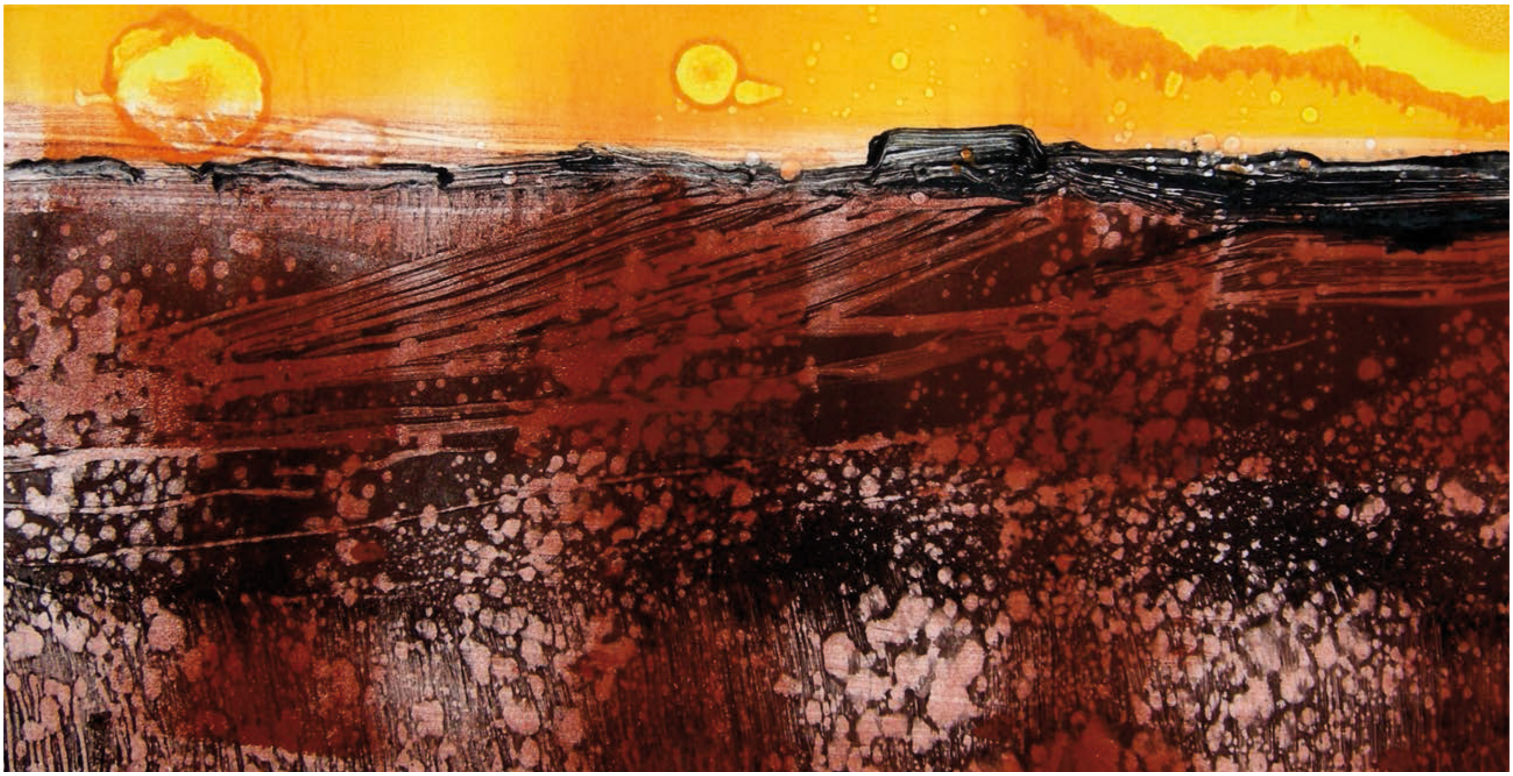
GLOBAL EQUITY FLOW

#1 OVERALL IN EQUITY DERIVATIVES
#1 EXCHANGE TRADED FUNDS, EUROPE & ASIA



Once again, Global institutional investors voted Societe Generale Corporate & Investment Banking the # 1 Global Provider in Equity Derivatives in Risk magazine's 2013 Institutional Investor Rankings. Reflecting our consistent strategy and long-term approach in all our markets, we are pleased to have topped every single category in equity derivatives while also taking the #1 spot in ETFs in both Europe & Asia. Our role has been, and always will be, to partner with you, and to serve you no matter the market challenge. Thank you for your continued business and trust.

