Société Générale SCF

Covered Bonds / France

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of [[31 March 2008]. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Estimated Conversion Date

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1. PROVISIONAL (P) RATINGS

Series	Amount	Expected Maturity	Final Maturity	Rating
Series 1	€[1.5] billion	[·]	[·]	(P)**Aaa**

The ratings address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

2. SUMMARY

Moody's has assigned a provisional long-term rating of (P)**Aaa** to the covered bonds (the **"Covered Bonds**" or "***Obligations Foncières***") to be issued by Société Générale SCF (the "**Issuer**") on or about the date hereof under the terms of a €25 billion covered bonds programme (the "**Programme**") to be established by it.

The covered bond investors will benefit from:

1. The credit strength of the Société Générale (the "**Sponsor Bank"**, rated **Aa2; Prime-1**). Moody's believes that the structure of the Programme enables the Issuer to benefit from the credit strength of the Sponsor Bank whose involvement in and commitment to the Programme are evidenced by the several roles and functions carried out by it in the context of such Programme;
2. A pool of assets (the "**Cover Pool**") directly backing the outstanding **Covered Bonds**, comprising assets that are eligible pursuant to the French Monetary and Financial Code, L.515-13 *et seq.* (the "**Law**") ;
3. The French legal framework for covered bonds (the "**Act**"); and
4. 5% minimum contractual nominal over-collateralisation.

Moody's has not relied on any over-collateralisation over and above the 5% contractual over-collateralisation.

As is the case with other covered bonds, Moody's considers the credit strength of the transaction to be linked to that of certain parties - in particular the Sponsor Bank. Should such credit strength deteriorate, all other things being equal, the rating of the Covered Bonds is expected to be negatively affected.

3. STRENGTHS AND WEAKNESSES WITH MITIGANTS

Strengths

- **Sponsor Bank**: Investors will benefit from the credit strength of the Sponsor Bank mainly due to the following:
  - Pursuant to the French Banking regulations and in order to obtain the banking licence, the Sponsor Bank has committed itself towards the *Comité des Etablissements de Crédit et des Entreprises d'Investissement* (the "CECEI", which is a committee of the French Banking Authority) to ensure the liquidity and solvability of the Issuer.
  - The obligations of the Sponsor Bank under **Advances** (made by the Issuer to the Sponsor Bank pursuant to the **Facility Agreement**) made to it by the Issuer will match – after application of swaps – the Issuer's liabilities under the Covered Bonds plus a margin of 10 bps.
- **Credit Quality of the Cover Pool:**
  - The holders of the Covered Bonds will have the benefit of the support provided by the Cover Pool. The initial pool will be composed of assets that are eligible pursuant to the Act and the intention of the Issuer to have solely public-sector loans in the pool at the time of the first issuance of Covered Bonds.
  - The borrowing public entities under these loans have on average a very good credit quality, which is evidenced in its Collateral Score of around 4.5%.
- **Market Risk:** Interest rate risk and currency risk will be hedged in accordance with the hedging strategy of the Issuer. Pursuant thereto, after **Sponsor Bank Default** (as defined on page 5), the mismatches between the Cover Pool and the liabilities under the Covered Bonds should be hedged by eligible swap providers.
- **Refinancing risk / liquidity risk:**
  - The Sponsor Bank will grant a liquidity facility under the Liquidity Facility Agreement
  - Cover Pool assets (exclusively public-sector debt in respect of the initial composition of the pool) are all eligible for repo transactions with the ECB.
  - At loss of **A1** or **Prime-1** ratings of the Sponsor Bank the obligations of the Sponsor Bank to make principal payments under the Advances will accelerate by 90 or 180 days for instalments or final redemptions, respectively.
- **Legal framework:**
  - The Law offers valuable features in terms of supervision (by the regulator and by the specific controller), protection against the risk of consolidation with the Sponsor Bank in case of bankruptcy of the latter and against the risk of acceleration of the Cover Bonds and the corresponding risk of fire sale of the Cover Pool assets.
  - The law provides that the Covered Bonds must be 100% collateralized by eligible assets. Pursuant to a clause of its management regulations ("*Règles de Gestion*") the Issuer has committed to maintain an over-collateralisation of 5% in relation to public-sector assets. This 5% over-collateralisation is over and above the legal requirement,

Weaknesses with Mitigants

- **Sponsor Bank:** As with most covered bonds, until Sponsor Bank Default the Sponsor Bank and the Issuer have the ability to materially change the nature of the Programme (referred to as substitution risk). For example, new (type of) assets may be added to the Cover Pool (in particular when loans secured by a mortgage or a guarantee are added), and other assets may be released from the Cover Pool, new Covered Bonds issued with varying promises and new hedging arrangements entered into. These changes could impact the credit quality of the Cover Pool, refinancing risk and market risks. **Mitigant:** the rating of the Sponsor Bank (Aa2) and the eligibility criteria applicable to Cover Pool asset as provided in the Law.

