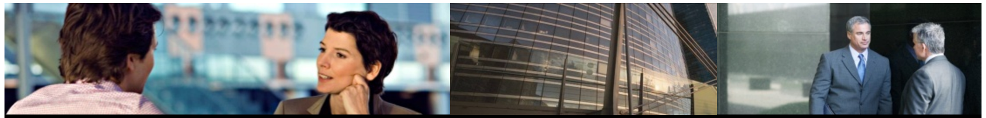
17/03/2010

TRENDS IN EQUITY DERIVATIVES AND STRUCTURED PRODUCTS

Christophe Mianné, Head of SG CIB Global Markets

SOCIETE GENERALE
Corporate & Investment Banking



Disclaimer

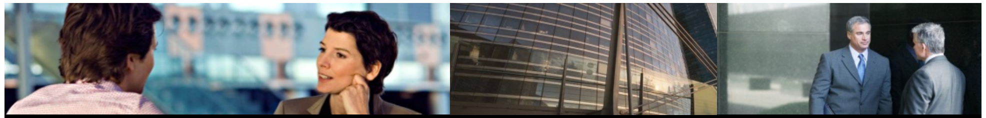
The following presentation contains a number of forward-looking statements relating to Societe Generale's targets and strategy. These forecasts are based on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be met. Readers are therefore advised not to rely on these figures more than is justified as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates. Readers should take into account elements of uncertainty and risk when basing their investment decisions on information provided in this presentation. Neither Societe Generale nor its representatives shall have any liability whatsoever for any loss arising from any use of this presentation or its contents or otherwise arising in connection with this presentation or any other information or material discussed.

The Group's consolidated income statements were approved by the Board of Directors on February 17th 2010.

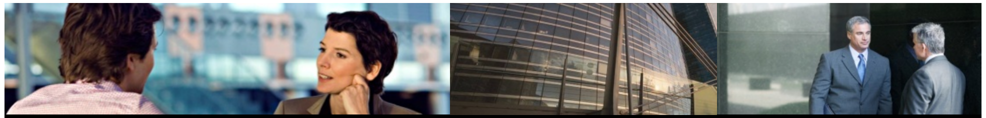
The consolidated income statements for the fourth quarter 2009 and the full year 2009, as well as the comparative information for the fourth quarter 2008 thus produced, have undergone a review by the Statutory Auditors.

The figures provided for the financial year ended December 31st 2009 and the comparative information for 2008 have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union and applicable at these dates. The consolidated financial statements have undergone a review by the Statutory Auditors.

Unless otherwise specified, the sources for the business rankings are internal.



- What Has Changed Since 2006 ?
- Lessons From the crisis
- Looking Forward: Still a Growing Business ?
- Conclusion



What has happened since 2006 in the competitive landscape?

✓ **2008 was an earthquake in the Equity Derivatives industry**

✓ **Equity Derivatives leaders are still here**

Société Générale
Goldman Sachs
JP Morgan

> EUR 3bn

Credit Suisse
Deutsche Bank
BNP
Barcap
Morgan Stanley

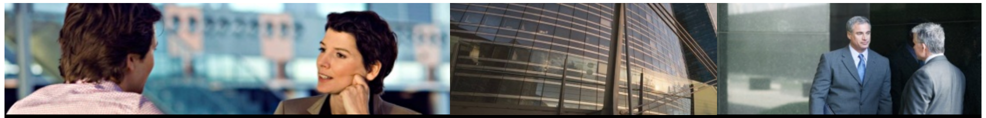
EUR [1-3] bn

Estimated pure EQD 09 NBI
(i.e. excl. Prime Brokerage and Cash Equity)

✓ **Many banks have disappeared or reduced their ambitions**

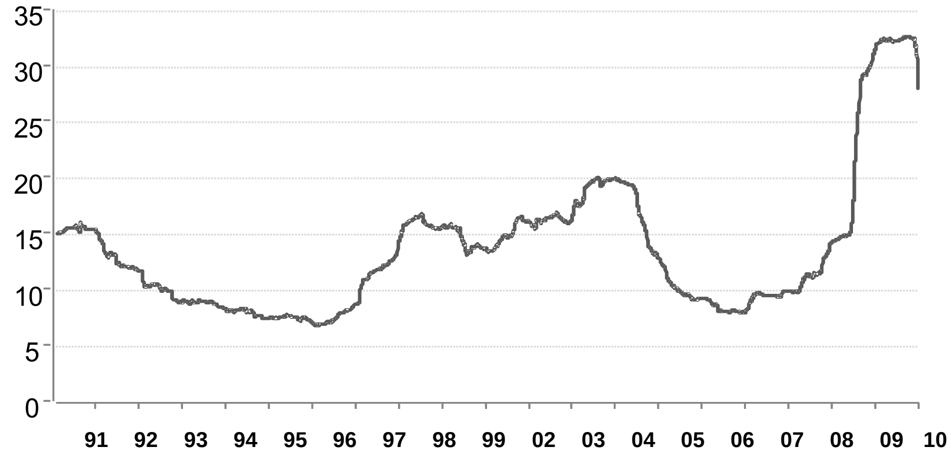
ABN Amro	Lehman Brothers
BBVA	Merrill Lynch
Bear Stearns	Santander
Crédit Agricole	UBS
Commerzbank	Dresdner

