PILLAR III REPORT

SOCIETE GENERALE

Disclosures as of December 31, 2008.

Except where indicated otherwise, all figures provided in this report are as of December 31, 2008 and stated in millions of Euros. The drawing-up process of Societe Generale's Pillar III report and the data contained in it are not subject to review by the Group's statutory auditors.

INTRODUCTION

THE BASEL II FRAMEWORK

According to the regulatory framework enacted in 1988 by the Basel Committee on Banking Supervision (the Basel II framework), regulatory supervision of banks' capital is based on three, interrelated pillars:

- **Pillar I** sets minimum solvency requirements and defines the rules that banks must use to measure risks and calculate associated capital needs, according to standard or more advanced methods.
- **Pillar II** relates to the discretionary supervision implemented by national banking supervisors, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar I, and to calibrate additional capital needs with regard to risks.
- **Pillar III** encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to make a better assessment of capital, risk exposure, risk assessment processes and hence capital adequacy of the institution.

The Basel II framework was enshrined into European legislation with the enactment of the Capital Requirement Directive (CRD), which was eventually transposed into French regulations through the February 20th, 2007 Decree.

SOCIETE GENERALE'S PILLAR III REPORT

Published under the joint responsibility of the Group's Finance Department and Risk Department, Societe Generale's Pillar III report intends to provide valuable insight into the Group's capital and risk management, as well as to provide detailed quantitative information in relation to the calculation of Group's consolidated solvency ratios, as they result from the implementation of Pillar I.

Published yearly, on the basis of the year-end figures, Societe Generale's Pillar III report is available on the Group's investor relation website www.investor.socgen.com.

SCOPE OF PRUDENTIAL REPORTING

Societe Generale is subject to consolidated regulatory reporting to its home supervisor, the French Banking Commission. Accordingly, the Pillar III report is based on the Group's consolidated regulatory solvency reporting. In addition, the contribution to the Group's total risk-weighted assets of selected key Group subsidiaries are appended to the Group report.

The Group's prudential reporting scope includes all fully consolidated subsidiaries and proportionally consolidated subsidiaries, the list of which is available in the Group's 2009 registration document available on www.investor.socgen.com, with the exception of insurance subsidiaries, which are subject to separate insurance capital reporting requirements. For regulatory purposes, Societe Generale's investments in insurances companies, as well as affiliates consolidated according to the equity method, are deducted from the Group's total regulatory capital.

The main Group companies outside the prudential reporting scope are as follows:

INSURANCE ACTIVITIES

Génécar	France
Oradéa Vie	France
Sogécap	France
Sogéssur	France
Antarius	France
Généras	Luxembourg
Sogelife	Luxembourg
Inora Life	Ireland
Komercni Pojstovna	Czech Republic
La Marocaine Vie	Morocco
Sogecap Life Insurance	Russia

BANKING ACTIVITIES

Groupama Banque	France
SG Banque au Liban	Lebanon

STATUS OF CONSOLIDATED SUBSIDIARIES

Regulated financial subsidiaries and affiliates outside Societe Generale's prudential consolidation scope are all in compliance with their respective solvency requirements and have not posted any capital shortfalls vis-à-vis regulatory minimums.

More generally, all regulated Group undertakings are subject to solvency requirements set by their respective regulators.

1 CAPITAL MANAGEMENT POLICY

CAPITAL MANAGEMENT OBJECTIVES AND STRATEGY

Societe Generale's capital management ensures that its solvency level is always consistent with its objectives of:

i) maintaining a high level of financial strength, closely correlated to the Group's overall risk profile and risk appetite,

ii) preserving financial flexibility for funding internal and external growth,

iii) ensuring the optimal deployment of capital across its various businesses to maximize return on capital, and,

iv) satisfying the expectations of various stakeholders: counterparties, debt obligors, ratings agencies and shareholders.

The Group's internal solvency target is expressed in reference to its regulatory Tier 1 ratio, as it results from the implementation of Pillar 1 of Basel II, reflecting the high comparability, consistency and transparency of this ratio across the industry. Under the Pillar I framework, capital requirements arising from credit risk, market risk and operational risk are determined according to quantitative rules, which are further described in this Pillar III report. In addition, as prescribed under the Pillar II capital framework, Societe Generale ensures – based notably on certain global stress scenarios – that its capital targets adequately cover its internal capital needs, which encompass the full scope of risks.

CAPITAL MANAGEMENT PROCESS

The Group's capital management process is administered by the Finance Division and is subject to the overall guidance and control of the Board. Fully integrated within the Group's financial and strategic steering, the capital management process takes account of the group's regulatory capital constraints as well as its internal assessment of the amount of capital required to face up to the entirety of its risks, as it results from its Internal Capital Adequacy Assessment Process (ICAAP).

The bank's ICAAP in which senior management is closely involved is based on a multi-pronged approach, which considers primarily:

- Business and risks cyclicality, to explicitly factor in the effect of the credit cycles, while also taking into account risks outside the scope of Pillar I (e.g. business risk, interest rate risk etc.).
- Global stress tests, performed at least annually and on an ad-hoc basis, where Societe Generale's resilience to macro-economic scenarios is evaluated in a top-down approach.

Using a Group-wide simulation tool, capital planning is updated at regular intervals (e.g. quarterly results, budget and financial planning, external growth funding plans), and helps ensure at all times that sources and application of capital fit well with the Group's overall objectives and business needs.

Finally, in order to vet the outcome of its capital management process, the bank supplements its results by performing benchmarking with relevant peers, as well as by maintaining a constant dialogue with investors, equity analysts and rating agencies.

2 RISK MANAGEMENT POLICY

RISK MANAGEMENT POLICY

The bank operates in business lines, markets or regions which generate a range of risks that may vary in frequency, severity and volatility. A greater ability to calibrate its risk appetite and risk parameters, the development of risk management core competences, as well as the implementation of a high performance and efficient risk management structure are therefore critical undertakings for Societe Generale.

The primary objectives of the bank's risk management framework are therefore:

- To contribute to the development of the Group's various business lines by optimising their overall risk-adjusted profitability.
- To guarantee the Group's sustainability as a going concern, through the implementation of a high quality risk management infrastructure.

In defining the Group's overall risk appetite, the management takes various considerations and variables into account, including:

- Relative risk/reward of the bank's various activities,
- Earnings sensitivity to business, credit and economic cycles,
- Sovereign and macro-economic risk, notably for businesses based in emerging markets,
- The desire to achieve a well-balanced portfolio of earnings streams.

RISK MANAGEMENT GOVERNANCE AND CONTROL PRINCIPLES

Societe Generale's risk management governance is based on:

i) high managerial involvement, throughout the entire organisation, from the Board of Directors down to operational field management teams,

ii) a tight framework of internal procedures and guidelines,

iii) continuous, independent supervision to monitor risks and to enforce rules and procedures.

Firstly, the Board defines the Company's strategy for assuming and controlling risks and ensures its implementation. In particular, the Board ensures the adequacy of the Group's risk infrastructure, reviews the businesses' overall risk exposures and approves the overall yearly market and credit risk limits. Presentations on the main aspects of, and notable changes to, the Group's risk strategy, as well as on the overall risk management structure, are made to the Board by the executive management, once a year or more frequently, as circumstances require.

Within the Board, the Audit Committee is more particularly entrusted with examining the consistency of the internal framework for monitoring risks and compliance. With the benefit of specific presentations made by the management, the Committee reviews the procedures for controlling market risks as well as the structural risk and is consulted about the setting of the related risk limits. It also issues an opinion on the Group's overall provisioning policy as well as on large specific provisions. Finally, it also examines the risk assessment and control procedure report submitted annually to the French Banking Commission.

RISK CATEGORIES

The risks associated with Societe Generale's banking activities are the following:

- **Credit risk** (including country risk): risk of losses arising from the inability of the bank's customers, sovereign issuers or other counterparties to meet their financial commitments. Credit risk also includes the **counterparty risk** linked to market transactions, as well as that stemming from the bank's securitization activities. In addition, credit risk may be further compounded by a **concentration risk,** which arises either from large individual exposures or from groups of counterparties with a high probability of default.
- **Market risk**: risk of losses resulting from changes in market prices (e.g. equity, commodity, currency etc.) and interest rates, from the correlations between these elements and from their volatility.
- **Operational risks** (including legal, accounting, environmental and reputational risks): risk of loss or fraud or of producing inaccurate financial and accounting data due to inadequacies or failures in procedures and internal systems, human error or external events. Additionally, operational risks may also take the form of a **compliance risk**, which is the risk of the bank incurring either legal, administrative or disciplinary sanctions or financial losses due to failure to comply with relevant rules and regulations.
- **Equity risk**: risk of a negative fluctuation in the value of the equity holdings in the bank's investment portfolios.
- **Structural risk**: risk of losses or of residual depreciation in the bank's balance sheet and off-balance sheet assets arising from variations in interest or exchange rates. Structural interest rate and exchange rate risk arises from commercial activities and on Corporate Center's transactions (transactions affecting the shareholders' equity, investments and bond issues).
- **Liquidity risk**: risk of the Group not being able to meet its obligations as they come due.
- **Strategic risk**: risks entailed by a chosen business strategy or resulting from the bank's inability to execute its strategy.
- **Business risk**: risk of the earnings break-even point not being reached because of costs exceeding revenues.
- **Reputation risk**: risk of losses due to damage to the bank's reputation in the eyes of its customers, shareholders and regulators.

Through its insurance subsidiaries (mainly Sogecap), the Group is also exposed to a variety of risks linked to the insurance business (e.g. premium, reserving, catastrophe, mortality, longevity, morbidity and structural for non-life or life activities). These risks are primarily addressed through a specific risk management framework implemented within Societe Generale's insurance subsidiaries and by ensuring their adequate capitalisation.

RISK MANAGEMENT AND CONTROL PROCESS

Societe Generale dedicates significant resources to constantly adapting its risk management to its increasingly varied activities and ensures that its risk management framework operates in full compliance with the following overriding principles set by banking regulations:

- full independence of risk assessment departments from the operating divisions,
- consistent approach to risk assessment and monitoring applied throughout the Group.

Responsibility for devising the relevant risk management structure and defining risk management operating principles lies mainly with the Risk Division and in certain areas the Finance Division.

The bank's Risk Committee (CORISQ) is in charge of reviewing all the bank's key risk management issues. CORISQ's monthly meetings involve members of the Executive Committee, the heads of the business lines and the Risk Division managers and are used to review all the core strategic issues: risk-taking policies, evaluation methods, material and human resources, analyses of portfolios and of the cost of risk, market and credit concentration limits (by product, country, sector, region, etc.) and crisis management. On the other hand, the Finance Committee (COFI) is competent for matters relating to funding and liquidity policymaking and planning.

Societe Generale's risk measurement and assessment processes are integrated in the bank's ICAAP process. Alongside capital management, the ICAAP is aimed at providing guidance to both the CORISQ and the COFI in defining the Group's overall risk appetite and setting risk limits.

The Risk Division is independent from the Group's operating entities and reports directly to Executive Management. Its role is to contribute to the development and profitability of the Group by ensuring that the risk management framework in place is both sound and effective. It employs various teams specializing in the operational management of credit and market risk as well as risk modelling teams, IT project managers, industry experts and economic research teams.

More specifically, the Risk Division:

- defines and validates the methods used to analyse, assess, approve and monitor credit risks, country risks, market risks and operational risks;
- conducts a critical review of sales strategies for high-risk areas and continually seeks to improve the forecasting and management of such risks;
- contributes to independent assessment by validating transactions posing a credit risk and by offering an opinion on obligors proposed by sales managers;
- identifies all Group risks and monitors the adequacy and consistency of risk management information systems.

The Finance Division, for its part, is entrusted with evaluating and managing other major types of risks, namely strategic, business, liquidity and structural risks. The Group's structural interest rate and exchange risk as well as the long-term financing program are managed by the Asset and Liability Management department. In addition, the Internal Legal Counsel deals with compliance and legal risks.

All new products and activities or products under development must be submitted to the New Product Committee of the relevant business line. This New Product Committee aims to ensure that, prior to the launch of a new activity or product, all associated risks are fully understood, measured, approved and subject to adequate procedures and controls, using the appropriate information and processing systems.

Finally, risk management principles, procedures and infrastructures are subject to reviews by internal as well as external auditors.

3 COMPOSITION OF REGULATORY CAPITAL AND CALCULATION OF REGULATORY RATIOS

COMPOSITION OF REGULATORY CAPITAL BASE

Reported according to International Financial Reporting Standards (IFRS), Societe Generale's regulatory capital base includes the following components:

Tier 1 capital

Tier 1 capital comprises own funds elements less prudential deductions.

Definition of Tier 1 capital:

- Common stock (net of treasury stock).
- Retained earnings, including translation reserves and changes in the fair value of assets available for sale and hedging derivatives, net of tax.
- Minority interests.
- Certain deeply subordinated instruments – further described below – may also be included in Tier 1 capital subject to prior approval of the French Banking commission and within specific regulatory limits.

Less prudential deductions:

- Estimated dividend payment.
- Acquisition goodwill.
- Intangible assets.
- Unrealised capital gains and losses on cash flow hedges and Available For Sale (AFS) assets, except for losses on equity securities. Nevertheless 45% of unrealised gains on AFS securities and tangible assets are included in Tier 2 capital.

Moreover, under the Basel II capital framework, other deductions are made, 50% from Tier 1 and 50% from Tier 2:

1. Investments and subordinated claims towards non consolidated banks or financial institutions if the shares held represent an interest of more than 10% of the outstanding capital of this entity.
2. Securitization exposures weighted at 1250% where such exposures are not included in the calculation of total risk-weighted exposures.
3. Expected loss on equity exposures.
4. Negative difference, if any, between portfolio-based provisions and expected losses on performing loans risk-weighted under the Internal Ratings Based approach (IRB).

Tier 2 capital

Tier 2 capital (or supplementary capital) comprises:

- Undated subordinated debt (upper Tier 2 capital).
- The positive difference, if any, between portfolio-based provisions and expected losses on performing loans risk-weighted under the Internal Ratings Based approach (IRB) is also included in upper Tier 2 up to 0,6% of the total Risk-Weighted Assets.
- Dated subordinated debt (lower Tier 2 capital)

less 50% of the specific Basel II prudential deductions described above.

In addition, equity interests of more than 20% held in entities belonging to the insurance sector and any investment qualifying as regulatory capital for insurance solvency requirements are deducted from total own funds until December 31st, 2012 if acquired prior to January 1st, 2007.

