2013** — We believe SocGen can reach a CET1 ratio of 9% under B3 by end-2013. For this, we estimate the bank needs to achieve an extra 40bp of mitigation, e.g. through further disposals of legacy assets (Figure 4).
- **Custodian Provides Extra Ammo** — SocGen's target €30-40bn of RWA reduction through disposals remains challenging in SFS. However, we see close to €4bn value in its custodian, the 7th largest in the world, which could offer significant cost (and revenue) synergistic opportunities for an industry consolidator (see *section III*).
- **2012, the Year of Adaptation** — 2012 earnings will suffer from the planned €500-700m of one-offs and €750m of recurring revenue loss (see *section I*). Furthermore, French Retail growth should be anaemic and International Retail will continue to be under pressure on provisions (Greece, possibly Romania) and costs (Russia). The details of deleveraging, however, show that most of the 'pain' will come from Legacy Assets, while accelerated disintermediation should boost SocGen's DCM franchise and allow for loan repricing. French Retail remains a cash cow (RoE > 20%) while synergies in Russia should kick in from late 2012.
- **Buy SocGen** — SocGen trades at 0.5x 2012E tangible book for 10% 2013E ROTE, ie in the cheapest quintile in our coverage universe on 2013E PE. In our view, this reflects (i) concerns on capital, (ii) execution risk & cost of the adaptation plan, (iii) political risk. Deleveraging progress should alleviate the first two concerns, with room for maneuver (e.g. Custodian & legacy assets). Furthermore, as argued in *Vickers or Volcker?* (6 February) French regulatory change will likely more resemble US than UK reforms. We reduce 2012-13E reflecting Q4 trends and add 2014E forecasts. Buy, Target Price €32.

Buy	1
Price (29 Feb 12)	€24.69
Target price	€32.00
Expected share price return	29.6%
Expected dividend yield	0.0%
Expected total return	29.6%
Market Cap	€19,161M
	US\$25,809M

Price Performance (RIC: SOGN.PA, BB: GLE FP)



Societe Generale (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Net Income (€M)	3,580.0	2,052.0	2,064.7	3,485.7	3,828.8
Diluted EPS (€)	4.94	2.72	2.63	4.38	4.77
Diluted EPS (Old) (€)	4.94	3.16	3.17	4.61	na
PE (x)	5.0	9.1	9.4	5.6	5.2
P/BV (x)	0.5	0.5	0.4	0.4	0.4
DPS (€)	1.75	0.00	0.50	1.00	1.50
Net Div Yield (%)	7.1	0.0	2.0	4.1	6.1
ROE (%)	9.6	5.1	4.9	7.8	7.6

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	5.0	9.1	9.4	5.6	5.2
P/E reported (x)	5.0	9.1	9.4	5.6	5.2
P/BV (x)	0.5	0.5	0.4	0.4	0.4
P/Adjusted BV diluted (x)	0.5	0.5	0.5	0.4	0.4
Dividend yield (%)	7.1	0.0	2.0	4.1	6.1
Per Share Data (€)					
EPS adjusted	4.94	2.72	2.63	4.38	4.77
EPS reported	4.94	2.72	2.63	4.38	4.77
BVPS	53.95	52.44	54.88	58.49	63.47
Tangible BVPS	41.60	41.29	43.86	47.66	52.64
Adjusted BVPS diluted	53.69	52.21	54.64	58.24	63.20
DPS	1.75	0.00	0.50	1.00	1.50
Profit & Loss (€m)					
Net interest income	11,970	12,207	11,597	11,365	11,137
Fees and commissions	7,485	7,179	6,820	6,684	6,550
Other operating Income	6,963	6,251	5,590	7,714	9,006
Total operating income	26,418	25,637	24,007	25,762	26,694
Total operating expenses	-16,545	-17,036	-16,472	-16,649	-17,204
Oper. profit bef. provisions	9,873	8,601	7,535	9,113	9,490
Bad debt provisions	-4,160	-4,330	-3,629	-2,981	-2,916
Non-operating/exceptionals	131	-157	134	137	148
Pre-tax profit	5,844	4,114	4,040	6,268	6,722
Tax	-1,542	-1,323	-1,230	-1,882	-1,936
Extraord./Min. Int./Pref. Div.	-722	-739	-745	-900	-958
Attributable profit	3,580	2,052	2,065	3,486	3,829
Adjusted earnings	3,580	2,052	2,065	3,486	3,829
Growth Rates (%)					
EPS adjusted	378.0	-44.9	-3.2	66.4	8.9
Oper. profit bef. prov.	65.3	-12.9	-12.4	20.9	4.1
Balance Sheet (€m)					
Total assets	1,132,072	1,181,372	1,157,745	1,192,477	1,228,251
Avg interest earning assets	1,075,468	1,122,303	1,099,857	1,132,853	1,166,839
Customer loans	426,000	434,000	431,732	440,366	453,577
Gross NPLs	23,100	24,100	24,100	24,100	24,100
Liab. & shar. funds	1,132,072	1,181,372	1,157,745	1,192,477	1,228,251
Total customer deposits	337,447	340,172	353,779	367,930	382,647
Reserve for loan losses	13,700	14,800	16,614	18,105	19,563
Shareholders' equity	39,118	40,700	43,101	46,726	50,702
Profitability/Solvency Ratios (%)					
ROE adjusted	9.6	5.1	4.9	7.8	7.6
Net interest margin	1.11	1.09	1.05	1.00	0.95
Cost/income ratio	62.6	66.5	68.6	64.6	64.4
Cash cost/average assets	1.5	1.5	1.4	1.4	1.4
NPLs/customer loans	5.4	5.6	5.6	5.5	5.3
Reserve for loan losses/NPLs	59.3	61.4	68.9	75.1	81.2
Bad debt prov./avg. cust. loans	1.0	1.0	0.8	0.7	0.7
Loans/deposit ratio	126.2	127.6	122.0	119.7	118.5
Tier 1 capital ratio	10.6	10.7	11.6	10.7	11.1
Total capital ratio	13.5	13.5	14.4	13.2	13.5

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Delivering Deleveraging

I. Deleveraging Well on Track

CIB RWA reduction half completed, USD liquidity reduction completed

Deleveraging primarily focused on Legacy Assets – Core CIB should suffer manageable downsizing

SocGen has already achieved its liquidity reduction target of \$50bn and a significant proportion (c40-50%) of its CIB RWA reduction target of €30-40bn (Figure 1).

