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RISKS AND CAPITAL ADEQUACY

1. INTRODUCTION

KEY FIGURES

The Group set out to reduce its risk profile over the course of 2013 against a persistently difficult macroeconomic backdrop.

	31.12.2013	31.12.2012
Indicators		
Total Group exposure (EAD[(1)]) in EUR bn	650	685
Percentage of Group EAD to industrialised countries	86%	85%
Percentage of Corporate EAD to investment grade counterparties	65%	63%
Cost of risk in bp[(2)]	75	75
Gross doubtful loans ratio (doubtful loans/gross book outstandings)	6.0%	5.7%
Gross doubtful loans coverage ratio (overall provisions/doubtful loans)	58%	58%
Average annual VaR in EUR m	25	31
Group global sensitivity to structural interest rate risk	<1.5%	<1% of regulatory capital
Regulatory ratios		
Basel 2.5 solvency ratio	14.7%	12.7%
Basel 2.5 Tier 1 Ratio	13.4%	12.5%
Basel 2.3 Core Tier 1 Ratio	11.3%	10.7%
One-month liquidity ratio	>100%	>100%
Basel 3 prudential ratios[(3)]		
Basel 3 Common Equity Tier 1 Ratio	10.0%	
CRR leverage ratio	3.5%	

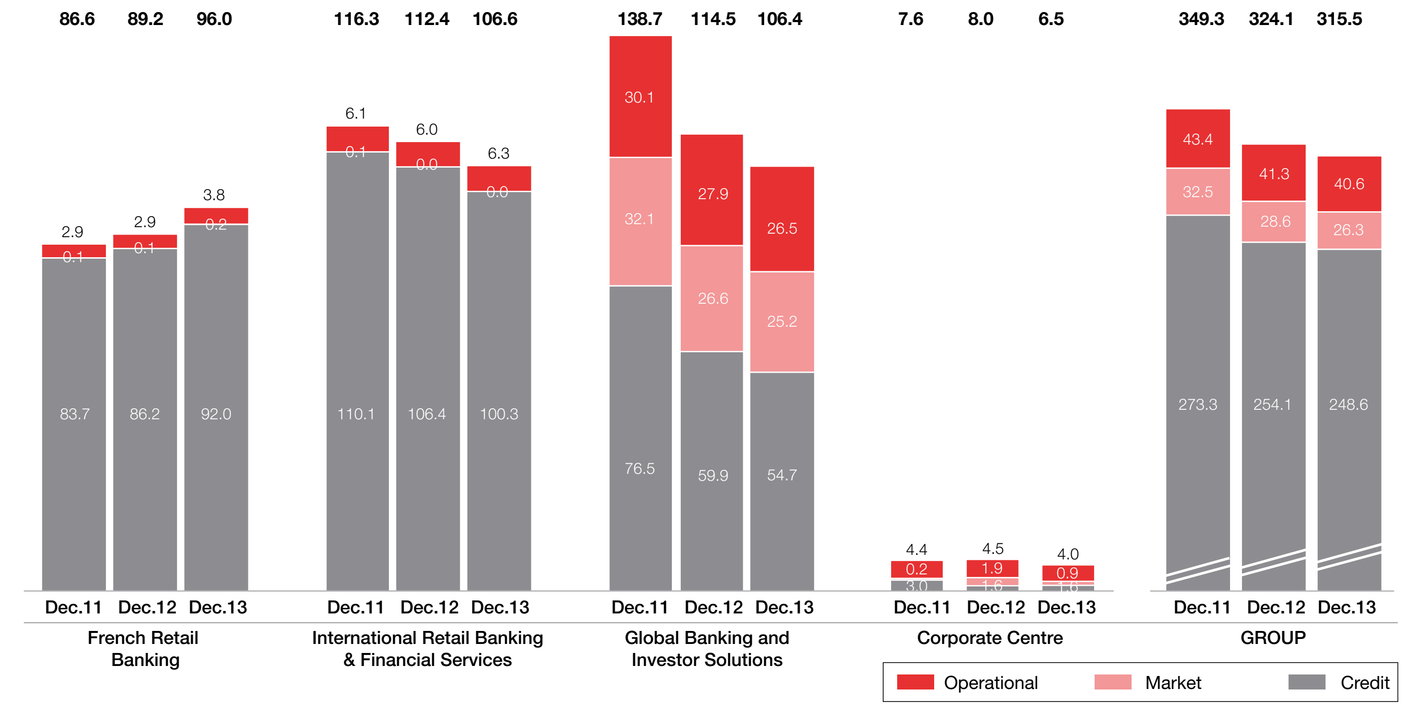
(1) The EAD reported here are presented in accordance with the Capital Requirements Directive (CRD), transposed into French regulation.

(2) Calculated by dividing the net allocation to provisions for commercial risks by average outstanding loans as at the end of the four quarters preceding the closing date, excluding legace assets.

(3) Fully loaded proforma based on CRR rules as published on 26th June 2013, without phasing including Danish compromise for insurance. The figures reported above do not reflect new rules for leverage ratio published by the Basel committee in January 2014.

Note: Most of the technical terms used are defined in the glossary on pages 477 and following.

BASEL 2.5 (CRD3) RISK-WEIGHTED ASSETS* (IN EUR BN)



* Includes the entities reported under IFRS 5 until disposal.

Credit risks accounted for 79% of the Group's risk-weighted assets.

At 31 December 2013, 86% of the Group's on and off-balance sheet exposure was concentrated in the major industrialised countries. Almost half of the overall amount of outstanding loans was to French customers (26% exposure to non-retail portfolio and 20% to retail portfolio).

The Group's exposure at default excluding securitisation was split in: 28% for retail customers, 39% for corporates, 10% for institutions (Basel classification banks and public sector entities) and 23% for sovereigns.

The corporates' portfolio is diversified in terms of sectors, the majority of the exposure is concentrated in investment grade counterparties.

The credit portfolio analysis is detailed on p. 157 as at 31 December 2013.

Recent developments and outlook are detailed in the risk factors section below as well as in the group strategy, p. 6 and main activities description and as in the group management report, p. 57.

TYPES OF RISKS

The Group is exposed to the risks inherent in its core businesses. Given the diversity and changes in the Group's activities, its risk management focuses on the following main categories of risks, any of which could adversely affect its business, results of operations and financial condition:

- **credit and counterparty risk (including country risk):** risk of losses arising from the inability of the Group's customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk linked to market transactions (replacement risk), as well as securitisation activities. In addition, credit risk may be further amplified by concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties.

  Country risk arises when an exposure can be negatively affected by changing political, economic, social and financial conditions in the country of operation.

  Validation of credit risk is part of the Group's risk management strategy based on its risk appetite. Societe Generale's credit policy is based on the principle that approval of any credit risk undertaking must be based on sound knowledge of the client and the client's business, an understanding of the purpose and structure of the transaction and the sources of repayment of the debt. Credit decisions must also ensure that the structure of the transaction will minimise the risk of loss in the event the counterparty defaults.

  Limits are set for certain countries, geographical regions, sectors, products or types of customers with a view to minimising the most significant risks. In addition, major concentration risks are analysed periodically for the entire Group.

- **market risk:** risk of decline in the value of financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them. These parameters include, but are not limited to exchange rates, interest rates, and the price of securities (equities, bonds), commodities, derivatives and other assets, including real estate assets.

  Positions and risks are subject to daily controls and compared to predefined limits that, for major positions, are validated by the Board of Directors on the advice of the Audit, Internal Control and Risk Committee, in accordance with the risk appetite defined by the Board of Directors;

- **operational risks (including accounting and environmental risks):** risk of losses or sanctions due in particular to failures in internal procedures or systems, human error or external events; Societe Generale has no appetite for operational risks, only a tolerance level. As such, the Group has an active prevention policy which consists of securing operational processes and promoting of a risk culture throughout the Group. The limit in terms of operational losses is set as a percentage of NBI;

- **structural interest and exchange rate risk:** risk of loss or write-downs in the Group's assets arising from variations in interest or exchange rates. Structural interest and exchange rate risk arises from commercial activities and from transactions entered into by the Corporate Centre.

  The general principle for the Group is to minimise structural interest rate and exchange rate risks as much as possible within consolidated entities. Wherever possible, commercial transactions are therefore hedged against interest rate and exchange rate risks. Any residual structural interest rate risk exposure is contained by sensitivity limits set for each entity and for the overall Group in accordance with the structural risk appetite as validated by the Finance Policy Committee. As for exchange rates, the Group's policy is to immunise its solvency ratio against fluctuations of the major currencies in which it operates;

- **liquidity risk:** risk of the Group not being able to meet its cash or collateral requirements as they arise and at reasonable cost.

  Given that liquidity is a scarce resource, the Group's objective is to finance its activities at the best possible rates under normal conditions whilst maintaining adequate buffers to cover outflows in periods of stress. The scope of the Group's short and long-term financing plan, which supplements customer deposits, is conservative with reduced concentration in the short term while ensuring diversification in terms of products and regions. Targets are validated by the Board of Directors in accordance with Risk Appetite;

- **non-compliance risk (including legal and tax risks):** risk of legal, administrative or disciplinary sanction, material financial losses or reputational damage arising from failure to comply with the provisions governing the Group's activities;

- **reputational risk:** risk arising from negative perception by customers, counterparties, shareholders investors or regulators, which could adversely affect the Group's ability to maintain or establish business relations and its access to funding sources.

  Compliance and adherence to ethical rules that meet the profession's highest standards are part of the Societe Generale Group's core values. It is not just the responsibility of a select few, but concerns the culture of its entire staff. Moreover, those rules even go beyond the strict application of current regulatory provisions, particularly as there are countries in which said provisions fall short of Societe Generale's ethical standards.

The Group is also exposed to the following risks:

- **strategic risk:** risk tied to the choice of a given business strategy or resulting from the Group's inability to execute its strategy;
- **business risk:** risk of losses if costs exceed revenues;
- **risk related to insurance activities:** through its insurance subsidiaries, the Group is also exposed to a variety of risks

linked to the insurance business. In addition to balance sheet management risks (interest rate, valuation, counterparty and exchange rate risk), those include premium pricing risk, mortality risk and structural risk of life and non-life insurance activities, including pandemics, accidents and catastrophic events (such as earthquakes, hurricanes, industrial disasters, acts of terrorism or military conflicts);

Moreover, the Group is also exposed to the following risks:

- **risk related to specialised finance activities:** through its Specialised Financial Services activities, mainly in its operational vehicle leasing subsidiary, the Group is exposed to residual value risk (when the net resale value of an asset at the end of the lease is less than estimated);
- **investment portfolio risk:** risk of unfavourable changes in the value of the Group's investment portfolio.

RISK FACTORS

1. The global economy and financial markets continue to display high levels of uncertainty, which may materially and adversely affect the Group's business, financial condition and results of operations.

As part of a global financial institution, the Group's businesses are highly sensitive to changes in financial markets and economic conditions generally in Europe, the United States and elsewhere around the world. The Group could be confronted with a significant deterioration of market and economic conditions resulting from, in particular, crises affecting capital or credit markets, liquidity constraints, regional or global recessions, sharp fluctuations in commodity prices (including oil), currency exchange rates or interest rates, inflation or deflation, sovereign debt rating downgrades, restructurings or defaults, or adverse geopolitical events (including acts of terrorism and military conflicts). Such occurrences, which may develop quickly and hence may not be hedged, could affect the operating environment for financial institutions for short or extended periods and have a material adverse effect on the Group's financial condition, results of operations or cost of risk.

Financial markets have in recent years experienced significant disruptions as a result of concerns regarding the sovereign debt of various Eurozone countries. The elevated debt levels of some European sovereigns and the restructuring of Greek sovereign debt in 2012, which required investors to incur substantial writedowns, have given rise to concerns about sovereign defaults and the Eurozone. The outcome of this situation cannot yet be predicted. In the recent past, these concerns generated disruptions that contributed to increasing the volatility in the exchange rate of the euro against other major currencies, negatively affecting stock prices, deteriorating the funding conditions of financial institutions and created uncertainty regarding the near-term economic prospects of European Union countries, as well as the quality of credits extended to sovereign debtors in the European Union. Austerity and other measures introduced by public or private sector actors in order to address these issues may themselves lead to economic contraction and adversly affect for the Group. Moreover, the prolonged and severe recession experienced by some Eurozone countries has weakened the financial situation of business and households in these countries, which could translate into a further increase in the default rate of borrowers.