Investors know us as a leader in global equity derivatives, delivering pioneering solutions for more than 20 years. We apply that same bold thinking to the whole equity chain – from equity research to trading, from equity financing to listed products.

In everything we do, we aim to deliver the insights, the products and the execution that enable our clients to realise their chosen strategy, capture new opportunities and ultimately deliver performance ahead of their peers or benchmark.

Risk INSTITUTIONAL INVESTOR RANKINGS 2013

Risk INTERDEALER RANKINGS 2012

IFR AWARDS 2012

EXTEL SURVEYS IDENTIFYING EXCELLENCE

EQUITY DERIVATIVES HOUSE OF THE YEAR Risk Awards 2013

EUROMONEY 2012 Awards for excellence

global isf EQUITY LENDING & SYNTHETIC FINANCE AWARDS 2012

The Banker 2012 Investment Banking Awards MOST INNOVATIVE FOR EQUITY DERIVATIVES

BEST DERIVATIVES PROVIDER AWARD • 2012 GLOBAL FINANCE

BUILDING TEAM SPIRIT TOGETHER

SOCIETE GENERALE
Corporate & Investment Banking

The following article is reprinted from *Risk magazine* for distribution to clients
See page 8, for Global Equity Flow contact information and details

All mixed up

Dealers have been cheered by the return of volatility to Japan's slumbering markets, but ongoing global reforms to bank supervision and derivatives markets are the backdrop to this year's rankings – and have shaken up some categories. Deutsche Bank retains top spot, with JP Morgan again second. By ***Tom Newton****, with research by* ***Max Chambers***

With economic growth, volatility and trading volumes all stagnant last year – and interest rates and inflation drifting south – derivatives dealers worried that Europe was at risk of what some economists call Japanification: a self-sustaining economic malaise, characterised by deflation and low or zero growth.

Ironically, Japan may not be the best example of the phenomenon at the moment. The election of Shinzo Abe as the country's prime minister in December last year – with a mandate to revitalise the economy – has triggered some bold steps. The central bank has doubled its inflation target, and committed to open-ended asset purchases, helping sustain the yen's decline against the dollar and simultaneously improving prospects for Japan's export-driven economy.

Since the start of 2013, the yen is down 18% versus the US dollar, while the Nikkei 225 index has risen 44% in yen terms. At the same time, the Nikkei volatility index, based on Nikkei 225 futures and options prices on the Osaka Securities Exchange, climbed from 17.11 on November 1 last year to 27.61 by the start of May. And on May 23, the Nikkei 225 index dropped over 7%, causing volatility to shoot up 58% – from 27.61 to 43.74 (*Risk* June 2013, page 7).

In other words, after being relatively dull for years, Japanese currency, equity and fixed-income markets are suddenly the place to be.

"There has been a huge change in activity and volume in the first half of 2013, compared to the latter half of 2012. In fact, it was a sea change. We have Shinzo Abe to thank for that," says Vincent Craignou, global head of foreign exchange derivatives at HSBC in London.

Investors that caught moves in the Nikkei early weren't necessarily banking on a weakening yen, so gave up some of their gains. But these firms soon realised their Nikkei exposure needed to be hedged, generating significant flows for market-makers.

"Frankly, this trade has been on hedge funds' radars for a decade, and attempts to deploy it in the past five years have been unsuccessful. But in the past six months there has been relentless positioning for yen weakness," says Craignou.