INSTRUMENTS QUALIFYING AS TIER 1 CAPITAL FOR REGULATORY PURPOSES

Societe Generale's deeply subordinated notes and U.S. trust preferred shares issued through guaranteed indirect subsidiaries share the following features:

- These instruments are perpetual and constitute unsecured, deeply subordinated obligations, ranking junior to all other obligations including undated and dated subordinated debt, and senior only to common stock shareholders.
- In addition, Societe Generale may elect, and in certain circumstances may be required, not to pay the interest accrued on the instruments. Waived interest is not cumulative.
- Under certain circumstances, notably with regard to the bank's compliance with solvency requirements, the issuer has the right to use principal and interest to offset losses.
- Subject to the prior approval of the French Banking commission, Societe Generale has the option to redeem these instruments at certain time intervals, but not earlier than five years after their issuance date.
- The combined outstanding amount of these instruments cannot exceed 35% of the bank's total Tier 1 capital base. In addition, the combined outstanding amount of instruments with a step-up clause (i.e. "innovative instruments"), cannot exceed 15% of the bank's total Tier 1 capital base.

U.S. Trust Preferred shares

- In the first half of 2000, Societe Generale issued EUR 500 million in preferred shares through a wholly-owned US subsidiary. These securities entitle the holder to a fixed non-cumulative dividend equal to 7.875% of nominal value payable annually, with a step-up clause that comes into effect after 10 years.
- In the fourth quarter of 2001, Societe Generale issued USD 425 million in preferred shares through a wholly-owned US subsidiary, with a step-up clause that comes into effect after 10 years. These shares entitle holders to a non-cumulative dividend, payable quarterly, at a fixed rate of 6.302% of nominal value on USD 335 million of the issue, and at a variable rate of Libor +0.92% on the other USD 90 million.
- In the fourth quarter of 2003, Societe Generale issued EUR 650 million of preferred shares through a wholly-owned US subsidiary (paying a non-cumulative dividend of 5.419% annually) with a step-up clause that comes into effect after 10 years.

From an accounting perspective, due to the discretionary nature of the decision to pay dividends to shareholders, preferred shares issued by the Group are classified as equity and recognized under *Minority interests.* Remuneration paid to preferred shareholders is recorded under minority interests in the income statement.

Deeply subordinated notes – Titres Super Subordonnés (TSS)

- In January 2005, the Group issued EUR 1 billion of deeply subordinated notes (Titres Super Subordonnés – TSS), paying 4.196% annually for 10 years and, after 2015, 3-month Euribor +1.53% per annum payable quarterly.
- In April 2007, the Group issued USD 200 million of deeply subordinated notes, paying 3-month USD Libor + 0.75% annually and then, from April 5, 2017, 3-month USD Libor +1.75% annually.
- In April 2007, the Group issued USD 1,100 million of deeply subordinated notes, paying 5.922% per annum payable quarterly and then, from April 5, 2017, 3-month USD Libor +1.75% annually.
- In December 2007, the Group issued EUR 600 million of deeply subordinated notes paying 6.999% annually and then, from 2018, 3-month Euribor +3.35% per annum payable quarterly.
- In May 2008, the Group issued EUR 1,000 million of deeply subordinated notes, paying 7.756% annually and then, from May 22, 2013, 3-month Euribor +1.35% per annum payable quarterly.
- In June 2008, the Group issued GBP 700 million of deeply subordinated notes, paying 8.875% annually and then, from September 16, 2019, 3-month Libor +3.40% per annum payable quarterly.
- In July 2008, the Group issued EUR 100 million of deeply subordinated notes, paying 7.715% annually and then, from May 22, 2013, 3-month Euribor +3.70% per annum payable quarterly.
- In addition, in December 2008, the Group issued EUR 1,700 of deeply subordinated notes, fully subscribed by the Société de Prises de Participation de l'Etat, an agency of the French government. Interest is 8.18% annually and then, from 2013, Euribor +4.98%. The bank has the option to redeem the notes after five years.

From an accounting perspective, given the discretionary nature of the decision to pay dividends to shareholders, deeply subordinated notes are classified as equity and recognized under *Equity instruments and associated reserves.*

Total amounts issued and outstanding at year-end 2008

Date issued	Currency	Amount issued (million)	Amount in EUR million Year-end 2008
Preference shares			
March 2000*	EUR	500	500
October 2001*	USD	425	305
October 2003*	EUR	650	650
			1,455
Deeply subordinated notes			
January 2005	EUR	1,000	1,000
April 2007*	USD	1,100	790
April 2007*	USD	200	144
December 2007*	EUR	600	600
May 2008*	EUR	1,000	1,000
June 2008	GBP	700	735
July 2008	EUR	100	100
December 2008	EUR	1,700	1,700
			6,069
Amount at period-end			**7,524**

* *innovative instruments*

CALCULATION OF REGULATORY RATIOS

During the transitional period until year-end 2009, the benefit of lower capital requirements associated with the implementation of the Basel II capital framework (as enshrined in the 2006 Capital Requirement Directive – CRD) is capped by regulations. Accordingly, the Group's total minimum capital requirement must be at least 90% of the one calculated under the Basel I capital framework (as passed into law by the 1993 European Capital Adequacy Directive – CAD) on a parallel basis for 2008, and at least 80% of the Basel I number until year end 2009.

For the purpose of the calculation of this Basel II solvency floor in 2008 and 2009, own funds are fully adjusted to reflect differences in the calculation of own funds between the Basel I (CAD) and Basel II (CRD) frameworks.

The application of these transitional measures at year-end 2008 had the effect of reducing the Group's reported Tier 1 and total capital ratios of 0.35% and 0.51% respectively.

Basel II solvency ratios	Dec 31, 2008
Shareholders' equity (IFRS)	**36,085**
Proposed dividends	(843)
Deeply subordinated notes	5,969
Perpetual subordinated notes	(812)
Shareholders' equity, net of proposed dividend, deeply subordinated and perpetual subordinated notes	**28,361**
Minority interests	3,018
Deeply subordinated notes	6,069
U.S. preferred shares	1,455
Intangible assets	(1,437)
Goodwill on acquisitions	(6,530)
Other regulatory adjustments	668
Total tier 1 capital	**31,721**
Basel II deductions*	(1,398)
Total tier 1 capital, net of deductions	**30,323**
Upper tier 2 capital**	1,188
Lower tier 2 capital	13,092
Total tier 2 capital	**14,280**
Basel II deductions*	(1,398)
Insurance affiliates	(2,971)
Total regulatory capital	**40,234**
Total risk weighted assets with-out add-on for transitional measures	**345,518**
Credit risk	277,195
Market risk	23,068
Operational risk	45,256
Effect of transitional measures on RWA for total capital ration calculation	15,911
Effect of transitional measures on RWA for Tier 1 capital ratio calculation	14,087
Solvency ratios	
Tier 1 ratio	8.78%
Total capital ratio	11.64%
Tier 1 ratio with the effect of transitional measures	8.43%
Total capital ratio with the effect of transitional measures***	11.13%

* *Basel II deductions are deducted 50% from Tier 1 capital and 50% from Total capital.*

** *Including Euro 145 million on account of the positive difference between portfolio-based provisions and expected losses on IRB-weighted performing loans.*

*** *In March 2009, the Banking Commission clarified the calculation for the additional capital requirements required under the transitional period defined by the Basel II framework, with regard to treatment of the difference between provisions and expected losses.*

4 CREDIT AND COUNTERPARTY RISK – RISK MITIGATION

CREDIT RISK MANAGEMENT: ORGANIZATION AND STRUCTURE

Maintaining comprehensive and efficient management and monitoring of credit risk – which is its primary source of risk – is essential to Societe Generale's financial strength and profitability. The bank therefore implements a tight credit risk control framework, whose cornerstone is the credit risk policy defined jointly by the Risk Division and the Group's operating divisions, and is subject to periodic review and approval by the Board's Audit Committee.

Credit risk supervision is organized along the Group's business lines, with specific departments in charge of country risk, financial institutions, corporate and investment banking exposure, domestic and non-domestic retail banking exposure (including specialized financial services), private banking, asset management, and, finally, counterparty exposure (i.e. in connection with market risk).

Within the Risk Division, each of these departments is responsible for:

- setting global and individual credit limits by customer, customer group or transaction type,
- validating credit score or internal customer rating criteria,
- monitoring and surveillance of large exposures and various credit portfolios,
- reviewing specific and general provisioning policies.

In addition, a specific department performs comprehensive portfolio analysis and continuously monitors cross-sectoral credit risk in order to provide guidance to executive management on the Group's overall credit risk exposure. This role includes coordinating various sector or cross-sector surveys, collecting relevant data, and internal and external reporting, including to banking regulators. The Risk Division also helps define measuring risk criteria and appropriate provisioning practices.

There is regular reporting to the Group's Risk Committee (CORISQ), on proposed improvements to the credit policy and to the credit risk management framework, on portfolio analysis, and on the results of global stress tests incorporating the impact of macro-economic scenarios on the bank's risk exposure. Furthermore, an analysis of the effect of macro-economic cycles on volatility and in turn on the bank's non performing loans and regulatory Risk-Weighted Assets are also presented to the CORISQ.

In addition, the Group has devised specific procedures and contingency plans to deal with the credit crises that might arise with respect to a specific counterparty, industry, country or region.

RISK APPROVAL AND LIMITS

Strongly embedded in Societe Generale's credit policy is the concept that approval of any credit risk undertaking must be based on sound knowledge of the client and a thorough understanding of the client's business, the purpose, nature and structure of the transaction and the sources of repayment, while bearing in mind the Group's risk strategy and risk appetite. Credit decisions must also ensure that the return on the transaction will sufficiently reflect the risk of loss in case of default.

The risk approval process is based on four core principles:

- All transactions involving counterparty risk (debtor risk, non-settlement or non-delivery risk and issuer risk) must be pre-authorized.
- Staff assessing credit risk are fully independent from the decision-making process.
- Subject to relevant approval limits, responsibility for analyzing and approving risk lies with the most appropriate business line or credit risk unit, which reviews all authorization requests relating to a specific client or client group, to ensure a consistent approach to risk management.
- All credit decisions systematically factor in internal counterparty risk ratings, as provided by business lines and vetted by the Risk Division.

The Risk Division submits recommendations to the Risk Committee on the concentration limits it deems appropriate, at any given moment, for particular countries, geographic regions, sectors, products or customer types, in order to reduce cross-business risks with strong correlations. The country risk limits are defined such that the correct exposure limit is assigned to each emerging market, based on the risk incurred and the expected return on transactions in each country. The allocation of limits is subject to final approval by the Group's executive management and is based on a process that involves the business divisions exposed to risk and the Risk Division.

Finally, the supervision provided by the CORISQ is supplemented by the Committee for large risk exposures. This is an ad-hoc committee more specifically responsible for periodically reporting to the executive committee on the Group's main exposures and associated risks, as well as for vetting the risk-taking and marketing policy vis-à-vis the corporate part of the bank's key client group, including proposing exposure limits.

RISK MONITORING AND AUDITING

All Group operating units, including the trading rooms, are equipped with information systems enabling them to check, on a daily basis, that the exposure limits set for each counterparty have not been exceeded.

In addition to this day-to-day management of risks, a second level of control is performed by the operating divisions' head office, using the Group-wide risk information system. This system aims at centralizing in a single database, all the operating entities' commitments, and at reconciling total counterparty exposure with the corresponding authorizations. It also provides basic data for the portfolio analyses used in the bank's active risk management strategy.

Changes in the quality of outstanding commitments are reviewed at regular intervals, and at least once a quarter, as part of the "watch list" and provisioning procedures. These reviews are based on two-party analyses performed by the business divisions and the risk department. The Risk Division also carries out file reviews or risk audits in the Group's business divisions. Finally, the Group's Internal Audit Department performs regular risk audits and reports its findings to the Group's executive management.

COUNTERPARTY RISK MANAGEMENT

Given the Group's significant involvement in the global capital markets, Societe Generale has dedicated substantial resources to the development and implementation of effective tools for measuring and monitoring counterparty risk on market transactions. This risk, known as the replacement risk, corresponds to the marked-to-market value of transactions with counterparties, and represents the current cost of replacing transactions with a positive value to the Group should the counterparty default. The transactions giving rise to a counterparty risk are, inter alia, security repurchase agreements, security lending and borrowing and over-the-counter derivative contracts such as SWAPs, options and futures.

Counterparty risk monitoring

Societe Generale attaches great importance to carefully monitoring its counterparty risk exposure in order to i) minimise its losses should its counterparties default and ii) facilitate its trading activities by calibrating limits against the most solvent market participants. Counterparty limits are therefore assigned to all trading counterparties, irrespective of their status (banks, other financial institutions, corporates and public institutions).

In order to quantify replacement risk, the future marked-to-market value of all trading transactions with counterparties, is modelled, taking into account any netting and correlation effects. This is achieved using Monte Carlo simulations that calculate the future behaviour of several thousand risk factors affecting the marked-to-market valuations of the different market products involved. These valuations take into account any guarantees, sureties or collateral available.

The simulations are obtained from statistical models developed by the Risk Division on the basis of an historical analysis of market risk factors. The price of each transaction is then recalculated for each scenario obtained using the simulation method.

Societe Generale uses two indicators to characterize the subsequent given Monte Carlo distribution:

- one indicator that reflects the average risk incurred (the current average risk). This indicator is particularly suited to an analysis of the risk exposure for a portfolio of clients or a particular sector;
- an extreme risk indicator, corresponding to the largest loss that would be incurred in 99% of cases. This indicator, referred to as the Credit VaR (or CVaR), is used to define the replacement risk limits for individual counterparties.

Societe Generale has also developed a series of stress tests used to calculate the instantaneous exposure linked to changes in the marked-to-market value of transactions with all of its counterparties in the event of an extreme shock to one or more market parameters.

More specifically, when modelling counterparty risk, the bank takes into account negative correlations between the counterparty risk profile and other risk types, notably sovereign risk, or events affecting a group of counterparties.

Setting counterparty limits

The analysis of credit risk for trading counterparties, including financial institutions, is subject to the same set of procedures applicable to all Societe Generale's credit exposures. More specifically, the credit profile of financial institutions is reviewed on a regular basis, and appropriate trading limits are set, defined based on both the type and maturity of the trading instruments. When setting counterparty limits, the bank considers the intrinsic credit quality of the counterparties, the robustness of any legal documentation, the Group's global exposure to financial institutions and its customer intimacy. Fundamental credit analyses are also supplemented by relevant peer comparisons and market surveillance.

The trading systems in place allow both traders and the risk department to ensure that counterparty limits are not exceeded, on an on-going and intraday basis, or that incremental authorizations are obtained, whenever necessary.

Significant weakening of the bank's counterparties also prompts emergency internal rating reviews. As a result of the current credit crisis, Societe Generale has become significantly more alert to signs of deterioration in its counterparties' credit profiles, which has resulted in the internal ratings of a number of counterparties being downgraded and a reduction in limits as well as restrictions on limits for more complex trading instruments. In addition, a specific surveillance process and approval process has been implemented for more sensitive counterparties.

RISK MITIGATION OVERVIEW

Mitigating credit risk and minimizing the severity of potential losses are core to the bank's process when assuming risk, either in its trading or commercial banking activities. Guarantees and collateral are used by the bank to partially or fully protect against the risk of debtor insolvency. Accordingly, whenever possible or deemed appropriate, Societe Generale tries to obtain collateral or guarantees as means of securing its credit exposures. Collateral includes physical securities such as property, commodities or bullion, as well as financial assets such as cash or high quality investments and securities, and also insurance policies. Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity. Guarantees encompass commitments or protection provided by banks and similar credit institutions, specialized institutions such as mortgage guarantors (Crédit Logement in France), monoline or multiline insurers, public export agencies, etc. This category also includes Credit Default Swaps (CDS).