- **Credit quality of the Cover Pool:**
  - It is expected that for the first issuance of Covered Bonds, the Cover Pool will comprise 156 loans, of which the 10 largest will represent about 39% of the Cover Pool, resulting in a low granularity. In addition all borrowers are concentrated in France. **Mitigant:** The generally high credit quality of the borrowers. Furthermore, Moody's Collateral Score model takes into account the impact of concentration on borrower, regional and country levels.
  - As with most Covered Bonds in Europe, there are few restrictions on the future composition of the Cover Pool, hence substitution risk exists. **Mitigants**: The quality of the Cover Pool, over time, will be protected by, among others, the requirements of the Act, which sets out rules detailing which assets qualify as ordinary cover assets. In addition, if the quality of the collateral deteriorated below a certain threshold, the Sponsor Bank would have the obligation to increase the over-collateralisation in the Cover Pool. Failure to increase the level of over-collateralisation following a deterioration of the Cover Pool could lead to negative rating actions.
- **Refinancing risk / liquidity risk:**
  - As with most covered bonds, for timely payment following Sponsor Bank Default Covered Bond holders would have to rely solely on proceeds being raised through the sale of, or borrowing against, assets in the Cover Pool. In particular, refinancing and liquidity may be needed as a result of the mismatches between the collections under the Cover Pool and the liabilities under the Covered Bonds. It is not expected that the final terms for the initial issuance will provide for an extendable maturity of the Covered Bonds. An extendable maturity would allow for an improvement in the sales value of any Cover Pool assets that are sold or temporarily transferred in order to meet payments of interest or principal on the Covered Bonds.
  - The liquidity facility is capped at €5 billion and as an alternative to the appointment of a new eligible liquidity provider, the Sponsor Bank could also establish a cash deposit (details on the calculation of the cash deposit amount under section 4 below). **Mitigants for both factors**: 1) the rating of the Sponsor Bank (**Aa2**); 2) the stressed refinance margins applied in Moody's rating analysis; 3) the liquidity provided by the Liquidity Facility entered into with the Sponsor Bank and the more liquid nature of the current Cover Pool assets and 4) the fact that there will be no acceleration of the Covered Bonds due to an insolvency proceeding against the Issuer, which reduces the risk that the bankruptcy administration will sell the Cover Pool assets at an inappropriate time.
- **Legal framework**

  Time subordination: Following Sponsor Bank Default the Issuer could be subject to bankruptcy proceedings. The Act provides that under such circumstances the Covered Bonds will mature at their respective contractual maturity. This means that later-maturing Covered Bonds are subject to time subordination. Principal cash collections may be used on a first-come-first-served basis, paying earlier-maturing Covered Bonds prior to later-maturing Covered Bonds. This could lead to over-collateralisation being eroded away before any payments are made to later paying Covered Bonds. **Mitigant**: the legal and contractual obligation of the Issuer to hold collateral at 100%, respectively 105% of the outstanding Covered Bonds.

  Commingling risk: After Sponsor Bank Default has occurred, the underlying borrowers will be notified to redirect payments to the Issuer. Until such redirection of payments is effective, collections will continue to be received by the Sponsor Bank.

  Independence of directors: Of the 10 directors, only one is independent from the Sponsor Bank. Specific circumstances may trigger conflict of interests, especially during the period immediately prior to a bankruptcy of the Sponsor Bank. **Mitigant**: the independence of the specific controller and its key role in ensuring that the Issuer is acting in compliance with the Act, in particular in terms of eligibility of assets and coverage ratio.

STRUCTURE SUMMARY ***(see section 5 for more details)***

Issuer:	Société Générale SCF (not rated)
Sponsor Bank:	Société Générale (rated **Aa2**/**P-1)**
Structure Type:	Covered Bonds/ *Obligations Foncières*
Issued under Covered Bond Law:	Yes
Applicable Covered Bond Law:	French law on *Obligations Foncières*
Main Seller/Originator:	Société Générale
Main Servicer:	Société Générale
Intra-group Swap Provider	To be determined at issuance, if any
Monitoring of Cover Pool:	Cailliau, Dedouit et Associés acting as Specific Controller (role defined under the Law) and Verification Agent (role defined contractually)
Trustees:	NA
Timely Payment Indicator	[ ]

COVERED BONDS SUMMARY ***(see page • for more details)***

Total number of Covered Bonds outstanding	[1]
Total amount of covered bond issuance:	[€1.5 billion]
Currency of the Covered Bonds:	Euro [100%]
Extended Refinance Period:	No
Principal Payment Type	Bullet
Interest Rate Type:	Fix [100%] and floating [X%]

COLLATERAL SUMMARY ***(see page • for more details)***

Size of Cover Pool:	EUR 1.99 Billion
Main collateral type in Cover Pool:	Public sector debt
Main Asset Location:	France
Loans Count:	156
Currency:	Euro (100%)
Concentration of 10 biggest borrowers:	39%
WA Remaining Term:	9.8 years
Interest Rate Type:	Fix (78%) and floating (22%)
Current Over Collateralisation (nominal basis):	32 %
Current Over Collateralisation (NPV basis)	NA
"Committed" Over Collateralisation:	5% on nominal basis
Collateral Score:	4.5
Further details	See Appendix 1
Pool Cut-off Date:	31 March 2008

4. TRANSACTION SUMMARY

Cover Pool assets are transferred in full title to the Issuer.

Underlying borrowers continue to make payments to the Sponsor Bank until a Sponsor Bank Default.

