“A new phase of development until 2016”

The Annual General Meeting held on 20 May in La Défense was attended by 766 shareholders. Quorum was met at 58.27%. More than 69% of advance votes were cast online.

In the Group’s 150th anniversary year, Frédéric Oudéa began by saluting all those who had contributed to its history, before setting out the strategy for 2016. He recognised the good work of Jean-François Sammarcelli, Deputy Chief Executive for French Retail Banking, who will be retiring this year after a career stretching back 40 years. Séverin Cabannes, Deputy Chief Executive, presented the results for 2013 and Q1 2014. Anthony Wyand, Vice-Chairman of the Board of Directors talked about corporate governance before inviting Lorenzo Bini Smaghi to introduce himself. Mr Smaghi was appointed as Director and the Board of Directors’ second Vice-Chairman.

All the proposed resolutions were approved. Shareholders notably voted to pay a cash dividend of €1 per share in respect of 2013 (€0.45 in 2012). The ex-dividend date was set at 27 May and the dividend was paid as from 30 May.

Key points of Frédéric Oudéa’s message

2014 was not just another year: it was the year the Group celebrated the 150th anniversary. Societe Generale was founded on 4 May 1864, by a group of entrepreneurs looking to provide finance for commerce and industry.

Environment: the “great transition”

2014 was also the year that brought European banking union, a fundamental change that redrew the map of the banking sector and should help ease the fragmentation that affects European monetary union.

True, the environment remains tough and demanding. Activity will only pick up gradually in the euro zone, particularly in France. Eventually, central banks will have to rein in their accommodative monetary policies, potentially leading to rises in interest rates. Also, we have yet to adapt to new regulations designed to promote disintermediation.

While these factors are not immediately good for banking business, structurally positive trends are also evident: the need, for instance, to finance infrastructure, natural resources and energy should help to sustain global growth, particularly in emerging markets, and there is an ever increasing development of international trade and exchange. Finally, technological innovation and the advent of the "digital society" will affect the behaviour of our customers. Taken together, this is what we call the "great transition" and it demands a rapid and flexible response.

Societe Generale's strengths

The Group has demonstrated its ability to change with the work that went into implementing Basel 3. Our universal banking model is now radically simplified, more efficient and fit to deliver for all our customers – individuals, corporates, institutional investors – offering additional value-added services that will enrich the business relationship and last over the long term.

Looking beyond financial metrics, Societe Generale can draw on a combination of four strengths that is unique in the European banking landscape: the long-term relationships that it builds with its customers, its historical expertise in corporate and investment banking, the growth potential of its franchises which is above average for its European rivals, and, finally, the sense of innovation, commitment and responsibility that drives its employees.

The Group's ambitions for 2016

Societe Generale has laid solid foundations to build on and set ambitious growth targets for the next three years. For 2016, the bank has set three major targets which will apply to all business lines.

1 Continuous improvement in customer satisfaction

Customer satisfaction has been at the heart of the efforts made in all Societe Generale business lines since 2010. With large corporates, we must have a detailed understanding of our customers' strategy and be ready to support them internationally, where the bulk of growth is to be found. This is why we are prioritising the quality of our bankers.

Meanwhile, individual customers are demanding ever more sophisticated expertise, particularly in savings, as well as fair fees for services rendered and digital applications. Smartphones did not exist in 2007 but are now the primary way we relate with our customers as measured by number of contacts. We plan to maintain our lead in this field through innovation.

2 Generating growth

Between now and 2016, Societe Generale plans to grow revenues, on average, at an annual target rate of 3%. Some business lines will be growing more slowly, such as French Retail Banking and global markets. Others will be more dynamic, like insurance or private banking, or those serving particular regions such as Africa, Asia, Russia and Germany. But overall, all will contribute to growth.

Synergies, the reason underlying the universal banking model, will also play their part. The combination of different business lines and customers only makes sense if all branches of the Group combine to deliver a high value added response. In this way, commercial relationships can generate greater revenues.

3 Delivering sustainable profitability

We will also be keeping a rigorous check on costs: management fees must not rise by more than 1% annually on average to 2016 (like-for-like). Thanks to the savings made under the 2012 and 2013 plans we will continue to invest to ensure our business lines remain competitive. In addition, our risk management model has been fundamentally upgraded in the way it handles operational, credit and market risks. Commercial cost of risk is thus set to fall. Finally, capital allocation will remain balanced.

Our strategy targets a return on equity* to 2016 of more than 10% and earnings per share* of €6. We also intend to raise the payout from profit to 40% in 2014, then 50% in 2015 and 2016.

* For definitions see the Group's 2014 registration document.

