



Debt Finance

An integrated platform for profitable growth

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11th March, 2004



**CORPORATE &
INVESTMENT BANKING**



Content

■ The Debt Finance business-model

- Achievements of Debt Finance since inception
- Market evolution and the outlook for Debt Finance

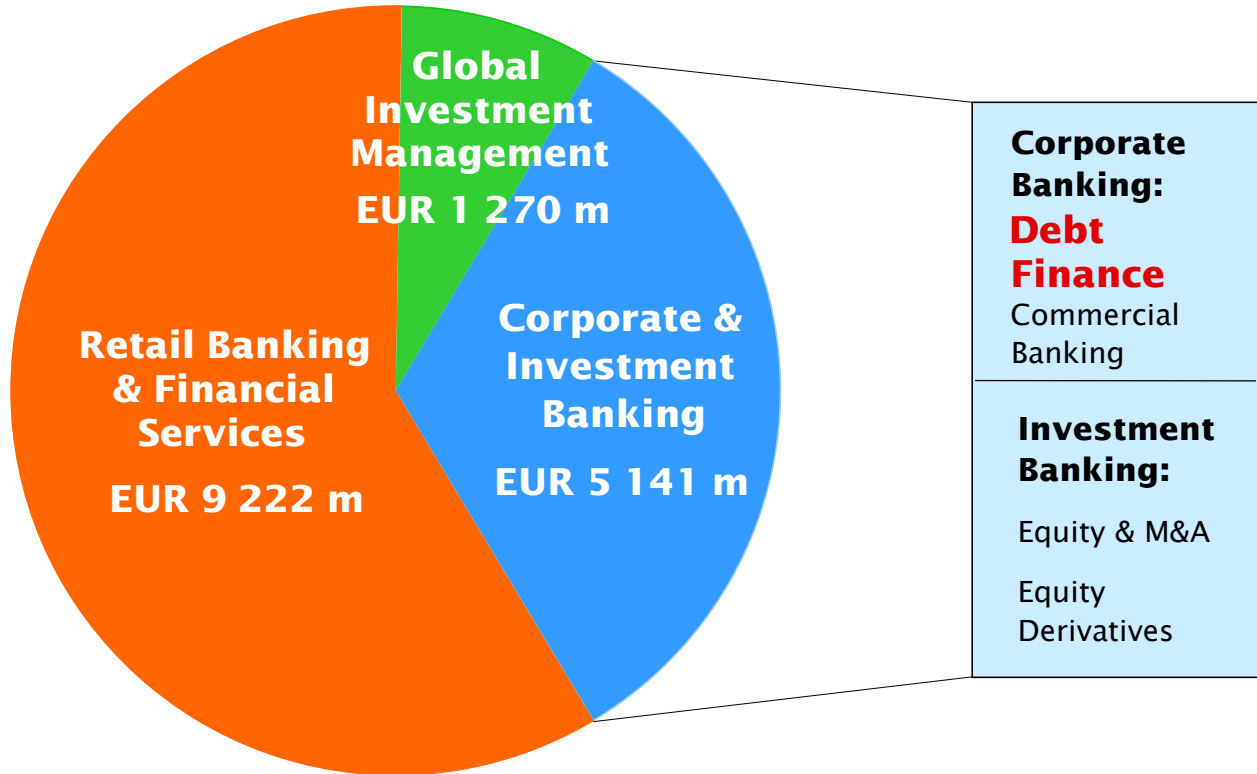
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The Debt Finance division (DEFI) is a key component of SG's Corporate and Investment Banking platform

Société Générale Group 2003 NBI = EUR 15,6 bn

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Debt Finance plays a major role in SG CIB three core product pillars

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Euro Capital Markets

- Bonds**
- Syndicated loans**
- Asset Backed Securities**
- Structured credits**
- Rating & debt advisory**
- Equity capital markets
- Distribution & Trading Cash
- M&A

Derivatives

- Interest rate**
- Credit**
- Commodities**
- Foreign exchange**
- Equity derivatives