It was so relentless, he says, that HSBC saw US dollar-yen become the bank's most traded currency pair, in terms of volume, for the first time. And the large, sustained move in that cross spilled over into other currencies too. "The yen theme played out across various cash and derivative currency instruments. A very popular trade has been selling the yen versus the Mexican peso, for example," he adds.

In equity markets, the run-up in Nikkei volatility should also have been a boon to dealers, many of which are traditionally structurally long as a result of the uridashi business – autocallable equity structured products that knock out early if the index rises fairly modestly, but can leave banks with mushrooming volatility exposures if the opposite happens. During the first half of 2012, a sliding Nikkei forced dealers to sell options as a hedge for these books, depressing volatility further in a vicious circle. Then, as the year drew to a close, some banks were caught out again as returning volatility hurt the hedges they had built up earlier.

In total, the Street is estimated to have lost up to $500 million on the products. A number of banks reportedly looked to sell their uridashi books and restructure their equities businesses after taking the hit, but – as a result – they missed some of the opportunities the rebounding Japanese market provided.

"You needed to be involved in the Japanese market last year if you want to really benefit from what's going on there now. We've always been present in uridashi,

Equity overall

2013	2012	Dealer	%
1	**na**	**Société Générale**	**11.7**
2		BNP Paribas	9.9
3		JP Morgan	9.4
4		Deutsche Bank	7.9
5		Goldman Sachs	7.4
6		Bank of America Merrill Lynch	7.0
7=		Barclays	6.8
7=		UBS	6.8
9		HSBC	6.3
10		Morgan Stanley	6.0

managed our risks relatively well so we didn't incur some of the large losses reported on the Street, and when the market rebounded we could accommodate massive flows. At the same time some competitors were dialling back their presence in equities," says David Escoffier, global head of equities and flow derivatives at Société Générale Corporate & Investment Banking (SG CIB) in London.

The welcome return of market colour and trading opportunities has done something to distract traders from ongoing regulatory change, but there is no escaping the fact that incoming rules – from mandatory clearing for over-the-counter trades to Basel III's new capital and liquidity requirements – are fundamentally altering the economics of the derivatives business. The impact appears to be filtering through in the results of this year's annual *Risk* institutional investor rankings – which this year attracted 593 respondents.

Products and asset classes that tend to generate a lot of risk-weighted assets – on which bank capital requirements are calculated – have seen a fairly radical shake-up. In cross-currency swaps, for example, the winner is a bank that did not feature in last year's top 10, Goldman Sachs. In inflation swaps, BNP Paribas jumps from fifth to take the top spot – Goldman again comes from nowhere to take third. In swaptions, Goldman leaps from fifth to first. Many banks that performed strongly last year have slipped in this year's results.

When all the results are added up, Goldman Sachs takes third place overall, up from ninth last year – and the bank attributes its success to consistency. "A lot of regulations aren't finalised yet. Until the dust settles we don't necessarily have the detail in order to make binding forward decisions on the business, and therefore we are focusing very much on our client's needs – for example, staying very active in uncollateralised derivatives," says Kostas Pantazopoulos, global head of interest rate and Asia macro products at Goldman Sachs in London.

The reason it can be consistent is that the bank claims to have long been pricing in relatively new considerations like derivatives counterparty risk – now targeted by Basel III's credit valuation adjustment (CVA) charge – and the funding obligations associated with uncollateralised, or asymmetrically collateralised, transactions. These factors would have added around 10 basis points to a quote for a 10-year swap with a BBB-rated counterparty, the bank told *Risk* earlier this year, which meant it would often lose business to rivals that were not reflecting credit and funding considerations – but also meant the bank was not lumbered with a book of value-destroying trades when new regulations swam into focus (*Risk* January 2013, pages 48–49, *www.risk.net/2233888*). With pricing now shifting and some dealers pulling back from certain businesses, Goldman is competitive again – or, so the argument goes.