Furthermore, we believe the CIB deleveraging primarily targets low yield legacy assets – with the 'core' CIB franchise only suffering divestments in selected products (shipping, real estate, etc.) Indeed, €13bn of the €19bn assets sold in 2H11 were legacy assets (Figure 2), and further deleveraging focus primarily on these non-core assets, in our view.

Figure 1. SocGen Deleveraging Plan Update

	2013 Target	2H11 Progress	% Achieved
RWA Reduction	€60-80bn		
- CIB (incl. Legacy assets)	€30-40bn	Estimated at c€18bn - c€4bn in Financing (€6bn loans sold) - c€14bn in Legacy Assets (from the €1.1bn reduction in B3 allocated capital)	c40-50%
- Disposals (GIMS & SFS)	€30-40bn	Na	
Liquidity Reduction	€75-95bn		
- USD deleveraging	\$50bn	\$55bn	110%
- Disposals (GIMS & SFS)	€25-35bn	Na	

Source: Company Reports and CIRA Estimates

Figure 2. SocGen - One-Off Impact of Deleveraging

	Loans Sold	(A) Revenue Loss on Loans Sales	Average Haircut on Loans Sold	(B) Restructuring Charge	(A+B) 2H11 One-offs Incurred	(C) 2012 Revenue Loss on Loans Sales	(D) 2012 Restructuring Charge	(C+D) 2012 One-offs Expected
CIB Deleveraging	€19bn	€279m	1.5%	€215m	€494m	€500-700m	€60m	€560-760m
- Financing	€6bn	€163m	3%		€494m	€500-700m	€60m	€560-760m
- Legacy Assets	€13bn	€116m	1%			-	-	
GIMS & SFS Disposals		-	-	-	na	-	-	Na
Total					€494m			€560-760m

Source: Company Reports and CIRA Estimates

Note: *€10.8bn legacy assets sold, €1.5bn legacy asset amortisation, €6bn loans sold

Figure 3. SocGen - Recurring Impact of Deleveraging

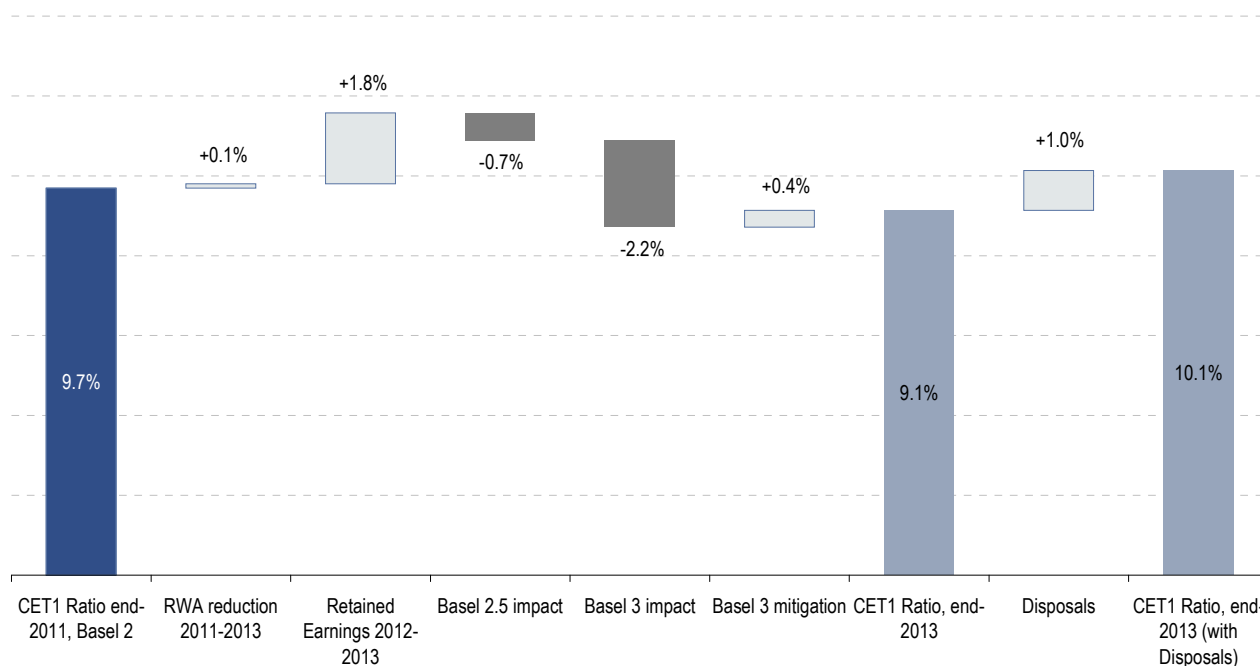
	RWA Deleveraging	(A) Revenue Loss	(B) Margin Increase	(C) Cost Mitigation	(A+B+C) Deleveraging Recurring GOP Impact
CIB Deleveraging	€30-40bn	-€0.75bn	€0bn	+€0.25bn	-€0.5bn
- Financing		-€0.75bn	€0bn	+€0.25bn	-€0.5bn
- Legacy Assets		na	na	na	
GIMS & SFS Disposals	€30-40bn	-	-	-	Na
Total	€70-80bn				Na

Source: Company Reports

II. Capital: 9% Target Achievable

We forecast a 9.1% CET1 under Basel 3 for SocGen at end-2013E. This excludes disposals – which, according to management, could deliver an extra 100bp.