Appointment

Lorenzo Bini Smaghi

Italian national Lorenzo Bini Smaghi began his career in 1983 as an economist at the Bank of Italy. In 1994 he became head of policy at the European Monetary Institute, which evolved to become the European Central Bank (ECB), where he sat on the Executive Board from 2005 to 2011. He has been working as a non-executive Chairman of Italian gas group SNAM Rete Gas.

He was elected with 99.06% of the votes, will sit as an independent Director and was appointed Second Vice-Chairman of the Board of Directors.

Dialogue with shareholders

Could the falling-out between Ukraine and Russia affect Rosbank's business and cost of risk?

The Russian economy has been slowing since the second half of 2013 and this will probably be exacerbated by geopolitical tensions. 2014 will probably not, then, be as good as we were initially hoping. At Rosbank, cost of risk was on the rise even before the political crisis broke out in Ukraine.

Our core scenario sees a sharper slowdown in Russia, leading to higher cost of risk, but Rosbank's books should remain in the black. The latest developments in the crisis seem to confirm our scenario and we do not think Rosbank is going to be a major drag on Societe Generale's cost of risk overall. Russia, in any case, only represents 3% of the Group's risk exposures.

WE ALWAYS FOLLOWED AN EXTREMELY STRICT POLICY ON THE "STRUCTURED" LOANS TO LOCAL AUTHORITIES

Why did Societe Generale not launch a paper bid for the non-controlling shares in its subsdiary Boursorama?

We already controlled Boursorama, our online banking and brokerage subsidiary, before the bid. We held 55.6% of the capital and our Spanish partner, Caixa, owned another 20%. In cooperation with Caixa, which will retain its stake in Boursorama after the transaction, we launched a simplified public takeover bid.

Societe Generale clearly had no need to raise fresh capital in order to fund such a relatively small acquisition (around €220 million). It was easier, in a transaction of this type, to pay in cash.

Some local authorities have taken out "toxic" bank loans whose complexities could lead to them paying very high rates. Cases are already before the courts. Is Societe Generale exposed to this?

At the end of the last decade, the Group had 15-20% of the market for local authority finance. But we always followed an extremely strict policy on the "structured" loans to local authorities. Our market share is therefore very small and Societe Generale was not one of the entities that the Finance Minister called in regarding this affair.

The French court of appeal (Cour de Cassation) confirmed in March Jérôme Kerviel's criminal conviction but not his civil conviction. Could this cast into doubt the tax-deductibility of the losses that the bank enjoyed as a result of this affair?

This is a loss recorded in the company's accounts and would normally be deducted from the accounts. What you are really asking is whether the fact that there might have been a lack of internal control would justify this loss no longer, in the future, being deductible in our books. The government put this very question to the State Council in May 2011, i.e. after the affair came to light. The State Council ruled that “a lack of internal control does not seem to provide any grounds for refusing the deduction of losses which were booked normally”. The only exception would be if managers had knowingly accepted to run such risks by a complete lack of scrutiny and control over the employee’s activities. However, at no time were Societe Generale’s managers accused of wrongdoing in the case by the Banking Commission in its penalty ruling. We therefore take the view that there is no doubt about the tax-deductibility of this loss.

THE GROUP CONTINUES TO INNOVATE AND PLANS TO CONTINUE ALONG THIS LINE

Do the online payment systems launched by the leading web companies pose a threat to the Group?

Societe Generale has to respond to new customer expectations and profit from new technologies. Last summer, we launched a new SMS money transfer solution in France and a secure e-wallet for online purchases, in partnership with BNP Paribas and the Banque Postale. We also tested a contactless payment system for mobile phones in Strasbourg and other research projects are under way elsewhere in Europe. In Africa, we are working on SMS payments, an e-wallet and cardless ATM withdrawals using a code sent by SMS. The Group, then, continues to innovate and plans to continue along this line.

Who, in the Group’s management, has a detailed understanding of the risk run by global markets?

With the support of the Risk Department, which is independent, the Chairman and CEO and the CFO are directly involved in oversight of the corporate and investment banking activities, including the global markets business. Every year, the Board of Directors sets the level of risk appetite for Societe Generale. Every fortnight, a risk committee meets which includes everyone on the Executive Committee. And every day, the top executives receive a market risk report covering the whole of the Group.

Some banks are again launching substantial capital increases. Could this movement spread across Europe?

French banking groups are not expected to be affected, as their Common Equity Tier 1 solvency ratios are at satisfactory levels, in most cases above 10%. Most of the banks that have been raising funds today are doing so because of their particular situations, specifically insufficient solvency ratios. This is the case for small banks in Italy, where the ECB is currently scrutinising their balance sheets.