Guarantees and collateral

Under the credit approval process, the bank assesses the value of the collateral, the legal enforceability of the guarantee and the capacity of the guarantor to meet its obligations. In particular, procedures ensure that the collateral or guarantee successfully meet the criteria required by the CRD. This allows the determination of risk-weighted assets to be taken into account, including precise record-keeping of collateral and guarantees and periodic appraisal of their value relative to the bank's exposure.

The collateral's market value and the guarantor's financial strength are reviewed periodically and at least annually. In addition, the bank monitors the diversification of collateral types, as well as the concentration risk assumed by the providers of these same guarantees.

For guarantees, both under the Standard Approach and the IRB approach, the bank calculates the reduction of its risk-weighted assets using the substitution method, whereby the effect of the guarantee is taken into account in the PD and/or LGD of the related exposure. For collateral, the risk mitigation is taken into account at the level of the related exposure's LGD.

Credit derivatives

The Group uses credit derivatives in the management of its corporate loan portfolio. They serve primarily to reduce individual, sector and geographic exposure and also allow dynamic risk and capital management. Group policy on limits on large credit exposures may lead to large individual hedging positions. For instance, the top ten single name exposures account for EUR 7.3 billion or 26% of the total amount of individual protection purchased.

The vast majority of Societe Generale's protection is obtained from banking counterparties that boast ratings of A or above, the average being between AA- and A+.

At year-end 2008, the total gross notional amount of Basel II-compliant credit derivatives (mostly in the form of CDS) amounted to EUR 28.3 billion.

Credit derivatives are also used in trading activities, and are held in the bank's trading books. The associated exposures and related capital needs are measured in VaR and are included in the market risk capital requirements.

Mitigation of counterparty risk

Societe Generale uses a variety of techniques to mitigate single exposure risk. For trading counterparties, the bank seeks to implement global closeout netting agreements, as much as possible, with the majority of its counterparties, whenever these indentures are deemed legally enforceable. Netting agreements allow the netting off of all the amounts owed and due to a given counterparty as a result of market trades, in case of default. The contracts usually require posting of appropriate collateral at regular time intervals (often on a daily basis) and the reflecting of net exposure variations. Collateral is largely composed of cash and high quality and liquid assets such as government bonds. Other tradable assets are also accepted, after any appropriate value adjustments ("haircuts") to reflect the lower quality and/or liquidity of the asset.

Occasionally, the agreement allows for repricing of the transaction ("recouponing") to minimize the net balance owed or due. In addition, the agreement may also call for over-collateralization to enhance the bank's protection, depending on the nature of the counterparty or transaction.

In order to reduce its credit risk exposure, Societe Generale has signed a number of master netting agreements with various counterparties (ISDA contracts governing financial derivative transactions). In the majority of cases, these agreements do not result in the netting of any assets or liabilities on the books, but the credit risk attached to the financial assets covered by a master netting agreement is reduced insofar as the amounts due are settled on the basis of their net value in the event of a default.

Finally, wider use of clearing houses, for exchange-traded products, and increasingly for over-the-counter transactions (e.g. foreign exchange), is another general measure allowing the reduction of counterparty risk.

APPROACH FOR ASSESSING CAPITAL REQUIREMENTS FOR CREDIT RISK

Based on groundwork conducted since 2003 to devise the required credit risk models and databases, in December 2007, Societe Generale obtained approval from its relevant supervisors' group (led by the French Banking Commission), to use the Internal Rating Based Advanced (IRBA) methodology (the most advanced method for calculating capital requirements for credit risk under Basel II) for the calculation of its credit risk capital requirements under Pillar I.

At year-end 2008, around 75% of Societe Generale's total credit exposures were assessed according to IRB approach, and the remainder according to a Standard Approach. Societe Generale intends to gradually further migrate to IRB activities and exposures that currently use the Standard Approach.

The main motivations for seeking the adoption of the IRB approach within each entity or business segment are improvement of risk measure and their significance relative to the Group.

The following table highlights how Group entities and/or business segments calculate their capital requirements for credit risk, and the provisional plan for extending IRB across the Group's most significant entities.

IRB implementation date	2008	2009	2010	2011	2012 and beyond
Societe Generale	X(1)				
Crédit du Nord	X(1)				
Komercni Banka	X				
GEFA	X				
Fiditalia	X				
Franfinance	X				
Other International Retail Banking entities	ground work for IRB: credit risk modelling, database compilation, process and IT systems upgrades			Romania, Slovenia, New Caledonia, Réunion, Polynesia	Other international financial services and retail banking entities

(1) Except portfolios of small SMEs evaluated based on the Standard Approach.

RISK MEASUREMENT AND INTERNAL RATINGS

Societe Generale's internal models for quantitative credit risk measurement and risk-adjusted return on capital, developed since the mid-1990's, provide staff (credit analysts as well as relationship managers) with an advanced toolkit for approving, structuring and pricing transactions.

These models have gradually been broadened in order to encompass the vast majority of the Group's credit portfolios (retail and corporate banking), and are part and parcel of the bank's day-to-day operational processes. Their scope has been further expanded to model the capital requirements for the bank's credit exposure in a Basel II environment.

The Group's rating system is based on three key pillars:

- the internal rating models used to measure both counterparty risk (expressed as a probability of default by the borrower within one year) and transaction risk (expressed as the amount that will be lost should a borrower default);
- a set of procedures defining guidelines for devising and using ratings (scope, frequency of rating revision, procedure for approving ratings, etc.);
- reliance on human judgment to adjust model outcomes to factor in elements outside the scope of rating modeling.

In order to obtain regulatory IRB approval, the bank's rating models for its main credit portfolios have been thoroughly audited, proofed and back-tested, to guarantee their operational adequacy and reliability and their compliance with the "use test criteria" set by the Basel II regulations.

The main outputs from Societe Generale's credit risk models, which are used as key variables for the calculation of RWA under IRB and are selectively detailed further in this report, are:

- Probability of Default (PD), which measures the financial strength of a counterparty and the likelihood of its failing to make timely payments through its estimated one-year default probability.
- Maturity (M) of the exposure, which helps factor in the likelihood of the counterparty's rating migrating over time.
- Exposure at Default (EAD), which combines the drawn portion of loans as well as the conversion of off-balance sheet commitments into on-balance sheet exposure through the Credit Conversion Factor (CCF).
- Loss Given Default (LGD), which is an estimation of the loss incurred through exposure to a defaulting counterparty.
- Expected Loss (EL), which is the potential loss incurred, taking into account the quality of the transaction's structuring and any risk mitigation measures such as obtaining collateral. More simply put, EL equals EAD x PD x LGD (except for defaulted exposures).
- Exposure is defined as all assets (e.g. loans, receivables, accruals, etc.) associated with market or customer transactions, recorded on- and off-balance sheet.

Credit risk modeling is supported by a set of procedures ensuring the production of reliable, consistent and timely default and recovery data for modeling and back-testing. The procedures formulate detailed guidelines for assigning ratings to counterparties and transactions and have been deployed across the Group's various business lines over a number of years. The systems for estimating PDs and LGDs are now fully operational for all the credit portfolios under the IRB scope.

RISK-MODELING GOVERNANCE

Modeling responsibility and process

Procedures also see to the governance of both portfolio analysis and the bank's whole credit rating system. A dedicated department within the Risk Division is more specifically in charge of defining the bank's process for evaluating the key credit metrics used under IRBA (e.g. PDs, LGDs, etc.), and validating and managing the performance of the internal rating system. Two validation Committees combining both the Business Divisions and the Risk Division are responsible for the permanent supervision of the models and the rating system:

- The Model Validation Committee brings together the staff responsible for building up the models and staff from the Risk Division, who review the conclusions drawn from the audits of the models.
- The Expert Committee is made up of operational experts within the various business lines, and makes, on an ad-hoc basis, any adjustments to the models' outputs that appear desirable for consistency and prudence purposes.

Overall, the databases and credit models used to model the bank's IRBA capital requirements are reviewed in their entirety once a year by the Validation Committees, in compliance with the related Basel II regulations, and may then be adjusted, as needed. This is achieved, inter alia, through exhaustive back-testing of the models' outputs. Review reports compiled by the Risk Division on every aspect of the risk modeling's implementation for the main Basel II portfolios within the Group, such as their regular validation and back-testing, are submitted to and approved by the CORISQ.

Building blocks of Societe Generale's credit risk modeling

Societe Generale's credit modeling activities have been focused on evaluating the Probability of Defaults (PDs) and Loss Given Defaults (LGD) for the Group's various portfolios.

With regard to corporate exposures, the bank has calibrated its PD modeling on the basis of through-the-cycle assumptions, whereby the PD is expected to be representative of the average default risk of companies throughout an entire business cycle, as it fluctuates between its peak and trough. The corporate PD modeling has been mapped using long-term default data obtained from an external credit rating agency.

For retail portfolios, through-the-cycle PD modeling is based on internal historical default data over a medium-term time horizon. These data include appropriate prudent buffers.

Similarly, the bank's LGDs modeled for corporate portfolios are based on an historical database that includes a low point in the credit cycle. The model also takes safety buffers into account, given the bank's good track record in terms of actual credit losses incurred. The various LGD parameters are subject to regular back-testing to compare modeled and actual credit losses. Finally, final recovery rates are simulated including a prudent discount factor, which takes the time factor into account in assessing future cash flows and the cost to the bank of the defaulted assets carried.

Regulatory capital requirements for counterparty risk

The bank's EAD related to counterparty risk is determined by adding the positive marked-to-market value of all market transactions (replacement cost) and an "add-on". This add-on, established by the CRD regulations, is a fixed percentage that varies according to the transaction's type and residual maturity and is applied to the notional amount of the transaction. The effect of collateral and other risk mitigation measures is factored in by replacing the total gross exposure with the sum of all positive individual counterparty exposures, net of any collateral. The regulatory capital requirement then depends on the counterparty's internal obligor rating.

SOCIETE GENERALE'S INTERNAL RATING SCALE

The following table presents Societe Generale's internal rating scale and the corresponding mean estimated probability of default.

SG internal obligor rating scale	Probability of default
1	0.01%
2	0.02%
3	0.04%
4	0.30%
5	2.16%
6	7.93%
7	20.67%
8, 9 and 10	100.00%

Societe Generale's definition of a default replicates the definition provided in the Basel II framework, whereby a borrower has defaulted if at least one of the three following conditions has been verified:

- A significant deterioration in the borrower's financial condition that would prevent them from fulfilling their unguaranteed or uncollateralized credit obligations, and that will therefore likely entail a high probability of loss, and/or,
- One or several arrears have been outstanding for more than 90 days (180 days for public obligors) and/or out-of-court settlement proceedings have been initiated, and/or,
- Legal insolvency proceedings are in progress (the obligor has been declared bankrupt or placed under similar conservatory or creditor protection measures).

Finally, Societe Generale applies a principle of contagion whereby any obligation declared in default will result in the classifying as in default of all the obligor's debts, possibly as well as those of all companies belonging to the same economic entity.

CAPITAL REQUIREMENTS AND QUANTITATIVE DISCLOSURES

The following tables set forth detailed information on the bank's global credit risk, notably with regard to total exposure, exposure at default and risk-weighted assets at year-end 2008. The information provided below is consistent with the bank's published financial statements at that date.

In most of the tables below, Societe Generale's credit risk exposures are laid out along the lines of the obligor categories defined in the Basel II framework (the "Basel exposure class"):

Sovereign:	Claims or contingent claims on central governments, regional governments, local authorities or public sector entities as well as on multilateral development banks and international organizations.
Institutions:	Claims or contingent claims on regulated credit institutions, as well as on governments, local authorities and other public sector entities that do not qualify as sovereign counterparties.
Corporates:	Claims or contingent claims on corporates, which include all exposures not covered in the portfolios defined above. In addition, Small- and Medium-sized Enterprises are included in this category as a sub-portfolio, and defined as entities with total annual sales below EUR 50 million.
Retail:	Claims or contingent claims on an individual or individuals, or on a small or medium-sized entity, provided in the latter case that the total amount owed to the credit institution does not exceed EUR 1 million. Retail exposure is further broken down into residential mortgages, revolving credit and other forms of credit to individuals, the remainder relating to exposures to very small entities and self-employed.
Securitization:	Claims relating to securitization transactions.
Equity:	Non-debt exposures entailing a subordinated, residual claim on the assets or income of the issuer.
Other:	This category includes all non-credit obligation assets such as fixed assets, goodwill, other assets, prepaids and other miscellaneous items.

The following tables provide a breakdown of Societe Generale's credit exposures and their related exposures at default (EAD) and risk weighted assets (RWA), relating to the Group's on- and off-balance sheet assets, after accounting netting but before the effect of credit risk mitigation techniques. Information is also provided for impaired exposures.

These quantitative disclosures are presented according to their valuation approaches (Standard or IRB), exposure class and geographies, as needed.

Summary of quantitative credit risk information

Credit risk exposures, exposure at default (EAD) and risk weighted assets (RWA) by approach and exposure class

Global portfolio *in millions of euros – 31/12/2008*	IRB approach			Standard approach			Total			Average[(1)]	
	Exposure	EAD	RWA	Exposure	EAD	RWA	Exposure	EAD	RWA	Exposure	RWA
Exposure Class											
Sovereign	52,655	50,549	4,060	6,506	6,442	1,691	59,161	56,992	5,751	58,647	5,343
Institutions	128,641	110,843	12,757	31,406	26,619	6,162	160,047	137,462	18,920	169,616	21,351
Corporates	287,961	249,003	92,820	125,012	56,750	63,127	412,973	305,753	155,947	423,883	158,061
Retail	112,448	109,595	19,194	55,601	50,457	34,388	168,048	160,051	53,582	164,672	52,347
Securitization	53,949	38,470	10,352	734	666	500	54,683	39,136	10,852	39,891	8,157
Equity	2,757	2,579	8,679	1,532	1,328	757	4,289	3,907	9,435	5,268	12,117
Other non credit-obligation assets	26,583	26,583	22,708	0	0	0	26,583	26,583	22,708	22,932	21,182
TOTAL	**664,993**	**587,622**	**170,570**	**220,791**	**142,263**	**106,625**	**885,785**	**729,884**	**277,195**	**884,884**	**278,559**

(1) The average exposure and RWA are determined by aggregating the total gross exposure and RWA at the end of the last four quarters and dividing the result by four.