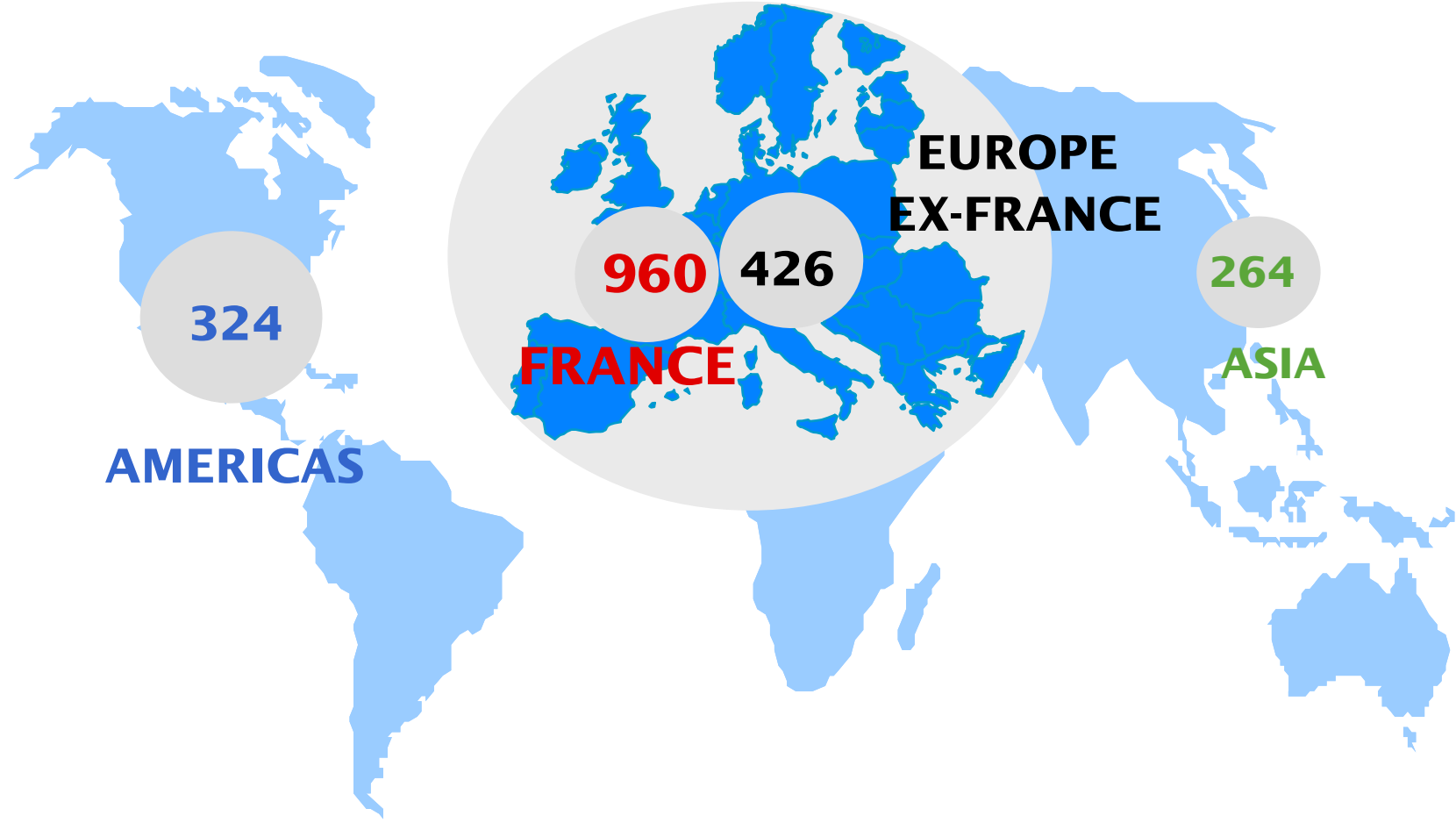
Structured Finance

- Export Finance**
- Commodities Finance**
- Project Finance**
- Asset Finance**
- Acquisition & Leveraged Finance**
- Media & Telecom Finance**

Debt Finance activities in red



1,974 front officers (December 2003)



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A business-model centred on our clients...

- SG CIB Debt Finance division was created in 2001 in response to changes occurring in the capital and financing markets:
 - ▶ to take advantage of the convergence towards a global and expanding credit market
 - ▶ to address the financing needs of issuers for an integrated, solution-driven approach to debt
 - ▶ to address investors' requirement for a global credit product offer

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...to satisfy their needs and increase our revenue

- Unified Capital Market-Structured Finance origination to distribution value-chain
- Multi-product, solution-driven origination and sales approach (combination of structured finance and capital market products)
- Focus on value-added transactions: develop the synergies between Debt Finance Business-Lines
- Strengthened distribution capacities
 - ▶ increase exits in the market using diversified debt instruments
 - ▶ reduce our final take