Proceeds of the first issuance of Covered Bonds will be used to fund advances made by the Issuer to the Sponsor Bank under a Facility. The obligations of the Sponsor Bank under the Facility will be secured by transfers by way of security to the Issuer of public-sector loans originated by the Sponsor Bank. Although the Issuer will be the legal owner of these assets, for accounting purposes they will remain on the balance sheet of the Sponsor Bank, which also remains entitled to the collections under such assets until a Sponsor Bank Default occurs. Later, other assets as defined under the Act (see section Structural and Legal Aspects) may be added to the Cover Pool.

The over-collateralisation ratio is 105%.

The sum of the nominal value of the Cover Pool assets must be at least 105% of the total outstanding amounts under the Advances, as well as under the Covered Bonds. To the extent assets have been transferred to the Cover Pool and provided the over-collateralisation ratio of 105% is complied with, the Issuer will issue Covered Bonds and will on-lend the proceeds of such issuances to the Sponsor Bank under the Facility Agreement. Such Advances will be collateralised and secured by the Cover Pool.

Monthly over-collateralisation test

The over-collateralisation test will be performed on a monthly basis and any loans in arrears for more than 180 days will be disregarded. Two consecutive failures of the test will constitute a Sponsor Bank Default and, as is the case with any Sponsor Bank Default, underlying borrowers will be notified to redirect their payments in favour of the Issuer.

A two-layer hedging strategy: (i) CB swaps entered into at issuance of CBs and (ii) Issuer Pool together with Sponsor Bank Pool swaps at loss of A1 or P-1 to protect the Issuer against mismatches between Pool assets and liabilities.

Pursuant to the hedging strategy to be agreed between the Sponsor Bank and the Issuer, (i) the Issuer will enter into ***CB Hedging Agreements*** with eligible counterparties (which could be the Sponsor Bank) upon the issuance of any Series of Covered Bonds in order to hedge the amount of interest and principal payable by the Issuer under any such Series of Covered Bonds, in the relevant currency, (ii) the Issuer will enter into ***Issuer Pool Hedging Agreements*** with eligible counterparties when the Sponsor Bank is downgraded below a certain rating threshold in order to hedge the amount corresponding to the interest and principal payable under the Cover Pool assets in the relevant currency and (iii) simultaneously with latter downgrade, the Issuer will enter into ***Sponsor Bank Pool Hedging Agreements*** with the Sponsor Bank in order to transfer to the Sponsor Bank the benefit of the Issuer Pool Hedging Agreements as long as no Sponsor Bank Default occurs.

A liquidity facility with a facility provider rated P-1 will be available.

The Sponsor Bank will provide a Liquidity Facility to the Issuer for an amount equal to the sum of six months of coupons and the next principal repayment by the Issuer. The total amount of available liquidity is capped at €5 billion. At loss of **Prime-1**, the Sponsor Bank will have to (i) assign the Liquidity Facility to an entity with a short-term rating of at least **Prime-1**, (ii) provide such support as required to keep the then current rating of the Covered Bonds or (iii) provide a cash deposit for an amount equal to 6 months of coupon and the upcoming principal repayment.

Additional protection in case of loss of A1 or P-1: (i) establishment of the Collection Loss Reserve Account and (ii) partial acceleration of repayments under the Advances.

At loss of **A1** or **Prime-1,** the Sponsor Bank will transfer an amount corresponding to all collections scheduled to be received during the two calendar months following the downgrade into a blocked account pledged in favour of the Issuer (the “Collection Loss Reserve Account”). Such downgrade will also accelerate the repayment of principal payments under the Advances by six months in case of final repayments and by three months in case of repayments by instalments.

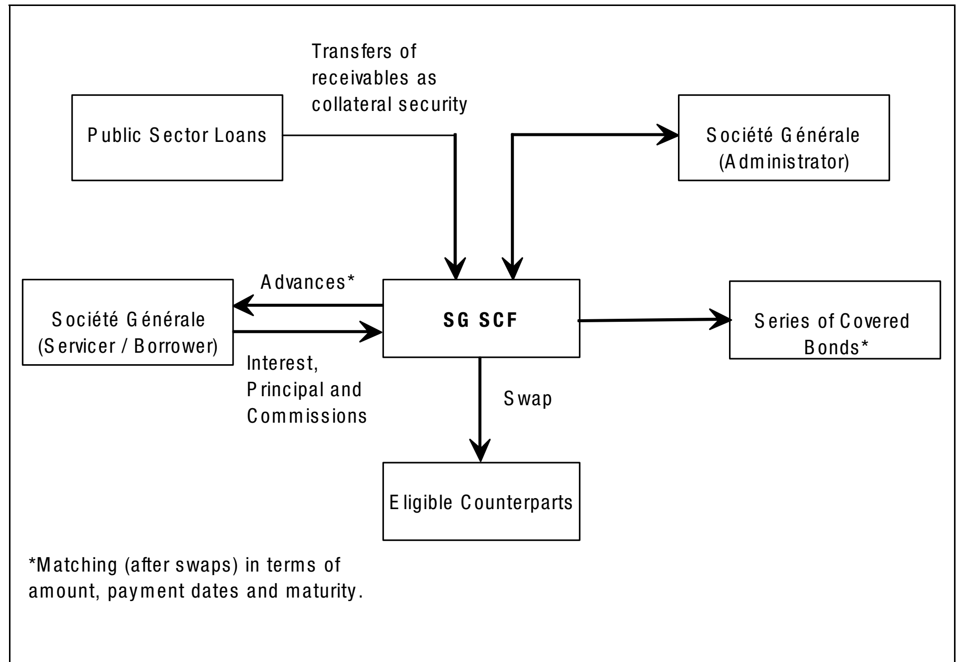
If a Sponsor Bank Default occurs, the Issuer may declare that no more Advances will be made, cancel the Facility and declare that all amounts under the Advances will become due and payable immediately.