Source: Analysts' estimates

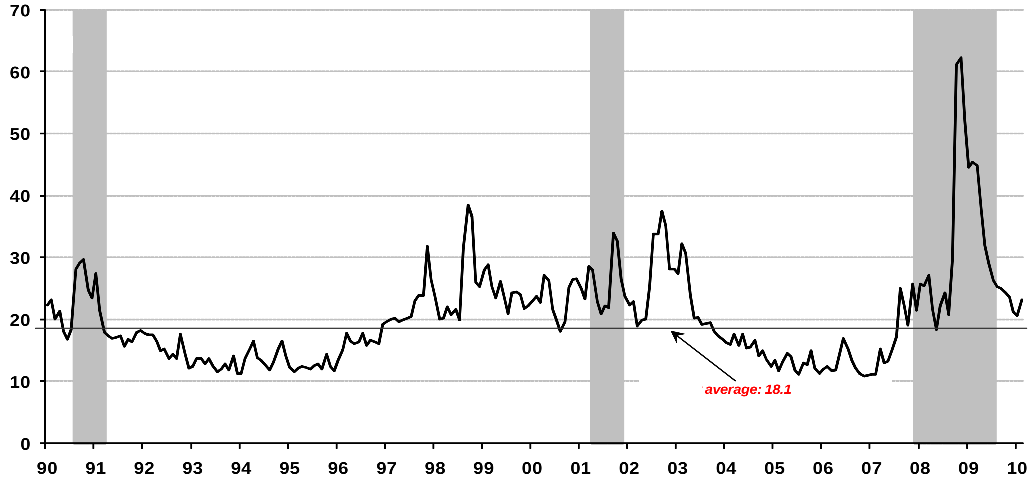


The EQD world has experienced exceptional market conditions

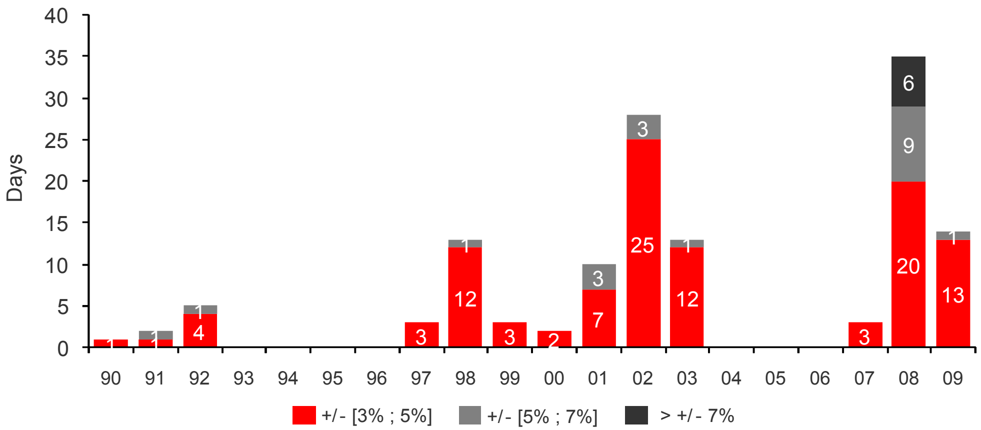
✓MSCI Volatility



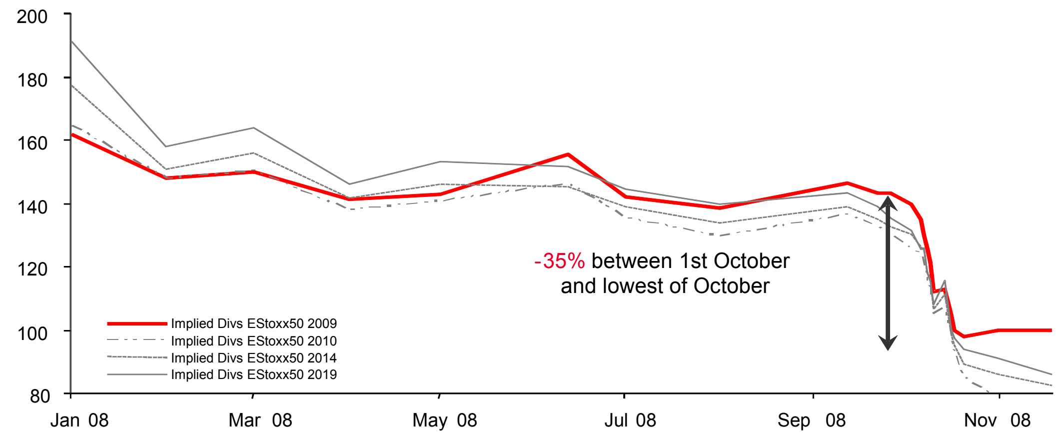
✓VIX



✓ Daily variations of Eurostoxx 50



✓ Implied Dividends



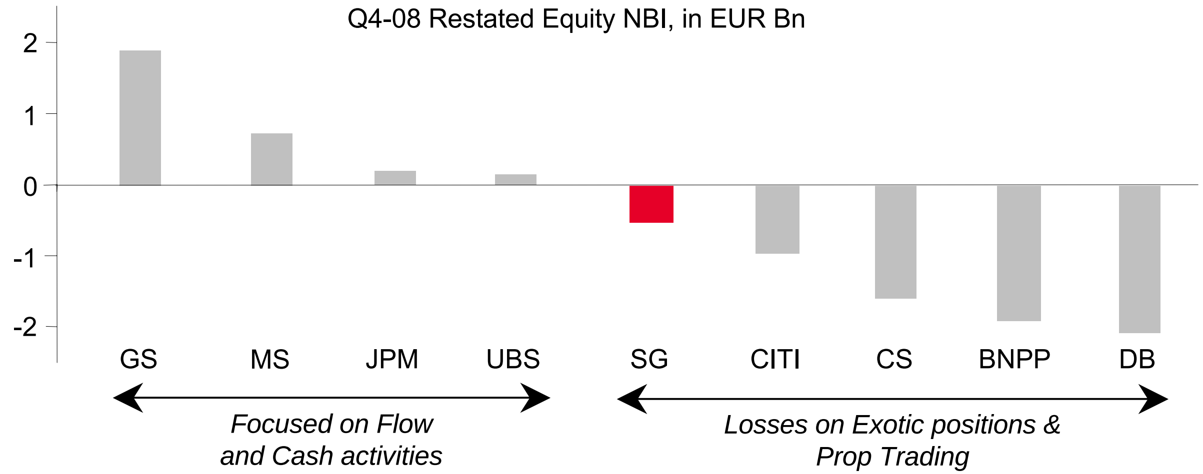
How did we handle the 2008 crisis?

✓ SG was well-armed to weather the storm for its clients and for itself

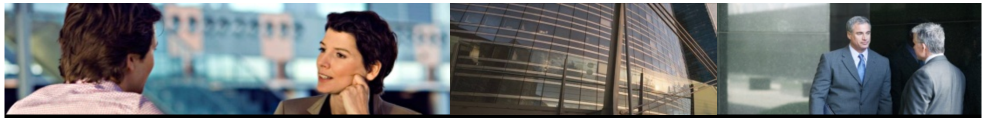
- push of ART[1] deals to transfer unwanted risks (reduction of our exposure on dividends and correlation)
- a strong capacity to manage market risks:
  – anticipation of market dislocation
  – conservative management of VarSwap positions (between Jan 08 and LB's bankruptcy, we had divided by 5 our exposure of VarSwaps)

✓ These prudent positions allowed us

- to be one of the very few market makers available 24/24 in Oct. and Nov.
- to post contained losses in Q4-08 compared to our peers