Retail credit risk exposure, exposure at default (EAD) and risk weighted assets (RWA) by approach and exposure class

Retail portfolio *in millions of euros – 31/12/2008*	IRB approach			Standard approach			Total			Average[(1)]	
	Exposure	EAD	RWA	Exposure	EAD	RWA	Exposure	EAD	RWA	Exposure	RWA
Exposure class											
Residential mortgages	60,216	60,216	4,517	13,018	12,024	4,918	73,234	72,240	9,435	78,450	9,799
Revolving credits	10,610	6,696	2,411	3,263	2,587	2,060	13,873	9,283	4,471	13,887	4,307
Other credits to individuals	29,465	29,478	7,322	24,101	22,277	17,216	53,566	51,754	24,539	45,456	23,003
Other – small entities or self employed	12,157	13,206	4,944	15,218	13,569	10,193	27,375	26,774	15,138	26,855	15,229
TOTAL	**112,448**	**109,595**	**19,194**	**55,601**	**50,457**	**34,388**	**168,048**	**160,051**	**53,582**	**164,648**	**52,338**

(1) The average exposure and RWA are determined by aggregating the total gross exposure and RWA at the end of the last four quarters and dividing the result by four.

Credit risk exposure by approach and exposure class

Exposure class *in millions of euros – 31/12/2008*	IRB Credit risk	IRB Counterparty risk	IRB Total	Standard Credit risk	Standard Counterparty risk	Standard Total	Total Credit risk	Total Counterparty risk	Total Total
Sovereign	45,488	7,167	52,655	6,410	96	6,506	51,898	7,263	59,161
Institutions	73,129	55,512	128,641	29,759	1,647	31,406	102,888	57,159	160,047
Corporates	245,600	42,361	287,961	122,405	2,607	125,012	368,005	44,968	412,973
Retail	112,448	0	112,448	55,601	0	55,601	168,048	0	168,048
Securitization	52,518	1,431	53,949	734	0	734	53,252	1,431	54,683
Sub-total 1	*529,182*	*106,471*	*635,653*	*214,909*	*4,350*	*219,259*	*744,091*	*110,822*	*854,913*
Equity	2,757	0	2,757	1,532	0	1,532	4,289	0	4,289
Other non credit-obligation assets	26,583	0	26,583	0	0	0	26,583	0	26,583
Sub-total 2	*29,340*	*0*	*29,340*	*1,532*	*0*	*1,532*	*30,872*	*0*	*30,872*
TOTAL	**558,522**	**106,471**	**664,993**	**216,441**	**4,350**	**220,791**	**774,963**	**110,822**	**885,785**

Exposure at default (EAD) by approach and exposure class

Exposure Class *in millions of euros – 31/12/2008*	IRB Credit risk	IRB Counterparty risk	IRB Total	Standard Credit risk	Standard Counterparty risk	Standard Total	Total Credit risk	Total Counterparty risk	Total Total
Sovereign	43,382	7,167	50,549	6,346	96	6,442	49,728	7,263	56,992
Institutions	55,454	55,388	110,843	24,972	1,647	26,619	80,427	57,035	137,462
Corporates	206,643	42,361	249,003	54,143	2,607	56,750	260,785	44,968	305,753
Retail	109,595	0	109,595	50,457	0	50,457	160,051	0	160,051
Securitization	37,039	1,431	38,470	666	0	666	37,705	1,431	39,136
Sub-total 1	*452,112*	*106,348*	*558,460*	*136,584*	*4,350*	*140,934*	*588,697*	*110,698*	*699,394*
Equity	2,579	0	2,579	1,328	0	1,328	3,907	0	3,907
Other non credit-obligation assets	26,583	0	26,583	0	0	0	26,583	0	26,583
Sub-total 2	*29,162*	*0*	*29,162*	*1,328*	*0*	*1,328*	*30,490*	*0*	*30,490*
TOTAL	**481,274**	**106,348**	**587,622**	**137,912**	**4,350**	**142,262**	**619,186**	**110,698**	**729,884**

Exposure at default (EAD) by geographic area

EAD *in millions of euros – 31/12/2008*	Sovereign	Institutions	Corporates	SME	Retail	Securitization	Total[1]	Breakdown in %	Equity	Other non credit-obligation assets	Total[2]	Breakdown in %
France	10,118	51,823	80,709	25,004	112,093	4,496	**284,242**	40.6%	3,012	14,103	**301,356**	41.3%
EU Countries (except France)	22,199	51,128	84,594	21,943	35,926	7,687	**223,477**	32.0%	489	9,945	**233,911**	32.0%
– of which Eastern Europe countries	*10,436*	*2,559*	*11,641*	*9,464*	*15,200*	*3*	***49,302***	*7.0%*	*61*	*1,285*	***50,648***	*6.9%*
Central and Eastern Europe (excluding EU)	4,380	3,170	14,107	2,010	6,121	0	**29,788**	4.3%	59	592	**30,440**	4.2%
Africa / Middle East	4,319	2,691	9,054	4,354	3,993	0	**24,411**	3.5%	91	1,011	**25,513**	3.5%
America	7,612	22,796	47,740	4,217	1,099	25,534	**108,999**	15.6%	242	644	**109,885**	15.1%
Asia	8,363	5,853	11,215	805	820	1,420	**28,477**	4.1%	14	288	**28,779**	3.9%
Total	**56,992**	**137,462**	**247,421**	**58,333**	**160,051**	**39,136**	**699,394**	**100%**	**3,907**	**26,583**	**729,884**	**100%**

(1) total without equity and other non credit obligation assets

(2) total including equity and other non credit obligation assets

Retail exposure at default (EAD) by geographic area

EAD *in millions of euros – 31/12/2008*	Residential mortgages	Revolving credits	Others credits to individuals	Others – small entities or self employed	Total	Breakdown in %
France	61,068	7,410	27,729	15,886	**112,093**	70%
EU Countries (except France)	8,152	1,856	16,719	9,199	**35,926**	22%
– of which Eastern Europe countries	*5,449*	*1,059*	*6,470*	*2,221*	***15,200***	*9%*
Central and Eastern Europe (excluding EU)	1,541	16	4,280	284	**6,121**	4%
Africa / Middle East	878	0	2,169	946	**3,993**	2%
America	450	0	649	0	**1,099**	0.69%
Asia	151	0	210	459	**820**	0.51%
Total	**72,240**	**9,283**	**51,754**	**26,774**	**160,051**	**100%**

Corporate credit exposure at default (EAD) by industry sector

EAD *in millions of euros – 31/12/2008*	Corporate EAD	 Breakdown in %
Finance & insurance	62,080	20.3%
Real estate	21,470	7.0%
Public administration	178	0.1%
Food & agriculture	14,449	4.7%
Consumer goods	8,467	2.8%
Chemicals, rubber, plastics	6,372	2.1%
Retail trade	14,342	4.7%
Wholesale trade	19,106	6.3%
Construction	13,026	4.3%
Transport equip. Manuf.	3,206	1.0%
Education and Associations	887	0.3%
Hotels and catering	4,758	1.6%
Automobiles	6,738	2.2%
Machinery and equipment	12,726	4.2%
Forestry, paper	2,431	0.8%
Metals, minerals	17,003	5.6%
Media	6,308	2.1%
Oil and Gas	14,200	4.6%
Health, social services	1,765	0.6%
Business services	24,001	7.9%
Collective services	21,228	6.9%
Personal & domestic services	279	0.1%
Telecoms	8,267	2.7%
Transport & logistics	22,464	7.3%
TOTAL	**305,753**	**100%**

Counterparty risk exposure at default (EAD) by exposure class

Exposure Class *in millions of euros – 31/12/2008*	Counterparty Risk EAD	 RWA
Sovereign	7,264	162
Institutions	57,035	5,293
Corporates	44,968	16,763
Retail	0	0
Securitization	1,431	683
TOTAL	**110,698**	**22,900**

Counterparty risk exposure at default (EAD) by geographic area

Counterparty risk *in millions of euros – 31/12/2008*	EAD
France	16,782
Western Europe (except France)	43,165
Eastern Europe	4,741
– of which EU member	*4,452*
Africa	1,080
America	37,289
Asia	7,642
Total	**110,698**

Counterparty risk exposure at default (EAD) by rating under the IRB approach

Counterparty risk – IRB *in millions of euros – 31/12/2008*	EAD
Internal obligor rating	
1	8,580
2	38,522
3	38,222
4	15,067
5	3,518
6	1,362
7	216
8 to 10	859
Total	**106,348**

Credit risk exposure by residual maturity and exposure class

Exposure[1] *in millions of euros*	Maturity analysis < 1 year	1 to 5 years	5 to 10 years	> 10 years
Sovereign	36,859	14,022	735	1,039
Institutions	23,385	90,046	4,882	10,328
Corporates	108,728	143,562	21,737	13,934
Securitization	23,645	16,823	12,365	1,117
Total	**192,616**	**264,452**	**39,719**	**26,418**

(1) Scope: Non Retail IRB exposure, excluding equity and other non credit-obligation assets

Credit exposure, exposure at default (EAD) and risk weighted assets (RWA) by exposure class and external rating under the Standard approach

in millions of euros – 31/12/2008	External Rating	Gross exposure	Exposure at default (EAD)	Risk Weighted Assets (RWA)
Sovereigns	AAA to AA-	3,487	3,483	8
	A+ to A-	9	9	2
	BBB+ to BBB-	0	0	0
	BB+ to B-	1,733	1,725	733
	<B-	573	523	791
	Without external rating	703	701	157
Sub-total		**6,506**	**6,442**	**1,691**
Institutions	AAA to AA-	24,667	20,092	1,511
	A+ to A-	195	195	118
	BBB+ to B-	3,543	3,523	3,451
	<B-	2	2	0
	Without external rating	2,999	2,808	1,082
Sub-total		**31,406**	**26,619**	**6,162**
Corporate	AAA to AA-	32,701	1,088	621
	A+ to A-	231	231	80
	BBB+ to B-	15,862	2,019	5,559
	<B-	0	0	0
	Without external rating	76,219	53,412	56,867
Sub-total		**125,012**	**56,750**	**63,127**
Retail	Without external rating	55,601	50,457	34,388
Total		**218,525**	**140,268**	**105,368**

Credit exposure (excluding defaulted exposure), exposure at default (EAD) and risk weighted assets (RWA) by exposure class and internal rating under the IRB approach

in millions of euros – 31/12/2008	SG internal obligor rating	Gross exposure	Balance-sheet exposure	Off-balance sheet exposure	Average CCF (Off-balance sheet)	Exposure at default (EAD)	Risk Weighted Assets	Average LGD	Average RW*	Expected Loss
Sovereigns	1	32,563	28,400	4,164	61%	30,954	1	0%	0%	0
	2	6,331	5,908	423	100%	6,331	303	18%	5%	0
	3	2,956	2,593	363	63%	2,822	228	18%	8%	0
	4	7,406	6,925	482	77%	7,294	2,029	24%	28%	8
	5	2,015	1,119	897	73%	1,771	701	16%	40%	5
	6	1,197	1,044	153	80%	1,166	650	16%	56%	15
	7	140	140	0	-	140	107	16%	76%	3
Sub-total		**52,607**	**46,127**	**6,481**	**67%**	**50,477**	**4,018**	**4%**	**8%**	**31**
Institutions	1	19,315	12,515	6,800	76%	17,717	768	9%	4%	4
	2	41,953	19,012	22,941	59%	32,536	1,508	13%	5%	1
	3	49,666	19,305	30,361	87%	45,594	2,832	17%	6%	2
	4	12,053	6,264	5,789	66%	10,068	3,099	44%	31%	7
	5	3,619	1,783	1,836	61%	2,899	2,714	42%	94%	19
	6	1,374	858	517	63%	1,184	1,041	28%	88%	20
	7	187	117	71	79%	172	12	11%	7%	2
Sub-total		**128,169**	**59,853**	**68,315**	**74%**	**110,170**	**11,974**	**18%**	**12%**	**56**
Corporate	1	12,310	8,826	3,483	83%	11,714	2,641	NA	23%	6
	2	43,284	19,788	23,496	71%	36,576	4,423	31%	12%	8
	3	54,928	24,374	30,553	74%	47,037	4,531	28%	10%	11
	4	91,945	43,799	48,146	71%	78,027	26,148	30%	34%	79
	5	61,813	44,168	17,645	53%	53,441	35,583	28%	68%	321
	6	16,559	11,736	4,823	73%	15,657	15,779	28%	103%	288
	7	1,839	1,839	-	-	1,839	2,830	21%	154%	50
Sub-total		**282,678**	**154,531**	**128,147**	**70%**	**244,291**	**91,934**	**29%**	**37%**	**764**
Retail	1	1,375	1,204	171	91%	1,373	144	NA	10%	0
	2	1,401	1,299	101	99%	1,391	137	NA	10%	0
	3	36,226	35,284	942	106%	36,223	634	15%	2%	2
	4	30,128	25,573	4,556	91%	27,766	2,260	17%	8%	14
	5	23,512	20,003	3,509	94%	22,112	5,934	21%	27%	91
	6	12,050	11,153	897	105%	12,656	6,032	26%	46%	214
	7	3,341	3,197	144	106%	3,656	2,669	28%	73%	290
Sub-total		**108,034**	**97,713**	**10,321**	**96%**	**105,178**	**17,810**	**19%**	**18%**	**612**
Total		**571,488**	**358,224**	**213,264**	**71%**	**510,116**	**125,737**	**21%**	**23%**	**1,463**

* *with consideration of the floor of PD*

Retail credit exposure (excluding defaulted exposure), exposure at default (EAD) and risk weighted assets (RWA) by exposure class and internal rating under the IRB approach

in millions of euros – 31/12/2008	SG internal obligor rating	Gross exposure	Balance-sheet exposure	Off-balance sheet exposure	Average CCF (Off-balance sheet)	Exposure at default (EAD)	Risk Weighted Assets	Average LGD	Average RW*	Expected Loss
Residential mortgage	1	86	86	1	100%	86	8	NA	10%	0
	2	1,212	1,136	76	100%	1,212	118	NA	10%	0
	3	29,489	28,766	724	100%	29,498	368	12%	1%	1
	4	20,000	19,334	666	100%	19,994	1,095	13%	5%	6
	5	5,871	5,480	391	100%	5,862	1,166	13%	20%	11
	6	2,603	2,475	129	100%	2,604	1,046	14%	41%	16
	7	269	256	14	101%	271	163	11%	60%	9
Sub-total		**59,532**	**57,532**	**1,999**	**100%**	**59,527**	**3,966**	**12%**	**8%**	**44**
Revolving credit	1	0	0	0	-	0	0			0
	2	0	0	0	-	0	0			0
	3	83	5	79	92%	77	1	29%	1%	0
	4	3,849	248	3,601	37%	1,423	83	33%	6%	2
	5	3,494	778	2,715	55%	1,914	442	32%	23%	14
	6	1,743	1,250	493	98%	1,715	873	32%	51%	39
	7	714	614	100	119%	850	771	32%	91%	70
Sub-total		**9,883**	**2,894**	**6,989**	**63%**	**5,977**	**2,170**	**34%**	**36%**	**125**
Other retail credit	1	1,289	1,118	171	91%	1,286	135	NA	11%	0
	2	189	163	26	91%	179	19	NA	10%	0
	3	6,637	6,498	138	99%	6,632	265	30%	4%	1
	4	5,513	5,307	206	96%	5,540	936	26%	17%	6
	5	7,974	7,720	255	100%	7,977	2,348	23%	30%	33
	6	4,672	4,544	129	100%	4,663	2,183	29%	47%	89
	7	1,342	1,327	15	93%	1,347	844	27%	63%	100
Sub-total		**27,616**	**26,676**	**939**	**94%**	**27,625**	**6,730**	**27%**	**25%**	**229**
Small entities or self-employed	1	0	0	0	-	0	0			0
	2	0	0	0	-	0	0			0
	3	16	15	1	100%	16	0	16%	2%	0
	4	766	684	82	100%	809	146	24%	18%	1
	5	6,362	6,146	217	103%	6,543	2,011	23%	31%	34
	6	2,843	2,765	78	123%	3,491	1,897	28%	54%	70
	7	1,016	1,000	16	117%	1,189	890	29%	75%	110
Sub-total		**11,003**	**10,610**	**393**	**109%**	**12,048**	**4,944**	**25%**	**41%**	**215**
Total		**108,034**	**97,713**	**10,321**	**96%**	**105,178**	**17,810**	**21%**	**18%**	**612**