The following events will constitute Sponsor Bank Defaults:

- Failure to pay under the Facility Agreement, which provides for a grace period for administrative payment errors of 3 business days);
- The initiation of insolvency proceedings against the Sponsor Bank (including negotiations with its creditors in view of rescheduling its indebtedness);
- Failure to fund the Collection Loss Reserve Account;

- Two successive failures to pass the contractual over-collateralisation test (105%); and
- Failure to enter into the required hedging agreement in compliance with the hedging strategy agreed upon on the establishment of the Programme.

5. STRUCTURAL AND LEGAL ASPECTS



5.1 Legal Framework

Sociétés de crédit foncier are regulated financing vehicles, holding specific types of assets securing the finance raised.

Sociétés de crédit foncier (SCFs) are regulated financing vehicles. They may grant or acquire either secured loans or exposures to public entities or other eligible securities (see below) and issue covered bonds (“*obligations foncières*”) or incur other forms of borrowings in order to finance these assets. However, Article L.515-13 of the French Monetary and Financial Code (*Code monétaire et financier*), allows *sociétés de crédit foncier* to issue ordinary bonds or raise funds which do not benefit from the *privilège*.

Privileged liabilities are covered by at least the same value of collateral assets.

Sociétés de crédit foncier must at all times maintain a cover ratio between their assets and their "privileged" liabilities (in particular, Covered Bonds) of at least 100% on a nominal basis. The Act does not require any over-collateralisation or cover test based on net present value (NPV) calculations.

SCFs are under the supervision of a specific controller appointed by the Banking Authority.

Sociétés de crédit foncier must appoint a specific controller (*contrôleur spécifique*) with the approval of the Banking Authority whose task is to ensure that the cover test is at all times complied with. In particular, the specific controller must certify that the cover ratio is satisfied in connection with (i) new Covered Bond issues and (ii) any other issue also benefiting from the *privilège* whose amount is greater than €500 million. The specific controller must verify the quality of the assets, the process of yearly revaluation and the quality of the asset liability management.

Hedging agreements also benefit from the privilege (provided they are entered into to cover privileged liabilities).

For bonds to qualify as *obligations foncières* and for other resources to benefit from the *privilège*, the documentation relating thereto must explicitly refer to such *privilège*. *Sociétés de crédit foncier* may enter into derivative transactions for hedging *obligations foncières* and other financial resources benefiting from the *privilège*; the amounts due under these derivative transactions also benefit from the *privilège*.

The sums resulting from the eligible receivables, replacement values and from derivative transactions, together with deposits made by *sociétés de crédit foncier* with other credit institutions, are allocated in priority to the payment of any sums due in relation to the *Obligations Foncières* or other financial resources benefiting from the *privilège*.

No extension of insolvency proceedings from the parent company.

The extension of insolvency proceedings in respect of the *société de crédit foncier*'s parent company to the *société de crédit foncier* is not allowed under the Act.

Derogations from the general law on insolvency, in particular (i) no acceleration and prior ranking of the privileged liabilities and (ii) acts by the SCFs are not subject to any suspect period.

The Act provides for a regime which derogates in many ways from the French legal provisions relating to insolvency proceedings. In particular, in the event of a safeguard procedure (*procédure de sauvegarde*), judicial reorganisation (*redressement judiciaire*) or liquidation (*liquidation judiciaire*) of a *société de crédit foncier*, all claims benefiting from the *privilège*, including interest thereon, must be paid on their due dates and in preference to all other claims, whether or not secured or statutorily preferred and, until payment in full of all such preferred claims, no other creditors may take any action against the assets of the *société de crédit foncier*.

In addition, certain transactions entered into during the suspect period cannot be nullified in the case of transactions or acts entered into by *sociétés de crédit foncier* provided that such transactions and acts are made in accordance with their legal exclusive purpose.

This ensures the insolvency remoteness of the Covered Bonds in relation to the Sponsor Bank. However, the *société de credit foncier* may under certain circumstances also become insolvent (in case for example of over-indebtedness).

Eligible assets are mainly public-sector loans and high-quality mortgage loans.

Sociétés de crédit foncier may acquire the following types of assets:

- Exposures to public entities such as state, central banks, local authorities or state-owned entities located within the European Economic Area (EEA) or exposures to countries benefiting from the best credit rating given by a recognised rating agency (such as currently the USA, Switzerland, Canada).
- Loans secured by a first-ranking mortgage or other real estate security interests that are equivalent to a first-ranking mortgage or loans that are guaranteed by a credit institution or an insurance company that does not belong to the same group as the Issuer. The Act provides that the mortgage-backed loans cannot exceed a threshold of 60%. of the property's value, except under certain conditions,
- Units or notes (other than subordinated units or subordinated notes) issued by a *Fonds Commun de Créances*, which are French securitisation vehicles, or other similar vehicles governed by the laws of a Member State of the EC or EEA, the assets of which shall comprise at least 90% of secured loans or exposures to public entities or other receivables benefiting from the same level of guarantees; and
- Mortgage promissory notes (*billets à ordre hypothécaires*).