There is consistency elsewhere, too, with Deutsche Bank retaining its top spot overall and JP Morgan again taking second place – the banks are separated by just 0.2%. By product, Deutsche Bank enjoys a clean sweep of the overall rates, foreign exchange and credit categories – ahead of JP Morgan and Goldman Sachs for rates and credit, while beating HSBC and Barclays in forex. SG CIB is again the client favourite for equity derivatives, with BNP Paribas second and JP Morgan third.

As well as asking respondents to vote for their favourite dealers, the rankings also incorporate survey questions. Some of these are introduced to reflect topical issues, while others are fixtures – respondents are asked each year to select the factors influencing their choice of dealer, for example, and price is invariably the top choice. Transparency and liquidity are tied for second, with counterparty credit third – the same set of considerations, in the same order, as the previous three surveys. So, there is consistency on the client side, too.

Despite the sensitivity to price, a surprising proportion of respondents – 58.3% – do not know whether their dealers discount cash-collateralised trades using the overnight indexed swap (OIS)

"You needed to be involved in the Japanese market last year if you want to really benefit from what's going on there now. We've always been present in uridashi, managed our risks relatively well so we didn't incur some of the large losses reported on the Street, and when the market rebounded we could accommodate massive flows. At the same time some competitors were dialling back their presence in equities"

David Escoffier, Société Générale Corporate & Investment Banking rate now accepted as standard practice. The remainder say that all, most or some of their dealers apply OIS discounting – only 9.1% of respondents say their dealers are not doing so.

Respondents are also asked to select their top, broader concerns – market conditions come first, with derivatives pricing and regulation second and third. Those last two factors obviously have the potential to overlap considerably, with CVA a good example. In Europe, banks have secured an exemption to the capital charge when trading with corporates, sovereign entities and pension funds. As these clients do not have to centrally clear their trades – and because uncleared, uncollateralised trades will generate higher CVA capital requirements, European lawmakers concluded it would be unfair for the firms to then face increased costs as dealers pass on the impact of the capital burden.

It seemingly gifts European dealers the ability to include or ignore CVA as they see fit, with the potential to undercut global rivals that have less flexibility. In the US there are, as yet, no plans to exempt any trades from the charge – which is part of the agreed Basel III package (*Risk* June 2013, page 8).

Exemption or not, HSBC's Craignou says the bank still intends to price CVA into its derivatives trades. However he does admit the European exemption – which he expects to apply only to trades executed out of Europe, but to cover exempt counterparty types wherever they are based – could help the bank win business in Asia. "Assuming we trade directly out of London with an Asian client, using our European balance sheet, this may potentially be a competitive advantage," he says.

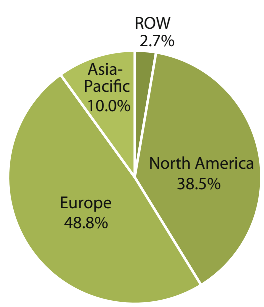
It may also be an advantage that dwindles in size. For many products and market participants, collateralisation via bilateral agreement or clearing house is set to be the norm in the years ahead, which will reduce the impact of both CVA and funding valuation adjustments. The survey finds that 32.8% of clients will reconsider the way they use derivatives as a result of mandatory clearing and bilateral margining rules. Of these, almost one-third say they could sign collateral agreements for their uncleared derivatives, and just over 40% say they might rely more heavily on traditional futures.

Elsewhere, the survey illustrates confusion and concern over the move to central clearing, with just under half of respondents saying they do not know whether they will be subject to a mandatory clearing requirement, and 63% saying they are not ready to start clearing today.

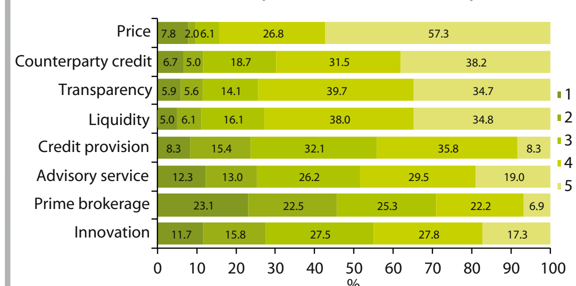
Dealers, though, are optimistic that investing in their clearing businesses, and taking the time to guide clients through the requirements, will pay dividends. The assumption is that clearing mandates will translate into a greater share of a client's execution business and other ancillary business – and traders say that is being borne out so far.