Figure 4. SocGen CET1 Ratio, 2011-13



Source: Company Reports and CIRA Estimates

Note: Basel 2.5 & Basel 3 impact includes mitigation already secured (e.g. cracking CDOs); Additional mitigation estimated on the basis of the sale of 'money good' assets (€1bn book value) and one-third of 'money bad' assets (€1.5bn book value)

III. Disposals: Extra Ammo from the Custodian

High level valuations estimate €3-4.5bn value for SocGen's custodian

SocGen aims to reduce €30-40bn RWAs in non-core activities (equivalent to €4bn capital, primarily GIMS and SFS) through disposals. Whilst disposals in SFS remain difficult, we reiterate our view that a sale of its Custodian (SocGen Securities Services, SGSS) could achieve close to €4bn. With €3.4tr AuC, it is the 7th largest custodian globally (Figure 9), offering an attractive target for industry consolidators.

- **Based on comparable transactions** (Figure 5), we estimate a €4.5bn valuation, based on past transactions and assuming a 50% discount.
- **Based on earnings** (Figure 6), we believe that SocGen Securities Services should fetch at least €3bn, with the following assumptions on earnings uplift:
 - Align SGSS's Cost/Income ratio to the average of its peers (to c75% from historical c95%, Figure 8).
 - Increase revenue by 20-30% to reflect potential revenue uplift in a normalized environment with higher interest rates
 - Assume a PE of 15, i.e. a 50% premium on current PE of 10 for global securities services' current valuations.

Figure 5. SocGen Securities Services – Comparable Valuations

	AuC	AuA	Price	P/AuC	Price with 50% discount (€bn)
Past Deals					
State Street bought Intesa	369		1.28	0.35%	
SocGen bought Unicredit	102		0.195	0.19%	
SocGen Custodian	3360	455	9.04	0.27%	€4.5 bn

Source: Company Reports and CIRA Estimates

Figure 6. SocGen Securities Services – PE Valuation

€m	Profit	PE	Value
Net profit SocGen Custodian (2010)	14	15	203
Revenue Normalisation			
+20%	90	15	1,355
+25%	113	15	1,693
+30%	135	15	2,032
Uplift from reducing C/I to 75% (average BNPP & Caceis)	94	15	1,406
Valuation			€3 - 3.6bn

Source: Company Reports and CIRA Estimates;

Note: Current profit estimated by extracting 50% of Newedge from Securities & Brokers division

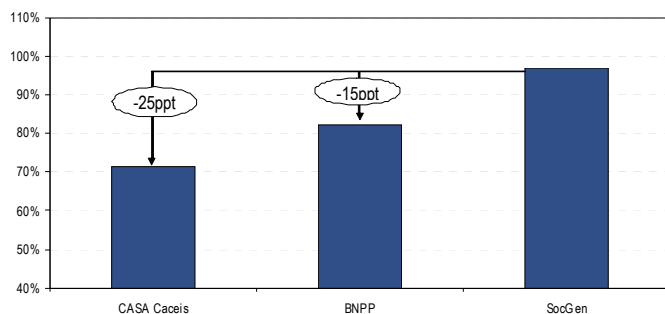
Figure 7. SocGen Securities Services – P&L Trends

(€m)	2008	2009	2010	2011
Total Operating Income	544	591	602	638
Total Operating Expenses	-500	-610	-577	
Operating Profit Pre Provisions	44	-20	25	
Provisions	-3	-2	1	
Operating Pre-tax Profit	41	-21	26	
Non Operating Items	-2	0	-1	
Pre-tax Profit	39	-21	26	
Income Tax	-18	9	-10	
Minority Interests	-1	-1	-2	
Net Profit	20	-13	14	

Source: Company Reports and CIRA Estimates

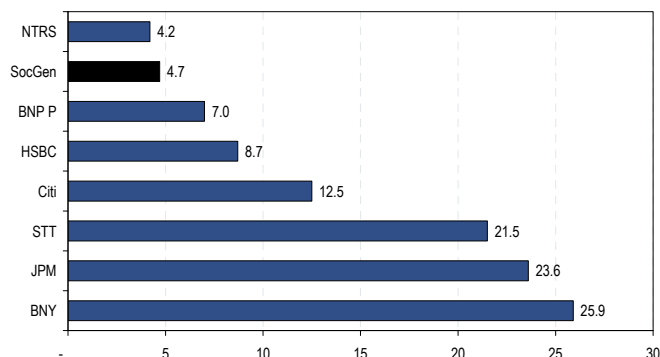
Note: P&L estimated by extracting 50% of Newedge and, for 2008, Boursorama from Securities & Brokers division

Figure 8. French Banks' Securities Services Cost/Income Ratio, 2008-10



Source: Company Reports and CIRA

Figure 9. Custody assets held by Global Custodians as of end-September, 2011 (AuA / AuC, \$tr)



Source: StateStreet

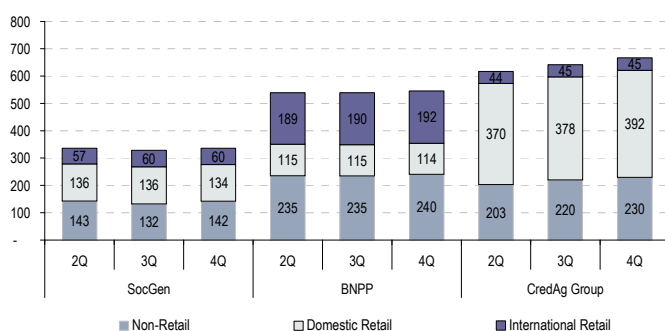
IV. 4Q11 Trends

Deposit Trends: Gaining Back Corporate Deposits

Most non-retail deposits recovered over 4Q. Some pressure on French deposits

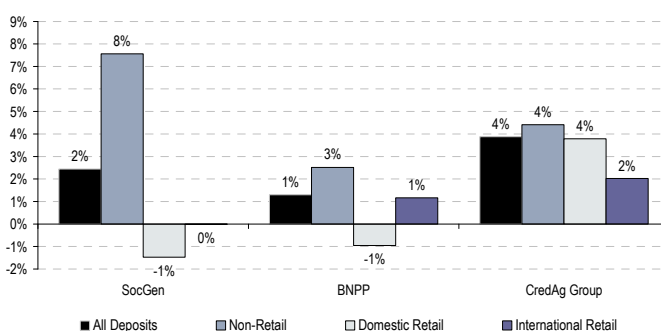
As we wrote in *On Deposit Watch - 4Q Update* (21 February), SocGen has recovered most of the c€10bn non-retail deposits lost over 3Q (Figure 10). However, we believe retail deposit growth was weaker over 4Q as a number of large (e.g. LCL) and smaller banks (e.g. internet banks) bid aggressively for customers' deposits in France. According to management of the French banks, these trends have faded – although we believe margin pressure on deposits is likely to remain as banks aim to improve their loan-to-deposit ratios (LDR).