* *with consideration of the floor of PD*

Impaired credit risk exposure and related value adjustments

in millions of euros – 31/12/2008	Total gross exposure	Impaired exposure: Standard approach	Impaired exposure: IRB approach	Impaired exposure: Total	Individual value adjustments	Collective value adjustments	Loan Loss provisions
Sovereign	59,161	0	28	29	26		
Institutions	160,047	6	468	474	445		
Corporates	412,973	1,996	4,872	6,868	3,565		
Retail	168,048	3,577	3,953	7,530	4,513		
Securitization	54,683	0	8	8	177		
Total	**854,913**	**5,580**	**9,330**	**14,910**	**8,727**	**1,070**	**2,655**

Changes in value adjustments and general provisions

in millions of euros – 31/12/2008	Provisions as at 31/12/2007	Value adjustments allocations	Write-backs	Other value adjustments (currency and scope effects)	Provisions as at 31/12/2008	recoveries associated with writen-off assets
Collective value adjustments (general provisions)	-902	-352	281	-97	-1,070	
Individual value adjustments	-6,768	-3,853	2,316	-423	-8,727	148
TOTAL	**-7,669**	**-4,205**	**2,596**	**-520**	**-9,797**	**148**

(*) excluding own funds instruments

Impaired credit risk exposure by geographic area

in millions of euros – 31/12/2008	Impaired exposure	Individual value adjustments
France	6,570	3,463
Western Europe (except France)	3,140	1,500
Eastern Europe	2,638	2,089
Africa / Middle East	1,463	1,164
America	872	414
Asia	226	98
TOTAL	**14,910**	**8,727**

Impaired credit risk exposure by industry sector

in millions of euros – 31/12/2008	Impaired exposure	%
Finance & insurance	2,219	15%
Real Estate	495	3%
Public administration	89	1%
Food & agriculture	382	3%
Consumer goods	453	3%
Chemicals, rubber and plastics	187	1%
Retail trade	255	2%
Wholesale trade	633	4%
Construction	355	2%
Transport equip. Manuf.	58	0%
Education and Associations	5	0%
Hotels & Catering	304	2%
Automobiles	191	1%
Machinery and equipment	195	1%
Forestry, paper	113	1%
Metals, minerals	243	2%
Media	103	1%
Oil and Gas	14	0%
Health, social services	36	0%
Business services	220	1%
Collective services	260	2%
Personal and domestic services	7	0%
Telecom	13	0%
Transport & logistics	159	1%
Retail	7,055	47%
Others	865	6%
TOTAL	**14,910**	**100%**

Expected loss by exposure class (excluding defaulted exposures)

Global in millions of EUR – 31/12/2008	Expected losses (excluding defaulted exposures)
Sovereign	31
Institutions	56
Corporates	765
Retail	612
Securitization	45
Equity	0
TOTAL	**1,508**

5 SECURITIZATION EXPOSURES

SOCIETE GENERALE'S SECURITIZATION STRATEGY AND ACTIVITIES

Definitions

For the purpose of this report, Societe Generale's securitization positions relate to credit exposures arising from securitization transactions included in the bank's assets and giving rise to Risk-Weighted Assets (RWA) and capital requirements in the bank's regulatory banking book.

As defined in the CRD, "securitization" means a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having the following characteristics:

- the transaction achieves significant risk transfer,
- payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures,
- the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

Purpose and strategy

Societe Generale is involved in the following securitization activities:

- **Agency business**: the bank intervenes in the structuring of securitization transactions on behalf of third parties, and in the placing of the ensuing notes or bonds. Generally speaking, Societe Generale does not assume direct credit risk in relation to its agency securitization business, which means that there are no consequent risk-weighted assets and capital requirements.
- **Commercial conduits (sponsor activity)**: Societe Generale has set up a number of bankruptcy-remote special purpose entities ("conduits"), with the intention of financing various asset classes (e.g. client receivables and consumer loans) through the issuance of short-term notes and commercial paper. This activity, which is closely integrated in its global commercial and investment banking franchise, helps finance the operating capital needs of some of the bank's major clients. The purpose of this business is to generate fees for structuring and managing these conduits (e.g. structuring, commitment, usage and administration fees). The credit risk related to the associated assets is transferred to third party investors, including the riskier tranches. This being said, Societe Generale may incur ancillary credit risk from this activity in its providing of committed back-up liquidity facilities and letters of credit, or when it purchases commercial paper issued by the conduits. Ultimately, the underlying credit risk emerging from the pool of assets is guaranteed by strict underwriting standards, high granularity and diversification as well as by over-collateralization and other credit enhancement techniques.
- **On balance-sheet financing**: when conducting its origination, sponsoring or underwriting activities, associated with the securitization of various asset classes, the bank may retain some of the underlying asset risks. Additionally, as part of its global credit portfolio management strategy, Societe Generale may tranche specific pools of assets and sell some of the riskier tranches to third party investors, in order to reduce its overall risk exposure.

  Furthermore, while the Group primarily relies on its large and stable funding base to fund its operations, Societe Generale, as part of its broader liquidity management strategy, has set up three transactions backed by prime domestic residential mortgages, thereby boosting its inventory of assets eligible for central bank refinancing. Given that these transactions do not result in any risk transfer for the bank, their capital requirements are unaffected by the securitization.
- **Societe Generale as an investor**: in addition to assets arising from its main securitization activities described above, which may be held on its balance sheet, Societe Generale may occasionally hold securitized assets as an investor, seeking to lock-in a positive net interest margin and an adequate return on the capital employed. While the Group's insurance subsidiaries may also hold securitized assets in their investment portfolios, they are outside the scope of the Group's Basel II regulatory banking solvency.

  In addition, as a result of the on-going financial crisis, a number of securitized assets have been transferred from the bank's trading books, or from money market funds managed by the bank's asset management arm, to its regulatory banking book, and now give rise to capital requirements on account of their related credit risk. A more detailed review of those exposures is provided below.

Approach for calculating risk-weighted exposures

Whenever traditional or synthetic securitizations, in whose sponsoring, origination, structuring or management Societe Generale is involved, achieve a substantial and documented risk transfer complying with the CRD's framework, the underlying assets are excluded from the bank's calculation of risk-weighted exposures for traditional credit risk.

For the securitization positions that Societe Generale may retain, either on- or off-balance sheet, capital requirements are determined based on the bank's exposure, irrespective of its underlying strategy or role. Accordingly, risk-weighted exposure amounts on securitization positions are calculated by applying the relevant risk weights to the exposures' value. These are determined as follows.

The Group's securitization positions are predominantly valued using the Internal Ratings Based (IRB) approach, whereby Societe Generale also employs specific valuation alternatives embedded in the CRD. Around 1% of the bank's exposures are calculated using the Standard Approach (SA), according to which risk-weighted assets are determined based on the exposures' external credit category (e.g. 20% for AAA to AA- ratings, 50% for A+ to A- ratings, etc).

The IRB approach is subdivided into three possible calculations:

- First and foremost, the Ratings-Based Approach (RBA) must be applied to all rated exposures or those for which a rating can be inferred. Under this approach, finer risk weights are applied, notably reflecting the positions' seniority and granularity.
- The Supervisory Formula is a methodology for non-rated exposures, where the risk weight is based on five inputs associated with the nature and structure of the transaction.
- Finally, the positions arising from the Asset Backed Commercial Paper (ABCP) programmes' off-balance sheet exposures (such as liquidity facilities) are determined using appropriate Credit Conversion Factors (CCF) and are evaluated by the Internal Assessment Approach (IAA), which in substance allows to refer to the risk weights of the RBA.

Around 77% of the bank's IRB exposures are risk-weighted using the RBA approach, 15% using the Internal assessment approach and 8% through the Supervisory Formula.

External Credit Assessment Institutions used for evaluating credit risk

Societe Generale uses credit ratings to gauge credit risk on its securitization positions. These are assigned by rating agencies that have been granted External Credit Assessment Institution (ECAI) status by the Committee of European Banking Supervisors (CEBS) and the respective members of the bank's college of supervisors. The following credit rating agencies have been granted ECAI status: Standard & Poors, Moody's Investors Service, Fitch Ratings and DBRS.

CAPITAL REQUIREMENTS

At end-December 2008, Societe Generale's exposures to securitization totaled EUR 54.7 billion, of which EUR 30 billion related to on-balance sheet assets and EUR 24.7 billion consisted of off-balance sheet commitments, predominantly associated with liquidity facilities extended to the bank's sponsored commercial conduits. On-balance sheet exposures are accounted for by a variety of instruments, in which CDOs, CMBS and RMBS predominate.

Under the standard approach, the bank's risk-weighted exposures relative to securitization positions and related capital requirements were evaluated based on a see-through method.

At year-end 2008, Societe Generale's exposures under the standard approach were as follows:

Sponsor *in millions of euros – 31/12/2008*	**Gross exposure**	**EAD**	**Evaluation method** **See-through**	**RWA**	**Capital Requirement**
On-balance sheet	649	649	649	487	39
Off-balance sheet	85	17	17	13	1
Total	734	666	666	500	40
TOTAL	**734**	**666**	**666**	**500**	**40**

The bank's risk-weighted exposures and related capital requirements, evaluated based on the internal rating based approach, were as follows:

	Gross exposure	EAD	Capital Deduction	Evaluation method			RWA	Capital Requirement
Originator *in millions of euros – 31/12/2008*				Ratings based	Regulatory formula	See-through		
On-balance sheet	1,065	1,065	33	-	1,032	-	72	6
Off-balance sheet	1,955	1,955	-	-	1,955	-	154	12
Total	3,020	3,020	33	-	2,987	-	226	18
Investor *in millions of euros – 31/12/2008*								
On-balance sheet	26,011	26,011	772	25,238	-	-	4,450	356
Off-balance sheet	2,011	2,011	308	1,703	-	-	728	58
Total	28,022	28,022	1,081	26,941	-	-	5,177	414
Sponsor *in millions of euros – 31/12/2008*								
On-balance sheet	2,359	2,360	-	1,863	-	497	571	46
Off-balance sheet	20,548	5,069	-	39	3	5,026	4,377	350
Total	22,907	7,429	-	1,903	3	5,523	4,948	396
TOTAL	**53,948**	**38,470**	**1,114**	**28,844**	**2,990**	**5,523**	**10,352**	**828**

Under the Ratings based approach, the bank's EAD broken down per relevant risk weight bands, and gross of value adjustments, were as follows:

Risk weigth band	6% - 10%	12% - 18%	20% - 35%	50% - 75%	100%	250%	425%	650%	1250%	Total
Amount	23,419	1,072	591	341	376	67	74	364	2,540*	28,844

* *This amount is covered at 100% through value adjustments.*

Furthermore, the overall quality of originator or investor on-balance sheet positions can be assessed as follows:

in millions of euros – 31/12/2008	EAD at year-end 2008
Most senior tranches	26,200
Mezzanine tranches	792
First loss tranches	85
Total	**27,076**

6 EQUITY RISK

INVESTMENT STRATEGIES AND PURPOSES

Societe Generale's exposures to non-trading equity are associated with a number of the bank's strategies and activities. They include shares and similar instruments, shares in mutual funds invested in equities, as well as investments in non consolidated Group subsidiaries and affiliates that are not deducted from prudential own funds.

- Firstly, the Group has a portfolio of industrial holdings, which primarily reflect strong historical or strategic relationships with these companies.
- In addition, Societe Generale holds small minority stakes in selected banks, for strategic purposes, as a mean of fostering increased cooperation with these institutions.
- Furthermore, non-trading equity includes the Group's investments in small, unconsolidated subsidiaries, operating in France or abroad. It also encompasses a variety of holdings and investments, ancillary to the Group's main banking activities, notably in retail banking and security services.
- Finally, Societe Generale and some of its subsidiaries may hold equity investments arising from its involvement in asset management (notably seed money in mutual funds sponsored by Societe Generale).

VALUATION

Fair value of Available-for-sale equity holdings

From an accounting perspective, Societe Generale's exposures to non-trading equities are classified as Available-for-sale (AFS) financial assets, as they may be held for indeterminate periods of time and be sold at any time. Changes in fair value are recorded in the Group's shareholders' equity under Unrealized or deferred gains or losses. Changes in fair value are recorded in the income statement when assets are sold or impaired, in which case they are reported as Net gains or losses on AFS assets. Dividend income earned on these securities is booked in the income statement under Dividend income.

For listed shares, fair value is taken to be the quoted price on the balance sheet closing date. For unlisted shares, fair value is determined depending on the category of financial instrument and according to one of the following methods:

- share of adjusted net asset value held;
- valuation based on a recent transaction involving the company (third-party buying into the company's capital, appraisal by professional valuer, etc.);
- valuation based on a recent transaction in the same sector as the company (income multiple, asset multiples, etc.).

Impairment policy

Where there is objective evidence of prolonged impairment to a financial asset that is available for sale, an impairment loss is recognized through profit or loss. Impairments affecting AFS equity securities are irreversible.

For listed equity instruments, the prospect of booking a prolonged impairment is assessed whenever a material decline (over 20%) in the 12-month trailing average price compared to the security's acquisition cost occurs.

For unlisted equity instruments, a qualitative analysis of their potential impairment is carried out using the valuation methods described in Note 3 of Societe Generale's 2008 Registration document.

CAPITAL REQUIREMENTS

Societe Generale's exposures to non-trading equity correspond to their book value, net of provisions. The Group applies the simple Internal Ratings Based approach for the larger part of its non-trading equity portfolio. As such, unquoted equities in diversified portfolios are risk-weighted at 190%, quoted equities are risk-weighted at 290%, and other unquoted equities are risk-weighted at 370%.

Nevertheless, unquoted equity holdings in diversified portfolios acquired before January 2008 may be weighted at 150% (grandfathering) and equity exposures considered as ancillary services undertaking may be weighted at 100%.