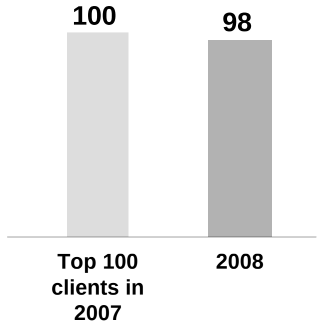


[1] ART: Alternative Risk Transfer



How have we handled the Fraud Recovery? Looking beyond to improve our risk management

Strong Client Loyalty



✓ **Key assets : strong staff and client loyalty reflected in continued market and client recognition, sound trading books coupled with conservative risk management**

✓ **An ambitious Fighting Back program to regain confidence**

- Reinforce limits set-up
- Improve IT security
- Change our practices
- Enhance operational controls

> ✓ EUR 150m Budget
> ✓ 300 dedicated employees
> ✓ 3 Years plan
> ✓ Global Consulting & Audit Plan

➡ **Worldwide implementation**

✓ **Looking forward: a strong willingness to become a best-in-class and to further mitigate operational risk**

- Continuation of Fighting Back within the C.O.S.I project, launched in June 2009
- Set highest level of standards on key operational risk hotspots
- Improve P&L production and explanation
- Improve business continuity capability
- Ensure highest standards in terms of internal control

✓ Control of significant size transaction
✓ Control on nominal and futures positions
✓ Confirmation & monitoring of deferred transactions
✓ Confirmation of internal/ intercos deals
✓ Control of amend & cancellations
✓ Control of brokerage fees
✓ Holiday monitoring
✓ Margin calls/futures monitoring
✓ Control of technical counterparties
✓ Control of out of market price transactions
✓ Control of large payments
✓ Control of cash levels
✓ Control of non-transactional flows
✓ Control of nostri accounts
✓ Control of unsettled securities loans / borrowings
✓ Control of delayed data entry
✓ Control of buffer bases

After the storm, towards a new financial world

FOLLOWING 2008 CRISIS …

while several players disappeared or closed some activities…

Lehman Brothers, Merrill Lynch, Bear Stearns, Dresdner, ABN Amro

…others made choices to reshape their Equity business

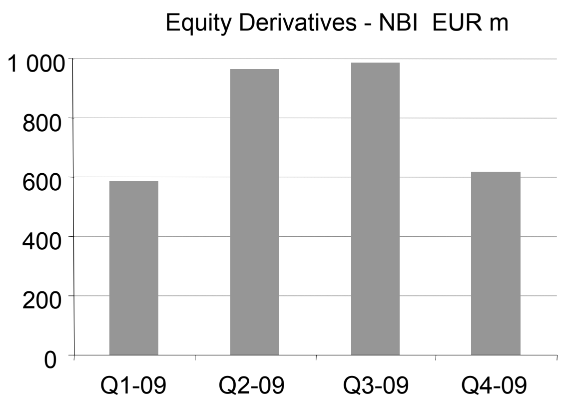
- Focus on Flow activities (Morgan Stanley, JP Morgan)

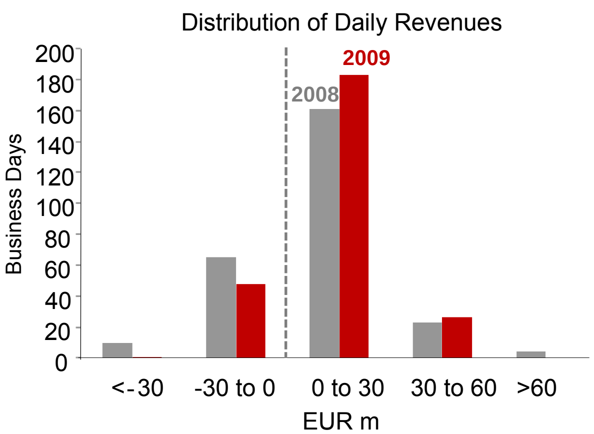
- Closing of Proprietary Trading activities (Morgan Stanley, UBS)

SG made the choice of a Balanced business between Flow & Structured Products

while containing Proprietary Trading activities and implementing a global markets organization

This enabled SG to post a strong performance in 2009



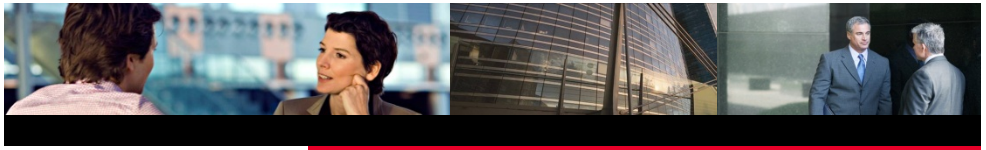


2009 Awards

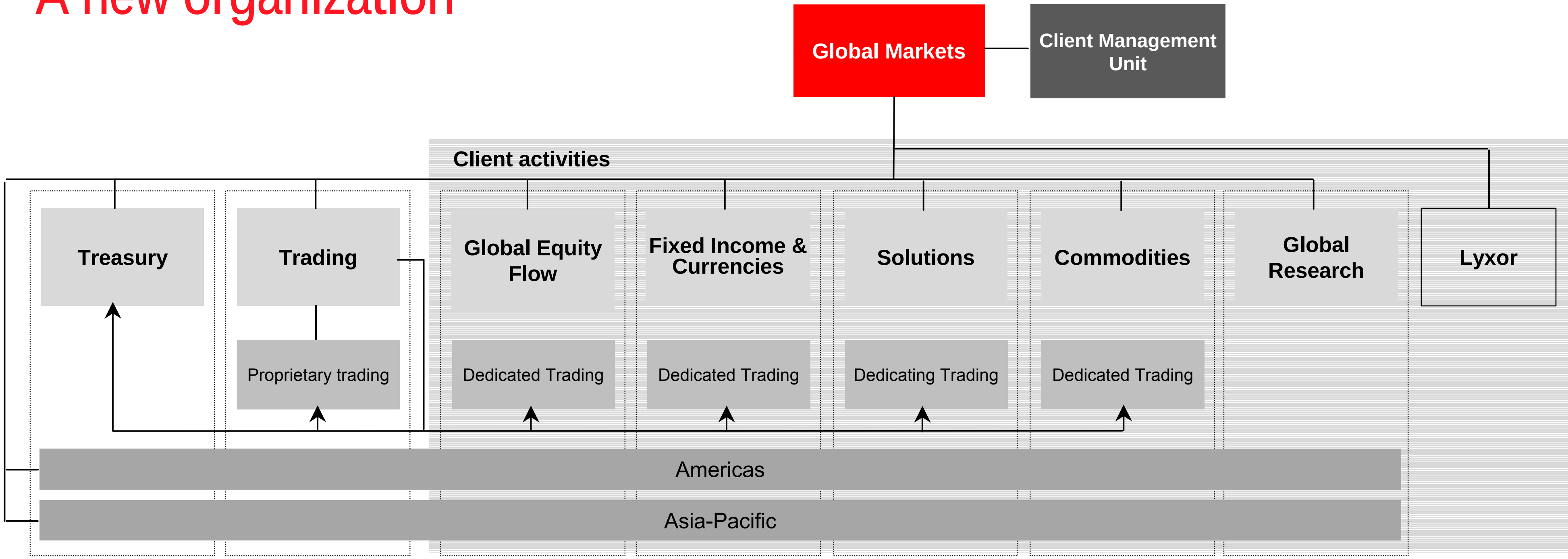
"Equity Derivatives House of the Year" by Risk