Figure 10. French Banks – Deposit Trends 2Q-4Q



Source: Company Reports and CIRA

Figure 11. French Banks – Deposit Trends 4Q vs 3Q



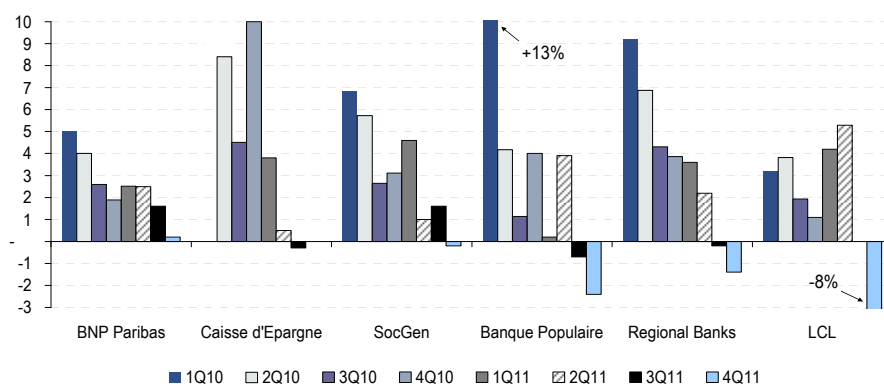
Source: Company Reports and CIRA

French Retail: Sluggish Growth

Revenue decline for most French retail networks in 4Q. Outlook also tough, but returns should remain high

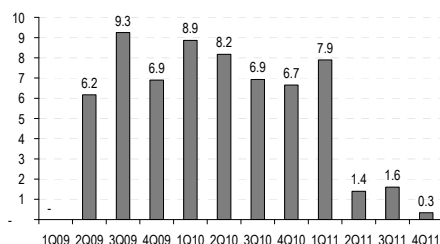
In 4Q, SocGen suffered a decline in French retail revenue (down 0.2% yoy), although less than most peers (Figure 12). This expected weakness was driven by ongoing margin pressure (gross interest margin was down 3bp over 2011 to 2.42%) due to high Livret A rates and a less profitable deposit mix, a slowdown in volume growth as well as weak fees & commissions due to weak markets & high risk aversion (Figure 14). Looking ahead, we expect muted volume growth as well as further pressure on margins, volumes and F&C (from regulation) as well as a slight uptick in provisions. Nonetheless, French Retail remains a reliable cash cow with 20%+ RoE in 2012E.

Figure 12. French Retail – yoy Revenue Growth by Bank (%)



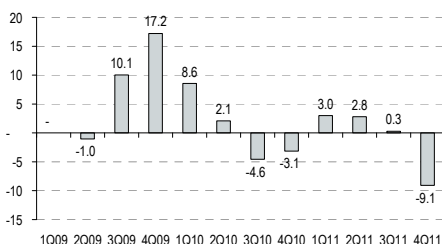
Source: Company Reports

Figure 13. SocGen French Retail – yoy NII growth (%)



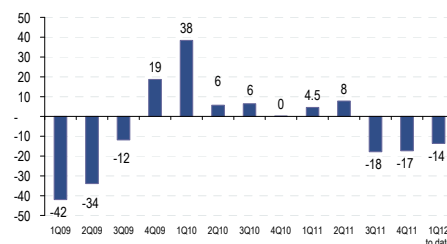
Source: Company Reports

Figure 14. SocGen French Retail - Market-sensitive F&C yoy revenue growth (%)



Source: Company Reports

Figure 15. CAC 40 yoy Performance (%)

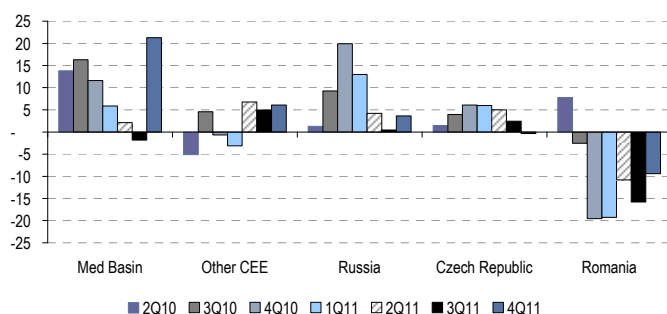


Source: Factset and CIRA

International Retail (IRB): More of the Same

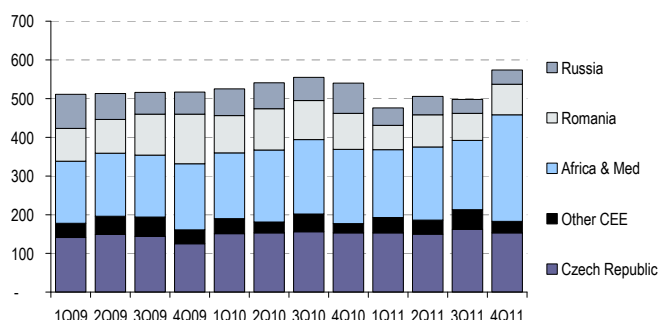
IRB saw strong revenue growth, especially in Africa, partly offset by cost pressure, in particular in restructuring Russian operations. The cost of risk remained low, with the exception of Greece (now at 75% coverage ratio) and Romania. Exposure to Greece stands at manageable levels: €2.6bn loans and €168m intra-group funding.