The Group is exposed to the risk of substantial losses if sovereign states, financial institutions or other credit counterparties become insolvent or are no longer able to fulfil their obligations to the Group. The Group holds sovereign obligations issued by certain of the countries that have been most significantly affected by the ongoing Eurozone crisis. In addition, the erosion of a sovereign state's perceived credit quality will often negatively affect the market perception of financial institutions located in that state. A worsening of the Eurozone crisis may trigger a significant decline in the Group's asset quality and an increase in its loan losses in the affected countries. The Group's inability to recover the value of its assets in accordance with the estimated percentages of recoverability based on past historical trends (which could prove inaccurate) could further adversely affect its performance. It may also become necessary for the Group to invest resources to support the recapitalisation of its businesses and/or subsidiaries in the Eurozone or in countries closely connected to the Eurozone such as those in Central and Eastern Europe. The Group's local activities in certain countries could become subject to emergency legal initiatives or restrictions imposed by local authorities, which could adversely affect its business, financial condition and results of operations.

2. A number of exceptional measures taken by governments, central banks and regulators have recently been or could soon be completed or terminated, and measures at the European level face implementation risks.

In response to the financial crisis, governments, central banks and regulators implemented measures intended to support financial institutions and sovereign states and thereby stabilise financial markets. Central banks took measures to facilitate financial institutions' access to liquidity, in particular by lowering interest rates to historic lows for a prolonged period.

Various central banks decided to substantially increase the amount and duration of liquidity provided to banks, loosen collateral requirements and, in some cases, implement "non-conventional" measures to inject substantial liquidity into the financial system, including direct market purchases of government bonds, corporate commercial paper and mortgage-backed securities. These central banks may decide, acting alone or in coordination, to modify their monetary policies or to tighten their policies regarding access to liquidity, which could substantially and abruptly decrease the flow of liquidity in the financial system. For example, the US Federal Reserve has expressed an intention to begin tapering its quantitative easing programme in 2014, but the pace and the magnitude of this adjustment remains uncertain. Such changes, or concerns about their potential impact, could increase volatility in the financial markets and push interest rates significantly higher. Given the uncertainty of the nascent economic recovery, such changes could have an adverse effect on operating conditions for financial institutions and, hence, on the Group's business, financial condition and results of operations.

Steps taken in 2012 to support the Eurozone, including short-term stability measures adopted by the European Council in June 2012, the European Central Bank's (ECB) announcement in August 2012 that it would undertake outright monetary transactions in sovereign bond markets, and advances made by the European Council and European Parliament in 2012 and 2013 toward adopting a general approach for the establishment of a single supervisory mechanism for the oversight of credit institutions, have contributed to a tangible easing of financial stability stress since mid-2012. These steps were reinforced in 2013 by additional measures, including the ECB's decisions to reduce its main lending rate to a new low of 0.25% and extend its undertaking to provide banks with unlimited amounts of short-term funding until mid-2015. Nevertheless the agreed policy measures remain subject to implementation risks both at the national and EU level and, even if implemented, could be terminated. At the same time, the functioning of money and debt markets has remained fragmented, amplifying funding strains in countries under stress. These strains could give rise to national policies restricting cross-border flows of liquidity, and ultimately undermine market integration within the monetary union.

3. **The Group's results may be affected by regional market exposures.**

The Group's performance is significantly affected by economic, financial and political conditions in the principal markets in which it operates, such as France and other European Union countries. In France, the Group's principal market, stagnant economic and financial activity, reduced levels of consumer spending and an unfavourable evolution of the real estate market have had, and could continue to have, a material adverse impact on its business, resulting in decreased demand for loans, higher rates of non-performing loans and, decreased asset values. In the other European Union countries, economic stagnation or a deteriorating economic environment could result in increased loan losses or higher levels of provisioning.

The Group is involved in commercial banking and investment banking operations in emerging markets, in particular in Russia and other Central and Eastern European countries as well as in North Africa. Capital markets and securities trading activities in emerging markets may be more volatile than those in developed markets and more vulnerable to certain risks, such as political uncertainty and currency volatility. It is likely that these markets will continue to be characterised by higher levels of uncertainty and therefore risk.

Unfavourable developments in the political or economic conditions affecting these markets may adversely affect the Group's business, results of operations or financial condition.

4. **The Group operates in highly competitive industries, including in its home market.**

The Group is subject to intense competition in the global and local markets in which it operates. On a global level, it competes with its peers principally in its core businesses (French Networks, International Banking and Financial Services, and Global Banking and Investor Solutions). In local markets, including, France, the Group faces substantial competition from locally-established banks, financial institutions, businesses providing financial and other services and, in some instances, governmental agencies. This competition exists in all of the Group's lines of business.

In France, the presence of large domestic competitors in the banking and financial services sector, as well as emerging competitors such as online retail banking and financial services providers, has resulted in intense competition for virtually all of the Group's products and services. The French market is a mature market and one in which the Group already holds significant market share in most of its lines of business. Its business and results of operations may be adversely affected if it is unable to maintain or increase its market share in key lines of business. The Group also faces competition from local participants in other geographic markets in which it has a significant presence. The level of competition on a global level, as well as on a local level in France and its other key markets, could have a material adverse effect on the Group's business, results of operations and financial condition.

Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms, or have declared bankruptcy. Such changes could result in our remaining competitors gaining greater capital and other resources, such as the ability to offer a broader range of products and services and geographic diversity. We have experienced, and may continue to experience, pricing pressures as a result of these factors, and as some of our competitors seek to increase market share by reducing prices.

5. **Reputational damage could harm the Group's competitive position.**

The financial services industry is highly competitive and the Group's reputation for financial strength and integrity is critical to its ability to attract and retain customers and counterparties.

Its reputation could be harmed by events attributable to it and the decisions of its management, as well as by events and actions of others outside its control. Independent of the merit of information being disseminated, negative developments concerning the Group could have adverse effects on its business and its competitive position.

The Group's reputation could be adversely affected by a weakness in its management of conflicts of interests or other similar procedures or as a result of employee misconduct, misconduct by other market participants, a decline in, a restatement of, or corrections to its financial results, as well as any adverse legal or regulatory action, especially if any of these events becomes the focus of extensive media reporting. Reputational damage could translate into a loss of business that could have a material adverse effect on the Group's results of operations and financial position.

6. **The protracted decline of financial markets or reduced liquidity in such markets may make it harder to sell assets and could lead to material losses.**

   In a number of the Group's businesses, protracted market movements, particularly asset price declines, can reduce the level of activity in the financial markets or reduce market liquidity. These developments can lead to material losses if the Group is not able to close out deteriorating positions in a timely way or adjust the hedge of its positions. This is especially true for the assets the Group holds for which the markets are relatively illiquid by nature. Assets that are not traded on regulated markets or other public trading markets, such as derivatives contracts between banks, are valued based on the Group's internal models rather than publicly-quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the Group did not anticipate.

7. **The Group depends on access to financing and other sources of liquidity, which may be restricted for reasons beyond its control.**

   The ability to access short-term and long-term funding is essential to the Group's businesses. We fund ourselves on an unsecured basis, by accepting deposits at our bank subsidiaries, by issuing long-term debt, promissory notes and commercial paper and by obtaining bank loans or lines of credit. We also seek to finance many of our assets on a secured basis, including by entering into repurchase agreements. If the Group is unable to access secured or unsecured debt markets on terms it considers acceptable or if it experiences unforeseen outflows of cash or collateral, including a material decrease in customer deposits, the Group's liquidity could be impaired. In particular, if the Group does not continue to successfully attract customer deposits (because, for example, competitors raise the interest rates that they are willing to pay to depositors, and accordingly, customers move their deposits elsewhere), the Group may need to replace such funding with more expensive funding, which would reduce the Group's net interest margin and net interest income.

   The Group's liquidity could be adversely affected by factors the Group cannot control, such as general market disruptions, operational difficulties affecting third parties, negative views about the financial services industry in general, the Group's short-term or long-term financial prospects, changes in credit ratings or even the perception among market participants of the Group or other financial institutions. The Group is also subject to changes in the ECB's policies with respect to providing liquidity to banks in the Eurozone.

   The Group's credit ratings can have a significant impact on the Group's access to funding and also on certain trading revenues. We may be required to provide additional collateral to certain counterparties in the event of a credit ratings downgrade, in connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business segment. The rating agencies continue to monitor certain issuer-specific factors that are important to the determination of the Group's credit ratings, including governance, the level and quality of earnings, capital adequacy, funding and liquidity, risk appetite and management, asset quality, strategic direction, and business mix. Additionally, the rating agencies look at other industry-wide factors, such as regulatory or legislative changes, the macro-economic environment and perceived levels of government support, and it is possible that such factors could result in downgrades of the Group's ratings and those of similar institutions.

   Some of the Group's debts may be accelerated by lenders upon the occurrence of certain events, including the Group's failure to provide the necessary collateral following a downgrade of its credit rating below a certain threshold, and other events of default set out in the terms of such indebtedness. If the relevant lenders declare all amounts outstanding due and payable due to a default, the Group may be unable to find sufficient alternative financing on acceptable terms, or at all, and the Group's assets might not be sufficient to repay in full its outstanding indebtedness.

   Moreover, the Group's ability to access the capital markets and its cost of obtaining long-term unsecured funding is directly related to its credit spreads in both the cash bond and derivatives markets, which are also outside of its control. Liquidity constraints may have a material adverse effect on the Group's business, financial condition, results of operations and ability to meet its obligations to its counterparties.

8. **The volatility of the financial markets may cause the Group to suffer significant losses on its trading and investment activities.**

   Market instability could adversely affect the Group's trading and investment positions in the debt, currency, commodity and equity markets, and in private equity, property and other assets. Severe market disruptions and extreme market volatility have occurred in recent years and may occur again in the future, which could result in significant losses for the Group's capital markets activities. Such losses may extend to a broad range of trading and hedging products, including swaps, forward and future contracts, options and structured products.

   Market volatility makes it difficult to predict trends and implement effective trading strategies and increases risk of losses from net long positions when prices decline and, conversely, from net short positions when prices rise. Such losses, if significant, could adversely affect the Group's results of operations and financial condition.

9. Changes in interest rates may adversely affect the Group's banking and asset management businesses.

The Group's performance is influenced by the evolution and fluctuation of interest rates in Europe and in the other markets in which it operates. The amount of net interest earned during any given period may significantly affect the Group's overall revenues and profitability. The Group's management of interest rate sensitivity may also affect its results of operations. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in applicable interest margins and balance sheet values. Any mismatch between interest owed by the Group and interest due to it (in the absence of suitable protection against such mismatch) could have adverse material effects on the Group's business, financial condition and results of operations.

10. Fluctuations in exchange rates could adversely affect the Group's results of operations.

The Group's main operating currency is the euro. However, a significant portion of the Group's business is carried out in currencies other than the euro, such as, the US dollar, the British pound sterling, the Czech crown, the Romanian lei, the Russian rouble and the Japanese yen. The Group is exposed to exchange rate movements to the extent its revenues and expenses or its assets and liabilities are in different currencies.

Because the Group publishes its consolidated financial statements in euros, which is the currency of most of its liabilities, the Group is also subject to translation risk in the preparation of its financial statements. Fluctuations in the rate of exchange of these currencies into euros may have a negative impact on the Group's consolidated results of operations, financial position and cash flows from year to year, despite any hedges that may be implemented by the Group to limit its foreign exchange exposure. Exchange rate fluctuations may also affect the value (denominated in euros) of the Group's investments in its subsidiaries outside the Eurozone.

11. The Group is subject to extensive supervisory and regulatory regimes in the countries in which it operates and changes in these regimes could have a significant effect on the Group's business.