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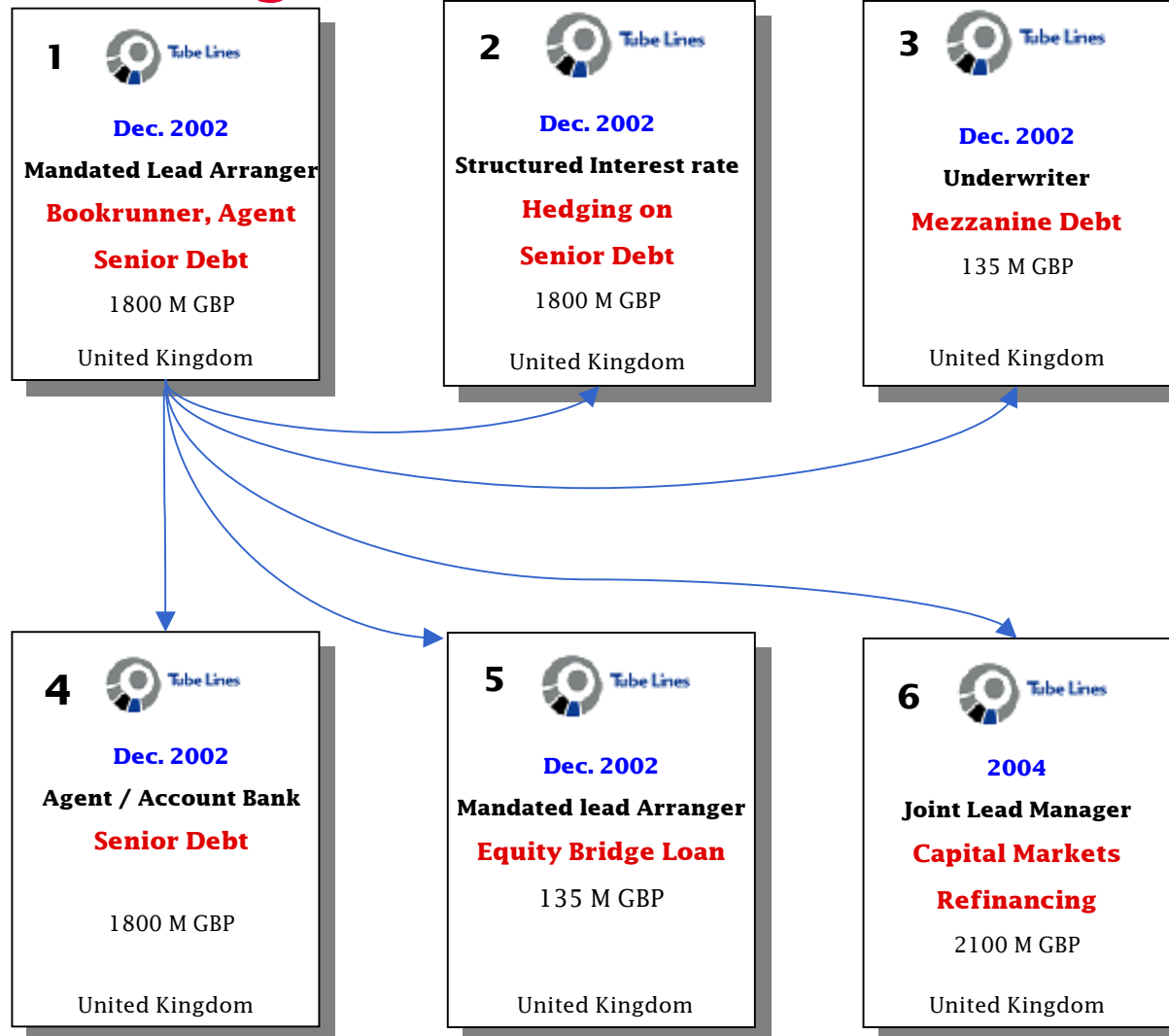
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SG CIB Debt Finance

Tube Lines: Debt Finance business-model working to satisfy our clients



Initial transaction

1. SG was appointed by the Tube Lines consortium as **Mandated Lead Arranger** to finance the upgrade and maintenance of the Jubilee, Northern and Piccadilly lines of the London Underground under a Public Private Partnership

Due to the business-model, Debt Finance managed to secure additional roles in the following areas:

2. Hedging of Senior Debt
3. Mezzanine Debt
4. Agent and Account Bank
5. Equity bridge loan
6. Mandate to refinance the original financing in the capital markets





Thanks to this business-model, Debt Finance has exceeded its initial objectives of 2001

SG Targets vs 2000	2003 Objective	2003 Results
Sustainable ROE	above 20%	Exceeded
GOI Increase	+100%	+250%
Client revenue / NBI	above 50%	Exceeded
Expenses	moderate increase	Achieved
Equity Usage	moderate increase	Achieved
Cross-selling revenue synergies	200M	Achieved

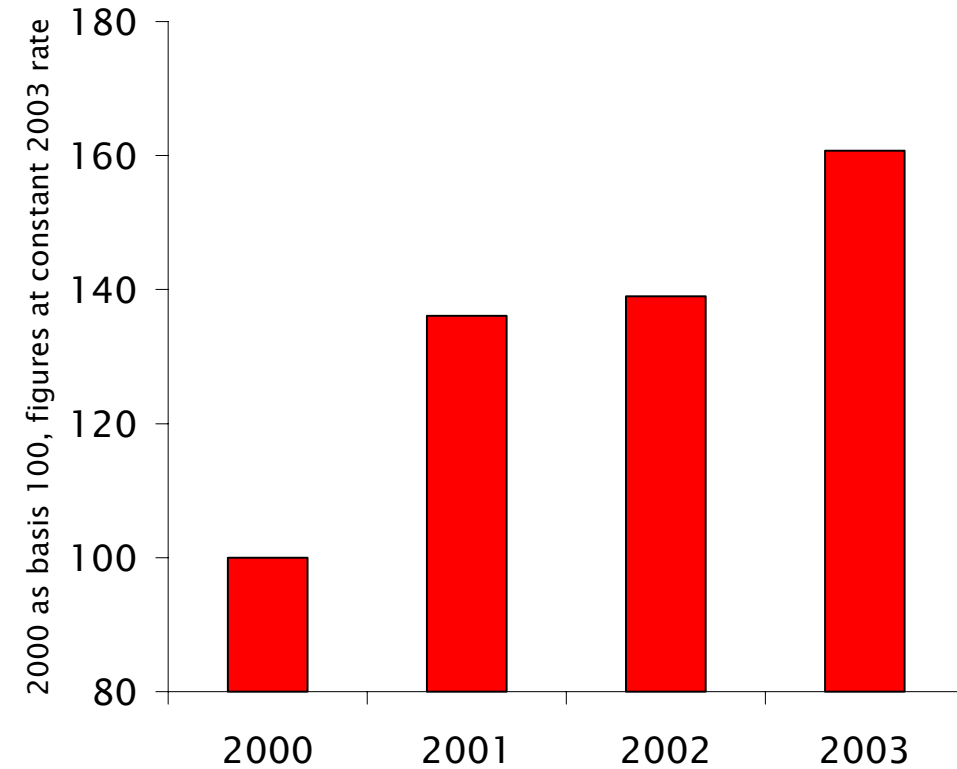
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Consistent annual revenue growth since 2000