Figure 16. SG International Retail – yoy Underlying Revenue Growth (%)



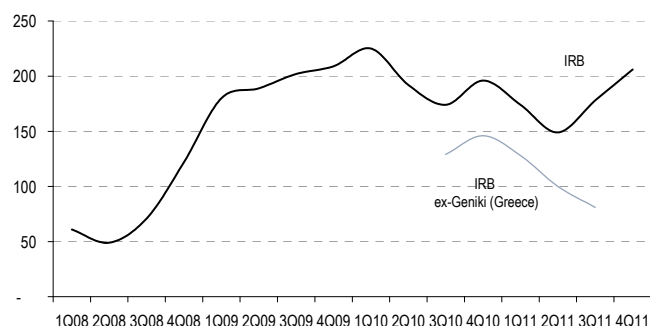
Source: Company Reports and CIRA

Figure 17. SG IRB GOP Trends, 1Q09-4Q11



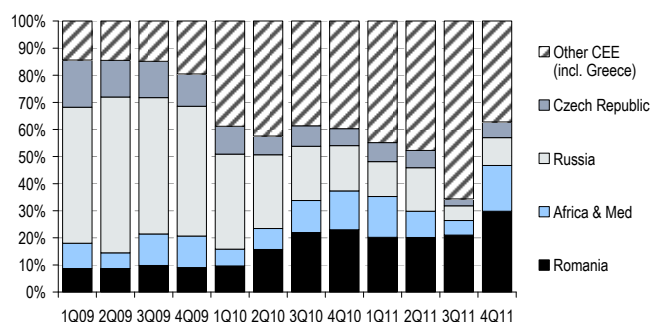
Source: Company Reports ; Note: 1Q11 Africa & Med excludes €25m revenue loss occurred from instability, as estimated by management

Figure 18. SG IRB – Cost of Risk (bp)



Source: Company Reports

Figure 19. SG IRB – Cost of Risk Geographical Breakdown (%)

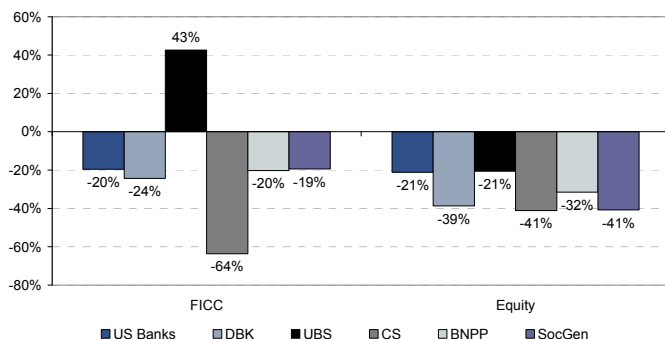


Source: Company Reports ; Note: 1Q11 Africa excludes €51m generic provision; 1Q10 excludes €44m generic provision for Greece

Core CIB Trends

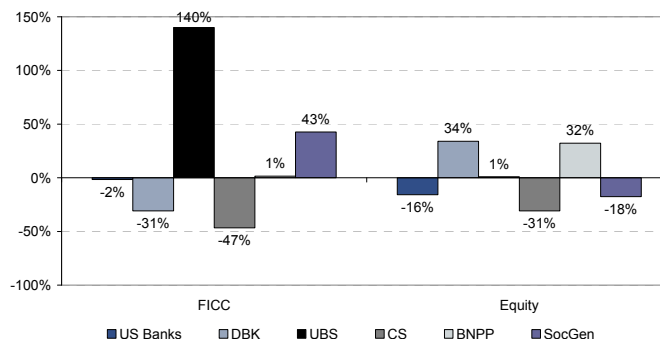
SocGen's FICC franchise delivered a slightly more resilient performance to peers in 4Q11 compared to 4Q10 (down 19%), in our view, explained by investments over the year as well as smaller credit trading operations.

Figure 20. Wholesale Banks - YoY Revenue Trends, 4Q11 (in USD)



Source: Company Reports and CIRA

Figure 21. Wholesale Banks – QoQ Revenue Trends, 4Q11 (in USD)

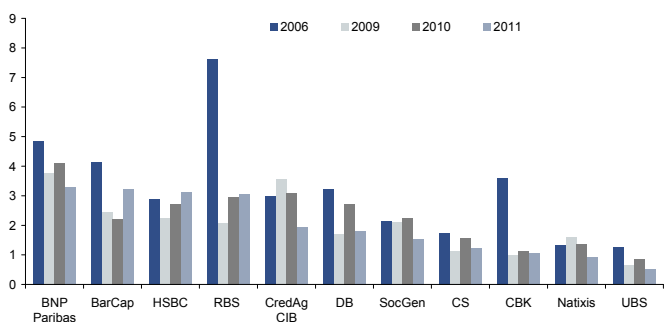


Source: Company Reports and CIRA

Financing Trends

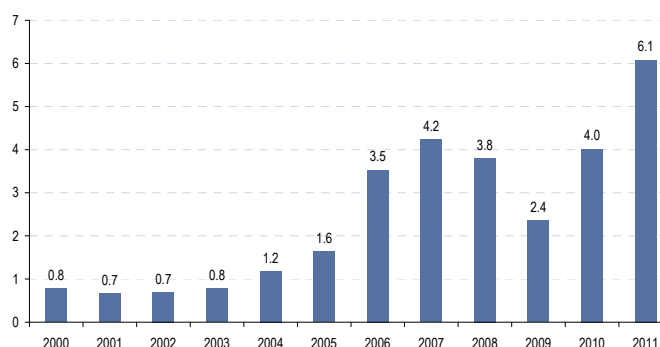
As other French banks, SocGen lost market share in IG syndicated loans in 2011 (from 2.3% to 1.5%, Figure 22), primarily due to its deleveraging plan, in our view. Nevertheless, the market remained healthy, with c50% yoy growth in 2011 (Figure 23).