The Group is subject to extensive regulation and supervision in all jurisdictions in which it operates. The rules applicable to banks seek principally to limit their risk exposure, preserve their stability and financial solidity and protect depositors, creditors and investors. The rules applicable to financial services providers govern, among other things, the sale, placement and marketing of financial instruments. The banking entities of the Group must also comply with requirements as to capital adequacy and liquidity in the countries in which they operate. Compliance with these rules and regulations requires significant resources. Non-compliance with applicable laws and regulations could lead to fines, damage to the Group's reputation, forced suspension of its operations or the withdrawal of operating licenses.

Since the onset of the financial crisis, a variety of measures have been proposed, discussed and adopted by numerous national and international legislative and regulatory bodies, as well as other entities. Certain of these measures have already been implemented, while others are still under discussion. It therefore remains difficult to accurately estimate the future impacts or, in some cases, to evaluate the likely consequences of these measures.

In particular, the Basel 3 reforms are being implemented in the European Union through the Capital Requirements Regulation 1 (CRR1) and Capital Requirements Directive 4 (CRD4) which came into effect on 1 January 2014, with certain requirements being phased in over a period of time, until 2019. Basel 3 is an international regulatory framework to strengthen capital and liquidity regulations with the goal of promoting a more resilient banking sector. Recommendations and measures addressing systemic risk exposure of global banks, including additional loss absorbency requirements, were adopted by the Basel Committee and by the Financial Stability Board, which was established following the G20 London summit in 2009. Societe Generale, among other global banks, has been named by the Financial Stability Board as a "systemically important financial institution" and as a result will be subject to additional capital buffer requirements. Specific rules related to the application of these measures have not yet been fully defined at the European level.

The ECB announced in October 2013 that it would commence a comprehensive assessment, including stress tests and an asset quality review, of certain large European banks, including the Group. The findings from this assessment, expected to be published in November 2014, may result in recommendations for additional supervisory measures, steps to increase capital ratios and other corrective actions affecting the Group and the banking sector generally. In addition, from November 2014, Societe Generale, along with all other significant financial institutions in the Eurozone, will fall under the direct supervision of the European Central Bank through implementation of the planned "banking union" framework. It is not yet possible to assess the impact of such measures, if any, on the Group; however, the prospect of such recommendations and the implementation of additional measures may be a source of additional uncertainty and volatility in the financial markets.

In France, the banking law of 26 July 2013 requires, among other things:

(i) that banks whose balance sheet exceeds a certain threshold must develop and communicate to the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR - French Prudential and Resolution Supervisory Authority) a preventative recovery plan outlining expected recovery measures in case of significant deterioration of their financial situation. This law expands the powers of the Prudential Supervision and Resolution Authority over these institutions in times of financial difficulty. However, the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR - French Prudential and Resolution Supervisory Authority) powers could be superseded by a European regulator if a European resolution framework is adopted (a proposal to this effect was adopted by the European Council on 18 December 2013).

(ii) the separation or ring-fencing of market activities considered "speculative" (i.e., not useful for the purpose of financing the economy) undertaken by financial institutions. Only activities undertaken by banks for their proprietary accounts fall within this obligation.

By 1 July 2014, all institutions subject to the separation obligation must have identified the relevant activities to be separated and eventually transferred to a dedicated subsidiary. The actual transfer of such activities must occur no later than 1 July 2015.

(iii) greater transparency concerning activities in non-cooperative tax countries, as well as the limitation of certain bank charges.

These reforms could impact the Group and its structure in ways that cannot currently be estimated.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), enacted in the United States in 2010, will affect the Group and some of its businesses. Dodd-Frank calls for significant structural reforms affecting the financial services industry, including non-US banks, by addressing, in particular, systemic risk oversight, bank capital standards, the orderly liquidation of failing systemically significant financial institutions, over-the-counter derivatives, and the ability of banking entities to engage in proprietary trading activities and sponsor and invest in hedge funds and private equity funds (which was the subject of the final "Volcker rule" adopted in December 2013 by the Federal Reserve and other financial regulators in the United States). While certain provisions of Dodd-Frank were effective immediately on enactment, other provisions are subject to transition periods and a lengthy rulemaking process, or benefit from significant delays in their application, making it difficult at this time to assess the overall impact (including extraterritorial impacts) any final rules could have on the Group or on the financial services industry as a whole.

The European Market Infrastructure Regulation (EMIR) published in 2012 places new constraints on derivatives market participants in order to improve the stability and transparency of this market. Specifically, the EMIR requires the use of central counterparties for products deemed sufficiently liquid and standardised, the reporting of all derivative products transactions to a trade repository, and the implementation of risk mitigation procedures (e.g., exchange of collateral) for OTC derivatives not cleared by central counterparties. Some of these measures are already in effect, while others are expected come into force in 2015, making it difficult to accurately estimate their impact.

In Europe, the regulation of employee compensation, including rules related to bonuses and other incentive-based compensation, clawback requirements and deferred payments may increase the Group's proportion of fixed compensation costs relative to variable costs and may reduce its ability to recruit or retain key employees, either of which could adversely affect its profitability.

Finally, additional reforms are being considered that seek to further reduce the risks to the stability of the financial system posed by the default of systemically important banks. For example, in October 2013 the Basel Trading Book Group published a consultation paper (Fundamental Review of Trading Book) proposing revised methods for calculating capital requirements in evaluating market risks. This and other proposals for banking sector reform may have a significant impact on the Group, particularly in term of the cost of capital allocated to each type of banking activity, although it is too early to estimate their impact at this time.

12. The Group is exposed to counterparty risk and concentration risk.

The Group is exposed to credit risk with respect to numerous counterparties in the ordinary course of its trading, lending, deposit-taking, clearance and settlement and other activities. These counterparties include institutional clients, brokers and dealers, commercial and investment banks and sovereign states. The Group may realise losses if a counterparty defaults on its obligations and the collateral that it holds does not represent a value equal to, or is liquidated at prices not sufficient to recover, the full amount of the loan or derivative exposure it is intended to cover. Many of the Group's hedging and other risk management strategies also involve transactions with financial services counterparties. The weakness or insolvency of these counterparties may impair the effectiveness of the Group's hedging and other risk management strategies, which could in turn materially adversely affect its business, results of operations and financial condition.

The Group may also have concentrated exposure to a particular counterparty, borrower or issuer (including sovereign issuers), or to a particular country or industry. A ratings downgrade, default or insolvency affecting such a counterparty, or a deterioration of economic conditions in such a country or industry, could have a particularly adverse effect on the Group's business, results of operations and financial condition. The systems the Group uses to limit and monitor the level of its credit exposure to individual entities, industries and countries may not be effective to prevent concentration of credit risk. Because of a concentration of risk, the Group may suffer losses even when economic and market conditions are generally favourable for its competitors.

13. The financial soundness and conduct of other financial institutions and market participants could adversely affect the Group.

The Group's ability to engage in funding, investment and derivative transactions could be adversely affected by the soundness of other financial institutions or market participants. Financial services institutions are interrelated as a result of trading, clearing, counterparty, funding and other relationships. As a result, defaults by, or even rumours or questions about, one or more financial services institutions, or the loss of confidence in the financial services industry generally, may lead to market-wide liquidity scarcity and could lead to further losses or defaults. The Group has exposure to many counterparties in the financial industry, directly and indirectly, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients with which it regularly executes transactions. Many of these transactions expose the Group to credit risk in the event of default by counterparties or clients. In addition, the Group's credit risk may be exacerbated if the collateral it holds cannot be realised for any reason or is not sufficient to recover the full amount of the Group's exposure.

14. The Group's hedging strategies may not prevent all risk of losses.

If any of the variety of instruments and strategies that the Group uses to hedge its exposure to various types of risk in its businesses is not effective, it may incur significant losses. Many of its strategies are based on historical trading patterns and correlations and may not be effective in the future.

For example, if the Group holds a long position in an asset, it may hedge that position by taking a short position in another asset whose value has historically moved in an offsetting direction. However, the hedge may only cover a part of its exposure to the long position, and the strategies used may not protect against all future risks or may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk in the future. Unexpected market developments may also reduce the effectiveness of the Group's hedging strategies.

15. The Group's results of operations and financial condition could be adversely affected by a significant increase in new provisions or by inadequate provisioning.

The Group regularly sets aside provisions for loan losses in connection with its lending activities. Its overall level of loan loss provisions, recorded as "cost of risk" in its income statement, is based on its assessment of the recoverability of the relevant loans. This assessment relies on an analysis of various factors, including prior loss experience, the volume and type of lending being conducted, industry standards, past due loans, certain economic conditions and the amount and type of any guarantees and collateral. Notwithstanding the care with which the Group carries out such assessments, it has had to increase its provisions for loan losses in the past and may have to substantially increase its provisions in the future following the rise in defaults or for other reasons. Moreover, the ECB announced in October 2013 that it would commence a comprehensive assessment, including stress tests and an asset quality review, of certain large European banks (including the Group), with the findings to be published in November 2014. It is not yet possible to assess the potential impacts this review or any resulting corrective measures may have on defaulted loans and/or loan loss provisions. Significant increases in loan loss provisions, a substantial change in the Group's estimate of its risk of loss with respect to loans for which no provision has been recorded, or the occurrence of loan losses in excess of its provisions, could have a material adverse effect on its results of operations and financial condition.

16. The Group relies on assumptions and estimates which, if incorrect, could have a significant impact on its financial statements.

When applying the IFRS accounting principles disclosed in Financial Information (Chapter 6) for the purpose of preparing the Group's consolidated financial statements, management makes assumptions and estimates that may have an impact on items in the income statement, on the valuation of assets and liabilities in the balance sheet, and on information disclosed in the notes to the consolidated financial statements.

In order to make these assumptions and estimates, management exercises judgment and uses information available at the time the consolidated financial statements are prepared.

By nature, valuations based on estimates involve risks and uncertainties. Actual future results may differ from these estimates, which could have a significant impact on the Group's financial statements.

The use of estimates principally relates to the following valuations:

- fair value of financial instruments not quoted in an active market presented in the balance sheet or the notes to the financial statements;
- the amount of impairment of financial assets (Loans and receivables, Available-for-sale financial assets, Held-to-maturity financial assets), lease financing and similar agreements, tangible or intangible fixed assets and goodwill;
- provisions recognised under liabilities, including provisions for employee benefits or underwriting reserves of insurance companies, as well as deferred profit-sharing on the asset side of the balance sheet;
- the amount of deferred tax assets recognised in the balance sheet;
- initial value of goodwill determined for each business combination; and
- in the event of the loss of control of a consolidated subsidiary, fair value of the entity's interest retained by the Group, where applicable.

17. The Group is exposed to legal risks that could negatively affect its financial condition or results of operations.

The Group and certain of its former and current representatives may be involved in various types of litigation including civil, administrative and criminal proceedings. The large majority of such proceedings can be considered part of the Group's ordinary course of business. There has been an increase in investor litigation and regulatory actions against intermediaries such as banks and investment advisors in recent years, in part due to the challenging market environment. This has increased the risk, for the Group as well as for other financial institutions, of losses or reputational harm deriving from litigation and other proceedings. Such proceedings or regulatory enforcement actions could also lead to civil or criminal penalties that adversely affect the Group's business, financial condition and results of operations.

It is inherently difficult to predict the outcome of litigation, regulatory proceedings and other adversarial proceedings involving the Group's businesses, particularly those cases in which the matters are brought on behalf of various classes of claimants, cases where claims for damages are of unspecified or indeterminate amounts or cases involving novel legal claims.

In preparing the Group's financial statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters and records a provision when losses with respect to such matters are probable and can be reasonably estimated. Should such estimates prove inaccurate or the provisions set aside by the Group to cover such risks inadequate, its financial condition or results of operations could be materially and adversely affected. See "Compliance, reputational and legal risks" section.

18. If the Group makes an acquisition, it may be unable to manage the integration process in a cost-effective manner or achieve the expected benefits.