5.2 The Issuer

The Issuer is a regulated société de crédit foncier.

The Issuer is a credit institution, licensed as a financial company with the status of *société de crédit foncier*.

The Issuer has been established by the Sponsor Bank in view of its refinancing strategy and is intended to lower the overall cost of its funding by mobilising public and mortgage-based exposure.

SCF is a bankruptcy-remote subsidiary of the Sponsor Bank.

Despite 99.9% of the Issuer's shares being held by the Sponsor Bank, the Law provides that the bankruptcy or liquidation of the Sponsor Bank (or any of its shareholders generally) cannot be extended to the Issuer due to its status as a *société de crédit foncier*.

Issuer's corporate object is defined in the Act.

Issuer's corporate object is expressly defined in the Act, which provides in essence that Issuer's purpose is:

- to grant or acquire secured loans and exposure to public sector entities and securities referred to in Articles L.515-14 to L.515-17 of the French Monetary and Financial Code (*Code monétaire et financier*); and
- in order to finance such categories of loans, exposures or securities, to issue *obligations foncières* benefiting from the *privilège* provided for in Article L.515-19 of the French Monetary and Financial Code (Code monétaire et financier) and to obtain other resources, which are expressly subject to the same *privilège*;

One director is independent from the Sponsor Bank.

The Issuer's Board of Directors is exclusively composed of employees of the Sponsor Bank, except for one director who is deemed to be independent from the Sponsor Bank. However, Moody's view is that certain circumstances could trigger conflicts of interest as the independent director has no veto right. In particular, during the period immediately prior to the bankruptcy of the Sponsor Bank, conflicts of interest may arise between the duties of the non-independent directors as directors of the Issuer and their duties as employees of the Sponsor Bank. This risk is mitigated first by the director's duty to act in

the interest of the Issuer, within the limits of and in accordance with the management regulations of the Issuer, its articles of incorporation, the Act and the French laws and regulations generally. Secondly, this risk is mitigated by the role of the specific controller of the Issuer (see also below).

The Issuer has appointed two statutory auditors, two deputy statutory auditors, a specific controller and a deputy specific controller.

The Issuer has appointed two statutory auditors (*Commissaires aux comptes*) and two deputy statutory auditors (*Commissaires aux comptes suppléants*) in compliance with applicable laws and regulations.

Furthermore, in accordance with the Law the Issuer has appointed a specific controller (*Contrôleur spécifique*), and a deputy specific controller (*Contrôleur Spécifique suppléant*), who are selected from the official list of auditors and are appointed by the board of directors of the Issuer with the approval of the French *Commission Bancaire*.

The specific controller verifies key financial aspects of the activities of the Issuer, in particular the extent of the collateral for the Covered Bonds. He is independent from both the Issuer and the Sponsor Bank.

The Specific Controller ensures that the Issuer complies with the *Code monétaire et financier* (in particular, verifying the quality and the eligibility of the assets and the coverage ratio). He also monitors the balance between the Issuer's assets and liabilities in terms of rates and maturity (cash flow adequacy) and notifies the board of directors of the Issuer and the *Commission Bancaire* if he considers such balance to be unsatisfactory. The specific controller attends all shareholders meetings and, on his request, may be heard by the Board of Directors.

No employees.

The Issuer has no employees.

5.3 The Security Package – the Cover Pool

Collateral Security at least 105% of the outstanding balance due by the Sponsor Bank to the Issuer under the Advances.

The obligations of the Sponsor Bank under the Facility will be secured by a pool of eligible assets, which will be transferred by way of security to the Issuer, in accordance with the provisions of Art. L.431-7-3 of the French Monetary and Financial Code relating to financial collateral arrangements. The holders of the Covered Bonds will have the direct benefit of Covert Pool assets through the privilege they have pursuant to the Act.

Every month, the Calculation Agent shall determine whether the ratio collateral over outstanding advances is complied with (cover test on nominal basis). Such ratio must be at least 105% and will be higher if required to maintain the **Aaa** rating of the Covered Bonds, in particular at loss of **A1** or **Prime-1** by the Sponsor Bank.

Provided the above ratio remains met, the Sponsor Bank is entitled to request that some part of the Cover Pool be released from the scope of the collateral security.

The choice of eligible assets to be transferred to the Cover Pool or to be released is at the full discretion of the Sponsor Bank.

The receivable composing the Cover Pool will be serviced by the Sponsor Bank, which will be entitled to the collections received thereunder, except for the sums transferred to the Collection Loss Reserve Account.

Upon the loss of **A1** or **Prime-1**, the Sponsor Bank will credit a dedicated blocked bank account (the "**Collection Loss Reserve Account**") with an amount equal to collections scheduled to be received by the Sponsor Bank under the Cover Pool assets during the two calendar months following the occurrence of such downgrade. This amount will secure amounts owed by the Sponsor Bank under the Facility.