- Treasury activities have been a strong contributor to Debt Finance results, mainly in the US, in a favourable interest rate environment
- 2003 was characterised by a very good performance in Fixed-Income, in particular thanks to the progress made by the European platform and by a good level of activity in Structured Finance in spite of a difficult environment

Debt Finance NBI evolution

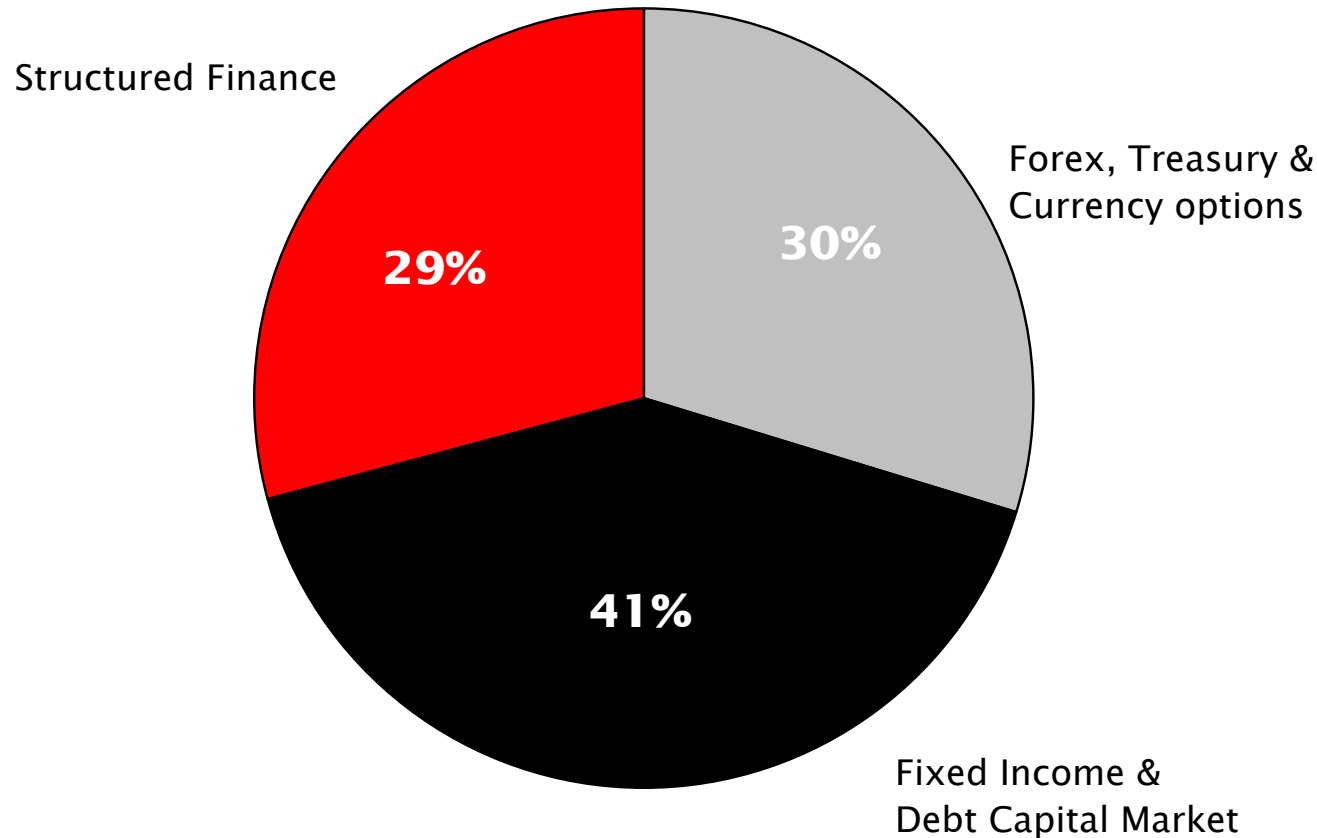


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A strong contribution from all activities in 2003

Debt Finance 2003 NBI per activity



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Debt Finance has achieved a high level of profitability since 2001

- Strong progress of GOI (multiplied by 3.5 at constant rate) thanks to:
 - ▶ increased revenue
 - ▶ cost-control
 - rationalisation of back office processes & IT expenses
 - strict headcount control
 - cost-cutting initiatives