The selection of an acquisition target is carried out by the Group following a careful analysis of the business or assets to be acquired. However, such analyses often cannot be exhaustive due to various factors. As a result, certain acquired businesses may include undesiderable assets or expose the Group to increased risks, particularly if the Group was unable to conduct full and comprehensive due diligence prior to the acquisition.

The successful integration of a new business typically requires effectively coordinating business development and marketing initiatives retaining key managers, recruitment and training, and consolidating information technology systems. These tasks may prove more difficult than anticipated, require more management time and resources than expected, and the Group may experience higher integration costs and lower savings or earn lower revenues than expected. The pace and degree of synergy building is also uncertain.

19. The Group's risk management system may not be effective and may expose the Group to unidentified or unanticipated risks, which could lead to significant losses.

The Group has devoted significant resources to develop its risk management policies, procedures and assessment methods, and intends to continue to do so in the future. Nonetheless, its risk management techniques and strategies may not be fully effective in mitigating its risk exposure in all economic market environments or against all types of risk, including risks that it fails to identify or anticipate. Some of its qualitative tools and metrics for managing risk are based upon observed historical market behaviour. The Group applies statistical and other tools to these observations in order to assess its risk exposures. These tools and metrics may fail to predict accurate future risk exposures that arise from factors the Group did not anticipate or correctly evaluate in its statistical models. Failure to anticipate or accurately estimates could significantly affect the Group's business, financial condition and results of operations.

20. Operational failure, termination or capacity constraints affecting institutions we do business with, or failure or breach of the Group's information technology systems, could result in losses.

The Group is exposed to the risk of operational failure, termination or capacity constraints of third parties, including financial intermediaries that we use to facilitate cash settlement or securities transactions (such as clearing agents, exchanges and clearing houses), clients and other market participants. An increasing number of derivative transactions are now or will be in the near future cleared on exchanges, which has increased our exposure to these risks, and could affect our ability to find adequate and cost-effective alternatives in the event of any such failure, termination or constraint. The interconnectivity of multiple financial institutions with clearing agents, exchanges and clearing houses, and the increased centrality of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact our ability to conduct business. Industry consolidation, whether among market participants or financial intermediaries, can exacerbate these risks as disparate complex systems need to be integrated, often on an accelerated basis. We also face the risk of operational failure with respect to our clients' information and communication systems as we become more interconnected with our clients. Any failure, termination or constraint could adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses or result in financial loss or liability to our clients, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage.

In addition, an increasing number of companies, including financial institutions, have experienced intrusion attempts or even breaches of their information technology security, some of which have involved sophisticated and highly targeted attacks on their computer networks and resulted in confidential data. Because the techniques used to obtain unauthorised access, disable or degrade service or sabotage information systems change frequently and often are not recognised until launched against a target, the Group may be unable to anticipate these techniques or to implement in a timely manner effective countermeasures.

The Group relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems, even if only brief and temporary, could result in failures or interruptions to its business leading to additional costs related to information retrieval and verification, reputational harm and a potential loss of business.

A failure, interruption or security breach of its information systems could have a material adverse effect on its business, results of operations and financial condition.

21. The Group may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks or natural disasters.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic or other widespread health emergencies (or concerns over the possibility of such emergencies), terrorist attacks or natural disasters, could create economic and financial disruptions, lead to operational difficulties (including travel limitations or relocation of affected employees) that could impair the Group's ability to manage its businesses, and expose its insurance activities to significant losses and increased costs (such as re-insurance premiums).

22. The Group may generate lower revenues from brokerage and other commission and fee-based businesses during market downturns.

During the recent market downturn, the Group experienced a decline in the volume of transactions that it executed for its clients, resulting in lower revenues from this activity. There is no guarantee that the Group will not experience a similar trend in future market downturns, which may occur periodically and unexpectedly. Furthermore, changes in applicable regulations, such as the adoption of a financial transaction tax, could also impact the volume of transactions that the Group executes for its clients, resulting in lower revenues from these activities. In addition, because the fees that the Group charges for managing its clients' portfolios are in many cases based on the value or performance of those portfolios, a market downturn that reduces the value of its clients' portfolios or increases the amount of withdrawals would reduce the revenues the Group generates from its asset management, custodial and private banking businesses.

23. Our ability to retain and attract qualified employees is critical to the success of our business, and the failure to do so may materially adversely affect our performance.

Our people are our most important resource, and industry competition for qualified personnel is intense. In order to attract, retain and engage qualified employees, we must offer career paths, training and development opportunities and compensation levels in line with our competitors and market practices. If we are unable to continue to engage highly-qualified employees, our performance, including our competitive position and client satisfaction, could be materially adversely affected. Furthermore, the financial industry in Europe will continue to experience more stringent regulation of employee compensation, including rules related to bonuses and other incentive-based compensation, clawback requirements and deferred payments, and we, like most participants in the financial industry, will need to adapt to this changing environment in order to attract and retain qualified employees.

The Group has undertaken a review of the risks that could have a material adverse effect on its business, financial condition and results of operations or on its ability to achieve its objectives, and does not consider there to be other significant risks beyond those presented in the "Types of risks" and "Risk factors" sections.

2. GOVERNANCE AND RISK MANAGEMENT ORGANISATION

INTRODUCTION

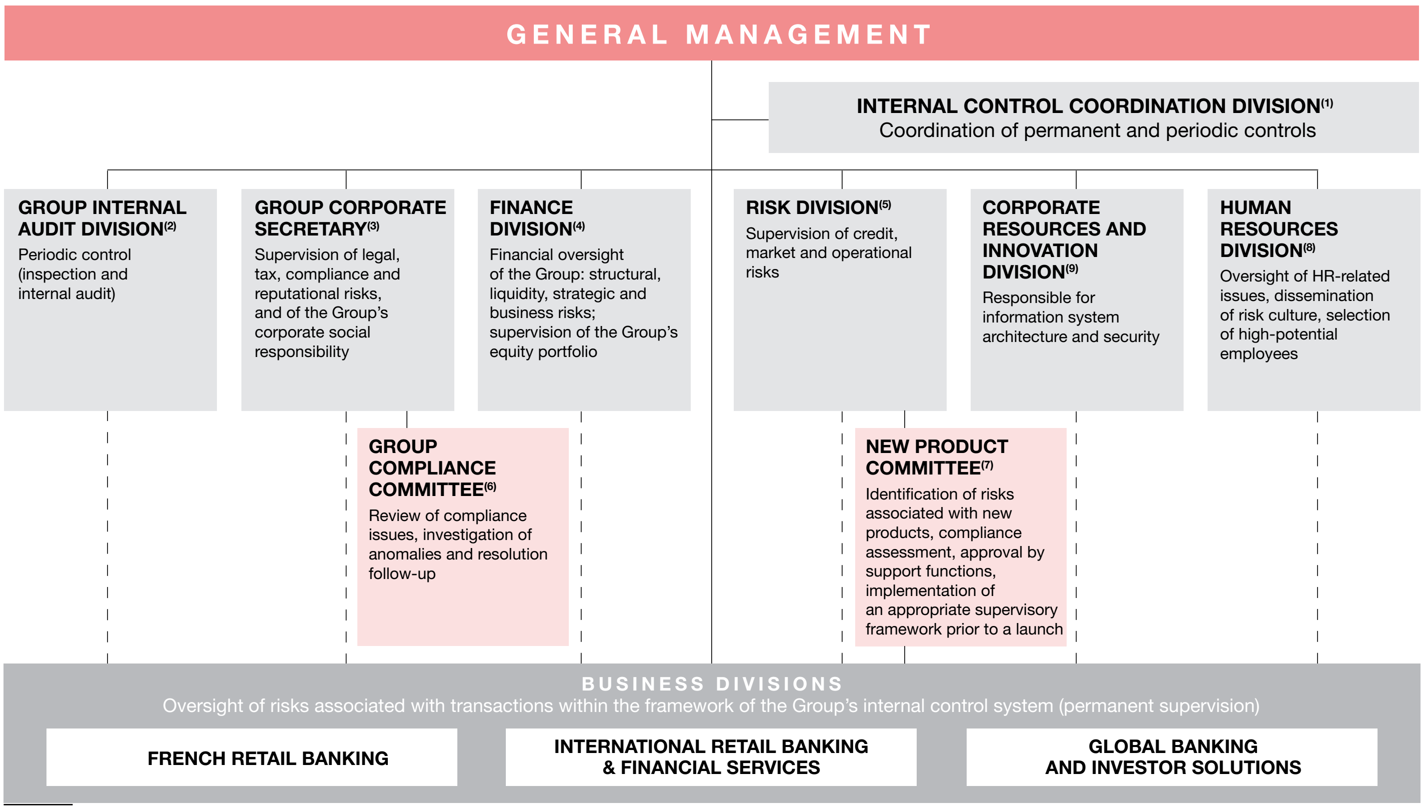
Implementing a high-performance and efficient risk management structure is a critical undertaking for Societe Generale, in all businesses, markets and regions in which it operates, as are maintaining a balance between strong risk culture and promoting innovation. The Group's risk management, supervised at the highest level (see Board of Directors' mission page 111) is compliant with the regulations in force, in particular Regulation n°. 97-02 of the French Banking and Financial Regulation Committee (CRBF) as amended by the decree of 19 January 2010 and the CRD3 and CRD4 European Directives. Specifically, the main objectives of the Group's risk management strategy are:

- to contribute to the development of the Group's various businesses by optimising its overall risk-adjusted profitability in accordance with its risk appetite;
- to guarantee the Group's sustainability as a going concern, through the implementation of an efficient system for risk analysis, measurement and monitoring;
- to make risk management a differentiating factor and a competitive strength acknowledged by all.

This can take the form of:

- clear principles for governing, managing and organising risks;
- determining and formally defining the Group's risk appetite;
- effective risk management tools;
- a risk culture that is cultivated and established at each level of the Group.

These various items are currently under focus, with a series of initiatives established as part of the ERM (Enterprise Risk Management) programme, which aims to improve the consistency and effectiveness of the Group's risk management system by fully integrating risk prevention and control in the day-to-day management of the bank's businesses.



(1) Permanent and periodic controls, page 115 and following.
(2) See page 117.
(3) Legal and tax risks, page 202; compliance and reputational risks, page 197; corporate social responsibility, page 215.
(4) Structural risks, page 188; liquidity risk, page 190; equity portfolio, page 205.
(5) Credit risk, page 151; market risk, page 174; operational risk, page 181.
(6) Group Compliance Committee, page 117.
(7) New Product Committee, page 113.
(8) See page 234 and following, particularly page 237 (training), page 239 (high-potential employees), page 242 (remuneration).
(9) See page 116.

RISK MANAGEMENT GOVERNANCE, CONTROL AND ORGANISATION PRINCIPLES

The Group's risk management governance is based on:

- strong managerial involvement in the risk management system and promotion of risk culture, throughout the entire organisational structure, from the Board of Directors down to operational teams;
- clearly defined internal rules and procedures;
- continuous supervision by an independent body to monitor risks and to enforce rules and procedures.

The Group's risk management is based on two key principles:

- risk assessment departments must be independent from the operating divisions;
- the risk management approach and risk monitoring must be consistent throughout the Group.

Compliance with these principles forms part of the consolidation plans for subsidiaries acquired by the Group.

Group risk management is governed by two main bodies: the Board of Directors, via the Audit, Internal Control and Risk Committee, and the Risk Committee. The Group's Corporate Divisions, such as the Risk Division and some departments of the Finance Division, which are independent from the business divisions, are dedicated to permanent risk management and control under the authority of the General Management.

BOARD OF DIRECTORS

The Board of Directors defines the Group's strategy, by assuming and controlling risks, and ensures its implementation. In particular, the Board of Directors ensures the adequacy of the Group's risk management infrastructure, monitors changes in the portfolio and particularly in the cost of risk, and approves the market risk limits. Presentations on the main aspects and notable changes of the Group's risk management strategy are made to the Board of Directors by the General Management at least once a year (more often if circumstances so require), as part of the Risk Appetite exercise.

