

INVESTMENT NOTE

12 February 2015

Hermes: Global uncertainties weigh on SocGen

Société Générale's (SocGen) fourth quarter of 2014 results can be filed under 'mixed bag' this bank reporting season according to Filippo Alloatti, Senior Credit Analyst, Hermes Credit.

On the positive side, its revenues of €6bn were ahead of consensus. Its corporate and investment banking business was up at €1.6bn – on strong equities trading, but it also saw weakness in fixed income currencies and commodities.

On the flip side, the group's net profit of €511m was down 39% quarter-on-quarter, negatively impacted by a 41% jump in risk costs. It seems the €200m loss on the sale of the Brazil consumer finance operations was not pencilled in the consensus.

SocGen's common equity tier 1 ratio fell 26bp to 10.1%, which is likely to attract the market's attention. A wide range of factors for this are highlighted, such as the prudential valuation adjustments on the bank's derivatives exposures.

It is worth noting that thanks to hedges, the severe drop in the ruble had a limited impact on its tier 1 ratio, unlike Unicredit yesterday. The optimisation of the loss-making Russian operations remains high on the group list of priorities. Russia remains a concern for SocGen, but it is still manageable barring a catastrophe in the country.

Finally, SocGen management reaffirmed its intention to pursue the roll out of its strategic plan. The bank has made significant effort over the last three years to rebalance its business model, but its financial results are still dependant on market activities.

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Notes to Editors:

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