"Most Innovative in Equity Derivatives" by The Banker

"Best Equity Derivatives House" by Euromoney

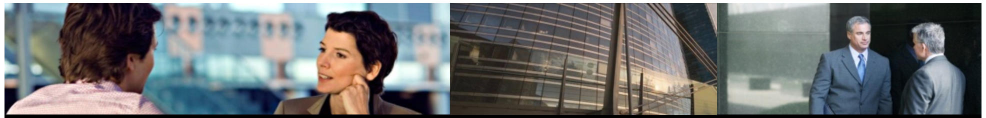


A new organization



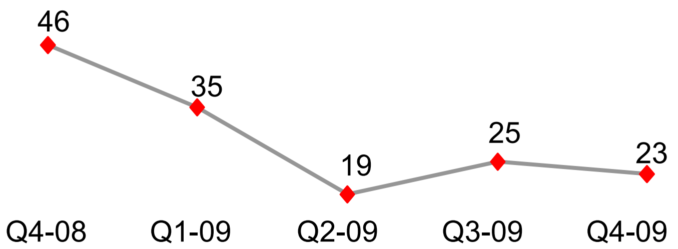
EXPECTED BENEFITS

- Optimization of Risk Management
- Cross assets approach on Structured Products, Research, PT activities
- Specific management of Proprietary Trading activities
- Global research
- Optimization of consumption of Scarce Resources
- Share of best practices on sales side
- Optimization of Operations and IT processes

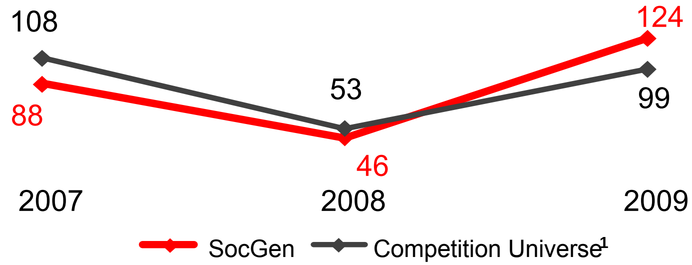


Improve the risk profile and change the way we manage risks

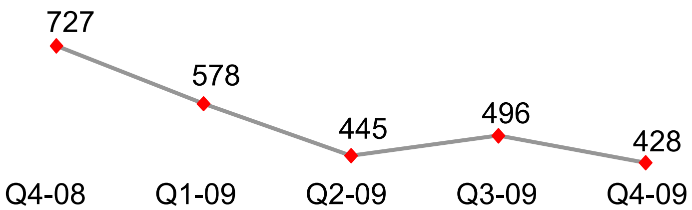
Equity Trading VaR (EUR m)



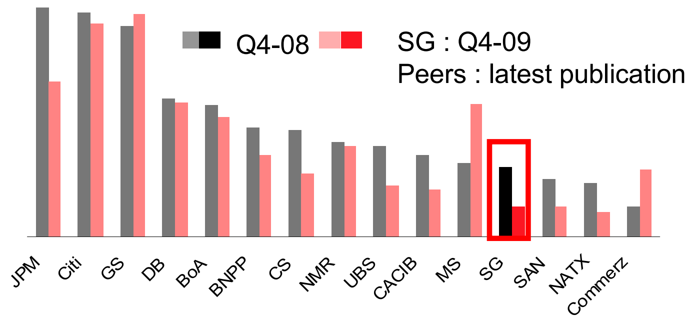
One of the best ratio NBI/Var of the industry



Equity stress test (EUR m)



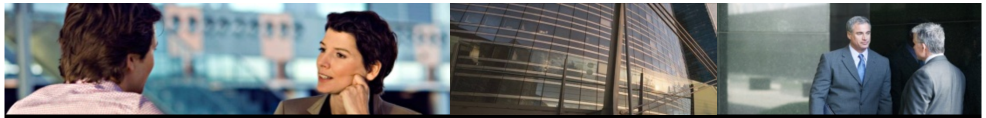
SG Trading VaR vs peers



A new risk monitoring approach

- **Dislocation** analysis
- Avoid **Concentration** risks
- Take **Liquidity** into account

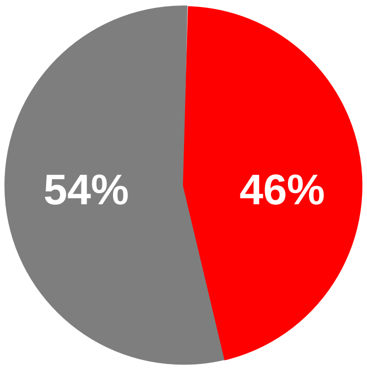
[1] *Credit Suisse, UBS, Deustche Bank, Goldman Sachs, Morgan Stanley, JP Morgan, Citigroup, BNPP*



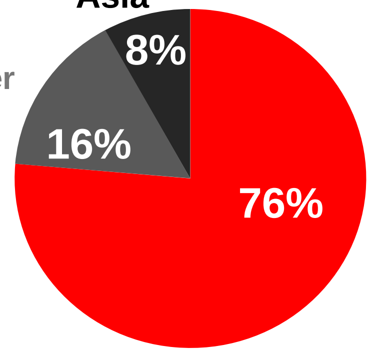
A well-balanced business model is key for the future