AUDIT, INTERNAL CONTROL AND RISK COMMITTEE (CACIR)

Within the Board of Directors, the Audit, Internal Control and Risk Committee plays a crucial role in the assessment of the quality of the Group's internal control. More specifically it is responsible for examining the internal framework for risk monitoring to ensure its consistency and compliance with procedures, laws and regulations in force. Specific presentations are made by Relevant managers to the Committee, which reviews the procedures for controlling certain market risks as well as the structural interest rate risks, and is consulted about the setting of risk limits. It also issues an opinion on the Group's overall provisioning policy as well as on large specific provisions. Finally, the Group's risk map and risk appetite indicators are presented to the Committee annually, and every year it examines the Annual Report on Internal Control, which is submitted to the Board of Directors and the French Prudential Supervisory and Resolution Authority (ACPR).

RISK COMMITTEE (CORISQ) AND LARGE EXPOSURES (CGR) COMMITTEE

Chaired by the General Management, the Group Risk Committee is made up of members of the Group Executive Committee, managers from the Risk Division and, where necessary, representatives from the different Divisions affected by its agenda. It meets at least once a month in order to discuss the Group's core risk strategy.

The CORISQ is generally responsible, upon the advice of the Risk Division (RISQ), for making key decisions on managing framework of each types of risk (credit risk, country risk, market and operational risks).

The Large Exposures Committee (CGR) is an ad hoc committee which is chaired by the General Management and made up of the operational and RISQ managers in charge of analysing and overseeing the Group's main individual exposures.

FINANCE POLICY COMMITTEE

The Finance Policy Committee is chaired by the General Management and validates the system used to analyse and measure structural risks as well as the exposure limits for each Group entity. It also serves an advisory role for the business divisions and entities.

NEW PRODUCT COMMITTEE

Each division submits all new products, businesses or activities to the New Product Committee.

This Committee, which is jointly managed by the Risk Division and the business divisions, aims to ensure that, prior to the launch of a new product, business or activity:

- all associated risks are fully identified, understood and correctly addressed;
- compliance is assessed with respect to the laws and regulations in force, codes of good professional conduct and risks to the image and reputation of the Group;
- all the support functions are committed and have no, or no longer have, any reservations.

This process is underpinned by a very broad definition of a new product, which ranges from the creation of a new product, to the adaptation of an existing product to a new environment or the transfer of activities involving new teams or new systems.

RISK DIVISION

The main responsibility of the Risk Division is to contribute to the development of the activities and the profitability of Societe Generale Group by defining under the aegis of the General Management and in connection with the Finance department and the pillars, the Group's risk Appetite (deployed within the Group's various businesses), and establishing a risk management and monitoring system. In exercising its functions, the Risk Division reconciles independence from and close cooperation with the business divisions, which are responsible first and foremost for the transactions they initiate.

Accordingly, the Risk Division is responsible for:

- providing hierarchical and functional supervision of the Group's Risk structure;
- alongside the Finance Division, setting the Group's risk appetite which is then submitted to the executive body and to the Boards of Directors for their approval;
- identifying the risks borne by the Group;
- putting into practice a governance and monitoring system for these risks across all business lines, and regularly reporting on their nature and extent to the General Management, the Board of Directors and the supervisory authorities;
- contributing to the definition of risk policies, taking into account the aims of the pillars and the corresponding risk issues;
- defining or validating risk analysis, assessment, approval and monitoring methods and procedures;
- validating the transactions and limits proposed by the business managers;
- defining the "risk" information system, and ensuring its suitability for the needs of the businesses and its consistency with the Group's information system.

FINANCE DIVISION

The finance Division is responsable for assessing and managing structural interest and exchange rate risks, liquidity risks as well as strategic and business risks. In accordance with regulatory principles that advocate the separation of oversight and control functions, two different entities manage and monitor structural risks:

- the Balance Sheet and Global Treasury Management Department is dedicated to structural risk management. It also monitors and coordinates all Group treasury functions (external Group financing, internal entity financing, centralised collateral management). Moreover, it manages the Financial Centre and executes financial transactions;
- the ALM Risk Control Department is responsible for supervising structural risk for the entire Group. In particular, it validates structural risks models and monitors compliance with limits and management practices by the Group's divisions, business lines and entities. This Department is functionally overseen by the Risk Division.

Within the Finance Division, **the steering of scarce resources (capital and liquidity) and performance** has been the responsibility of the new Strategic and Financial Steering department since 1st January 2013.

In 2013, a department was created to maintain and further develop the **Group's recovery and resolution plans** in line with banking regulations. The recovery plan helps strengthen the Group's resilience, providing preventive measures that the Group can take independently in the event of a very severe crisis. The resolution plan provides the information required by the authorities to develop strategies that can be implemented to mitigate the impact of a hypothetical default by the Group on the economy and the markets.

OTHER DIVISIONS

The respective roles of the Divisions in the risk management are described in the diagram p. 135. It should be noted that the bank's risk management principles, procedures and infrastructures and their implementation are monitored by the Inspection and Audit Division. The Inspection and Audit Division carries out regular risk audits, including credit application reviews, spanning all Group divisions, whose conclusions are sent to the heads of the operating divisions, the Risk Division and the General Management for certain scopes.

ENTERPRISE RISK MANAGEMENT (ERM) PROGRAMME

Effectively launched in January 2011, the ERM project aims to improve the consistency and effectiveness of the Group's risk management system by fully integrating risk prevention and control with the day-to-day management of the Bank's businesses. This project is centred on three principles:

- taking greater account of risk in the Bank's strategic management (in particular, by continually improving oversight of the Group's Risk Appetite—see paragraph below);
- reinforcing permanent control measures (see chapter 3 on Internal Control);
- strengthening risk culture among all Group employees.

To ensure that this approach is effective, the ERM project is closely monitored at the highest levels of the Group's structure. It is supervised by General Management, reviewed by members of the Executive Committee and regularly audited by the Board of Directors' Audit, Internal Control and Risk Committee.

A dedicated team is responsible for managing and implementing the initiatives Group-wide, facilitating the management of projects within the Group's various businesses and Departments.

Carrying on from 2012, General Management declared the embedding of a strong risk culture a strategic objective in 2013. The measures put in place combine awareness-building and training[1] with a focus on the quality of risk management in the day-to-day management of the Group's employees (recruitment, target-setting, etc.). Examples include:

- greater emphasis on risk awareness in the employee recruitment process;
- the inclusion of risk management practices in employee target-setting and performance evaluations, reflecting the specific risks to which they are exposed.

(1) 60% of strategic managers and close to 45,000 employees received training on the importance of a sound risk culture.

RISK APPETITE

Societe Generale defines risk appetite as the level of risk, by type and by business, that the Group is prepared to incur in view of its strategic targets. Risk appetite is defined using both quantitative and qualitative criteria.

Since 2009, the Risk Division and the Finance Division, in coordination with the operating divisions, have jointly carried out measures as part of the Group Risk Appetite exercise, consisting in formally defining a three-year overview including:

- targets for certain key Group indicators (financial solidity, profitability, solvency, leverage and liquidity);
- risk/return ratios for the different Group businesses; and
- the Group's risk profile, by risk type (credit, market, operational and structural).

To determine these factors and develop the Risk Appetite approach, earnings sensitivities to business cycles and credit, market and operational events are taken into account under both a core budgetary macroeconomic scenario and a macroeconomic scenario of severe but plausible stress.

The Risk Appetite exercise is one of the strategic oversight tools available to the Group governing bodies. It is fully integrated with the budgeting process and draws on the global stress test system (details below), which is also used to ensure capital adequacy under stressed economic scenarios.

It is discussed by governing bodies at various key moments:

- during preliminary budget preparation with a view to allocating scarce resources to the business;
- the positioning of the various businesses in terms of the risk/return ratio as well as the Group's risk profile by type of risk, are analysed and approved by the Audit, Internal Control and Risk Committee, Simultaneously, three-year targets suggested by the Executive Committee for the Group's key indicators are approved by the Board of Directors after being reviewed by the Audit, Internal Control and Risk Committee;
- during the finalisation of the budget process, the Board of Directors, based on the Executive Committee's recommendations and after review by the Audit, Internal Control and Risk Committee, approves the trajectory in relation to various Group key indicators and their adequacy given the set targets.

The Group's risk appetite strategy is implemented by General Management in collaboration with the Executive Committee and applied by the various corporate and operating divisions through an appropriate operational steering system for risks, covering:

- governance (decision-making, management and supervisory bodies);
- management (identification of risk areas, authorisation and risk-taking processes, risk management policies through the use of limits and guidelines, resource management); and
- supervision (budgetary monitoring, reporting, leading risk indicators, permanent controls and internal audits).

Essential indicators for determining Risk Appetite and their various adaptations are regularly supervised over the year in order to detect any events that may result in unfavourable developments on the Group's risk profile. Such events may give rise to remedial action, up to the implementation of the recovery plan in the most severe cases.

STRESS TEST FRAMEWORK

Stress tests or crisis simulations are used to measure the potential impact of a downturn in activity on the behaviour of a portfolio, activity, entity or the Group. At Societe Generale, they are used to help identify, measure and manage risk and to assess the Group's capital adequacy. They are an important measure of the resilience of the Group and its activities and portfolios, and a core component in the definition of its risk appetite. The Group's stress test framework covers credit risk, market risk, operational risk, liquidity risk and structural interest rate and exchange rate risk. Stress tests are based on extreme but plausible hypothetical economic defined by the Group's economists. These scenarios are translated into impacts on the Group's activities, taking into account the activities' potential counter-measures and systematically combining quantitative methods with expert judgement (risk, finance or business lines).

The stress test methodology defined by the Group in 2013 sets out the guidelines for stress test exercises, the methods to be applied Group-wide and serves as a platform for discussion for those who actually carry out the tests.

In concrete terms, the stress test framework in place includes:

- an annual global stress test which is incorporated into the budget process as part of the group Risk Appetite exercise and Internal Capital Adequacy Assessment Process ICAAP(1) for the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR-French Prudential Supervision and Resolution Authority). It enables to check the Group compliance with the prudential ratios. It covers the entire Group and is based on two global three-year horizon macroeconomic scenarios: a core budgetary macroeconomic scenario and a macroeconomic scenario of severe but plausible stress. For each scenario, (core and stressed), potential losses relating to credit, market and operational risks are estimated over three years.
- specific credit stress tests (on portfolios, countries, activities, etc.), both recurrent or on request, which complement the global analysis with a more granular approach and allow for the identification, measurement and operational management of risk.

(1) ICAAP: Internal Capital Adequacy Assessment Process, corresponds to the Pillar II process required under the Basel Accord that enables the Group to ensure capital adequacy to support all incurred risks.

Credit risk is modelled based on the historical relationship between portfolio performance and relevant economic variables (Gross Domestic Product, unemployment, exchange rate, property prices, etc.). In line with the regulatory Pillar, stress tests systematically factor in the potential impact of the performance of the Group's main counterparties against a stressed market backdrop:

- market stress tests using internal models (VaR, EEPE, CVA, etc.) as well as forecast market variables indexes, credit spreads, etc.) that are consistent with the chosen economic scenarios and are also used to revalue available-for-sale assets. Set out in greater detail on section 6 Market risks in this chapter, this stress test assessment is based on 26 historical scenarii and 8 theoretical scenarii that factor in exceptional market occurrences;
- operational risk stress tests which use scenario analyses and the modelling of losses to calibrate the Group's capital in terms of operational risk, and which are used to ascertain the exposure to operational loss linked to the severity of economic scenarios, including exposure to rare and extreme losses not covered by the historical period;
- stress tests to analyse the Group's sensitivity to structural interest rate and exchange rate risks. Societe Generale Group measures the sensitivity of its fixed-rate position to different yield curve configurations (steepening and flattening). The measurement of the net interest income sensitivity is also used by the Group to quantify the structural interest rate risk of significant entities. With respect to exchange rate risk, stress scenarios are applied to various currencies, major or peripheral;
- liquidity stress tests to ensure that the time period during which the Group may continue to operate during periods of liquidity stress is respected in any market environment.