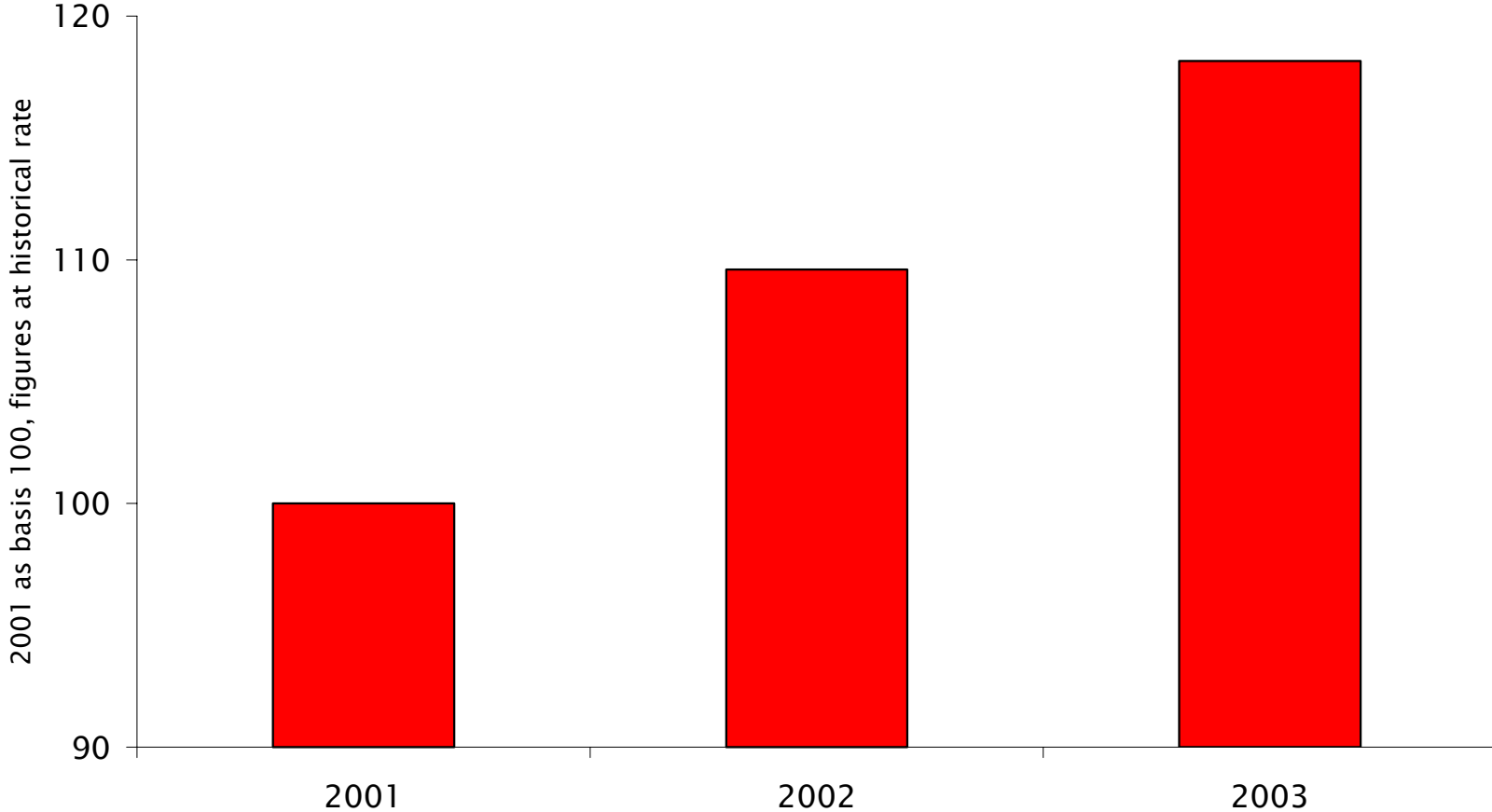
- Debt Finance has maintained an ROE above 20% for the last 3 years

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Growing client revenue

Debt Finance client revenue evolution *



** fees + interest margin + commercial margin*

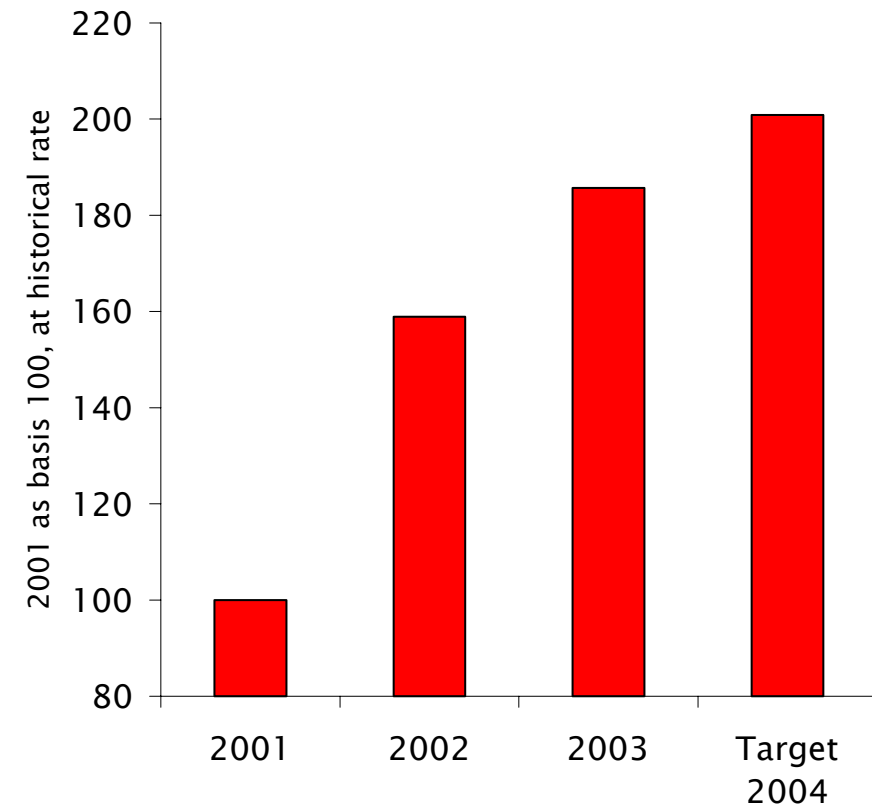
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Significant increase in synergies within Debt Finance, providing additional and recurrent income