6. MOODY'S RATING METHODOLOGY

Moody's covered bond rating methodology special report (Moody's Rating Approach to European Covered Bond dated 13 June 2005) details the approach used for rating covered bond transactions. The main idea is that until Sponsor Bank Default (as this term is defined in Moody's methodology), the Covered Bonds obligations are sufficiently supported by the Issuer. Following Sponsor Bank Default, the Programme will rely solely on the quality of the Cover Pool, including the swaps to the extent that these have survived. The impact of the credit strength of the Sponsor Bank and the quality of the Cover Pool are analysed below.

6.1 Credit strength of the Sponsor Bank

The Programme finds support in the credit strength of the Sponsor Bank (rated Aa2) and in the regulatory framework.

The Issuer has recourse against the Sponsor Bank pursuant to the Facility and the Sponsor Bank has committed itself towards the CECEI to support the solvency and the liquidity of the Issuer. The Sponsor Bank's long- and short-term ratings of **Aa2/Prime-1** reflect the bank's well-diversified revenue and earnings mix, its relatively resilient cross-

cyclical earnings-generating capacity and the fact that it has a number of strong and well-established franchises. In addition, Moody's view is that the probability that the Sponsor Bank would benefit from systemic support is very high.

The liquidity facility and the Collection Loss Reserve Account further supports the Programme.

Upon the loss of **Prime-1**, (i) a new liquidity provider should be appointed or a cash deposit made available and payments under the Advances should be accelerated by 90 or 180 days (see more details above) with a view to mitigating the exposure to liquidity risk. In addition, upon the loss of A1 or Prime-1 the Collection Loss Reserve Account provides for some support in terms of both liquidity and solvency.

Moody's believes that (i) the obligations imposed on the Sponsor Bank to ensure that a minimum amount of over-collateralisation in the Cover Pool is maintained; and (ii) the Sponsor Bank's commitment to the Programme as evidenced by the several functions carried out by it in the context of the Programme (fiscal agent, calculation agent, servicer, liquidity provider and borrower under the Facility), enable the Issuer to benefit from the credit strength of the Sponsor Bank.

For more information on the fundamental credit quality of the Sponsor Bank, please see the latest Moody's bank credit report on the Sponsor Bank dated March 2008 and available on www.moodys.com.

6.2 Quality of the Collateral

The Cover Pool assets at a Glance

The Loans composing the Cover Pool are public-sector loans only.

For the first issuance under the Programme, the Cover Pool will solely comprise exposures to public entities located in France, such as departments (26%), municipalities and inter-municipalities (24%), regions (17%), entities established by various public-sector borrowers ("*syndicats*") (16%), public health services (13%), harbours (1.32%), buildings agencies (0.66%), car parks (0.48%), chambers of commerce and industry (0.47%) and fire service (0.43%). However, the composition of the Cover Pool could evolve as to include other assets that are eligible under the Act.

At 28 March 2008, the Cover Pool was composed of 156 loans originated by the Sponsor Bank with 102 French public-sector entities.

A detailed overview of the Cover Pool assets is provided under Appendix 1.

The quality of the Cover Pool assets is reflected in the Collateral Score. Moody's has calculated a Collateral Score of 4.5% for this programme, which take the following aspects into account:

Average credit quality of Cover Pool assets is very good.

Aspects specific to this Programme that are positive include:

- In general, public-sector loans can be associated with a low expected loss in the event of a payment disruption on the loan. This is reflected in the credit ratings of Sponsor Bank's Cover Pool assets.
- The claims against public-sector entities are spread across 102 different borrowers.

Aspects specific to this Programme that are negative include:

- Borrower concentration: the ten largest borrowers account for around 39% of the Cover Pool assets, and the 50 largest borrowers account for around 80%.
- Country concentration: all of the public-sector entities are located in France.

Substitution risks are mitigated by the Act.

As with most covered bonds in Europe, there are few restrictions or limitations on the future composition of the Cover Pool. This may have the effect of creating substitution risk. Mitigants to the substitution risk that should protect the quality of the Cover Pool over time include the following:

- The Eligibility Criteria as defined in the Act. If non public-sector loans are later included in the Cover Pool, such inclusion will be subject to Moody's rating affirmation and the over-collateralisation with respect to those assets would need to be determined separately from the 5% that is currently set for public-sector assets; and
- The Cover Pool composition will be monitored by Moody's, as well as by the specific controller.

6.3 Refinancing the Cover Pool

Covered Bonds will benefit from liquidity support.

Following Sponsor Bank Default, where the "natural" amortisation of the Cover Pool assets alone cannot be relied on to repay principal, Moody's assumes that funds must be raised against the Cover Pool at a discount if covered bondholders are to receive

timely principal payment. After a Sponsor Bank Default the market value of these assets may be subject to substantial volatility. Examples of the stressed refinance margins used by Moody's for different types of prime quality assets are published in Moody's Rating Approach (see SRelated Research below). Please note that Moody's has recently increased the refinancing margins used when rating covered bonds (see Moody's press release dated 29 February 2008 available on www.moodys.com).

Aspects specific to this programme that are refinancing positive include:

- The fact that an insolvency proceeding against the Issuer will not trigger any acceleration of the Covered Bonds.
- The Liquidity Facility and the fact that the principal payments under the Facility Agreement will be accelerated with 3 or 6 months compared to the initial contractual maturity should support the liquidity and thereby limit the refinancing risk.
- Public-sector assets are in general terms a more liquid type of collateral, which should improve the sales value of the Cover Pool. Public-sector collateral (repo-eligible) is expected to trade at lower refinancing margins than other asset classes. It is expected that all Cover Pool assets acting as collateral for the first issuance will be repo-eligble.
- The ability of the Issuer (or its bankruptcy administrator) to sell or transfer the cover assets.