Figure 22. Global Investment Grade Syndicated Loans – Market Shares (%)



Source: Dealogic

Figure 23. Global Investment Grade Syndicated Loans – Net Revenue (\$bn)



Source: Dealogic

Financial Forecasts

We reduce our EPS for 2012E by 17%, driven by lower revenue in legacy assets, higher CIB costs and weakness in Asset Gathering. Similarly, we revise our EPS for 2013E (-5%) to reflect a more challenging environment in Asset Gathering and French Retail. We roll-over our valuation to include 2014E forecasts, reduce the sovereign risk premium we apply to the fair value (due to reduced sovereign & non-sovereign exposures) and maintain our target price at €32 while reiterating our Buy rating.

Figure 24. SocGen – Changes to our Financial Forecasts, 2012E-2014E

€m	2012E Old	2012E New	Change	2013E Old	2013E New	Change	2014 Old	2014E New	Change
Revenues	24,016	24,007	0%	25,508	25,762	1%		26,694	
Costs	-16,183	-16,472	2%	-16,537	-16,649	1%		-16,993	
Profit before loan losses	7,833	7,535	-4%	8,971	9,113	2%		9,701	
Loan Losses	-3,470	-3,629	5%	-2,765	-2,981	8%		-2,916	
Operating profit before tax	4,363	3,906	-10%	6,206	6,132	-1%		6,785	
Net profit (attributable)	2,775	2,401	-13%	3,931	3,822	-3%		4,376	
EPS - incl. Hybrid Funding (€) - reported	3.19	2.64	-17%	4.63	4.40	-5%		5.06	
EPS - excl. Hybrid Funding (€)	3.63	3.07	-15%	5.06	4.82	-5%		5.48	
EPS - diluted, incl. Hybrid Funding (€)	3.17	2.63	-17%	4.61	4.38	-5%		5.04	

Source: Citi Investment Research and Analysis

Figure 25. SocGen – Quarterly Profit and Loss Account, 1Q10-4Q12E

€m	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12E	2Q12E	3Q12E	4Q12E
Total operating income	6,581	6,679	6,301	6,857	6,619	6,504	6,504	6,010	6,173	5,954	5,943	5,936
Total operating expenses	-4,001	-4,065	-4,039	-4,440	-4,376	-4,241	-4,018	-4,401	-4,294	-4,090	-4,011	-4,077
Operating profit pre provisions	2,580	2,614	2,262	2,417	2,243	2,263	2,486	1,609	1,879	1,865	1,932	1,859
Credit loss expense	-1,132	-1,010	-918	-1,100	-878	-1,185	-1,192	-1,075	-884	-881	-898	-966
Profit before tax	1,448	1,604	1,344	1,317	1,365	1,078	1,294	534	994	984	1,034	894
Net other income	52	5	32	42	39	103	-148	-154	32	32	32	38
Tax	-375	-431	-372	-364	-370	-317	-455	-181	-290	-288	-301	-264
Minorities	-62	-95	-107	-122	-118	-116	-69	-101	-105	-100	-111	-93
Net profit (attributable)	1,063	1,083	897	873	916	748	622	98	631	627	655	574

Source: Company Reports and CIRA Estimates

Figure 26. SocGen — Group Profit and Loss Account

€ m	2009	2010	% Chg	2011	% Chg	2012E	% Chg	2013E	% Chg	2014E	% Chg
Net Interest Income	11,635	11,970	+3%	12,207	+2%	11,597	-5%	11,365	-2%	11,137	-2%
Net fee & commission income	7,812	7,485	-4%	7,179	-4%	6,820	-5%	6,684	-2%	6,550	-2%
Net trading income	947	5,374	+467%	4,432	-18%	4,265	-4%	4,316	+1%	4,369	+1%
Other income	1,344	1,589	+18%	1,819	+14%	1,325	-27%	3,397	+156%	4,638	+37%
Total operating income	21,738	26,418	+22%	25,637	-3%	24,007	-6%	25,762	+7%	26,694	+4%
Total operating expenses	-15,766	-16,545	+5%	-17,036	+3%	-16,472	-3%	-16,649	+1%	-16,993	+2%
Operating profit pre provisions	5,972	9,873	+65%	8,601	-13%	7,535	-12%	9,113	+21%	9,701	+6%
Credit loss expense	-5,842	-4,160	-29%	-4,330	+4%	-3,629	-16%	-2,981	-18%	-2,916	-2%
Profit before tax	130	5,713	+4295%	4,271	-25%	3,906	-9%	6,132	+57%	6,785	+11%
Net other income	684	131	-81%	-157	-220%	134	-185%	137	+2%	148	+8%
Associate income	0	0	NM	0	NM	0	NM	0	NM	0	NM
Net non-recurring expense	0	0	NM	0	NM	0	NM	0	NM	0	NM
Tax	308	-1,542	-601%	-1,323	-14%	-1,230	-7%	-1,882	+53%	-1,936	+3%
Minorities	-430	-386	-10%	-403	+4%	-409	+2%	-564	+38%	-622	+10%
Net profit (attributable)	692	3,916	+466%	2,388	-39%	2,401	+1%	3,822	+59%	4,376	+14%
PER SHARE FIGURES											
EPS - incl. Hybrid Funding (€) - reported	1.08	4.96	+359%	2.73	-45%	2.64	-3%	4.40	+66%	5.06	+15%
Dividend per share	0.25	1.75	+600%	0.00	+0%	0.50	+0%	1.00	+100%	1.50	+50%
Payout Ratio	23%	35%	+0%	0%	+0%	19%	+0%	23%	+0%	30%	+0%
Book value per share	48.9	53.9	+10%	52.4	-3%	54.9	+5%	58.5	+7%	63.5	+9%
Tangible Book Value per Share	37.5	41.6	+11%	41.3	-1%	43.9	+6%	47.7	+9%	52.6	+10%
Basic (period avg, m)	640	725		776		785		799		799	
OPERATING RATIOS											
Net interest margin	1.08%	1.11%		1.06%		0.99%		0.97%		0.92%	
Cost / income ratio	73%	63%		66%		69%		65%		64%	
Provision charge / customer loans	1.46%	0.81%		1.00%		0.84%		0.68%		0.64%	
NPL ratio	5.2%	5.4%		5.6%		5.6%		5.5%		5.3%	
Coverage ratio	53.0%	59.3%		61.4%		68.9%		75.1%		81.2%	
Return on Tangible Equity	2.7%	13.7%		7.7%		7.2%		10.5%		10.9%	
BALANCE SHEET											
Total Assets	1,023,701	1,132,072	+11%	1,181,372	+4%	1,157,745	-2%	1,192,477	+3%	1,228,251	+3%
Gross customer loans	400,400	426,000	+6%	434,000	+2%	431,732	-1%	440,366	+2%	453,577	+3%
Customer deposits	300,054	337,447	+12%	340,172	+1%	353,779	+4%	367,930	+4%	382,647	+4%
Loan / deposit ratio	133%	126%		128%		122%		120%		119%	
Shareholders equity excl minorities	35,128	39,118	+11%	40,700	+4%	43,101	+6%	46,726	+8%	50,702	+9%
CAPITAL POSITION											
Risk-Weighted Assets	324,080	334,800	+3%	349,300	+4%	342,784	-2%	384,329	+1%	388,100	+3%
Tier 1 capital	34,700	35,400	+2%	37,500	+6%	39,829	+6%	41,203	+3%	42,960	+4%
Core Tier 1	26,800	28,458	+6%	31,437	+10%	33,727	+7%	35,101	+4%	38,575	+10%
Core Tier 1 ratio	8.3%	8.5%		9.0%		9.8%		9.1%		9.9%	
Tier 1 ratio	10.7%	10.6%		10.7%		11.6%		10.7%		11.1%	