"Initial signs are heartening. Clients that are clearing with us are routing the same amount, or more, of their execution business our way. It's too early to say with any certainty whether this is a long-term trend, but we think it will be," says Nat Tyce, head of interest rate trading at Barclays in London. ■

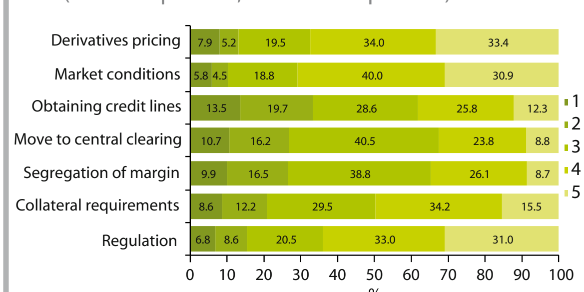
1 Geographic breakdown of respondents



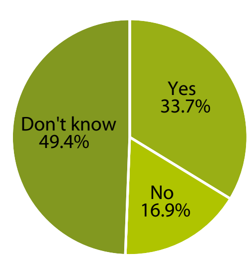
2 What factors influence your choice of derivatives dealer? Rate the following factors by importance on a scale of 1 to 5 (1 = unimportant, 5 = most important)



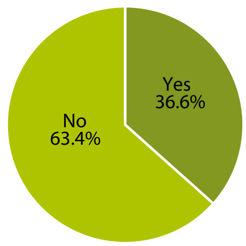
3 What are the most important issues for you currently? Rate the following factors by importance on a scale of 1 to 5 (1 = unimportant, 5 = most important)



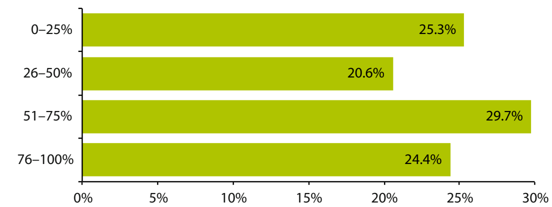
4 Do you believe you will be subject to a mandatory clearing requirement in your jurisdiction?



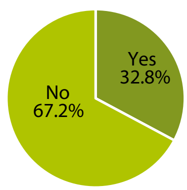
5 Are you ready to start clearing today?



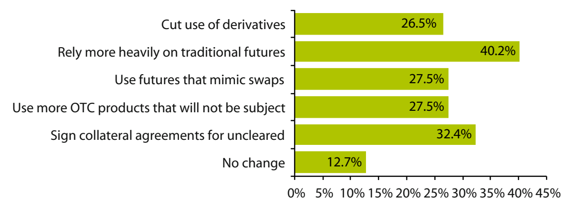
6 What proportion of your typical business would you estimate is clearable?



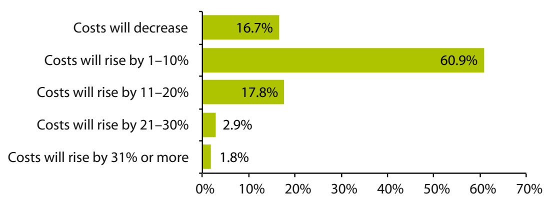
7 Have you considered changing the way you use derivatives as a result of clearing rules – and margin requirements for uncleared trades?



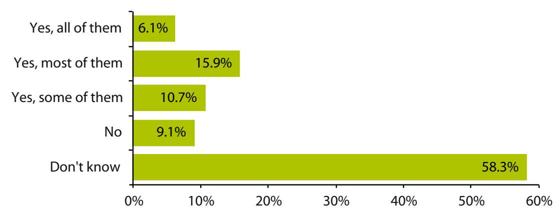
8 If you answered 'yes' to question 7, what courses of action are you most likely to take? (Select all that apply)



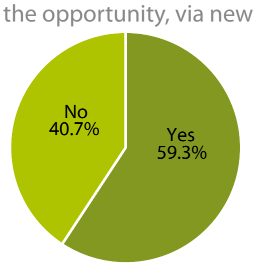
9 What impact will clearing and prudential regulation have on pricing for the derivatives you currently use?