Aspects specific to this programme that are refinancing negative include:

- For the first issuance, the Covered Bonds will have a bullet maturity and will not benefit from an extendable maturity;
- The collections under the Cover Pool assets do not match with the payment liabilities under the Covered Bonds. During the entire life of the loan, an administrator of the Cover Pool may not be able to change the rate charged to the underlying borrowers.
- The Liquidity Facility is capped at €5 billion and as an alternative to the appointment of a new eligible liquidity provider, the Sponsor Bank could also establish a cash deposit account in favour of the Issuer. However, the cash deposit amount will be equal to the amount that would be available under the Liquidity Facility at the time of the downgrade (i.e. amount of coupons for the next 6 months and the upcoming principal repayment, capped at €5 billion less outstanding advances under the liquidity facility). Such deposit amount could be lower than the amount under the Liquidity Facility if an eligible liquidity provider was still obliged thereunder instead of having a deposit.
- The quite long weighted average life of the Cover Pool assets, namely 9.8 years.

6.4 Market Risk

As with the majority of European covered bonds, there is potential for market risks. For example, following Sponsor Bank Default, covered bondholders may be exposed to interest risk, which could arise from the different payment promises and durations made on the Cover Pool and the Covered Bonds or currency mismatches. Following Sponsor Bank Default, the Moody's Covered Bond Model looks separately at the impact of increasing and decreasing interest rates on the expected loss of the Covered Bonds, taking the path of interest rates that leads to the worst result.

Cover Pool assets, Advances and Covered Bonds are denominated in the same currency.

With respect to currency risks the initial Cover Pool will be denominated in euros exclusively as the Advances under the Facility Agreement and the first issuance of Covered Bonds are expected to be denominated in. Accordingly as of the date of this report, investors are not exposed to any currency risk. Later, if currency mismatches occur, these will be covered under the hedging strategy.

Explicit Hedging Strategy is in place.

The Issuer uses the CB Hedging Agreements, the Issuer Pool Hedging Agreements and the Sponsor Bank Pool Hedging Agreements to hedge any interest rate risk and currency as is detailed under Transaction Summary above. However, the hedging strategy does not specify whether swap counterparties must be external or not.

Aspects specific to this programme that are refinancing positive include:

- The nominal over-collateralisation mitigates market risks.

Aspects specific to this programme that are refinancing negative include:

- Interest rate risk exists, deriving from the mismatch between the interest rate (fixed/floating) on assets and liabilities. The vast majority of the Cover Pool assets have a fixed rate. Moody's assumed that initially 100% of the liabilities will be fixed rate.

The result of Moody's calculations was that the more stressful scenario is currently one of increasing interest rates, as a potential sale of fixed-rate assets would lead to a crystallisation of interest rate losses. Interest rate risk is partially mitigated by the over-collateralisation.

In the case of insolvency of the Sponsor Bank, Moody's does not currently assume that the special cover pool administrator will always be able to efficiently manage any natural hedge between the Cover Pool and the Covered Bonds.

7. LINKAGE AND RATING SENSITIVITY

The rating of the Covered Bonds is linked to the strength of the Sponsor Bank.

All Covered Bonds are linked to a sponsor bank.

Moody's covered bond ratings are primarily determined by the expected loss posed to investors. However, these ratings may also be constrained by the issue of "linkage" to the underlying sponsor bank, i.e. the risk of a late payment of either interest or principal on the covered bond following sponsor bank default.

As a result the covered bonds will come under increasing rating stress as the sponsor bank's credit strength deteriorates. Reasons for this include:

Refinancing risk: Following sponsor bank default, if principal receipts from collections of the cover pool are not sufficient to meet the principal payment on a covered bond, funds may need to be raised against the cover pool. However, the fact that the Issuer has defaulted may negatively impact the ability to raise funds against the cover pool.

The exposure of the programme to the choices of the sponsor bank and the issuer. In the context of this transaction for example, prior to Sponsor Bank Default, the Sponsor Bank may add new assets to the Cover Poolor ask the Issuer to issue further Covered Bonds; in addition the Issuer can enter into new hedging arrangements and issue bonds or other debt instruments. Each of these actions could negatively impact the value of the Cover Pool.

More generally, by the incorporation of the strength of the sponsor bank in the Moody's rating method.

The probability of default on the Covered Bonds may diverge from what is expected for a Aaa senior unsecured debt instrument; however, Moody's primary rating target is expected loss.

As a result of this linkage, the probability of default of the Covered Bonds may be higher than expected for Aaa-rated senior unsecured debt. However, Moody's primary rating target is the expected loss, which also takes into account severity of loss, which in this case is consistent with a Aaa rating.

The TPI determines the maximum rating a covered bond programme can achieve.

Moody's Timely Payment Indicators ("TPIs") (see Moody's report "Timely Payment in Covered Bonds following Sponsor Bank Default" dated 13 March 2008) assess the likelihood that a timely payment will be made to covered bondholders following Sponsor Bank Default. They thus determine the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable amount of over-collateralisation.