Global Markets 2009 Revenues breakdown

EUR 7.2bn



by business



by geography

Developed Flow activities

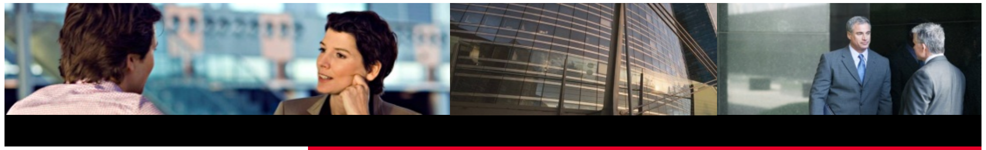
- #2 in dividend futures & index futures on Eurex
- #1 in warrants worldwide
- #2 ETF provider in Europe in 2009 with 20.8% Market Share in AuM, #4 largest ETF issuer worldwide

Strong Structured activities

- Franchise as strong as ever
- Distribution and Institutions
- Equity and Fund derivatives
- Within a global cross-asset entity

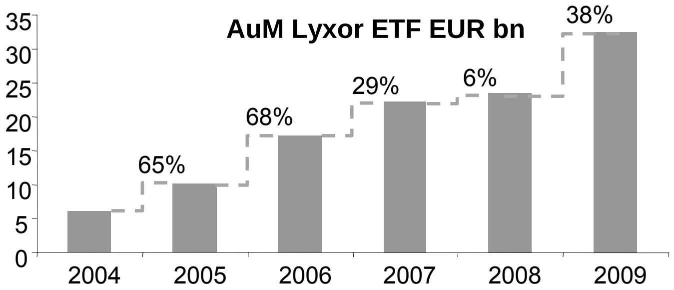
Limited Trading

- Mostly in relation to clients' trades
- Liquid assets
- No directional position
- Limited contribution of Prop trading to SGCIB revenues



Focus on Flow Products - We are well positioned on markets that are growing profitably

- **ETF & WARRANTS:** ambition to double the ETF business while maintaining our leadership on warrants



- SG is the global leader on **Warrants** with **13.9% Market Share**
- SG is the second largest **ETF** provider in Europe in 2009 with:
  - **20.8% Market Share** - in AUM
  - 30.14% Market Share - in average daily traded volume
- … and the **4th largest ETF** issuer worldwide (after BlackRock, State Street & Vanguard)

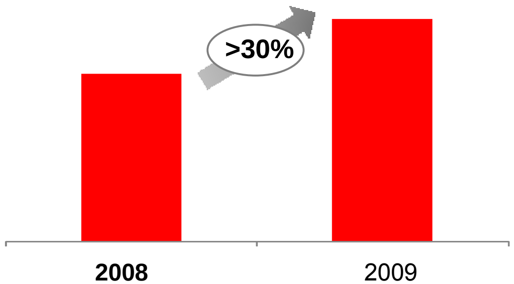
- **ONE DELTA:** target to benefit from the large worldwide untapped potential *(ELS, Dividend Swap, Certificate, …)*
- **FLOW:** ambition to maintain our volatility stronghold in Europe, develop Institutional clients coverage and become a major counterpart for Corporate clients in Europe
- Expand our franchise in the **AMERICAS** where we are a niche player on a very large market
- Develop our footprint in **ASIA**

RISK INSTITUTIONAL INVESTOR RANKINGS 2009

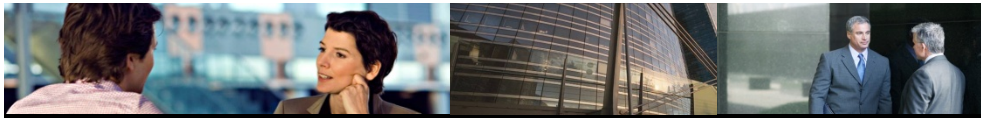
#1 Overall Equity
#1 OTC Single-Stock Equity Options
#1 Equity Index Options

RISK INTERDEALER RANKINGS 2009

#1Overall Equity
#1 OTC single stock equity products
#1 Equity index options
#1 Warrants



EQD Flow revenues

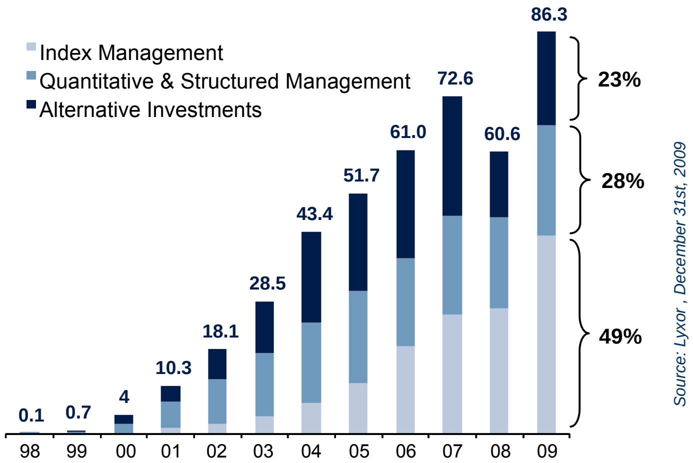


Lyxor: an active contributor to growth and innovation

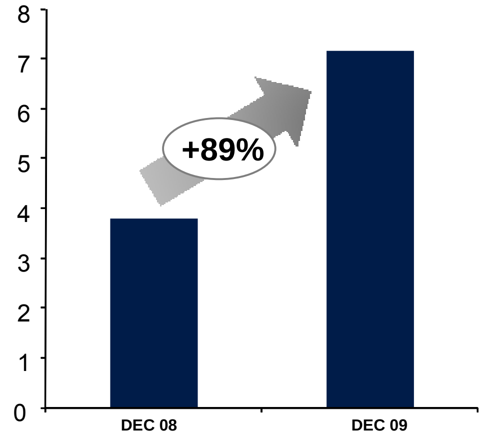
✓ **A Unique Specialist**
- Focus on specific high growth segments
- Pioneer and leader in our areas of expertise
- Recognized for overall quality and innovation

✓ **Lyxor is a tool box for other SG CIB Business Lines**
- Formula funds
- Structured Products on Hedge Funds
- ETFs

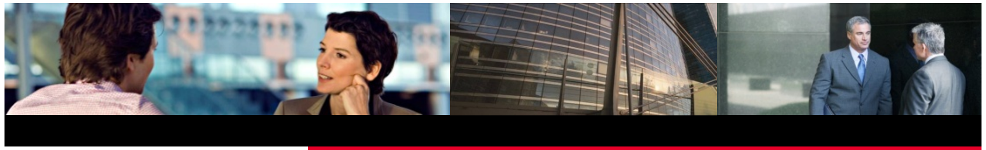
✓ **Managed Accounts platform: a significant rebound after 2008 crisis thanks to Lyxor's platform key benefits:**
- Full Segregation of Assets
- Independent Valuation
- Independent Risk Management
- Enhanced Transparency & Reporting
- Enhanced Liquidity



