2009 Remuneration Policies and Practices Report

Introduction

This document was prepared per Articles 43.1 and 43.2 of Regulation no. 97-02 on the internal control of credit institutions and investment firms, resulting from the French ministerial order of November 3, 2009 governing the remuneration of staff whose activities are liable to have an impact on the risk exposure of credit institutions and investment firms.

Art. 43-1. – Each year, companies subject to this regulation prepare a report sent to the French Commission bancaire (Banking Commission) showing the following information on remuneration policy and practices:

1. *The decision-making process implemented to define the company's remuneration policy, including the composition and remit of the committee specialized in remunerations;*
2. *The principal characteristics of the remuneration policy, including, the criteria used to measure performance and adjust remuneration to risk, the link between remuneration and performance, the policy on deferred remuneration and guaranteed remuneration, and the criteria used to determine the proportion of cash amounts compared to other forms of remuneration;*
3. *Consolidated quantitative information on remuneration of company executive officers as well as of employees who are market professionals and whose activities have a significant impact on the company's risk exposure, by indicating for each of these two categories:*
    a) *The amounts of remuneration for the financial year, divided into fixed part and variable part, and the number of beneficiaries;*
    b) *The amounts and form of variable remuneration, divided into cash payments, shares and share-linked instruments, and others;*
    c) *The amounts of deferred remuneration outstanding, divided into vested and unvested remuneration;*
    d) *The amounts of deferred remuneration allocated during the financial year, paid out or reduced through performance adjustments;*
    e) *New sign-on and severance payments made during the financial year and the number of beneficiaries of such payments;*
    f) *Layoff pay guarantees made during the financial year, the number of beneficiaries, and the highest amount allotted thereunder to a single beneficiary.*

Art. 43-2. – Once a year, companies subject to this regulation publish the information mentioned in 1) to3) of Article 43-1. To this end, they determine the appropriate medium and location, and endeavour to publish all information concerned on a single medium or at a single location.

Part 1. Corporate Governance of Remuneration

The Group's remuneration policy is defined by General Management, on the proposal of the Group's Human Resources Department. It is validated by the Board of Directors, on the recommendation of the Compensation Committee, of the Board.

1.1 The Board of Directors reviews the Group's remuneration policies

Pursuant to its rules and regulations, and at the recommendation of its **Compensation Committee**, the Board of Directors reviews and **sets out the principles of the remuneration policy applicable in the**

Group, in particular concerning financial market professionals, and **sets the remuneration of company executives.** It checks that internal control measures are used to verify that those principles comply with professional standards and regulations and are in line with risk-control targets.

The **Compensation Committee:**

- proposes to the Board, in accordance with the guidelines in the AFEP-MEDEF Corporate Governance Code and with professional banking standards, the policy governing remuneration of executive officers, and particularly the determination criteria, structure and amount of this remuneration, including benefits in kind, personal protection insurance or pension benefits, as well as any compensation received from Group companies, ensures that the policy is properly applied, and prepares the Board's yearly performance appraisal of the executive officers;

- gives the Board of Directors its opinion on the General Management's proposals for the remuneration policy applicable within the Group, particularly regarding financial market professionals, and verifies with the General Management that the policy is being implemented;

- reviews the **budgets** proposed for **basic salary** and **variable pay** increases;

- proposes the policy for allocating **long-term instruments** (options and equity) meant to build loyalty in key associates, and the performance conditions required for their vesting;

- prepares the decisions of the Board relating to the **employee savings plan**.

The Compensation Committee is made up of four members, including **three independent directors**, who are neither company executives nor tied to the company or any of its subsidiaries by an employment contract, nor members of the Audit Committee, nor of the Internal Control and Risk Committee. It has been strengthened by the presence of the Vice Chairman of the Board of Directors, who provides the link with the Audit and Risk Committees.

Jean-Martin Folz, Company Director, Independent Director, Chairman of the Compensation Committee and the Nomination and Corporate Governance Committee.

Michel Cicurel, Chairman of the Compagnie Financiere Edmond de Rothschild and the Compagnie Financiere Saint-Honore. Independent Director, Member of the Compensation Committee and the Nomination and Corporate Governance Committee.

Luc Vandevelde, Company Director, Independent Director, Chairman of the Compensation Committee and the Nomination and Corporate Governance Committee.

Anthony Wyand, Vice-Chairman of the Board of Directors, Chairman of the Audit, Internal Control and Risk Committee, Member of the Compensation Committee and the Nomination and Corporate Governance Committee.

1.2 In 2009, the Compensation Committee's role was extended

Per the aforementioned ministerial order of November 3, 2009 and professional standards established by the French Banking Federation, **governance on remuneration has been increased, to ensure that the Group's remuneration policy does not lead to excessive risk-taking.**

From now on, for **financial market professionals,** the Compensation Committee conducts a **yearly review of their remuneration policy**, and checks with General Management' that its **implementation is consistent with the principles and provisions of professional standards** (structure, payment terms, performance conditions required for acquisition, and deferral periods) and that the report made for it complies with Regulation 97-02.