At year-end 2008, the Group's exposure to equities not included in the trading book and the related risk-weighted assets were as follows:

in millions of euros - 31/12/2008	**Ownership intent**	**Exposure**	**EAD**	**RWA**
Total		***4,289***	***3,907***	***9,435***
of which 370% risk weighted	Unquoted entities	1,675	1,534	5,674
of which 290% risk weighted	Quoted entities	1,055	1,019	2,954
of which 100% risk weighted	Ancillary Services	420	314	314
of which 150% risk weighted	Private equity (grandfathering)	383	290	435

7 MARKET RISK

ORGANIZATION AND INFRASTRUCTURE

Market risk is the risk of losses arising from negative changes in market parameters. It concerns all trading book transactions, as well as some banking book portfolios evaluated with a mark-to-market approach.

The Group market risk management organization is constantly adjusted to ensure its structure remains resilient, reliable and efficient even in the most adverse market conditions.

Although the front office managers naturally assume primary responsibility when it comes to risk exposure, its global management lies with an independent structure, the Market Risk unit of the Risk Division. The department's key mission is to continuously monitor, independently from the front offices, the positions and risks generated by the Group's market activities, and to compare these positions and risks to authorized limits. This unit carries out the following tasks:

- daily analysis (independently from the front office) of the exposure and risks incurred by the Group's market activities and comparison of those exposure and risks with the approved limits;
- definition of the risk-measurement methods and control procedures, approval of the valuation methods used to calculate risks and results and setting of provisions for market risks (reserves and adjustments to earnings);
- definition of the functionalities of the databases and systems used to assess market risks;
- approval of the limit applications submitted by the operating divisions, within the global authorization limits set by the General Management, and monitoring of their use;
- centralization, consolidation and reporting of the Group's market risks.

Besides these specific market risk functions, the department also monitors the gross notional value of trading exposures. This process, based on alert thresholds applied to all traded instruments and desks, participates in the uncovering of potential rogue trading schemes.

At the proposal of this department, the Group's Risk Committee sets the levels of authorized risk by type of activity and makes the main decisions concerning Group risk management. Within each entity that incurs market risk, risk managers are designated to implement Level 1 risk controls. The main tasks of these managers, carried out independently from the front offices, include:

- the ongoing analysis of exposure and results, in collaboration with the front offices;
- the verification of the market parameters used to calculate risks and results;
- the daily calculation of market risks, based on a formal and secure procedure;
- the daily monitoring of the limits set for each activity, and constant control that appropriate limits have been set for each activity.

In the major trading rooms in France and abroad, these specialized market risk managers report directly to the Risk Division.

A daily report on the use of the VaR limits, stress tests and general sensitivity to interest rates compared to the limits set out at the Group level is submitted to the General and business line management. In addition, a monthly report which recaps any key events in the areas of market risk management and specifies the use of the limits set by the General management and the Board of Directors.

METHODS FOR MEASURING MARKET RISK AND DEFINING EXPOSURE LIMITS

Societe Generale Group's market risk assessment and sensitivity analysis are based on three main indicators, which are used to define exposure limits:

- the 99% Value at Risk (VaR) method: in accordance with the regulatory model, this composite indicator is used for the day-to-day monitoring of the market risks incurred by the bank, in particular as regards the regulatory scope of its trading activities;
- a stress test measurement, based on a decennial shock-type indicator. Stress test measurements limit the Group's exposure to systemic risk and exceptional market shocks;
- complementary limits (sensitivity, nominal, concentration or holding period, etc.), which ensure consistency between the total risk limits and the operational limits used by the front office. These limits also allow for control of risks that are only partially detected by VaR or stress test measurements.

THE 99% VALUE AT RISK (VaR) METHOD

Introduced in 1996, this method is constantly being improved through the addition of new risk factors and the extension of the scope covered by the VaR. In 2008, the models have been improved with new commodities risk factors (particularly carbon emission rights) and basis factors relating to interest rates (measuring the risk linked to various fixings). Today, the market risks on almost all investment banking activities are monitored using the VaR method, in particular those relating to more complex activities and products, as well as on certain retail and private banking activities outside France. The Internal VaR Model is approved by the French regulator within the scope of the Basel II Regulatory Capital calculation.

The method used is the "historical simulation" method, which implicitly takes into account the correlation between different markets. It is based on the following principles:

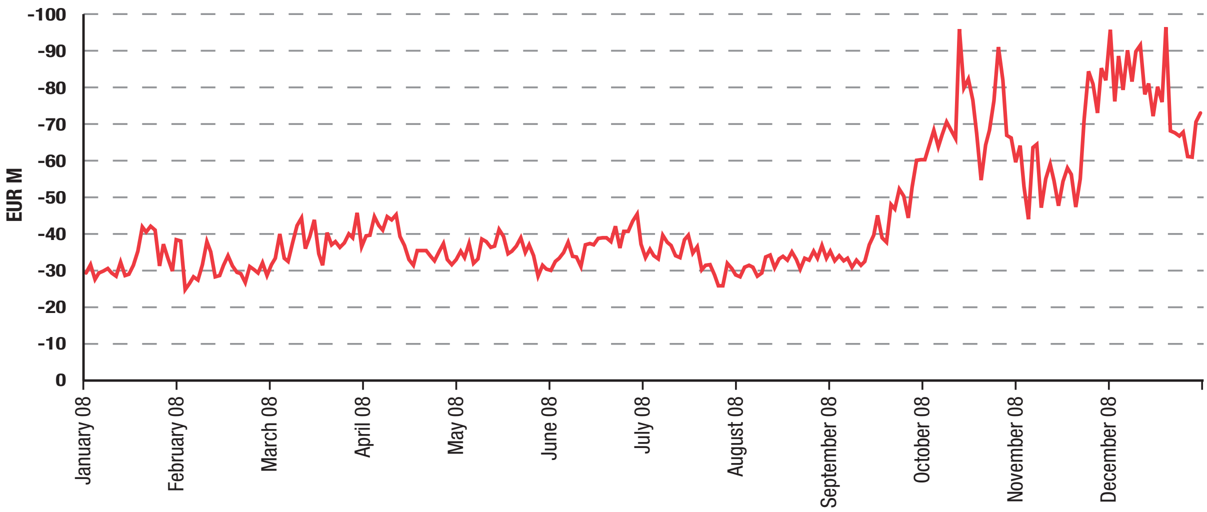
- the creation of a database tracing the risk factors that are representative of Societe Generale's positions (i.e. interest rates, share prices, exchange rates, commodity prices, volatility, credit spreads, etc.). The database used for the VaR calculation contains several thousand risk factors;
- the definition of 250 scenarios, corresponding to one-day variations in these market parameters over a rolling one-year period;
- the application of these 250 scenarios to the market parameters of the day;
- the revaluation of daily positions, on the basis of the adjusted daily market parameters, and on the basis of a revaluation taking into account the non-linearity of these positions.

The 99% Value at Risk is the largest loss that would be incurred after eliminating the top 1% of most unfavourable occurrences. Over one year, or 250 scenarios, it corresponds to the average of the second and third largest losses observed.

VaR is first and foremost designed to monitor market activity in the bank's trading portfolios. In 2008, the VaR limit for all trading activities was increased to EUR 85 million (EUR 15 million more than in 2007) to reflect the markets' increased volatility.

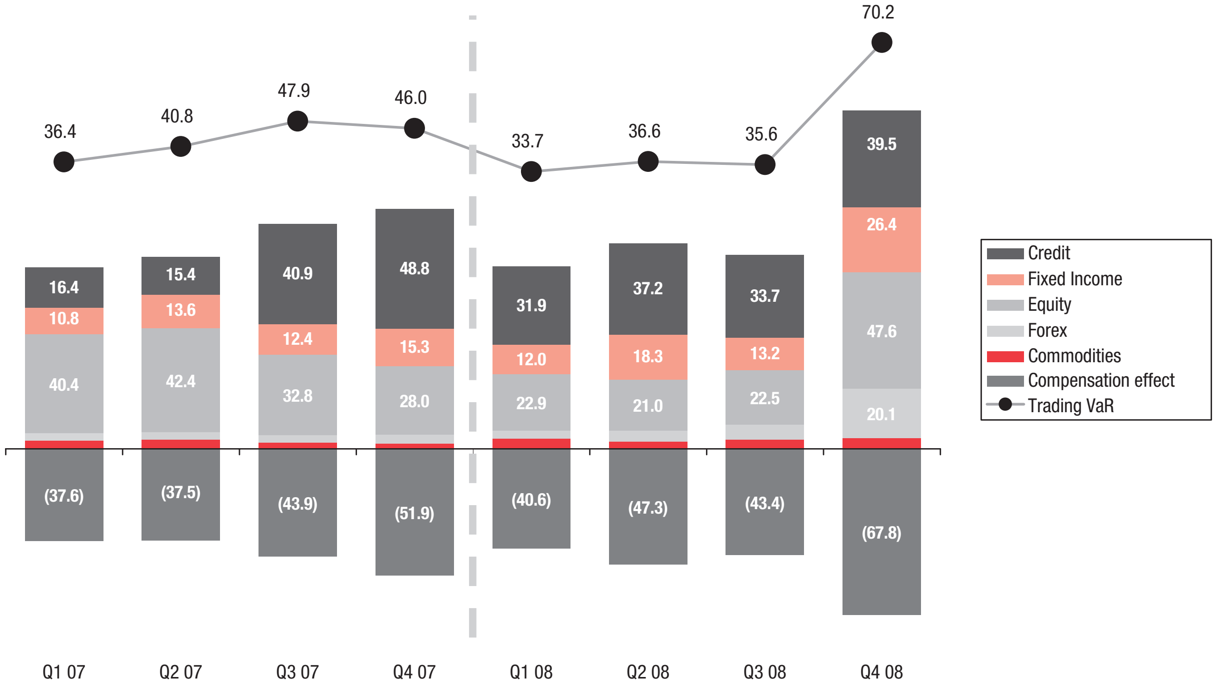
The Value at Risk in the Group's trading activities across the full scope of activities monitored evolved as follows in 2008.

TRADING VAR (TRADING PORTFOLIOS)
CHANGES IN THE TRADING VAR DURING 2008 (1 DAY, 99%) IN MILLIONS OF EUROS



The breaches of limits observed during the fourth quarter were mainly the result of the exceptional volatility seen on the markets where the Group operates, and do not denote any change in the Group's risk appetite. In addition, because of the transfer of certain assets from the trading portfolio to the banking portfolio carried out in December, the Group did not actively manage these positions until the transfer was completed, as a measure of caution and in order to have a precise view of its trading exposure before implementing any overall reduction strategy.

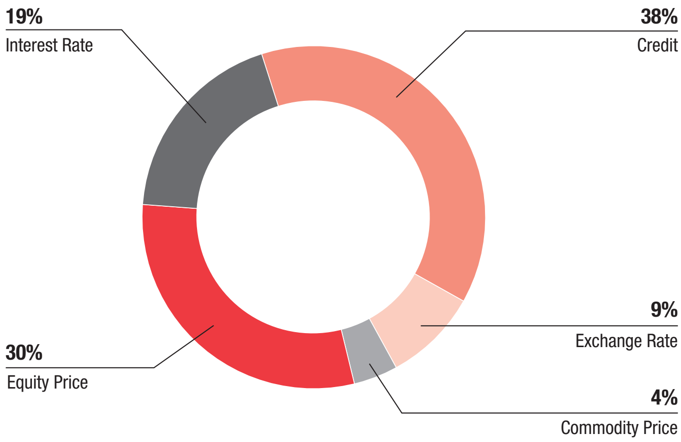
BREAKDOWN BY RISK FACTOR OF THE TRADING VAR – CHANGE OF QUARTER AVERAGE OVER 2007-2008 PERIOD



NB: The figures concerning 2007 do not take into account the unauthorized and concealed trading activities)
The figures for credit risk cover a reduced scope as from Q4 08 following the transfer of trading book positions to the banking book. Given their illiquidity, a VaR calculation could not be performed on these positions using the existing approach

The average VaR was EUR 44 million in 2008 compared to EUR 43 million in 2007. This overall stability results from a decline for the first three quarters due to exposure reductions, notably in equity activities, followed by a sharp increase in the fourth quarter, where the introduction of highly volatile scenarios led to the doubling of VaR on most of the underlying asset classes.

BREAKDOWN OF TRADING VAR BY TYPE OF RISK-2008



LIMITATIONS OF THE VaR ASSESSMENT

VaR assessment is based on a model and a certain number of assumptions and approximations. Its main limitations are as follows:

- the use of "1-day" shocks assumes that all positions can be unwound or hedged within one day, which is not the case for certain products and crisis situations;
- the use of the 99% confidence interval does not take into account any losses arising beyond this interval; the VaR is therefore an indicator of losses under normal market conditions and does not take into account exceptionally large fluctuations;
- VaR is calculated using closing prices, so intra-day fluctuations are not taken into account;
- there are a number of approximations in the VaR calculation. For example, benchmark indexes are used instead of certain risk factors and, in the case of some activities, not all of the relevant risk factors are taken into account, which may be due to difficulties in obtaining daily data.