Lyxor Total Assets under Management (EUR bn)



Lyxor Managed Accounts Platform AuM (EUR bn)



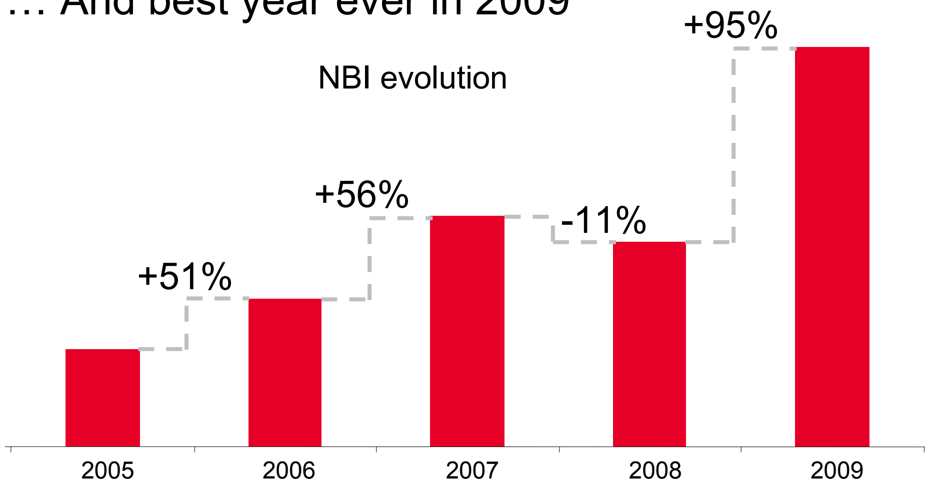
Focus on structured products: “Strategic Equity Transactions”

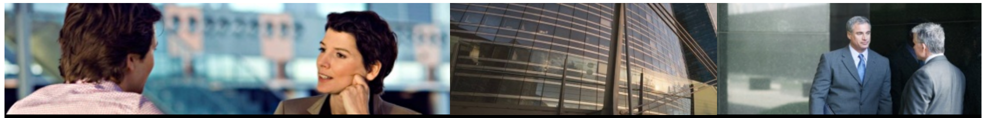
- ✓ SET is the “Corporate Equity Derivatives” desk of SG Global Markets
- ✓ Products
  - Shareholding management (strategic stakes or treasury shares)
  - M&A related transactions and special situations
  - PACEO
  - Employees saving plans and leveraged ESOP

Targeted clients

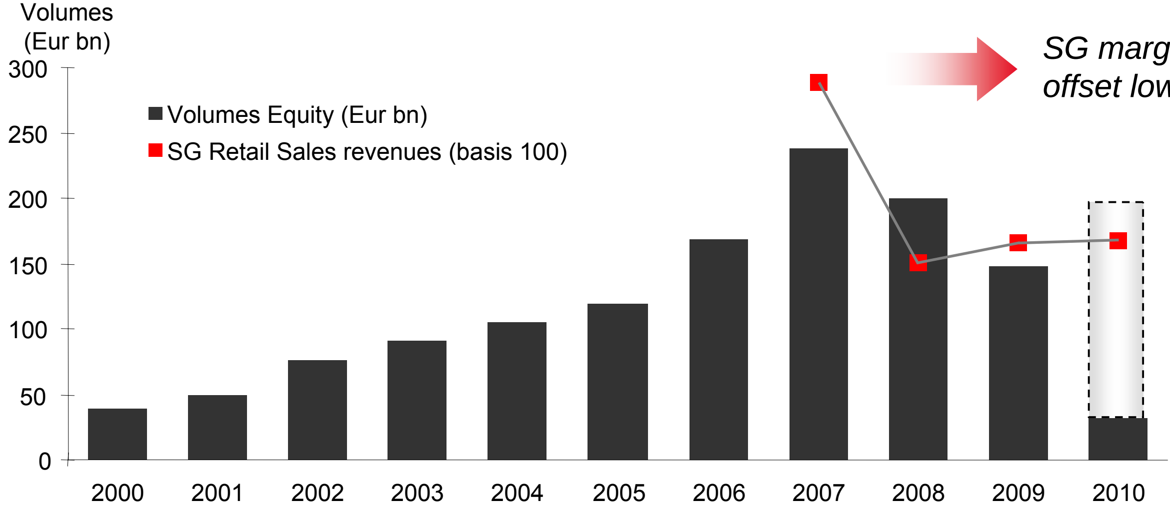
- Corporates
- Corporate centers of financial institutions
- Private Equity Funds

- ✓ Geographic Scope: Europe and EEMEA
- ✓ Very good resilience in 2008… a cautious risk management: limited concentration of risk while taking benefit of selected market opportunities
- ✓ … And best year ever in 2009





Focus on structured products: distribution products

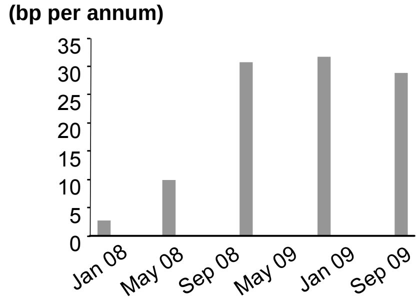


Source structuredretailproducts.com

2010: SG estimate

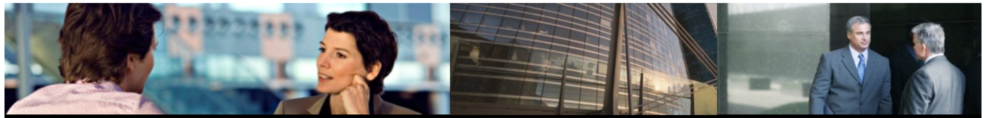
SG margins increase in 2009 offset lower volumes

The competition on prices has not come back



Margins on tender offer on Retail Products

- ✓ Retail Business still exists and SG is well positioned on this business with a strong franchise
- ✓ We deal with new distributors and new regions: Eastern Europe, Chile, Malaysia, …
- ✓ Our range of products evolved in 2009
  - Simpler structures
  - With credit risk a major focus
  - Matching expectations in an uncertain environment
- ✓ 2010 products will take full advantage of the new trend set in 2009