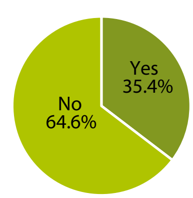
10 Do your dealers use the OIS rate when discounting cash-collateralised trades?



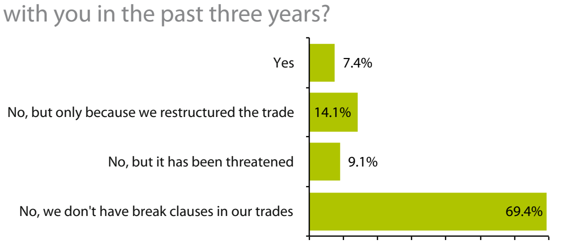
11 Would you consider quoting prices for selected trades, if given the opportunity, via new OTC trading platforms?



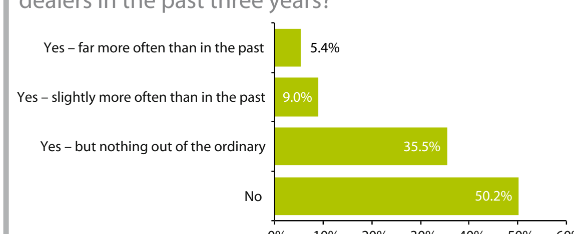
12 Would you have any qualms about trading directly with another derivatives end-user rather than a traditional market-maker?



13 Has a dealer exercised a break clause in a contract with you in the past three years?



14 Have you had any valuation disputes with your dealers in the past three years?



OVERALL

OTC single-stock equity options

2013	2012	Dealer	%
1	**1**	**Société Générale**	**12.7**
2	5	JP Morgan	11.0
3	2	BNP Paribas	10.2
4	3	Deutsche Bank	8.8
5	6	Goldman Sachs	8.5
6	7=	Bank of America Merrill Lynch	7.8
7	7=	Credit Suisse	6.7
8	4	Morgan Stanley	6.5
9		Nomura	6.3
10	9	Barclays	6.1

Equity index options

2013	2012	Dealer	%
1	**1**	**Société Générale**	**13.1**
2	5	JP Morgan	10.8
3	2	BNP Paribas	9.5
4	4	Deutsche Bank	9.0
5	7	Goldman Sachs	7.4
6	10	Bank of America Merrill Lynch	7.2
7	8	Barclays	7.1
8	9	Citi	7.0
9	3	Morgan Stanley	6.2
10	6	Credit Suisse	5.9

Exotic equity products

2013	2012	Dealer	%
1	**na**	**Société Générale**	**14.6**
2		BNP Paribas	12.0
3		JP Morgan	10.4
4		Deutsche Bank	9.2
5		Bank of America Merrill Lynch	7.9
6		Goldman Sachs	7.7
7		Barclays	7.6
8		Credit Suisse	6.9
9		Morgan Stanley	6.4
10		Citi	6.1

EQUITY: OTC SINGLE-STOCK EQUITY OPTIONS

US

2013	2012	Dealer	%
1	**1**	**Société Générale**	**14.8**
2		JP Morgan	12.0
3	3=	Goldman Sachs	10.4
4	5	Bank of America Merrill Lynch	10.2
5	3=	Morgan Stanley	9.9

Europe

2013	2012	Dealer	%
1	**1**	**Société Générale**	**14.2**
2	2	BNP Paribas	12.9
3	3	Deutsche Bank	10.3
4	5	JP Morgan	9.6
5		Credit Suisse	9.1

Asia

2013	2012	Dealer	%
1	**1**	**Société Générale**	**16.3**
2	3	Nomura	12.6
3	2	BNP Paribas	11.4
4		HSBC	11.2
5	4	JP Morgan	10.0

How the poll was conducted

Risk received 593 valid responses from asset managers, hedge funds, pension firms and insurance companies globally. The responses were divided between Europe (49%), North America (39%) and Asia (10%).