Along with the internal stress test exercises, the Group is part of a selection of European banks that participate in the large-scale international stress tests supervised by the EBA (European Banking Authority) and ECB (European Central Bank).

GROUP RISK MAPPING

This procedure aims to identify and estimate the main risks of potential loss expected for the year to come, in all risk categories: credit risks, market risks, operational and structural risks. These risks are placed on a grid relating impact and probability of occurrence for each risk. A loss level is assigned to each scenario, combining statistical approaches that use historical data, and independent expert analyses. These scenarios are categorised on a scale representing three distinct levels of stress: base case, stress and extreme stress. It may relate to isolated losses that are material because of their extent (for example, the default of a major counterparty), or of events involving many counterparties (for example, contagion affecting a sector of activity or several sectors).

The risk map is presented annually to the members of the Audit, Internal Control and Risk Committee as well as the Board of Directors.

RECOVERY AND RESOLUTION PLANS

In November 2011, the G20 countries adopted the principles which must be transposed into their national legislation to allow for the development and long-term success of credible resolution and recovery plans for systemic banks. The corresponding European Directive, which is expected to be approved by the European Parliament in April 2014, defines a common framework for the recovery and resolution of credit institutions and investment firms across the European Union, and the rules governing its coordination between countries. The Directive should be transposed into national law by no later than 31 December 2014, and the European Banking Authority will complement the framework with a set of technical standards.

Following the request by French authorities in 2011 that the Group work on the preliminary versions of the recovery and resolution plan, a number of strictly confidential drafts have been submitted for review and analysis by the Group's competent authorities. By July 2013, France had already introduced certain powers and processes required by the European framework, hence the decision to transform the *Autorité de Contrôle Prudentiel* (ACP-French Prudential Supervisory Authority) into the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR-French Prudential and Resolution Supervisory Authority) in 2013.

Societe Generale's recovery plan defines a series of preventative measures to strengthen the Group's ability to autonomously withstand an extremely severe crisis alone. It sets out all of the elements required for the effective management of a serious financial crisis: vigilance and alert measures, crisis management, crisis communication, list of recovery options to restore a healthy financial position on a case by case basis. This plan is updated every year.

The resolution plan includes the information required by the relevant authorities to devise the appropriate strategies and action to limit the impact of the Group's hypothetical default on the economy. Its aim is to limit the systemic impact of this type of event by reducing the need for specific government support. It must protect those activities that are vital to the economy, starting, for example, with deposits and payment methods, whilst at the same time safeguarding the value of the Group's different components in order to limit the end losses borne by investors and shareholders.

3. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

BASEL 2.5 REGULATORY FRAMEWORK

Following the first Basel Accord, known as Basel 1 (1988), the Basel Committee on Banking Supervision proposed a new set of recommendations in 2004 in order to more accurately measure credit risk. They include, in particular, taking into account the borrower's credit profile through, in particular, a financial rating system specific to each credit institution. These recommendations, known as Basel 2, are based on the following three pillars:

- Pillar 1 sets minimum solvency requirements and defines the rules that banks must use to measure risks and calculate associated capital requirements, according to standard or more advanced methods;
- Pillar 2 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 1, and to calibrate additional capital requirements with regard to risks;
- Pillar 3 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 2 framework was incorporated into European legislation with the enactment of the Capital Requirements Directive (CRD), which was transposed into French law by the decree of 20 February 2007.

More stringent requirements regarding market risk were included in the CRD3 European Directive, in force since end-2011. One of the purposes of these requirements is to better account for default and rating migration risk for assets in the trading book in order to reduce the procyclicality of Value at Risk (VaR).

Lastly, Societe Generale Group is classified as a financial conglomerate and is therefore subject to additional supervision by *l'Autorité de Contrôle Prudentiel et de Résolution* (ACPR - French Prudential Supervision and Resolution Authority).

Regulatory changes and the new framework in which the Group operates from 2014 are briefly explained on p. 150.

SCOPE OF APPLICATION – PRUDENTIAL SCOPE

The Group's prudential reporting scope includes all fully and proportionally consolidated subsidiaries, the list of which is included in Note 46 of Chapter 6 of this Registration Document, with the exception of insurance subsidiaries, which are subject to a separate capital supervision.

TABLE 1: DIFFERENCE BETWEEN ACCOUNTING SCOPE AND PRUDENTIAL REPORTING SCOPE

Type of entity	Accounting treatment	Prudential treatment under Basel 2
Subsidiaries with a finance activity	Full or proportional consolidation	Capital requirement based on the subsidiary's activities
Subsidiaries with an Insurance activity	Full or proportional consolidation	Deduction of capital from the difference of the equity method and weighting of the historical cost of securities
Holdings, joint ventures with a finance activity by nature	Equity method	Capital deduction (50% Tier 1 and 50% Tier 2)

The following table provides a reconciliation of the consolidated balance sheet and the accounting balance sheet within the prudential scope. The amounts presented are accounting data and not a measure of risk-weighted assets, EAD or prudential capital. This table therefore cannot be used for comparison purposes with the tables that follow.

TABLE 2: RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AND THE ACCOUNTING BALANCE SHEET WITHIN THE PRUDENTIAL SCOPE

ASSETS at 31.12.2013 *(in EUR m)*	**Consolidated balance sheet**	**Prudential restatements[1]**	**Accounting balance sheet within the prudential scope**
Cash and amounts due from Central Banks	66,602	-	66,602
Financial assets at fair value through profit or loss	484,386	(14,256)	470,130
Hedging derivatives	11,483	(256)	11,227
Available-for-sale assets	134,564	(74,334)	60,230
Non-current assets held for sale	116	-	116
Loans and advances to credit institutions	84,842	(8,348)	76,494
Loans and advances to clients	333,535	1,599	335,134
Lease financing and equivalent transactions	27,741	-	27,741
Revaluation of macro-hedged items	3,047	-	3,047
Financial assets held to maturity	989	-	989
Tax assets	7,337	207	7,544
Other assets	55,895	(998)	54,897
Deferred profit-sharing			
Investments in subsidiaries and affiliates accounted for by the equity method	2,129	3,174	5,303
Tangible and intangible assets	17,624	(471)	17,153
Goodwill	4,972	-	4,972
TOTAL ASSETS	**1,235,262**	**(93,683)**	**1,141,579**

LIABILITIES at 31.12.2013 *(in EUR m)*	**Consolidated balance sheet**	**Prudential restatements[1]**	**Accounting balance sheet within the prudential scope**
Central banks	3,566	-	3,566
Liabilities at fair value through profit or loss	426,756	847	427,603
Hedging derivatives	9,819	-	9,819
Debts related to Non-current assets held for sale	4	-	4
Amounts owed to credit institutions	91,098	(1,362)	89,736
Amounts owed to clients	344,687	1,973	346,660
Debt securities	131,734	4,237	135,971
Revaluation reserve of interest-rate-hedged portfolios	3,706	-	3,706
Tax liabilities	1,639	(268)	1,371
Other Liabilities	59,761	(2,160)	57,601
Technical provisions of insurance companies	97,167	(97,167)	-
Provisions	3,829	(20)	3,809
Subordinated debts	7,395	233	7,628
Total debts	**1,181,161**	**(93,687)**	**1,087,474**
EQUITY			
Equity, Group share	51,008	-	51,008
Total minority interests	3,093	4	3,097
Total equity	54,101	4	54,105
TOTAL LIABILITIES	**1,235,262**	**(93,683)**	**1,141,579**

(1) Restatement of subsidiaries excluded from the prudential scope and reconsolidation of intragroup transactions related to its subsidiaries.

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

TABLE 3: SUBSIDIARIES OUTSIDE THE PRUDENTIAL REPORTING SCOPE

Company	Activity	Country
Antarius	Insurance	France
Catalyst Re International Ltd.	Insurance	Bermuda
Societe Generale Strakhovanie Zhizni Llc	Insurance	Russia
Sogelife	Insurance	Luxembourg
Genecar	Insurance	France
Inora Life	Insurance	Ireland
SG Strakhovanie LLC	Insurance	Russia
Sogecap	Insurance	France
Sogecap Risques Divers	Insurance	France
Komerční pojišťovna	Insurance	Czech Republic
La Marocaine Vie	Insurance	Morocco
Oradea Vie	Insurance	France
Societe Generale RE	Insurance	Luxembourg
Sogessur	Insurance	France
La Banque Postale Financement	Bank	France
SG de Banque au Liban	Bank	Lebanon
Amundi	Asset Management	France

Regulated financial subsidiaries and affiliates outside Societe Generale's prudential consolidation scope are all in compliance with their respective solvency requirements. More generally, all regulated Group undertakings are subject to solvency requirements set by their respective regulators.

REGULATORY CAPITAL

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

TIER 1 CAPITAL

According to the Basel 2 capital framework, Tier 1 capital comprises consolidated shareholder's equity less prudential deductions:

- common stock (net of share buybacks and treasury shares);
- retained earnings, including translation differences and changes in the fair value of assets available for sale and hedging derivatives, net of tax;
- non-controlling interests;
- certain instruments that qualify as Tier 1 capital for regulatory purposes, including deeply subordinated instruments, further described below.

Less prudential deductions:

- estimated dividend payment;
- goodwill;
- intangible assets;
- unrealised capital gains and losses on cash flow hedges and on available-for-sale (AFS) assets, except for shares and other equity instruments;
- unrealised capital gains on AFS securities (shares);
- income on own credit risk.
- Moreover, since 1 January 2013, the difference arising from the application of the equity method to equity investments above 20% in insurance companies is fully deducted from Tier 1 capital, and the historical value of the securities is weighted at 370%.

Lastly, under the Basel 2 capital framework, the following additional deductions are made equally from Tier 1 and from Tier 2 capital:

1. investments and subordinated claims with non-consolidated banks or financial institutions if the shares held represent an interest of more than 10% of the entity's capital, as well as the value of shares held in credit or financial institutions, assessed using the equity method;
2. securitisation exposures weighted at 1,250% where these positions are not included in the calculation of total risk-weighted exposures;
3. expected loss on equity portfolio exposures;
4. any positive difference between expected losses on customer loans and receivables risk-weighted using the Internal Ratings Based (IRB) approach and the sum of related value adjustments and collective impairment losses.

DEBT INSTRUMENTS QUALIFYING AS TIER 1 CAPITAL FOR REGULATORY PURPOSES

Societe Generale's obligations relating to super-subordinated notes issued directly by the bank have the following characteristics:

- these instruments are perpetual and constitute unsecured, deeply subordinated obligations; ranking junior to all other obligations of the bank 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 and coupons linked to these instruments;
- under certain circumstances, notably with regard to the bank's compliance with solvency requirements, Societe Generale is able to use principal and interest to absorb losses;
- subject to the prior approval of the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR-French Prudential and Resolution Supervisory Authority), Societe Generale has the option to redeem these instruments at certain dates, 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. In addition, the combined outstanding amount of instruments with a step-up clause (so-called "innovative instruments") cannot exceed 15% of the bank's total Tier 1 capital base.

TABLE 4: TOTAL AMOUNT OF DEBT INSTRUMENTS ELIGIBLE FOR TIER 1 EQUITY

Issuance date	Currency	Issue amount (in currency m)	First call date	Yield before the call date and frequency	Yield after the call date and frequency	Book value at 31.12.2013	Book value at 31.12.2012(1)
26-Jan.-05	EUR	1,000 m	26-Jan.-15	4.196% annually	Euribor 3 months + 1.53% annually	728	728
5-Apr.-07	USD	200 m	5-Apr.-17	3-months USD Libor +0.75% annually	3-months USD Libor +1.75% annually	46	48
5-Apr.-07	USD	1,100 m	5-Apr.-17	5.922 % semi-annually	3-months USD Libor + 1.75 % annually	586	612
19-Dec.-07	EUR	600 m	19-Dec.-17	6.999% annually	Euribor 3 months + 3.35% annually	468	468
22-May-08	EUR	1,000 m	22-May-13	7.756% annually	Euribor 3 months + 3.35% annually	-	795
16-June-08	GBP	700 m	16-June-2018	8.875% annually	Libor 3 months + 3.40% annually	606	620
7-July-08	EUR	100 m	7-July-18	7.715% annually	Euribor 3 months + 3.70% annually	100	100
27-Feb.-09	USD	450 m	29-Feb.-16	9.5045% annually	Libor 3 months + 6.77% annually	326	341
4-Sept.-09	EUR	1,000 m	4-Sept.-19	9.375% annually	Euribor 3 months + 8.9% annually	1 000	1 000
7-Oct.-09	USD	1,000 m	7-Apr.15	8.75% annually	8.75% annually	725	758
6-Sept.-13	USD	1,250 m	29-Nov.-18	8.25% annually	Mid Swap Rate USD 5 years + 6.394%	906	
18-Dec.13	USD	1,750 m	18-Dec.23	7.875% annually	Mid Swap Rate USD 5 years + 4.979%	1,269	
Total						**6,761**	**5,470**

(1) Excluding latest preference shares that were redeemed at per value on 10 November 2013 for EUR 420 million.