- Synergies between Debt Finance business-lines (not including synergies with other group entities)
 - ▶ Derivatives with Structured Finance (e.g. swap on financing)
 - ▶ Debt Capital Markets with Structured Finance (e.g. securitisation on financing)
 - ▶ Derivatives with Debt Capital Markets (e.g. swap on bond)

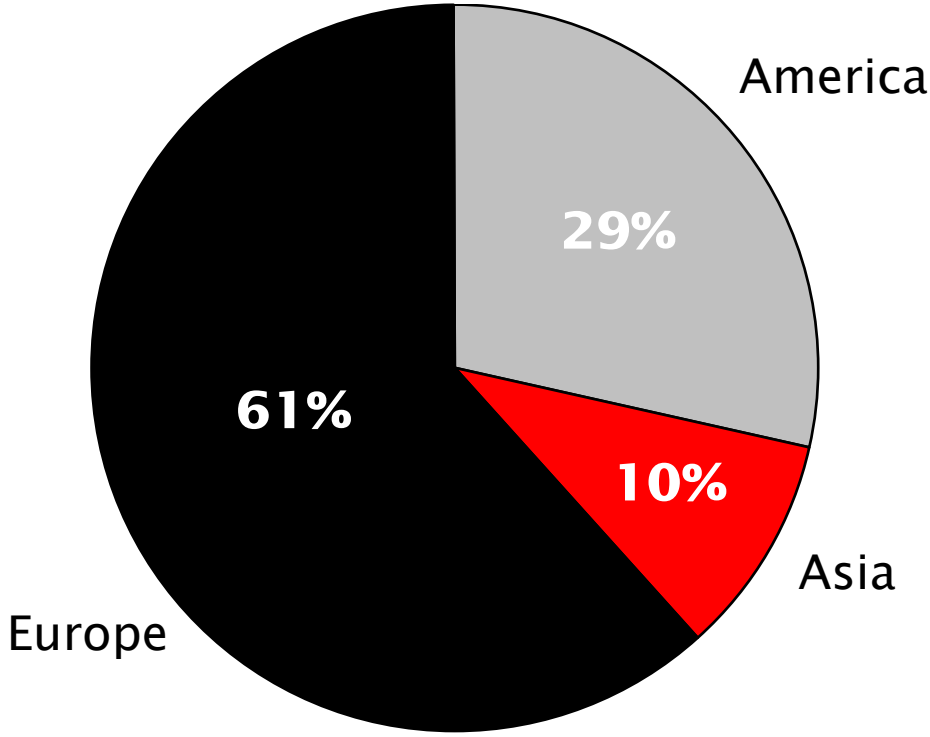
Debt Finance synergy revenue





A successful strategy in our selected markets

- A profitable niche approach to American and Asian markets
- From our historically strong position in France, we are actively developing our business in other European countries



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Success in Europe ex-France

■ Germany:

- ▶ a dedicated platform of 40 professionals, o/w 25 in Germany
- ▶ revenue multiplied by 3 between 2001 and 2003
- ▶ 5 LBO transactions in the 1st year of the team

Germany	2000	<i>(market share)</i>	2003	
German corporate euro bond issues	12	(2.9%)	3	(7.3%)

■ Spain:

- ▶ a dedicated platform of 33 professionals
- ▶ Excellent & globally sustained performance: revenue multiplied by 3 between 2001 and 2003
- ▶ Increasingly visible & recognised achievements (league tables)

Spain	2000	<i>(market share)</i>	2003	
Spanish euro bond issues	8	(4.3%)	1	(13.3%)
Spanish corporate syndicated loans in Europe	6	(6.1%)	4	(10.2%)





Strategic Market Positioning: Euro Capital Markets Confirmed top 10 leading positions

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Euro Capital Markets	2000	<i>(market share)</i>	2003	<i>(market share)</i>
Euro bond issues	15	<i>(2.4%)</i>	9	<i>(4.8%)</i>
Corporate euro bonds issues	12	<i>(2.9%)</i>	6	<i>(5.3%)</i>
Syndicated loans in Europe	9	<i>(1.9%)</i>	11	<i>(3.8%)</i>
Global securitization in euro	-		6	<i>(5.4%)</i>
Financial Institutions euro bonds issues	-		4	<i>(5.5%)</i>