The survey covers 71 derivatives categories across interest rate, foreign exchange, credit and equity derivatives. Participants were asked to vote for their top three derivatives dealers in order of preference in derivatives categories they had traded over the course of the year.

It is important to note this poll is not designed to reflect volumes traded in any particular market and is therefore not necessarily a direct reflection of market share – voters could base their decisions on a variety of criteria, including pricing, liquidity provision, counterparty risk, speed of execution and reliability. In that sense, this poll should be considered a reflection of how buy-side firms view dealers in terms of overall quality of service.

When aggregating the results, we look to strip out what we consider to be invalid votes. These include people voting for their own firm, multiple votes from the same person or IP address, votes from people using non-work email accounts, votes by people who choose the same firm indiscriminately throughout the poll, votes by people who clearly do not trade the product, and block votes from groups of people on the same desk at the same institution voting for the same firm. This is a process we take very seriously.

The votes were weighted, with three points for a first place, two points for second and one for third. Only categories with a sufficient number of votes are included in the final poll.

To decide the overall winner, *Risk* uses the overall percentage of votes for each bank. The survey also includes a series of overall product leaderboards, calculated by aggregating the total number of votes across individual categories. These overall results are naturally weighted, as there are more votes in the large categories (for example, US dollar and euro swaps) than the smaller, less liquid categories.

EQUITY INDEX OPTIONS

US

2013	2012	Dealer	%
1	**1**	**Société Générale**	**14.9**
2	3	JP Morgan	12.9
3	5	Goldman Sachs	10.3
4		Bank of America Merrill Lynch	9.1
5=	4	Citi	9.0
5=	2	Morgan Stanley	9.0

Europe

2013	2012	Dealer	%
1	**1**	**Société Générale**	**16.3**
2	2	BNP Paribas	12.8
3	3	Deutsche Bank	12.1
4		JP Morgan	10.6
5		Barclays	8.9

Asia

2013	2012	Dealer	%
1	**1**	**Société Générale**	**15.6**
2	4	Nomura	13.7
3	2	BNP Paribas	11.3
4		JP Morgan	11.1
5	3	Deutsche Bank	9.1

EQUITY: EXCHANGE-TRADED FUNDS

US

2013	2012	Dealer	%
1	3=	Deutsche Bank	14.6
2	1	BlackRock	14.1
3	**3=**	**Société Générale**	**12.1**
4		Credit Suisse	10.4
5	5	Citi	9.8

Europe

2013	2012	Dealer	%
1	**1**	**Société Générale**	**14.6**
2	2	Deutsche Bank	11.4
3		Commerzbank	10.0
4		Credit Suisse	9.7
5	5	UniCredit	9.4

Asia

2013	2012	Dealer	%
1	**1**	**Société Générale**	**13.8**
2	2	Deutsche Bank	12.1
3	3	BlackRock	10.6
4	4=	Nomura	10.1
5	4=	BNP Paribas	9.5

EQUITY: EXOTIC EQUITY PRODUCTS

Exotic single-stock options

2013	2012	Dealer	%
1	**1**	**Société Générale**	**15.2**
2	2	BNP Paribas	12.7
3	3	Deutsche Bank	11.2
4		JP Morgan	10.1
5	4	Bank of America Merrill Lynch	9.0

Exotic index options

2013	2012	Dealer	%
1	**1**	**Société Générale**	**16.1**
2	2	BNP Paribas	13.3
3		Deutsche Bank	10.6
4	4	JP Morgan	10.3
5	5	Bank of America Merrill Lynch	10.0

Other exotic equity options (worst-of, cliquet, etc)

2013	2012	Dealer	%
1	**1**	**Société Générale**	**17.2**
2	2	BNP Paribas	14.8
3	4	JP Morgan	12.9
4		Bank of America Merrill Lynch	12.1
5		Credit Suisse	10.7