Focus on structured products: distribution products

LUMINEO

1st EXAMPLE: deal with SG network

Lumineo 4 - 8 Years

- if DJ Stoxx50E >= initial value at the end of the 4th year, possibility of anticipated reimbursement
  >> 124% of net invested capital
- otherwise, at the end of the 8th year
  >> 100% of net invested capital + 100% of index performance (excl. dividends)

The investors are looking for

- simplicity and clarity, on top of security...
- ... but performance also
- … through short term investments

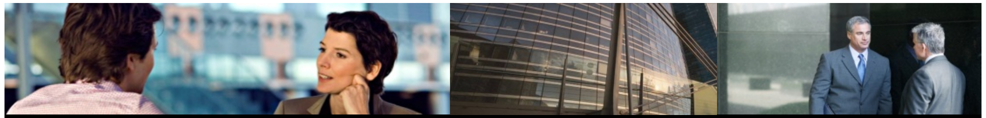
Our solution

A simple product ensuring a total visibility:

- guaranteed capital at maturity…
- … with reimbursement based on an equity index: DJ Stoxx50E…
- … with anticipated reimbursement in case of moderated market increase

Results

- **The strategy was implemented in a very difficult environment**
- **A high level of fundraising (around EUR 1 Bn)**
- **The strategy has been declined in other networks**



Focus on structured products: distribution products

2nd EXAMPLE: deal with Italian Life Insurance Company — **POSTE VITA**

Collateralized Warrant 7 Years

- The final payoff is 100% capital guaranteed by Italian governement bonds
- … with 3 fixed coupons (also guaranteed by Italian governement bonds)…
- … plus the warrant payoff (the warrant payoff is a call ATM on the STOXX50E)

The investors are looking for

- payoff simplicity…
- … transparency
- … and Compliance with local regulations in terms of Credit and Counterparty Risks

Postevita

Our solution

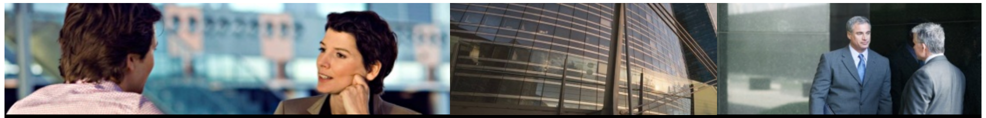
A warrant coupled with Italian BTPs

- A warrant…
- …collateralized by Italian govies, guaranteeing capital at maturity…
- …with a Call ATM payoff profile

Results

A life-insurance wrapper …

- **…providing an option component with no counterparty risk…**
- **…using a warrant collateralized by Italian Government bonds**
- **EUR 800 m raised**



Focus on structured products: Institutional Clients

- ✓ At least 50% of sales revenues with Institutional Clients
- ✓ Balanced between all categories
  - Sovereign funds and Family Offices
  - Pension Funds
  - Banks
  - Insurances
  - Hedge Funds
  - Asset Managers
- ✓ SG has developed a broad range of solution toward Institutional clients

Family Offices and Sovereign Funds

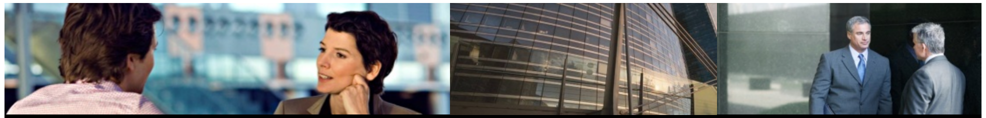
- Get the feel of **private advisory** with the sophistication of institutional solutions
- SG has developed a broad range of cross asset investment, financing and hedging solutions, with a **tailor-made approach**

Pension Funds

- Develop **strategic solutions** that comply with best accounting, regulatory and risk management practices

Banks

- Managing Bank's **resources' scarcity** in an evolving environment



Institutional Business: European Pension Fund looking to hedge its funding ratio in a cost-efficient manner

The investors are looking for

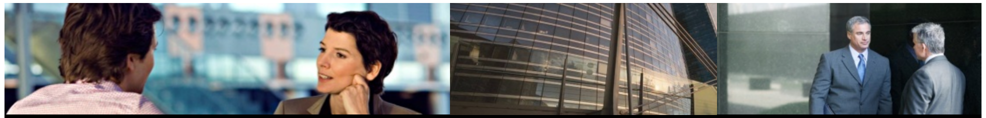
- Pension Fund had a high funding ratio in 2007, and wanted to protect it against a fall in interest rates....
- ....While taking into account the performance of its equity portfolio
- The Pension Fund wanted to implement the strategy in a very short period of time, without modifying its asset allocation
- A cost-efficient solution

Our solution

- Société Générale suggested an overlay hedge
  - No need to modify the asset allocation
- Hybrid solution with exposure to both interest rates and equity
  - Global hedge providing efficient protection of the funding ratio
  - Reduces the cost of protection as “over-hedging” is avoided:
    - If equity and rates fall at the same time, more hedging is required
    - Conversely, an equity/rate increase can compensate for an interest rate/equity decline

Results

- **The strategy was implemented in a very short period of time, for a large notional**
- **Very efficient hedge for the Pension Fund**
  - The funding ratio stayed at high levels (above 100%) in 2008 and 2009



Focus on Regions - AMER

FLOW: offer a **growing range of services and products**

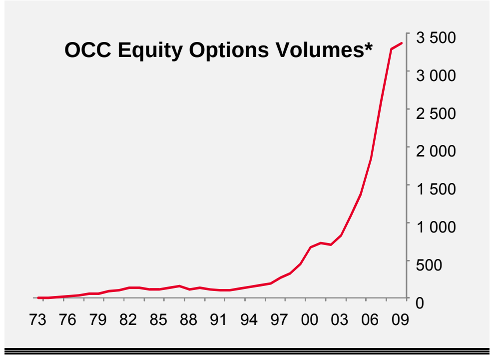
Expand our advisory services (US Research, Trading Ideas) and our **execution capabilities** (Futures, Direct Market Access, Flow Derivatives footprint) to compliment our existing areas of expertise.

Strengths

- ✓ Top EU Cash capabilities
- ✓ Complex Flow
  - Dispersion
  - Correlation
  - Variance
- ✓ Options on Volatility (#1 in VIX Options)

Opportunities

- ✓ Growth with large wallet Asset Managers
- ✓ US Cash & Research (targeted sectors)
- ✓ Index Futures
- ✓ ETF & Options on ETF



STRUCTURED PRODUCTS: SG is equipped to address today's **needs of the US market**

Recent surveys have ranked SG as the #1 provider in terms of the quality of our Structured Products in the US *(source Greenwich)*.