Strategic Market Positioning: a recognised expertise in Commodities

- Oil products House of the year 2003 *Energy & Power Risk Management*
- Energy/commodity House of the Year 2003 *Asia risk magazine*
- Natural Gas House of the Year 2003: *Gaselys Energy & Power Risk Management*

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Strategic Market Positioning: a leader in Structured Finance

Structured Finance	2001	2002	2003
Export Finance global arranger (1)	2	1	1
Project Finance (2)	4	2	5
Structured commodities finance (1)	2	2	1
Acquisition finance: Western Europe Corp. transaction financings bookrunner (3)	-	-	10
Real Estate Finance: syndicated property loan arranger (4)	>10	>10	8

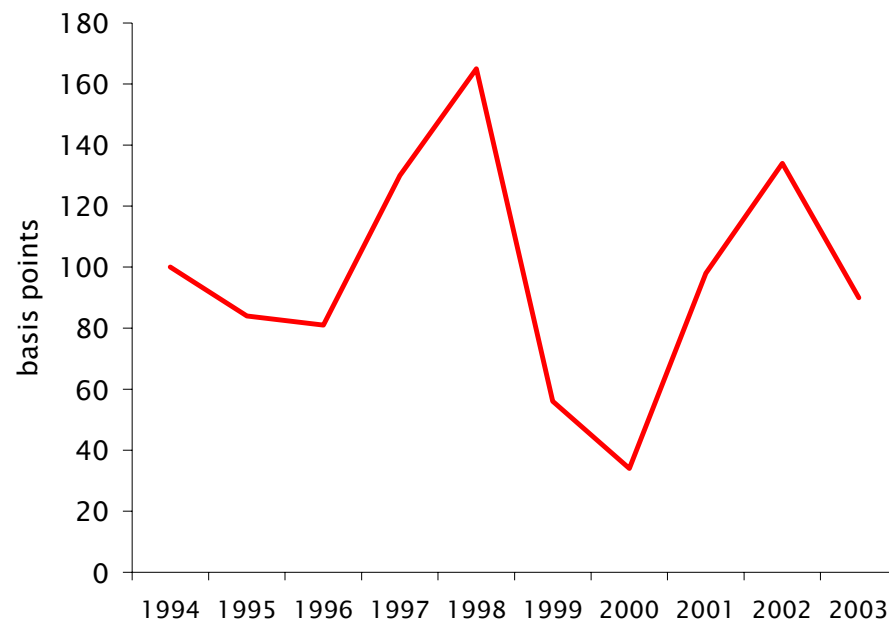
Sources: Trade Finance June 03 (1), Project Finance International Jan 04 (2), Europroperty Feb 04 (3), Loanware Dec 03 (4)

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Credit risk control is key to our development

- The implementation of our business-model and our growth strategy went with a strengthening of our risk control policy
- In particular, we have adopted a proactive portfolio management policy and have structures in place to:
 - ▶ reduce concentration and anticipate counterpart risk quality changes
 - ▶ hedge assets thanks to a better understanding of markets and liquidity
- In 2003, cost of risk returned to a normal level, after a cyclical peak in 2002. SG CIB's 2003 cost of risk includes a 285 M€ allocation to general credit risk reserve