The Group off-sets these limitations by:

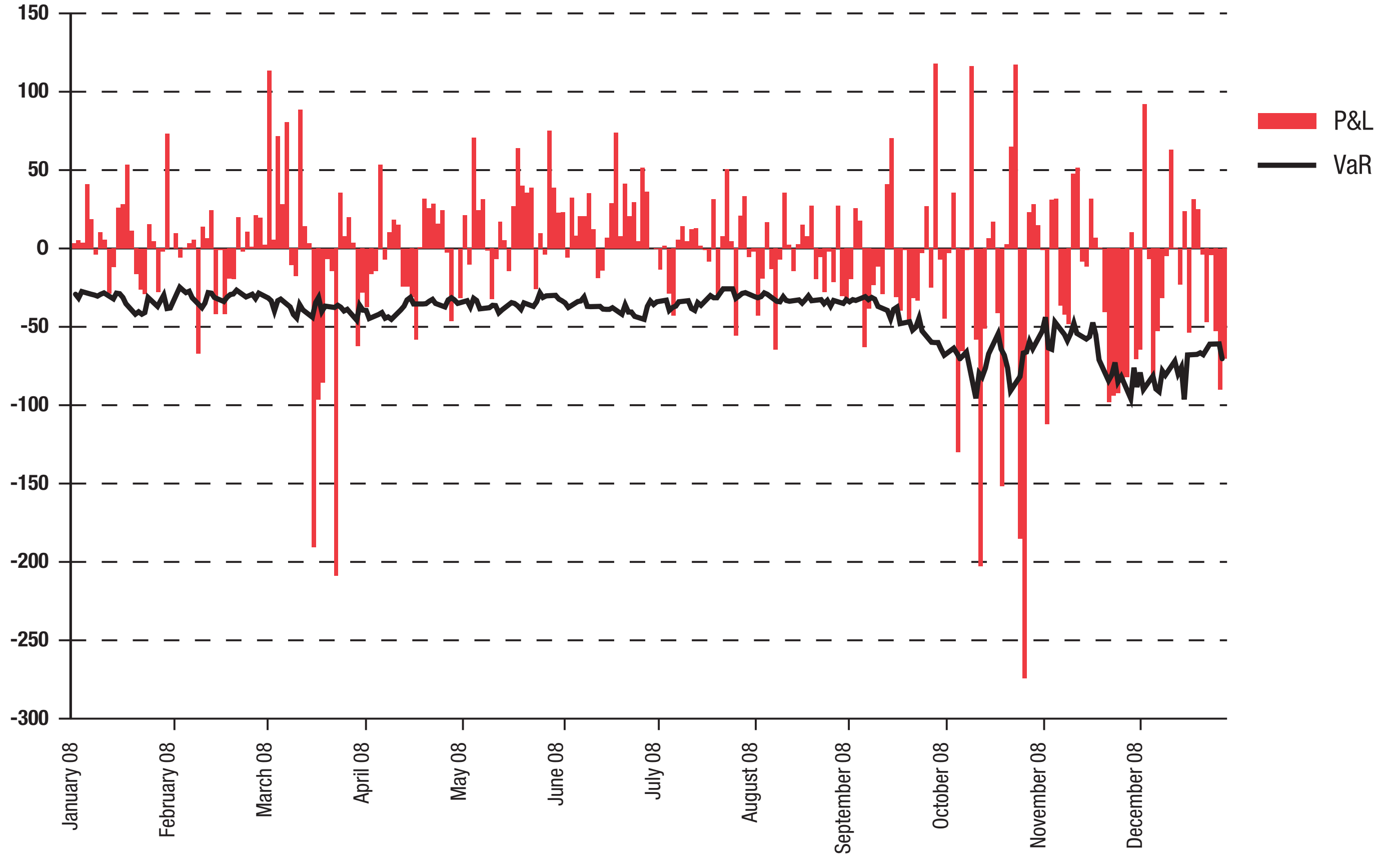
- systematically assessing the relevance of the model by back-testing to verify that the number of days for which the negative result exceeds the VaR complies with the 99% confidence interval;
- supplementing the VaR system with stress-test measurements.

The chart below shows the back-testing of the VaR for the regulatory scope. In 2008, the total daily loss exceeded the VaR on 29 occasions, which is well above the 99% confidence interval used (2 to 3 occasions per year). This exceptional situation can be attributed to the following factors:

- Due to the market dislocation, the shocks which occurred on several risk factors were significantly greater than the historic shocks used to calculate the VaR.
- As certain assets had become illiquid, particularly structured credit assets, the calibration of daily shocks used became more unstable, creating a gap between this risk indicator and the actual results recorded.
- Furthermore, illiquid assets are subject to large liquidity reserves, which are included in the results used to carry out VaR back-testing, whereas they are not taken into account in the daily calculation of VaR.

In conclusion, the impact of VaR methodology limitations warrant the use of other risk indicators such as stress tests in addition to VaR.

VAR BACK-TESTING USING THE REGULATORY SCOPE DURING 2008 VaR (1 DAY, 99%) IN MILLIONS OF EUROS



STRESS TEST ASSESSMENT

Alongside the internal VaR model, Societe Generale monitors its exposure using the stress test method to take into account exceptional market occurrences.

A stress test estimates the loss resulting form an extreme change in market parameters over a period corresponding to the time required to unwind trading positions (5 to 20 days dor most positions).

The stress test risk assessment methodology is based on 18 historical scenarios and 8 hypothetical scenarios, including the "Societe Generale Hypothetical Scenario", which has been used since the start of the 1990s. Alongside the VaR model, the stress test is one of the main pillars of our risk management system and is based on the following principles:

- risks are calculated on a daily basis for each of the bank's market activities (all products combined), using the 18 historical scenarios and 8 hypothetical scenarios;
- stress-test limits are established for the Group's activity as a whole and then for the different business lines. They define, firstly, the maximum acceptable loss under the Societe Generale Hypothetical Scenario and the hypothetical scenario of a stock market crash such as that of October 1987, and, secondly, the maximum acceptable loss under the 24 remaining historical scenarios and hypothetical scenarios;
- the different stress test scenarios are reviewed and expanded by the Risk Division on a regular basis, in conjunction with the Group's teams of economists and specialists.

HISTORICAL STRESS TESTS

This method consists of an analysis of the major economic crises that have affected the financial markets since 1990. The changes in the prices of financial assets (equities, interest rates, exchange rates, credit spreads, etc.) during each of these crises are analyzed in order to define scenarios for potential variations in these risk factors which, when applied to the bank's trading positions, could generate significant losses. Using this methodology, Societe Generale has established 18 historical scenarios.

HYPOTHETICAL STRESS TESTS

The hypothetical scenarios are defined by the bank's economists and designed to identify possible sequences of events that could lead to a major crisis in the financial markets (e.g. a major terrorist attack, political instability in the main oil-producing countries, etc.). The bank aims to select extreme, but nonetheless plausible events which would have major repercussions on all international markets. Societe Generale has adopted seven hypothetical scenarios, in addition to the Societe Generale Hypothetical Scenario.

In 2008, Societe Generale relied on eight hypothetical stress tests:

Generalized: this is historically the earliest scenario used by the Group. It simulates an increase in interest rates concomitant to a strong decline of equity markets.

Middle East Crisis: refers to a Middle East destabilization leading to a significant chock on petroleum and other energy sources, a stock market crash, and a steepening of the interest rate curve.

Terrorist Attack: major terrorist attack on the United States leading to a stock market crash, strong decline in interest rates, credit spreads widening and sudden decline of the US dollar against other major currencies.

October 1987: this scenario, based on the October 1987 events, has been expanded to incorporate missing historical data.

Bond Crisis: crisis in the global bond markets inducing a delinking of bond and equity yields, strong rise for US interest rates (more modest for other international rates), moderate decline of equity markets, flight to quality for bonds with some moderate credit spreads widening, US dollar revaluation.

Dollar crisis: strong depreciation of the US dollar against major international currencies due to deterioration of twin trade and budget deficits, leading to higher US interest rates and US credits spread narrowing.

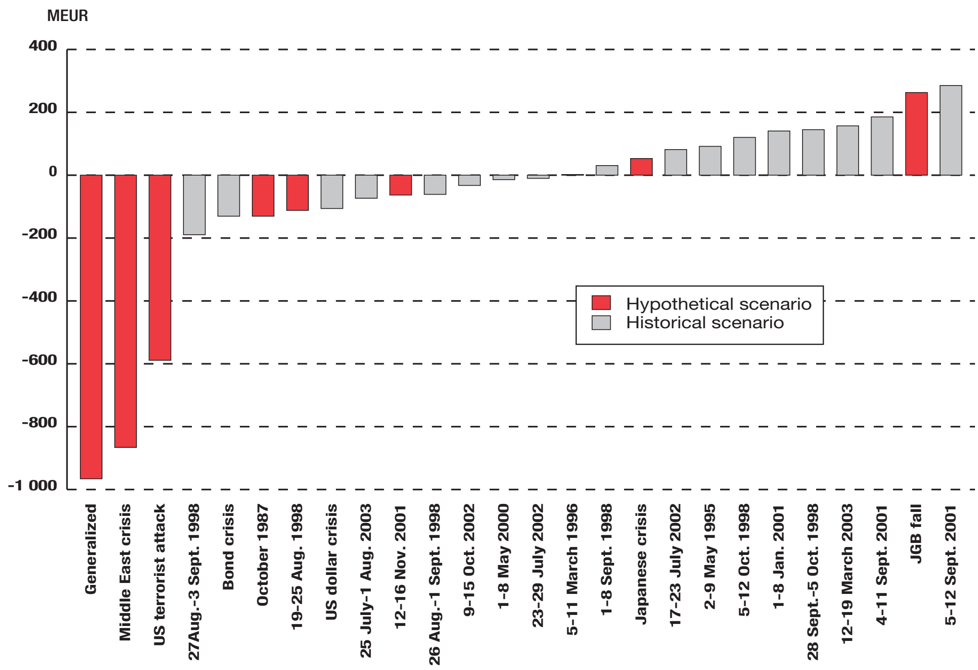
Japanese crisis: bank run scenario ensuing from a major bank default occurring in Japan; strong decline of Japanese equity markets and of the Yen, more modest decline of US equities, strong increase of US and Euro long-term interest rates.

JGB Fall: Japanese bond market crash following a sovereign rating downgrade, strong Yen and Japanese stock market decline, marked decline of US and Euro long-term interest rates.

AVERAGE STRESS TESTS IN 2008

The following graph provides the average stress tests amounts calculated through 2008.

STRESS TESTS AVERAGE 2008



CAPITAL REQUIREMENTS

Societe Generale's capital requirements on account of market risk are predominantly determined using the IRB approach (nearly 90% of the Group's risk-weighted assets). The risk typology breakdown provided below highlights that equity and interest rate risk account for the bulk of the capital requirements at year-end 2008.

Risk weighted assets in Euro millions	**Standard Approach**	**IRB**	**Total**
Interest rate risk	1,521	8,085	9,606
Equity risk	294	11,578	11,872
Foreign exchange risk	561	641	1,202
Commodity risk	160	228	388
Total	**2,536**	**20,532**	**23,068**

8 OPERATIONAL RISK

OPERATIONAL RISK MANAGEMENT: ORGANIZATION AND STRUCTURE

Societe Generale has over time implemented processes, management tools and a full control infrastructure for monitoring and managing operational risks, which are inherent to its various activities. These include inter alia, general and specific procedures, permanent supervision, business continuity plans, New Product committees and dedicated functions for overseeing and managing specific types of operational risks, such as fraud, risks related to the payment systems, major legal risks, information systems security risks and non-compliance risks.

The operational risk department

Incorporated in 2007 into the Group's risk division, the Operational Risk Department is working in close cooperation with operational risk staff in the Business Divisions and Functional Divisions.

The Operational Risks department is notably responsible for:

- Running the operational risk structure.
- Devising and implementing Societe Generale's operational risk control strategy, while promoting an operational risk culture throughout the Group.
- Defining methods for identifying, measuring, monitoring, reducing and/or transferring operational risk, in liaison with the Business Divisions and the Functional Divisions, and to ensure consistency across the Group.
- Evaluating and preparing for crisis management, including coordinating business continuity plans (BCP).

The Operational risk structure

In addition to the Operational Risk Department, the operational risk organization includes Operational Risk Managers (ORM) in the Business Divisions and Functional Divisions. ORMs operate throughout the organization, and are responsible for implementing the Group's procedures and guidelines, monitoring and managing operational risks with the support of dedicated operational risk staff in the business lines, and in close collaboration with the respective entities' line management.

Operational risk committees have been set up at the Group level, at the Division and business line/support function level and in the subsidiaries. The organization and procedures implemented to manage operational risks are also subject to periodic auditing.

OPERATIONAL RISK MEASUREMENT

Societe Generale has opted since 2004 for the Advanced Measurement Approach (AMA), proposed by CRD for measuring operational risk and calculating the associated capital requirements. This approach notably makes it possible to:

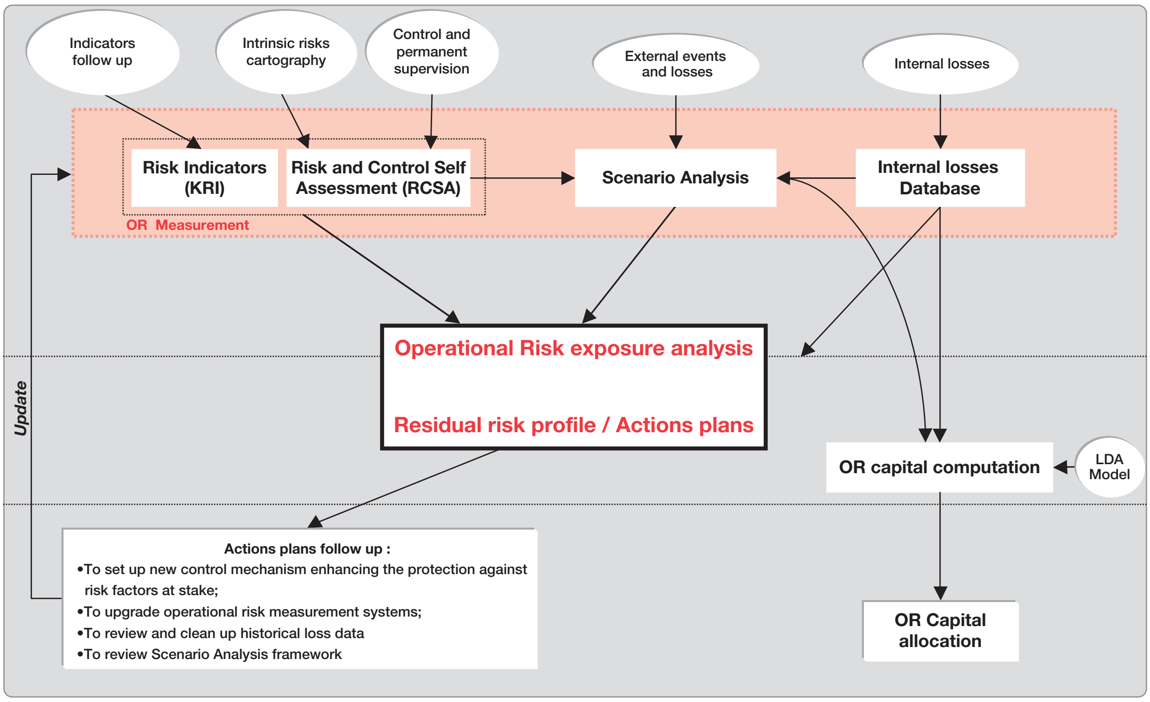
- Identify i) the business lines having the greatest risk exposure and, ii) the types of risk that have the greatest impact on the group's risk profile and overall capital requirement.
- Enhance the Group's operational risk culture and overall management, by introducing a virtuous circle of risk identification, improved risk management and risk mitigation and reduction.

Following its in-depth review, the French banking commission has approved the use of AMA, as defined under the Basel II agreement, for calculating Societe Generale's regulatory capital requirements on account of operational risks from January 1, 2008. Although some subsidiaries use the Standard Approach, the AMA's implementation scope across the Group's activities represents more than 90% of total net banking income.

OPERATIONAL RISK MONITORING PROCESS

The framework specifically established by Basel II regulations (including "Sound practices for the management and supervision of operational risk") have been implemented across the Group on the basis of existing procedures where possible, to promote a "virtuous circle" described above. They notably include:

- Collecting internal data on operational risk losses;
- Drafting Risk and Control Self-Assessment (RCSA) in all business units;
- Determining Key risk indicators (KRI);
- Formulating Scenario analyses;
- Cross-referencing its own data with external loss data analysis.



Societe Generale's classification of operational risk in eight event categories and forty-nine mutually exclusive sub-categories, is the cornerstone of its risk modelling, ensuring consistency in risk control infrastructure and measurement system across the Group.