Now, we need to expand our presence.

Strengths

- ✓ Balance Sheet
- ✓ Lyxor Managed Account Platform
- ✓ European Expertise
- ✓ Quality of execution capabilities

Opportunities

- ✓ More clients and growth with large wallet Asset Managers
  - ✓ Increased distribution
  - ✓ Emerging range of products
- ✓ Expansion in Latam America

** Annual volumes in number (million) of equity options traded on the different exchanges cleared by the Options Clearing Corporation*

Focus on Regions - ASIA

FLOW: develop our footprint with a focus on local clients

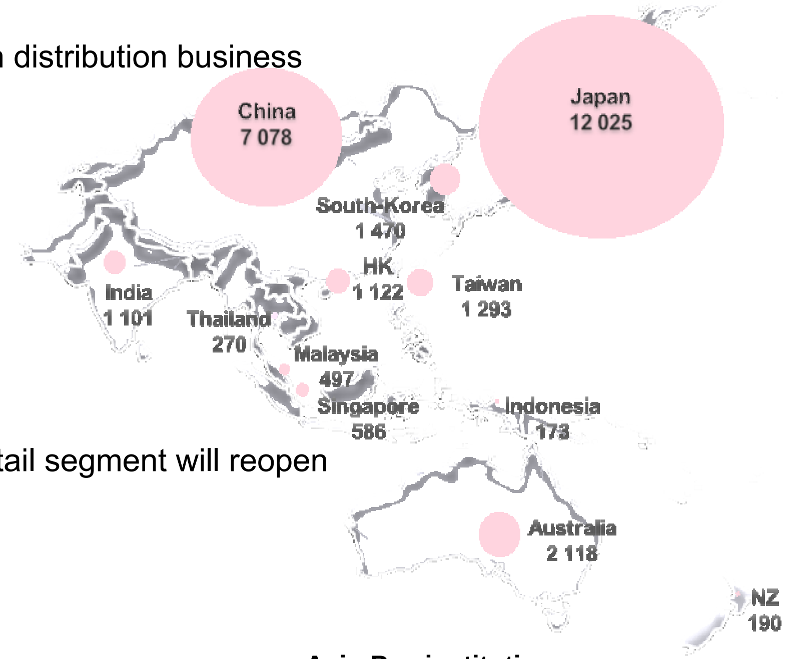
- ✓ ETFs: focus on higher margin and localized products
- ✓ Warrants: develop a new type of products and expand to other Asian markets

STRUCTURED PRODUCTS: develop an institutional franchise and regain a strong footprint on the retail segment

- ✓ In Equity & Equity Derivatives, we have been historically focused on distribution business
  - Retail networks
  - Private Banks & Structured Flows
- ✓ There is growth potential on
  - Institutional Clients: develop our franchise
  - Private Banks: become a key visible player
  - Retail segment: regain a strong foot-print when the Retail segment will reopen (Taiwan, HK, Singapore)

"Equity Derivatives House of the Year" by AsiaRisk in 2009

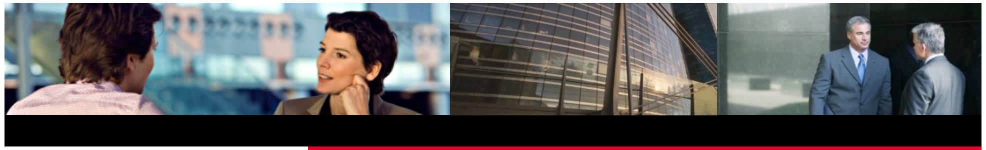
AsiaRisk AWARDS 2009



Asia-Pac institutions

Insurers, Banks, Pensions - Premiums/Assets/AUM USD bn

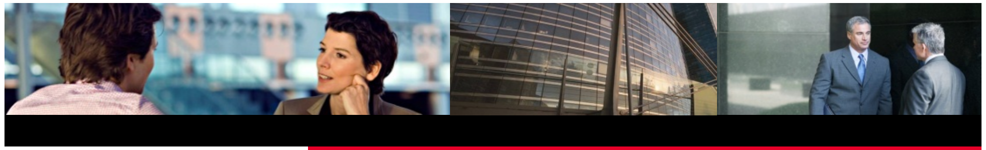
Source: (Banks) The Asia Banker (Jan 2009), (Pension Funds) Watson Wyatt WW/P&I 300 Analysis 2008, (Insurers) Swiss Re, Sigma #3/2009 World Insurance in 2008



Can regulation hurt the EQD universe?

Main issues	Draft proposals	Impact on SG CIB Equity Derivatives business
Capital requirements	■ Leverage ratio ■ Increased capital requirements for market risk	■ **SG CIB has already reduced its risk profile** ➢ **SG CIB has already deleveraged (cash assets down by 38% vs. Q2-07 at end 2009)** ➢ **Optimization of the use of scarce resources** ■ **Increased usage of central clearing**
Liquidity requirements	■ Liquidity Coverage Ratio ■ Net Stable Funding Ratio	■ **EQD flow products have typically shorter maturities than credit or rates derivatives** ■ **Structured EMTN issues represent a reasonable portion of SG long term funding**
Derivatives standardization	■ Incentives for central clearing and on-exchange trading of standardized derivatives ■ Increasing transparency of OTC derivatives	■ **Reduced operational risk** ■ **High-volume products already standardized and transparent via listed derivatives** ■ **ETD and OTC are already co-existing** ■ **For structured products the issue is suitability not transparency**
Volcker rules	■ No proprietary trading operations unrelated to serving customers ■ No holding or investment into Private Equity / Hedge funds	■ **Pure Proprietary Trading represents a limited contribution to revenues** ■ **Investments into HFs are very limited** ■ **No investment into PE funds** ■ **We believe European regulators support the universal bank model**

↳ Regulatory changes are manageable for industry's best-in-class players



Conclusive thoughts

- ✓ **EQD industry experienced its biggest challenge with the earthquake of Q4 2008**
- ✓ **SG demonstrated its resilience to unusual market conditions and came out stronger**
- ✓ **We drew lessons from the crisis**
  - **Risk Management is everything**
  - **Balanced Business Mix**
  - **Additional Value Creation with the set up of the Global Markets division**
- ✓ **Regulation is a question mark ; but it should not affect significantly our revenues**
- ✓ **There is still room for growth**
  - **Structured Products**
  - **Listed products**
  - **Lyxor**
  - **Regional action plans**