**SG Corporate & Investment Banking
annualised cost of commercial risk ***



* net allocation to provisions / RWA





Market risk has been strictly monitored

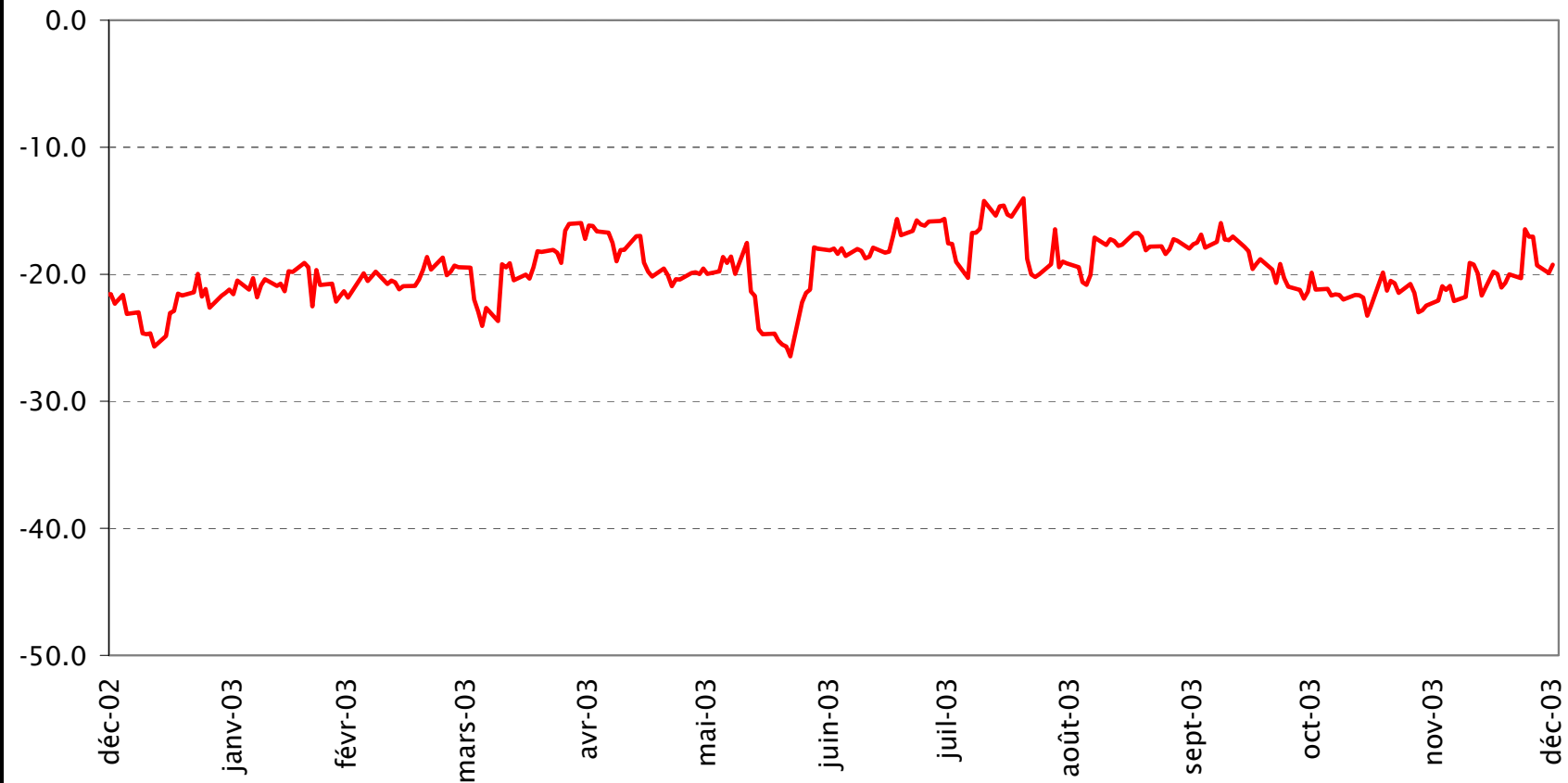
- Proprietary Trading is an essential complement to Debt Finance client activity and is characterised by strong profitability, thanks to a strict market risk monitoring
- This is a mature activity and well diversified: directional interest rates, interest rate arbitrage, credit, forex, commodities
- Limits are defined and monitored by the Risk Department: VaR, Global sensitivity (interest rate, swap spread) and stress tests

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VaR remained stable all along the year

Debt Finance Spot Trading VaR 99



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Market environment will change in 2004...

■ ... with some challenges...

- ▶ Less favourable interest-rate environment, like in Q4 2003
- ▶ Unfavourable USD/EUR parity
- ▶ Narrower credit spreads, which could reduce opportunities on Fixed-Income credit and credit derivative activities
- ▶ A slow start for the primary bond market

■ ... but also with opportunities

- ▶ Recovery of corporate investments linked to the improving economic environment, which will have a positive impact on financing activities
- ▶ Improvement in the cost of risk

■ We are also finalising preparations for regulatory changes





The Debt Finance business-model is designed to cope with a changing environment

- Diversified sources of income and growth:
 - ▶ Multi-product, integrated platform
 - ▶ A credible player in Fixed-Income, particularly in Europe (primary credit derivatives, securitisation): a key contributor to future growth
 - ▶ Structured Finance which continues to develop thanks to the combination of product-driven solutions and improved synergies (asset finance, leveraged and acquisition finance)

- Together with activities which are able to generate exceptionally high revenue in favourable environments, as evidenced by the Treasury during the last 3 years

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Ongoing investment will ensure continuing development and improve our positioning

- 100 additional professionals in 2004 to support our growth
- Continue to develop our client franchise, particularly with Financial Institutions and Hedge Funds
- Strengthen our position in Euro capital market league tables
- Pursue geographical development strategy
 - ▶ Develop our niche activities in the US and in Asia
 - ▶ Build on our historical presence in the UK
 - ▶ Add resources to our already strong Spanish & German platforms
 - ▶ Successfully deploy our European strategy in Italy
- Expand synergies, both within Debt Finance and with other SG group entities (equities, retail banking)

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Conclusion

- During the last 3 years, we have demonstrated that the Debt Finance business model is working. It provides the ideal platform from which to continue our strategic development
- As a major contributor to SG Corporate & Investment Banking's performance, the challenge for Debt Finance is to continue its growth strategy whilst maintaining the high level of profitability
- Clients are key:
 - ▶ We have a business-model centred on clients (issuers and investors)
 - ▶ We are increasing revenue per client & widening our client base
 - ▶ We are a reference bank for our chosen clients, in our selected markets, achieving market recognition for product excellence and quality of execution



A strong bank beside you
makes you even stronger.



To support its customers' objectives, the Société Générale Group continually strengthens its position in its three businesses:

- **Retail Banking and Financial Services:** France's leading non-mutual banking group, serving 15 million customers in 31 countries
- **Asset Management, Private Banking and Securities Services:** one of the largest banks in the euro zone in terms of assets under custody (\$1166 billion*) and under management (€284 billion*)
- **Corporate and Investment Banking:** the 3rd largest bank in the euro zone based on revenues and a global leader in euro capital markets, derivatives and structured finance.

www.socgen.com

* December 2000

**Red,
black
and
rising.**