It checks that the dialogue set out by professional standards between, on the one hand, the Risk and Compliance Divisions, independent of operating departments, and, on the other, General Management, for the definition and implementation of this remuneration policy, has indeed taken place; it verifies that the opinions of these departments have indeed been considered, in the form of risk mapping, and evaluation reporting on risk management and compliance.

It reviews **individual compensation amounts** for key market professionals .

It receives any information required for its duties, including any item received or provided to regulators, particularly the French Prudential Control Authority. It relies as necessary on internal control or outside experts for the review and implementation of these policies.

It produces a report to the Board on its diligences and submits its opinion on the system for compensating financial market professionals, which is approved by the Board.

1.3 Structured remuneration management within the Group

General Management has defined a **system for delegating and managing remuneration** which applies to the whole Group. Through this system, delegations are implemented which, depending on the nature and level of certain decisions regarding remuneration, may require validation by the General Management or the Group Human Resources Department.

Moreover, the **Group Human Resources Department is responsible for coordinating and documenting the process for reviewing individual situations** (basic salary, performance-linked bonus, stock options or shares).

Itemized calculation of variable compensation is formalized by the Finance Department, which reviews it yearly.

The decision-making process includes different validation phases with the subsidiaries/business lines. Moreover, the Group's Finance Division ensures that the total amount of remunerations is not likely to impede the Group's ability to improve its equity.

These validations cover policy, budgets, and individual allocations, with the Group Human Resources Department ensuring the consistency and documentation of the validation phases Group-wide. The Risk and Compliance Divisions help document the decision-making process, through risk mapping by activity and yearly evaluation reports on risk management and compliance with the rules of professional conduct.

The independence of these control functions is guaranteed by direct reporting to the Group's General Management. Moreover, like all of the Group's support functions, these functions are compensated on performance-based pay envelopes determined according to the Group's overall performance, regardless of the performance of the activities they control.

This steering ensures that remuneration decisions are made independently and objectively. The process is reviewed after the fact by the Group's General Inspection.

Part 2. Group remuneration policies and principles

The aim of the Group remuneration policy is to make remuneration an **effective system to bring in and build loyalty in employees who contribute to the company's success.** This policy is based on principles common to the whole Group, but it varies by business line and geographic area in which the Group does business (Section 5 of the 2010 Registration Document).

This policy is consistent with the principles set by regulators and French professional banking standards, and it complies with local corporate, legal, and fiscal legislation.

2.1 Remuneration recognizes ability to do one's job and yearly performance

It must **motivate employees to achieve the company's targets.** It may take different forms depending on the business lines, beyond basic salary, with a variable component.

Allocation of a performance-linked component is not contractual – it depends on **individual and group performance.** It also takes the **economic, corporate, and competitive environment** into account. Thus, **individual performance-based pay** is based on:

- results of the employee's business line;
- individual performance, evaluated on the basis of qualitative and quantitative yearly targets (including, where applicable, the achievement of individual financial targets);
- how that level of performance was achieved: prudential risk management (including market risks, counterparty risks, and operational risks), adherence to the rules of compliance, and internal collaboration quality (e.g. between front offices and back/middle offices).

The market competition context is factored in by means of **remuneration surveys** (conducted by activity and by geographic area), which shed light on remuneration levels practiced by the main competitors.

In addition, in the bank, **cross-departmental reviews are carried out for branches and business lines,** to ensure that remuneration is consistent between the Group's different activities and to facilitate mobility.

Remuneration is supplemented by different loyalty programs:

- the possibility of becoming a Group shareholder with the global employee shareholding plan;
- certain benefits programs, particularly in countries without general coverage systems.

2.2 Since 2009, there has been a new remuneration policy for financial market professionals

For the first time, in the wake of the conclusions of the G20 Summit in Pittsburgh, new rules have been instituted for remuneration of financial market professionals whose activities are likely to have a significant impact on the Group's risk exposure. They were formalized in France by a ministerial order (November 3, 2009) and by professional standards of the French Banking Federation. These led to in an **in-depth review** of both the **variable compensation policy** and of the terms for determining individual compensation of these professionals within the Group. This **system covers all market professionals, regardless of their geographic location or business line** (trading, sales, structuring, etc.).

The variable compensation envelope for financial market professionals is based on the results of market activities, after deducting:

- direct and indirect overhead;
- liquidity cost (cost of internal refinancing billed);
- cost of risk;
- cost of capital.

These items are set by the Group Risk Division and Finance Division. They allow for changes in regulatory requirements.