The following 8 categories of risk event chosen by the Group have been mapped to the Basel II regulatory classification for relevant benchmarking:

Commercial disputes
Disputes with authorities
Pricing or risk evaluation errors
Execution errors
Fraud and other criminal activities
Rogue trading
Loss of operating resources
IT System failure

Internal loss data collection

Internal loss data has been compiled throughout the Group since 2003, also enabling staff to:

- Build expertise in operational risk concepts and tools,
- Achieve a deeper understanding of the latent risks embedded in the business,
- Help disseminate an operational risk culture throughout the Group.

The minimum threshold at which a loss is recorded is €10,000 throughout the Group, except for Corporate and Investment Banking, where this threshold is €25,000 due to the scope of its activity, the volumes involved and the relevance of capital modelling points. Any losses below these thresholds are therefore excluded from the collection process and the impact of the threshold is taken into account in the capital calculation model.

Risk and Control Self-Assessment (RCSA)

The purpose of Risk and Control Self-Assessment (RCSA) is to assess and then measure the Group's exposure to operational risks. This involves:

- Identifying and assessing the operational risks to which each of the Group's businesses is inherently exposed (the "intrinsic" risks), while disregarding the impact of risk prevention and mitigation measures.
- Assessing the quality of risk prevention and mitigation measures, including their existence and effectiveness in detecting and preventing risks and/or their capacity to reduce their financial impact.
- Measuring the risk exposure of each Group business that remains once the risk prevention and mitigation measures are taken into account (the "residual exposure") but disregarding insurance coverage.
- Correcting any inadequacies in risk control and mitigation measures and implementing corrective action plans.
- Facilitating and/or supporting the implementation of key risk indicators (KRI).
- Adapting the risk insurance strategy, if necessary.

Key Risk Indicators (KRI)

KRI supplement the overall operational risk management system, by providing a dynamic view of changes in business line risk profiles as well as a warning signal. Regular KRI monitoring assists both line management and staff in their assessment of the Group's operational risk exposure obtained from RCSA, the analysis of internal losses and the scenario analyses, by providing them with a quantitative and verifiable risk measurement and a regular assessment of the improvements or deteriorations in the risk profile, as well as the control and prevention environment which may call for particular attention or an action plan. KRIs which may bear a significant impact on the entire Group are reported to Group general management.

Scenario analyses

Scenario analyses serve two purposes: informing the Group about potential significant risk areas and contributing to the calculation of the capital required to cover operational risk.

Regarding the calculation of capital, the Group uses scenario analyses in order to measure its exposure to losses arising from low frequency/high severity events and provide an estimate of loss distribution for event categories where internal loss data history is insufficient.

In practice, for each event category, various scenarios are reviewed by experts, who gauge the magnitude of the potential impact for the bank, by factoring loss data and the quality of the control environment. The related estimated frequency and severity are aggregated to obtain the loss distribution for individual risk categories. Scenario analyses fall into two broad categories:

- Major Group stress scenarios, involving very severe events that cut across businesses and departments, have an external cause and for which a business continuity plan (BCP) is required. The seven scenarios analyzed so far have helped simulate and appraise the Impact Analysis and prepare the relevant risk prevention and mitigation measures.
- Business Line's scenarios that do not fall into the category of business continuity in its strictest sense, but are used to measure unexpected losses to which the business line may be exposed to. Around 100 scenarios have been prepared so far.

Analysis of external losses

Finally Societe Generale also makes use of externally available loss databases to supplement the identification and assessment of the Group's operational risk exposures, by benchmarking internal loss records with industry-wide data.

Crisis management and Business Continuity Planning

Moreover, the Group is reinforcing its crisis management and is working on the intrinsic resilience of its activities to complete its existing business continuity plans.

RISK MODELLING AND CAPITAL REQUIREMENTS

The method used by the Group for operational risk modelling is based on the Loss Distribution Approach (LDA). This statistical approach models the annual losses through historical data on internal or external losses, or scenario analyses, according to a bottom-up process producing a matrix of losses in the different operational risk categories and business divisions, with a potential granularity of 32 event categories.

The annual loss distribution is modelled for each of the 32 elements of the matrix, and are aggregated to obtain the annual loss distributions of the Business Divisions and then of the Group. This loss distribution indicates the loss amount to which the Group may be exposed, and associates a probability of occurrence to each of these amounts. The Group's regulatory capital requirement for operational risk is then defined as the 99.9% quantile of the Group's annual loss distribution. The correlation between event frequencies is also factored in throughout the calculation process.

Based on the Group's models, Societe Generale's capital requirements on account of operational risk were EUR 3,621 million, representing EUR 45,256 million in Risk Weighted Assets.

Insurance cover in risk modelling

As permitted under the Basel II Capital Accord, Societe Generale has developed a method that enables the calculated regulatory capital to be reduced by as much as 20% when insurance policies meet the Basel II regulatory requirements and may cover, at least partly, operational losses.

Group-wide mapping is used to identify insurance policies that may cover the various operational risk categories and their corresponding characteristics: deductibles, Coverage and Coverage probability.

The modelling process therefore factors in the effect of Group insurance policies that cover major banking risks i.e. general liability, fraud, fire and theft, as well as policies covering data processing failures and operating losses due to operational breakdowns.

Insurance is an operational risk mitigation factor that may be included in the model for both internal losses and scenario analyses. In Societe Generale's model, insurance impacts the severity distributions by decreasing event amounts. The modelled frequency distribution remains unchanged however.

Furthermore, two calculations of the overall capital requirement are made, one which takes account of the insurance benefit and another one that does not, to ensure that insurance does not reduce the capital requirement by more than 20%, as specified in regulations.

The capital relief arising from SG Group's insurance cover represents 7.7% of its total capital requirement on account of operational risk.

Governance of the regulatory capital calculation process

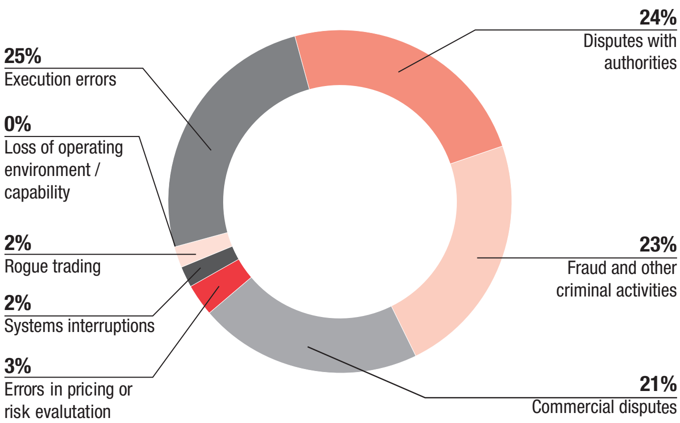
Development and modification of the operational risk capital calculation process is subject to specific governance; particularly with respect to roles, responsibilities and frequency.

This governance oversees all steps of the calculation process. This process is performed and back-tested annually. Its outputs are independently validated and an additional "safety" margin may be proposed if necessary. Furthermore, the model is assessed at least every two years, and methodologies are independently validated. Finally, the capital requirements and the potential "safety" margins are submitted annually to CORISQ for validation.

QUANTITATIVE DATA

The following provides a chart of actual losses for the period 2004-2008, presented alongside the risk categories used by Societe Generale.

OPERATIONAL RISK LOSSES (EXCLUDING EXCEPTIONAL ROGUE TRADING LOSS) : ALLOCATION BY SG RISK EVENT TYPE(AVERAGE FROM 2004 TO 2008)



9 INTEREST RATE RISK MANAGEMENT

STRATEGY AND PROCESSES

Societe Generale manages its structural exposure to interest rate risk within its global Asset and Liability Management (ALM) structure which, besides the interest rate risk, also manages the Group's exposure to liquidity and foreign exchange risks[1].

Structural exposure to interest rate risk encompasses all exposures due to:

- commercial activities,
- the proprietary transactions of the Group's consolidated entities.

Interest rate risks associated with trading activities are excluded from the scope of structural interest rate risk, and are dealt with under market risk. The structural and market exposures constitute the overall interest rate exposure of the Group.

Governance

When it comes to the management of structural interest rate risks, governance is based on the following core principles:

- A general policy and overall management standards validated by the Group's executive committee and translated into detailed management norms by the Group Finance Department.
- Decentralized risk management at entity level, controlled via limits.
- Tight supervision by the Group Finance Department on the implementation of norms and interest rate risk management by the entities.

Group norms and procedures set precise guidelines for:

- Policy implementation and management of structural interest rate risk,
- Investment norms of the entities' shareholders' equity,
- How structural and market interest rate risks are to be differentiated.

Organisation

The Group's Management is involved in managing the banking book interest rate risk via Group Financial Committees held quarterly, which endorse the management principles and the sensitivity limits for each entity, and review the management reports and analysis prepared by the Finance Department. In addition, the Financial Committee is regularly updated on the main changes to the ALM models used by the French retail network (notably rules for the amortization of demand deposits and regulated savings accounts, early housing loan repayments etc.).

The Group Finance Department is in charge of defining management norms (relating to organisation and methodologies) and validating the models developed and used by the entities. It also notifies Group entities of the respective sensitivity limits under which they must operate. In addition, the Finance Department is responsible for the centralisation and reporting of the interest rate risk and second level controls.

Conversely, Group entities are responsible for the management and control of the interest rate risk and of its hedging at their own level, within the guidelines defined for the Group.

Responsibility for adhering to Group policy and enforcing the limits defined lies with each entity's Managing Director, who is assisted in this task by their Structural Risk Manager. Furthermore, the Group's main retail banking units have set up ALM Committees responsible for monitoring the interest rate risk in accordance with Group principles.

The interest rate risk is measured monthly for the Group's main entities, and at least quarterly for other entities. Every quarter, all the Group entities report their ALM positions to the Group Finance Department, which prepares a consolidated ALM report.

(1) For more information on the management of other risks encompassed by Societe Generale's ALM, see the Group's 2009 Registration document.

INTEREST RATE RISK MANAGEMENT METHODOLOGY AND OBJECTIVES

Through its ALM and interest rate risk management, Societe Generale aims to minimise each Group entity's exposure to interest rate risk. The interest rate risk exposure on the banking book therefore results only from residual positions. The sensitivity of residual positions must comply with the limits set for each entity, and for the Group overall, as approved by the Financial Committee.

Generally speaking, ALM is not considered to be a profit centre. In other words, transactions are carried out in order to hedge any open positions. All origination activity on the bank's banking book is hedged, as far as possible, on a fully matched and risk-neutral basis. The funding and hedging policies preclude any active risk-taking.

In order to quantify its exposure to structural interest rate risk, the Group analyses all its balance sheet's fixed rate assets and liabilities to identify any gaps which reflect mismatches in the maturity and/or repricing of the fixed interest rate assets and liabilities recorded on the balance sheet. The maturities and amortization of outstanding positions are determined based on their contractual terms, or models reflecting historical customer behavior observed as well as conventional assumptions for certain aggregates (mainly shareholders' equity).

Once the fixed interest rate gaps have been identified, the position's resulting sensitivity to interest rate variations is calculated.

Group policy calls for the transfer of residual risk from commercial activity either into local treasuries or the Group Treasury using an internal transfer price. The interest rate risk is then managed within the authorized limits of the related trading books.

For products without a fixed maturity date (the French retail network's current and savings accounts, for example), the Group uses amortization models, in which the outstanding amounts are deemed to be composed of a stable portion and a volatile portion (i.e. the difference between the total outstanding amount and the stable portion). For example, for Societe Generale's French retail network, the volatile portion of its deposits is scheduled at sight, while the stable portion is determined by using an auto-regressive model that is regularly back- tested. Its amortization profile was defined based on an auto projective model and on the bank's historical data.

The amortization of loans takes into account early repayment models that may be sensitive to the level of interest rates.

KEY INTEREST RATE RISK INDICATORS

Societe Generale's management uses several indicators to measure its interest rate risk, its three preferred measurements being:

- *Gap analysis*: the fixed rate positions and gaps are the main indicators for assessing the characteristics of the hedging operations required, calculated on a static basis.
- The *sensitivity of the economic value* is a supplementary and synthetic indicator used to set limits for the entities (also calculated on a static basis). It is measured as the sensitivity of the economic value of the balance sheet to variations of interest rates. This measurement is calculated for all the currencies to which the Group is exposed.
- The *sensitivity of the interest margin* to variations of interest rates takes into account the sensitivity which is generated by future commercial production over a three-years rolling horizon, calculated on a dynamic basis.

Sensitivity limits are set for each entity, and periodically reviewed by Group Finance Department. The Group's global sensitivity limit is currently set at EUR 500 million, which represents less than 2% of Societe Generale's Tier 1 capital base.

Other measurements that are also used to monitor the structural interest rate risk include:

- *Measurement of Economic Value sensitivity and interest margin sensitivity in various stress scenarios.* In these scenarios, the modelling of the behavior of products without a fixed maturity date and on early loan repayment is adjusted accordingly.

- *Measurement of the economic capital* on account of the interest rate risk in the banking book. Societe Generale uses a Value-at-Risk (VAR) measurement method for its assessment of economic capital. The VAR measures the maximum potential loss in economic value that might occur over a one-year time horizon as a result of movements in interest rates.

INTEREST RATE RISK INDICATORS AT END-DECEMBER 2008

Measurement of the sensitivity of the economic value of the balance sheet, by currency, to variations of the interest rates

in millions of euros – 31/12/2008	**Sensitivity by currency**							
	EUR	**USD**	**GBP**	**JPY**	**CZK**	**RUB**	**Others**	**Total**
Parallel increase of the yield curve of 10 basis points	9	-2	0	0	2	-1	2	10
Parallel decrease of the yield curve of 10 basis points	-12	2	0	0	-2	1	-2	-14
Steepening of the yield curve (50 bps increase/decline in interest rates above/below one year)	-65	5	3	2	6	1	16	-32
Flattening of the yield curve (50 bps decline/increase in interest rates above/below one year)	-36	-5	-3	-2	-6	-1	-16	-68

APPENDIX:

INFORMATION PERTAINING TO THE CONTRIBUTION OF KEY SUBSIDIARIES TO THE GROUP'S TOTAL RISK WEIGHTED ASSETS

	Crédit du Nord		Rosbank		Komercni Banka	
Contribution to the Group risk weighted assets on account of						
in million of euros	**SA**	**IRB**	**SA**	**IRB**	**SA**	**IRB**
Credit and counterparty risk	**3,612**	**11,405**	**10,646**	**434**	**1,353**	**9,120**
Sovereign	5	-	906		13	334
Institutions	317	170	1,056		22	952
Corporates	2,357	5,869	6,294		476	5,988
Retail	837	4,318	2,389		842	1,150
Securitization	-	-	-		-	-
Equity	96	153		182	-	154
Other non credit-obligation assets	-	895		252		542
Market risk	**99**		**354**		**23**	
Operational risk (SA/AMA)	**697**		**1,612**		**737**	
Total	**15,813**		**13,045**		**11,234**	