Source: Company Reports and CIRA Estimates

Figure 27. SocGen — Divisional Profit and Loss Account

€m	2009	2010	% Chg	2011	% Chg	2012E	% Chg	2013E	% Chg	2014E	% Chg
TOTAL RETAIL BANKING											
Total Operating Income	15,454	16,260	5%	16,625	2%	16,458	-1%	16,899	3%	17,398	3%
Total Operating Expenses	-9,410	-9,668	3%	-10,082	4%	-9,967	-1%	-10,000	0%	-10,134	1%
Operating Profit Pre Provisions	6,044	6,592	9%	6,543	-1%	6,491	-1%	6,899	6%	7,264	5%
Provisions	-3,492	-3,378	-3%	-2,858	-15%	-2,957	3%	-2,606	-12%	-2,459	-6%
Operating Pre-tax Profit	2,552	3,214	26%	3,685	15%	3,534	-4%	4,293	21%	4,805	12%
Non Operating Items	-86	10	-112%	-211	0%	29	-114%	17	-41%	17	0%
Pre-tax Profit	2,466	3,224	31%	3,474	8%	3,563	3%	4,310	21%	4,822	12%
Cost/Income Ratio	61%	59%		61%		61%		59%		58%	
o/w FRENCH RETAIL BANKING											
Total Operating Income	7,466	7,791	4%	8,165	2%	8,081	-1%	8,202	2%	8,366	2%
Total Operating Expenses	-4,911	-5,058	3%	-5,248	2%	-5,187	-1%	-5,213	1%	-5,239	1%
Operating Profit Pre Provisions	2,555	2,733	7%	2,917	7%	2,894	-1%	2,989	3%	3,127	5%
Provisions	-970	-864	-11%	-745	-14%	-807	8%	-866	7%	-822	-5%
Operating Pre-tax Profit	1,585	1,869	18%	2,172	16%	2,087	-4%	2,123	2%	2,305	9%
Non Operating Items	15	14	NA	14	0%	13	-7%	13	0%	13	0%
Pre-tax Profit	1,600	1,883	18%	2,186	16%	2,100	-4%	2,136	2%	2,318	9%
Cost/Income Ratio	66%	65%		64%		64%		64%		63%	
o/w IRBFS											
Total Operating Income	7,988	8,469	6%	8,460	0%	8,377	-1%	8,697	4%	9,032	4%
Total Operating Expenses	-4,499	-4,610	2%	-4,834	5%	-4,780	-1%	-4,787	0%	-4,894	2%
Operating Profit Pre Provisions	3,489	3,859	11%	3,626	-6%	3,598	-1%	3,910	9%	4,138	6%
Provisions	-2,522	-2,514	0%	-2,113	-16%	-2,150	2%	-1,740	-19%	-1,637	-6%
Operating Pre-tax Profit	967	1,345	39%	1,513	12%	1,447	-4%	2,171	50%	2,500	15%
Non Operating Items	-101	-4	NA	-225	NA	16	NA	4	NA	4	NA
Pre-tax Profit	866	1,341	55%	1,288	-4%	1,463	14%	2,175	49%	2,504	15%
Cost/Income Ratio	56%	54%		57%		57%		55%		54%	
GLOBAL INVESTMENT MANAGEMENT											
Total Operating Income	2,542	2,270	-11%	2,169	-4%	2,221	2%	2,421	9%	2,629	9%
Total Operating Expenses	-2,241	-2,002	-11%	-1,967	-2%	-1,990	1%	-2,104	6%	-2,221	6%
Operating Profit Pre Provisions	301	268	-11%	202	-25%	231	14%	317	37%	408	29%
Provisions	-34	-7	NA	-13	NA	-12	NA	0	NA	0	NA
Pre-tax Profit	266	360	35%	216	-40%	324	50%	433	34%	535	24%
Cost/Income Ratio	88%	88%		91%		90%		87%		84%	
CORPORATE AND INVESTMENT BANKING											
Total Operating Income	9,848	7,765	-21%	6,457	-17%	5,668	-12%	6,542	15%	6,767	3%
Total Operating Expenses	-3,941	-4,634	18%	-4,688	1%	-4,222	-10%	-4,245	1%	-4,330	2%
Operating Profit Pre Provisions	5,907	3,131	-47%	1,769	-44%	1,446	-18%	2,297	59%	2,437	6%
Provisions	-922	-72	-92%	-138	92%	-260	88%	-325	25%	-406	25%
Operating Pre-tax Profit	4,985	3,059	NM	1,631	-47%	1,186	-27%	1,972	66%	2,031	3%
Non Operating Items	46	2	NM	75	NM	0	NM	4	NM	4	NM
Pre-tax Profit	5,031	3,061	NM	1,706	-44%	1,186	-30%	1,976	67%	2,035	3%
Cost/Income Ratio	40%	60%	49%	66%	10%	66%	1%	65%	-2%	64%	-1%
CORPORATE CENTRE											
Total Operating Income	-3,286	52	-102%	862	0%	-280	-132%		-46%		0%
Pre-tax Profit	-2,590	-104	-96%	-321	NM	-520	62%		-23%		3%