Volatility/variance swaps

2013	2012	Dealer	%
1	**1**	**Société Générale**	**16.4**
2	5	JP Morgan	12.6
3	2	BNP Paribas	12.1
4		Goldman Sachs	10.6
5	4	Deutsche Bank	9.8

Dividends swaps

2013	2012	Dealer	%
1	**1**	**Société Générale**	**16.1**
2	2	BNP Paribas	13.9
3	5	Deutsche Bank	11.8
4	4	Goldman Sachs	10.7
5	3	JP Morgan	10.3

FOR INSTITUTIONAL
INVESTOR USE ONLY

GLOBAL EQUITY FLOW

#1 OVERALL IN EQUITY DERIVATIVES
#1 EXCHANGE TRADED FUNDS, EUROPE & ASIA

SG CIB - THINKING THAT GOES FURTHER

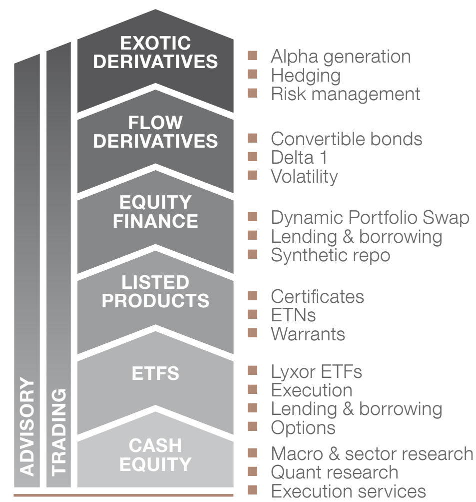
FROM DERIVATIVES TO CASH EQUITIES A UNIQUE CONTINUUM OF SOLUTIONS

- A unique derivatives heritage
- Leveraging all fields of expertise; fundamental research, flow analysis, sales servicing, engineering and structuring, trading and execution
- Provide a combination of the most relevant underlyings, strategies and wrapper solutions

A UNIQUE COMBINATION OF EXPERTISE TO BRING VALUE

- Excellence from Macro and Quant Research to more in-depth sector analysis on a global basis
- Delivery of market intelligence, timely trade ideas and investment strategies
- Unique flow expertise with access to more than 95% of global equity market capitalisation and 70 trading venues globally
- A partner in all trading conditions

SOLUTIONS ACROSS THE RANGE



FOR FURTHER INFORMATION ON GLOBAL EQUITY FLOW, CONTACT OUR GLOBAL SALES TEAM: EQUITY@SGCIB.COM

—

GLOBAL EQUITY FLOW EUROPE
TOURS SOCIETE GENERALE, 17 COURS VALMY,
92987 PARIS LA DÉFENSE, CEDEX, TEL: +33 1 42 13 53 93

EXCHANGE HOUSE, 12 PRIMROSE STREET, LONDON EC2A 2EG
TEL: +44 20 7762 5659

SOCIETE GENERALE, NEUE MAINZER STRASSE,
46-5060311 FRANKFURTGERMANY

SOCIETE GENERALE, VIA OLONA,
220123 MILANO, ITALY

SOCIETE GENERALE, TORRE PICASSO,
PLAZA DE PABLO RUIZ PICASSO, 128020 MADRIDSPAIN

EQUITY FLOW AMERICAS
1221 AVENUE OF THE AMERICAS, 10020 NEW YORK
TEL: +1 212 278 6287

EQUITY FLOW ASIA-PACIFIC
LEVEL 38, 3 PACIFIC PLACE, 1 QUEEN'S ROAD EAST, HONG KONG
TEL: + 852 2166 4914/4264

ARK MORI BUILDING, 1-12-32 ARKASAKA, MINATO-KU, TOKYO 107-6015
TEL: +813 5549 5800

EQUITY@SGCIB.COM
WWW.SGCIB.COM

BUILDING TEAM SPIRIT TOGETHER

SOCIETE GENERALE
Corporate & Investment Banking