Aspects specific to this programme that are TPI positive include:

- The legal framework which guarantees that an insolvency of the Issuer will not accelerate payments under the Covered Bonds.
- The low-risk nature of the Cover Pool assets would facilitate a sale of pool assets.

Aspects specific to this programme that are TPI negative include:

- There is no assurance that swaps will be entered into with counterparties that are external to the Sponsor Bank group.

8. ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Moody's has analysed the origination process in connection with the public-sector assets. As and when the Cover Pool will contains other types of eligible assets, in particular asset-backed loans that are eligible under the Law, Moody's will analyse the origination process of such new type of assets.

9. MONITORING

Moody's will monitor the Programme on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing the assets on an ongoing basis. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

10. RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

Rating Methodology

Moody's Rating Approach to European Covered Bonds, June 2005 (SF57011)

Special Report

European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 (SF66418)

Timely Payment in Covered Bonds following Sponsor Bank default, March, 2008 (SF109992isf)

Bank Credit Analysis

Société Générale, March 2008 (107945)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

APPENDIX 1: OVERVIEW OF THE COVER POOL ASSETS

Overview

Overview	
Collateral Score :	4.5%
Asset balance :	1,986,981,340
WA Remaining Term (in months) :	n/d
Number of borrowers :	102
Number of loans :	156
Exposure to the 10 largest borrowers :	38.7%
Average exposure to borrowers :	19,480,209

(*) n/d : information not disclosed by Issuer

Specific Loan and Borrower characteristics

Specific Loan and Borrower characteristics	
Repo eligible loans :	100.0%
Percentage of fixed rate loans :	77.6%
Percentage of bullet loans/bonds :	1.3%
Loans in non-domestic currency :	0.0%
Performance	
Loans in arrears (≥ 2months - < 6months) :	0.0%
Loans in arrears (≥ 6months - < 12months) :	0.0%
Loans in arrears (> 12months) :	0.0%
Loans in a foreclosure procedure :	0.0%

Chart A:
Borrower Type

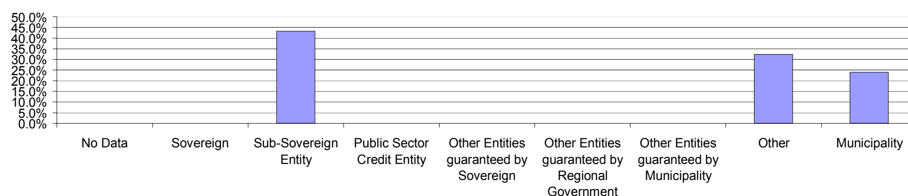


Chart B:
Asset Type in Cover Pool

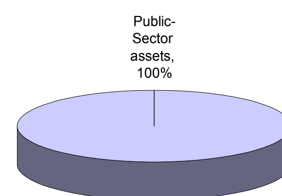


Chart C:
Borrower Concentration

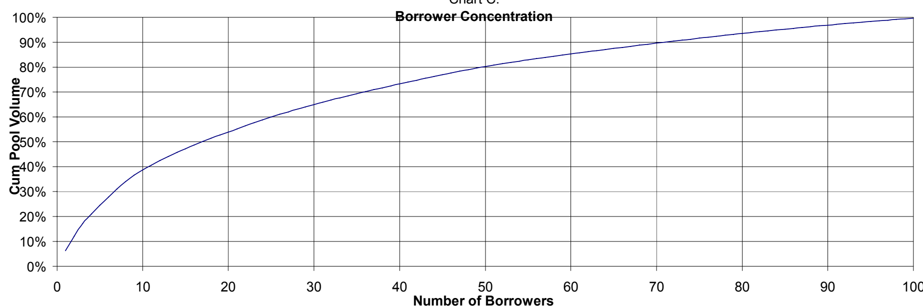


Chart D:
Location of Asset in Cover Pool

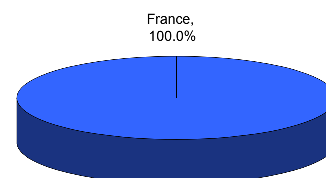
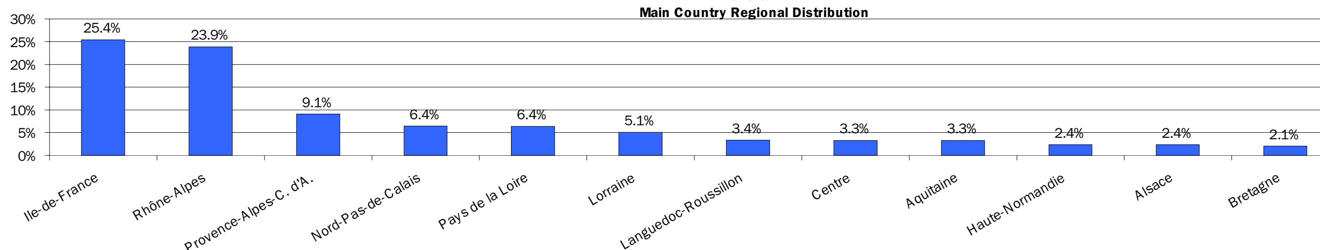


Chart E:
Main Country Regional Distribution



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