TIER 2 CAPITAL

Tier 2 capital comprises:

- undated subordinated notes (upper Tier 2);
- 45% of unrealised capital gains on AFS securities (shares) and tangible assets;
- any positive difference between (i) the sum of value adjustments and collective impairment losses on customer loans and receivables exposures risk-weighted using the IRB approach and (ii) expected losses, up to 0.6% of the total credit risk-weighted assets;
- redeemable subordinated notes (lower Tier 2).

Tier 2 equity instruments are listed in Note 16 to the financial statements for redeemable subordinated notes issued by Societe Generale SA and in Note 28 to the consolidated financial statements for perpetual subordinated notes.

TABLE 5: CHANGES IN DEBT INSTRUMENTS ELIGIBLE FOR THE SOLVENCY CAPITAL REQUIREMENTS

(In EUR m)	31.12.2012	Issues	Redemptions	Prudential supervision valuation haircut	Others	31.12.2013
Debt instruments eligible for Tier 1	5,890	2,226	(1,215)		(140)	6,761
Debt instruments eligible for Tier 2	7,441	1,000	(1,205)	(517)	(67)	6,652
Total eligible debt instruments	**13,331**	**3,226**	**(2,421)**	**(517)**	**(207)**	**13,413**

CALCULATION OF REGULATORY RATIOS

In accordance with Pillar 1 of Basel 2, minimum capital requirements are set at 8% of the sum of risk-weighted assets for credit risk and of the capital requirement multiplied by 12.5 for market risk and operational risk. Since 30 June 2012, and in line with the European Banking Authority's ongoing monitoring of European bank solvency ratios in the first half of 2012, the regulatory minimum imposed on the Group now applies to the Core Tier 1 ratio (calculated in accordance with the methodology set out in the EBA recommendation published on 8 December 2011), which must be greater than 9%.

TABLE 6: RISK-BASED CAPITAL AND BASEL 2 SOLVENCY RATIOS

(In EUR m)	31.12.2013	31.12.2012[2]
Shareholders' equity (IFRS)	**51,008**	**49,809**
Deeply subordinated notes	(6,561)	(5,270)
Perpetual subordinated notes	(414)	(1,607)
Shareholders' equity, net of deeply subordinated and perpetual subordinated notes	**44,033**	**42,932**
Non-controlling interests	2,787	3,513
Intangible assets	(1,455)	(1,497)
Goodwill	(5,926)	(7,084)
Proposed dividends and coupons payable	(910)	(509)
Other regulatory adjustments	(1,595)	(620)
Basel 2 deductions	(1,364)	(2,126)
Core Tier 1 capital	**35,570**	**34,609**
Deeply subordinated notes	6,761	5,470
US preferred shares		420
Tier 1 capital	**42,331**	**40,499**
Upper Tier 2 capital	686	767
Lower Tier 2 capital	6,238	6,971
Basel 2 deductions	(1,364)	(2,126)
Insurance affiliates[1]	(1,527)	(4,804)
Total regulatory capital (Tier 1 + Tier 2)	**46,364**	**41,308**
Total risk-weighted assets	**315,496**	**324,092**
Credit risk-weighted assets	248,630	254,134
Market risk-weighted assets	26,295	28,637
Operational risk-weighted assets	40,571	41,321
Solvency ratios		
Core Tier 1 ratio	11.3%	10.7%
Tier 1 ratio	13.4%	12.5%
Total capital adequacy ratio	14.7%	12.7%

(1) Including EUR -3.3 billion for the value of investments accounted for by the equity method in December 2012; Societe Generale uses the option that ended on 31 December 2012 provided by the Financial Conglomerates Directive allowing the deduction of equity holdings in insurance companies accounted for by the equity method from total capital requirements.

(2) The impacts stemming from the application of revisions to IAS 19 were recognised in full for the 2013 reporting period. Total consolidated Group shareholders' equity was not restated relative to the financial statements published in 2012.

Group shareholders' equity at 31 December 2013 totalled EUR 51.0 billion (compared to EUR 49.8 billion at 31 December 2012). After taking into account non-controlling interests and prudential deductions, prudential Tier 1 capital under Basel 2 was EUR 42.3 billion.

TABLE 7: REGULATORY CAPITAL FLOWS

(In EUR m)	
End-2012 Core Tier 1 capital	**34,609**
Change in share capital resulting from the capital increase	559
Net income, Group share	2,175
Change in own debt	989
Change in the provision for 2014 dividends	(776)
Change linked to translation differences	(651)
Change in non-controlling interests	(726)
Change in goodwill and intangible assets	1,200
Change in deductions	762
Other	(2,571)
End-2013 Core Tier 1 capital	**35,570**
End-2012 Additional Tier 1 capital	**5,890**
Change in debt instruments eligible for Tier 1	871
End-2013 Additional Tier 1 capital	**6,761**
End-2012 Tier 2 capital:	**808**
Change in subordinated term debt and perpetual subordinated notes	(789)
Change in deductions	762
Change in insurance company deductions	3,277
Other	(25)
End-2013 Tier 2 capital	**4,033**

TABLE 8: BASEL II DEDUCTIONS

(In EUR m)	31.12.2013	31.12.2012
Securities of subsidiaries and non-consolidated financial investments > 10%	478	457
Book value of financial securities accounted for by the equity method	1,017	976
Subordinated loans to credit institutions > 10%	702	670
Deductions in respect of securitisation positions	184	1,583
Expected loss on equity portfolio exposures	56	27
Expected losses on receivables risk-weighted using the Internal Ratings Based (IRB) approach, net of value adjustments and collective impairment losses	291	540
Total Basel 2 deductions	**2,728**	**4,252**

CAPITAL REQUIREMENTS

The Basel 2 Accord established the rules for calculating minimum capital requirements with the aim of more accurately assessing the risks to which banks are exposed. It came into effect on 1 January 2008. The calculation of credit risk-weighted assets therefore takes into account risk profiles from operations using two methods: a standardised approach and advanced measurement approaches based on counterparties' internal rating models.

TABLE 9: GROUP CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

(In EUR m)	31.12.2013		31.12.2012	
Type of risk	**Minimum capital requirements**	**Risk-weighted assets**	**Minimum capital requirements**	**Risk-weighted assets**
Sovereign	0	0	0	0
Institutions	0	3	3	36
Corporate	321	4,018	413	5,159
Total credit risk assessed using the foundation IRB approach	**322**	**4,021**	**416**	**5,194**
Sovereign	402	5,027	528	6,599
Institutions	680	8,506	761	9,507
Corporate	6,721	84,017	6,617	82,715
Retail	2,306	28,825	1,958	24,469
Total credit risk assessed using the advanced IRB approach	**10,110**	**126,376**	**9,863**	**123,290**
Shares in the banking book	**737**	**9,212**	**366**	**4,578**
Securitisation positions	**171**	**2,141**	**294**	**3,677**
Other non-credit obligation assets	**1,287**	**16,085**	**1,269**	**15,864**
Total credit risk assessed using the IRB approach	**12,627**	**157,834**	**12,208**	**152,605,**
Sovereign	44	553	48	603
Institutions	261	3,261	312	3,895
Corporate	3,830	47,877	4,511	56,382
Retail	2,655	33,185	2,718	33,969
Shares in the banking book	9	107	9	119
Securitisation positions	22	269	40	496
Other non-credit obligation assets	443	5,543	485	6,066
Total credit risk assessed using the standard approach	**7,264**	**90,795**	**8,122**	**101,529**
Credit, counterparty and delivery risk	**19,890**	**248,630**	**20,331**	**254,134**
Value at Risk	477	5,961	460	5,752
Stressed Value at Risk	643	8,038	605	7,565
Incremental default and migration risk (IRC)	585	7,307	603	7,543
Correlation portfolio (CRM)	155	1,938	200	2,496
Market risk assessed using the IRB approach	**1,860**	**23,244**	**1,868**	**23,356**
General risk and specific risk related to interest rates (excluding securitisation)	62	772	51	642
Specific risk related to securitisation positions	67	840	149	1,866
Market risk assessed using the standard approach for ownership interests	5	61	2	28
Market risk assessed using the standard approach for currency positions	105	1,316	214	2,672
Market risk assessed using the standard approach for commodities	5	61	6	74
Market risk assessed using the standard approach	**244**	**3,051**	**423**	**5,282**
Market risk	**2,104**	**26,295**	**2,291**	**28,637**
Operational risk assessed using AMA	2,907	36,334	2,974	37,174
Operational risk assessed using the standardised approach	339	4,237	332	4,148
Operational risk	**3,246**	**40,571**	**3,306**	**41,321**
Totals	**25,240**	**315,496**	**25,927**	**324,093**

Further information on each type of risk is provided in the ad-hoc sections of this chapter.

CHANGE IN RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENTS

The following table presents the risk-weighted assets as well as the Group's capital requirements, classified by risk type.

From 31 December 2012 to 31 December 2013, the Group's capital requirements and risk-weighted assets decreased by EUR 688 million and EUR 8,596 million, respectively.

TABLE 10: BASEL 2 RISK-WEIGHTED ASSETS (INCLUDING BASEL 2.5 REQUIREMENTS) AT 31 DECEMBER 2013

(In EUR m)	Credit	Market	Operational	Total
French Retail Banking	92.0	0.2	3.8	96.0
International Retail Banking and Financial Services	100.3	0.0	6.3	106.6
Global Banking and Investor Solutions	54.7	25.2	26.5	106.4
Corporate Centre	1.6	0.9	4.0	6.5
Group	**248.6**	**26.3**	**40.6**	**315.5**

Risk-weighted assets (EUR 315.5 billion) by type of activity break down as follows:

- credit risk accounted for 78.8% of risk-weighted assets at 31 December 2013, or EUR 248.6 billion (compared to EUR 254.1 billion at 31 December 2012);
- market risk accounted for 8.3% of risk-weighted assets at 31 December 2013, or EUR 26.3 billion (compared to EUR 28.6 billion at 31 December 2012);
- operational risk accounted for 12.9% of risk-weighted assets at 31 December 2013, or EUR 40.6 billion (compared to EUR 41.3 billion at 31 December 2012).