In 2009, "bonus taxes" decided on by the governments of France and the UK were deducted from the variable compensation envelopes.

Individual allocations of variable parts for financial market professionals are correlated with the individual year-end review, as they are for the rest of the Group. Therefore, there is **no direct or automatic link between the financial performance of a financial market professional and his/her variable**, because the professional is valuated comprehensively, including how his/her financial performance was achieved. Thus, the targets given to employees for 2010 include not only **quantitative targets, but also formalized qualitative targets** (risk management quality, resources and behaviours used to achieve results, cooperation and teamwork, personnel management, etc.).

Individual variable parts are structured in two portions:

- an immediate portion, paid in March of the year following the financial year

- **a portion spread over three years, invested in Societe Generale shares or indexed to the Societe Generale share price**, whose final allocation or payment is subject to achievement of a minimum performance over three years of activities. For shares, per French regulations, there is an additional two years of non-transferability, which brings the **average unavailable period for deferred compensation in France to three years.**

Employees are **prohibited from using hedging or insurance strategies.**

For financial year 2009, **deferred variable compensation represented an average of 60%** of the total variable compensation for financial market professionals, as compared to 50% required by French standards. Individually, the higher the variable compensation, the greater the percentage of the deferred part.

For deferred remuneration, if minimum performance in investment banking and market activities is not achieved every year during the deferred period, that compensation will be partially or totally lost. In addition, an individual “removal” clause for that deferred compensation has been established to discourage any excessive individual risk-taking and any unacceptable behaviour.

Finally, allocation of a **guaranteed variable compensation** at hire is:
- strictly limited to one year (per the governmental order of November 3, 2009)
- and subject to the terms of the deferred compensation plan applicable over the financial year.

All of these items were reviewed for the first time in 2009 by Mr. Camdessus, Remuneration Controller in France, and led to an adjustment further to his recommendations. These items will also be reviewed by the French Banking Commission in the second quarter 2010 and by the different regulators internationally.

Thus, the policy established for 2009 not only **respects all of the principles set out by the G20**, but goes further, especially in its requirements with regard to market professionals: larger deferred amounts, fully invested as shares or indexed to the share price with demanding performance terms to authorize future payment of the deferred funds.

Part 3. Information on compensation for FY2009

3.1. Financial market professionals

Compensation paid for the financial year:

Number of people	Wages in €M	2009 variable paid in March 2010 in €M	Deferred performance-based variables in Societe Generale shares or share equivalents (*) (valued at allocation) in €M			Other deferred performance-based variables in €M
			2011	2012	2013	
2,600	228	253	114	114	114	7

(*) these are "equity-equivalents" = amounts indexed to changes in the Societe Generale share price.

Inventory of deferred variable compensation (amount of unpaid deferred compensation corresponds to the deferred variable amount for 2009, the year the new rules began):

Unpaid deferred variables in €M			
Deferred performance-based variables in Societe Generale shares or share equivalents (*) (valued at allocation) in €M			Other deferred performance-based variables in €M
2011	2012	2013	
114	114	114	7

(*) these are "equity-equivalents" = amounts indexed to changes in the Societe Generale share price.

Deferred variable compensation paid or reduced because of financial year earnings:

The ministerial order and professional standards apply only as of compensation paid for financial year 2009, so this table will be filled out starting in 2010.

Sign-on and severance payments made during the financial year:

Amount of layoff pay and number of beneficiaries		Amount of sign-on and number of beneficiaries	
Funds paid in €M	Number of beneficiaries	Funds paid in €M	Number of beneficiaries
13	113	0.4	22

Layoff pay guarantees given during the financial year:

No guarantee of layoff pay was given for FY2009.

3.2. Chief Executive Officers

Compensation of executive officers is covered in a specific chapter in the 2010 Registration Document on pages 89-110.
Executive officers for FY2009 include Messrs. Bouton, Oudéa, Citerne, Alix, and Cabannes.

Compensation paid for the financial year:

Number of people	Wages in €M	2009 variable paid in March 2010 in €M	Deferred performance-based variables (*)
5	2,2	0,7	0

(*) In 2010, directors and officers waived all allocation of options for 2009.

Inventory of deferred variable compensation (amount of unpaid deferred compensation corresponds to the deferred variable amount for 2009, the year the new rules began):

Deferred variables unpaid in €M
0

Deferred variable compensation paid or reduced because of financial year earnings:

The ministerial order and professional standards apply only as of compensation paid for financial year 2009, so this table will be filled out starting in 2010.

Sign-on and severance payments made during the financial year:

Amount of layoff pay and number of beneficiaries		Amount of sign-on and number of beneficiaries	
Funds paid in €M	Number of beneficiaries	Funds paid in €M	Number of beneficiaries
0	0	0	0

Layoff pay guarantees given during the financial year:

No guarantee of layoff pay was given for FY2009.