Source: Company Reports and CIRA Estimates

Societe Generale

Company description

Societe Generale attracts deposits and provides commercial, retail, investment and private banking services. The bank offers consumer credit, vehicle lease financing, information technology equipment leasing, life and non-life insurance, custodian services, trade and project financing, currency exchange, treasury services, and financial and commodities futures brokerage services.

Investment strategy

We have a Buy rating on Societe Generale. Following the 2008 fraud losses, the company has made substantial efforts to restore its credibility by focusing on its core businesses and making disposals, and recent guidance also suggests that the worst of legacy asset losses are behind it.

Valuation

We use a two-stage dividend discount model (DDM) to value SocGen, including the present value of 2010-13E dividends and a terminal value assuming zero growth at the sustainable RoE. We use a Cost of Equity of 12.0% based on the company's business mix. We cross-check this valuation using: (1) justified price-to-book valuation; (2) comparable P/E valuation relative to the bank sector; and (3) comparable P/E valuation relative to SocGen's historical trading range and growth prospects. We set our target price at €32 on this basis.

Risks

The key risks to our investment thesis on SocGen are: (1) the risks of a further sharp downturn in the CEE region where SocGen has significant exposure; (2) a more challenging capital markets environment especially in equity derivatives where SocGen has one of the leading franchises, and (3) more generally, a 'double-dip' in the macroeconomic environment.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

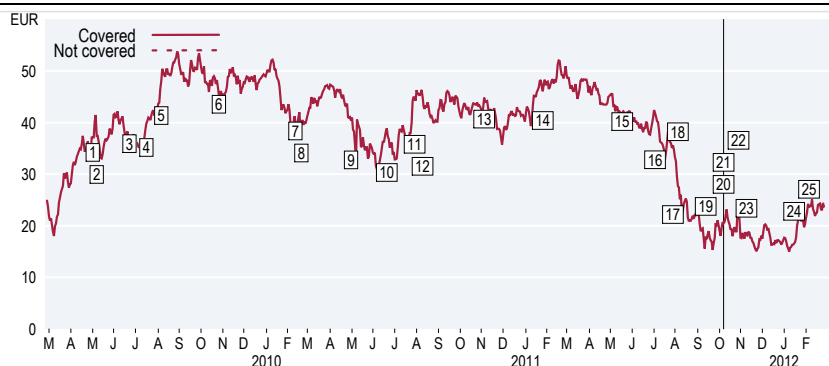
IMPORTANT DISCLOSURES

Societe Generale (SOGN.PA)

Ratings and Target Price History Fundamental Research

Analyst: Kinner Lakhani

Covered since June 17 2010



	Date	Rating	Target Price	Closing Price
1	1-May-09	*1M	*42.65	37.12
2	7-May-09	*2M	42.65	37.41
3	23-Jun-09	2M	*40.76	36.25
4	16-Jul-09	*1M	*44.55	39.85
5	6-Aug-09	1M	*52.13	48.05
6	27-Oct-09	1M	*55.00	45.33
7	11-Feb-10	1M	*50.00	40.26
8	19-Feb-10	1M	*48.00	39.70
9	30-Apr-10	1M	*52.00	40.40

* Indicates change

	Date	Rating	Target Price	Closing Price
10	21-Jun-10	1M	*50.00	38.89
11	29-Jul-10	1M	*54.00	44.71
12	10-Aug-10	1M	*57.00	45.07
13	4-Nov-10	1M	*59.00	44.85
14	26-Jan-11	1M	*62.00	46.07
15	18-May-11	1M	*60.00	41.93
16	4-Jul-11	1M	*56.00	41.87
17	28-Jul-11	1M	*55.00	35.61
18	4-Aug-11	1M	*50.00	27.70

	Date	Rating	Target Price	Closing Price
19	13-Sep-11	1M	*38.00	17.90
20	7-Oct-11	Stock rating system changed		
21	7-Oct-11	*1	38.00	20.51
22	28-Oct-11	1	*35.00	23.39
23	9-Nov-11	1	*33.00	18.20
24	15-Jan-12	1	*28.00	16.34
25	5-Feb-12	1	*32.00	24.25

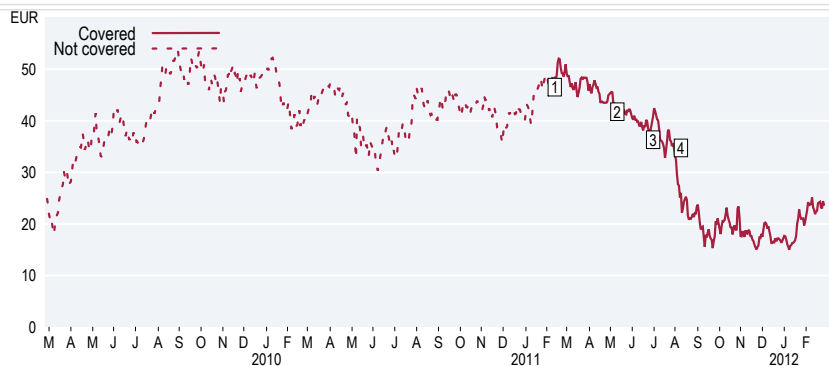
Rating/target price changes above reflect Eastern Standard Time

Societe Generale (SOGN.PA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Kinner Lakhani

Covered since June 17 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	48.40
2	11-May-11	*REM MP	-	42.98

* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Jun-11	*ADD MP	-	40.92
4	9-Aug-11	*REM MP	-	26.02

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2011

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

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