CHANGE IN CREDIT RISK RWAs

(In EUR bn)	
End-2012 Credit risk RWAs	**254.1**
Scope effect	(7.3)
Foreign exchange effect	(5.4)
Legacy assets	(1.5)
Regulatory changes	5.7
Model adjustments	7.3
Other (including volume, rating, etc.)	(4.3)
End-2013 Credit risk RWAs	**248.6**

CHANGE IN MARKET RISK RWAS

(In EUR bn)	
End-2012 Market risk RWAs	**28.6**
Unwinding of forex hedging position linked to the disposal of NSBG	(1.3)
Legacy assets	(1.0)
Other (including VaR, sVAR, IRC, CRM, etc.)	0.0
End-2013 Market risk RWAs	**26.3**

INFORMATION RELATIVE TO KEY SUBSIDIARIES' CONTRIBUTION TO THE GROUP'S RISK-WEIGHTED ASSETS

The contributions of the three key subsidiaries collectively contributing more than 10% of the Group's risk-weighted assets are as follows:

TABLE 11: KEY SUBSIDIARIES' CONTRIBUTION TO THE GROUP'S RISK-WEIGHTED ASSETS

	Crédit du Nord		Rosbank		Komerčni Banka	
(In EUR m)	IRB	Standard	IRB	Standard	IRB	Standard
Credit and counterparty risk	**14,432**	**4,301**	**918**	**10,049**	**9,183**	**1,851**
Sovereign	0	0	449	30	544	1
Financial institutions	243	79	0	622	666	39
Corporate	8,263	1,654	3	5,896	4,700	964
Retail	4,839	2,060	0	3,416	2,651	680
Securitisation	0	0	0	0	87	0
Equity investments	686	55	22	0	268	83
Other assets	401	453	445	84	268	83
Market risk	**198**		**451**		**31**	
Operational risk	**1,238**		**1,773**		**647**	
Total (2013)	**20,169**		**13,190**		**11,712**	
Total (2012)	**18,860**		**14,070**		**11,892**	

CAPITAL MANAGEMENT

Capital management is implemented by the Finance Division with the consent of the General Management under the supervision and control of the Board of Directors.

As part of managing its capital, the Group ensures that its solvency level is always compatible with the following objectives:

- maintaining its financial solidity, which must be closely correlated to the Group's overall risk profile and risk appetite;
- preserving its financial flexibility to finance organic growth and growth through acquisitions;
- adequate allocation of capital among the various business lines to optimise capital risk/reward relationship;
- maintaining the Group's resilience in the event of stress scenarios;
- meeting the expectations of its various stakeholders: supervisors, counterparties, bond creditors, rating agencies and shareholders.

The Group therefore determines its internal solvency targets in accordance with these objectives and regulatory thresholds.

The Group has an Internal Capital Adequacy Assessment Process (ICAAP) that is based on a multi-dimensional approach, taking into account:

- capital requirement planning, updated on a regular basis using a simulation tool relating to the whole Group, notably for the budget process and the drawing up of strategic plans. This planning ensures that, at all times, sources and uses of capital actually correspond to the Group's overall objectives and its business needs;
- the business and risk cycle, in order to explicitly take into account the effects of credit cycles while at the same time integrating risks not included in Pillar 1 (e.g. structural interest/exchange rate risk, strategic risk, etc.);
- the implementation of an ICAAP stress test integrated in the budget process and that covers the Group's entire profile (see paragraph on the Stress Test).

This exercise provides a means of measuring the adequacy of the Group's capital ratios in light of regulatory constraints and the Group's objectives with regard to risk appetite.

In the mixed environment of 2013, the Group's financial structure already meets European requirements on Basel 3 capital components as set out in CRD IV/CRR. Therefore, consistent with CRD IV/CRR rules, the Group is able to report a pro forma Basel 3 fully loaded CET1 ratio of 10% as at 31 December 2013. Moreover, the pro forma leverage ratio stood at 3.5% at 31 December 2013, above the minimum of 3% recommended by the Basel Committee.

Societe Generale Group was able to deliver this performance thanks to the refocusing of its business portfolio and its optimisation of capital allocation. In 2013, the Group maintained solid net income and continued the disposal of its legacy assets. In 2013, the Group completed the sale and disposal of its National Societe Generale Bank (NSGB) retail subsidiary in Egypt and its TCW portfolio management business in the United States initiated in 2012. At the same time, the Group consolidated its positions in Russia by buying VTB's 10% stake in Rosbank and has entered into exclusive negotiations to bring its shareholding in Newedge to 100% in order to develop its post-trade services client offer.

Furthermore, the Group entered the second phase of its transformation in 2013 by rolling out a new organisation structured around three pillars of excellence with a balanced capital distribution:

- French Retail Banking;
- International Retail Banking and Financial Services (IBFS), which combines the activities of the International Retail Banking, Specialised Financial Services and Insurance divisions;
- Global Banking and Investment Solutions (GBIS), which combines the activities of Corporate & Investment Banking with Private Banking, Global Investment Management and Securities Services.

Each of the Group's divisions accounts for almost a third of all prudential obligations, with French and International Retail Banking (approximately 65% of total business line loans and receivables) and credit risks (representing nearly 80% of the Group's risk-weighted assets) taking predominance. At the same time, the Group was committed to reducing its risk exposure in a slightly improving but nonetheless weak macroeconomic context. At 31 December 2013, the Group's risk-weighted assets (as determined using Basel 2.5 rules) were down 2.7% to EUR 315.5 billion compared to EUR 324.1 billion as at 31 December 2012.

TABLE OF BASEL 2.5 RWAS BY DIVISION (IN EUR BN)

	2012	2013
French Retail Banking	89.2	96.0
International Retail Banking & Financial Services	112.4	106.6
Global Banking and Investor Solutions	114.5	106.4
Corporate Centre	8.0	6.5
Total	**324.1**	**315.5**

The Group ended 2013 in a far-reaching process of transforming its balance sheet and is now in a position, from 2014 and going forward, to seize growth opportunities building on a focused model and activities concentrating on customer satisfaction and innovation.

RATIO OF LARGE EXPOSURES

The European Directive (CRD2) enacted into French law in August 2010 and applicable as from 31 December 2010 amended the calculation of the ratio of large exposures (tougher interbank weighting rules, extended definition of affiliated customers, etc.). Each quarter, Societe Generale Group checks that the total net risk incurred in respect of a given debtor does not exceed 25% of consolidated equity. As part of the implementation of the Capital Requirements Directive IV and the Capital Requirements Regulation, from 2019, the capital used to calculate this limit will be made up of Tier 1 capital and Tier 2 capital limited to 33% of Tier 1.

REGULATORY CHANGES

BASEL 3 – CAPITAL REGULATION

In December 2010, the Basel Committee published two documents: *"Basel 3: "A global regulatory framework for more resilient banks and banking systems"*, and an *"International framework for liquidity risk measurement, standards and monitoring"*, in which it issued recommendations aiming at strengthening capital requirements and liquidity rules in order to promote a more solid banking sector.

Since 1 January 2014, the European Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) have enforced the proposals of the Basel Committee. The objective of this prudential framework reform is to reinforce the sector's financial stability through the following measures:

- the complete revision and harmonisation of the definition of capital, particularly with the amendment of the deduction rules, the definition of a standardised Common Equity Tier 1 ratio, and new Tier 1 capital eligibility criteria for hybrid securities;
- new capital requirements for counterparty risk related to derivatives to better incorporate the risk of changes in CVAs (Credit Value Adjustments), and an incentive to clear derivatives through clearing houses;
- additional capital requirements, with the introduction of buffers to limit procyclicality: "capital conservation buffers" to limit the amounts that can be distributed (dividends, share buybacks, performance-linked pay, etc.) and "countercyclical buffers" to limit excessive growth in lending during periods of strong economic growth;
- on 19 July 2011, the Basel Committee published the proposed rules for calculating the capital surcharge applicable to SIFIs (Systemically Important Financial Institutions). The G20 adopted these rules at the November 2011 summit. The additional capital requirement for SIFIs will be applied gradually starting from 1 January 2016, becoming fully effective on 1 January 2019, for banks identified as systemic in November 2014. For information purposes, in November 2013 (based on data at end-2012), the Group's additional capital was estimated at 1%.

LEVERAGE RATIO

The Basel Committee has proposed a step-by-step implementation of a leverage ratio. The European Capital Requirements Regulation (CRR) contains these recommendations and determines the leverage ratio by dividing Tier 1 capital by assets and off-balance sheet accounting items, with restatements for derivatives, pensions, trade finance and certain credit lines.

- An initial implementation of Pillar 2.
- Data collection based on regulatory status reports from 1 January 2014.
- Public notification from 1 January 2015.
- A report from the European Commission before the end of 2016, with the possible inclusion of a legislative proposal to make the leverage ratio mandatory in Pillar 1 from 2018.

4. CREDIT RISKS

CREDIT RISK MANAGEMENT: ORGANISATION AND STRUCTURE

The Risk Division has defined a control and monitoring system, in conjunction with the business divisions and based on the credit risk policy, to provide a framework for the Group's credit risk management. This framework is periodically reviewed and validated by the Audit, Internal Control and Risk Committee.

Credit risk supervision is organised by business division (French Networks, International Banking & Financial Services, Global Banking and Investor Solutions) and is supplemented by departments with a more cross-business approach (monitoring of country risk and risk linked to financial institutions). The team that handles counterparty risk on market transactions reports to the Market Risk Department.

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

- setting global and individual credit limits by client, client group or transaction type;
- authorising transactions submitted by the sales departments;
- validating ratings or internal client rating criteria;
- monitoring and supervision of large exposures and various specific credit portfolios;
- approving specific and general provisioning policies.

In addition, a specific department performs comprehensive portfolio analyses and provides the associated reports, including those for the supervisory authorities. A monthly report on the Risk Division's activity is presented to CORISQ and specific analyses are submitted to the General Management.

CREDIT POLICY

Societe Generale's credit policy is based on the principle that approval of any credit risk undertaking must be based on sound knowledge of the client and the client's business, an understanding of the purpose and structure of the transaction and the sources of repayment of the debt. Credit decisions must also ensure that the structure of the transaction will minimise the risk of loss in the event the counterparty defaults. Furthermore, the credit approval process takes into consideration the overall commitment of the group to which the client belongs. Risk approval forms part of the Group's risk management strategy in line with its risk appetite.

The risk approval process is based on four core principles:

- all transactions involving credit risk (debtor risk, settlement/delivery risk, issuer risk and replacement risk) must be pre-authorised;
- responsibility for analysing and approving transactions lies with dedicated primary customer relation unit and risk unit. The primary customer relation unit and the risk unit examine all authorisation requests relating to a specific client or client group, to ensure a consistent approach to risk management;
- the primary customer relation unit and the risk unit must be independent from each other;
- credit decisions must be systematically based on internal risk ratings (obligor rating), as provided by the primary customer relation unit and approved by the Risk Division.

The Risk Division submits recommendations to CORISQ on the limits it deems appropriate for certain countries, geographic regions, sectors, products or customer types, in order to reduce risks with strong correlations. The allocation of limits is subject to final approval by the Group's General Management and is based on a process that involves the Business Divisions exposed to risk and the Risk Division.

RISK SUPERVISION AND MONITORING SYSTEM

Portfolio review and sector risk monitoring

Authorisation limits are set by counterparty and the credit approval process must comply with the overall authorisation limit for the group to which the counterparty belongs.

Individual large exposures are reviewed by the Large Exposures Committee (*CGR: Comité Grands Risques*).

Concentrations are measured using an internal model and individual concentration limits are defined for larger exposures. Any concentration limit breach is managed over time by reducing exposures, and/or hedging positions using credit derivatives.

Concentration targets are defined for the biggest counterparties at Concentration Committee meetings.

In addition, the Group regularly reviews its entire credit portfolio through analysis by type of counterparty or business sector. In addition to industry research and regular sector concentration analysis, sector research and more specific business portfolio analyses are carried out at the request of the bank's General Management and/or Risk Division and/or business divisions.

Monitoring of Country Risk

Country risk arises when an exposure (loan, security, guarantee or derivative) becomes liable to negative impact from changing political, economic, social and financial conditions in the country of exposure.

It includes exposure to any kind of counterparty, including a sovereign state (sovereign risk is also controlled by the system of counterparty risk limits).

Country risk breaks down into two major categories:

- **political and non-transfer risk** covers the risk of non- payment resulting from either actions or measures taken by local government authorities (decision to prohibit the debtor from meeting its commitments, nationalisation, expropriation, non-convertibility, etc.), domestic events (riots, civil war, etc.) or external events (war, terrorism, etc.);
- **commercial risk** occurs when the credit quality of all counterparties in a given country deteriorates due to a national economic or financial crisis, independently of each counterparty's individual financial situation. This could be macroeconomic shock (sharp slowdown in activity, systemic banking crisis, etc.) or currency depreciation, or sovereign default on external debt possibly entailing other defaults.

Overall limits and strengthened monitoring of exposures have been established for countries based on their internal ratings and governance indicators. Supervision is not limited to emerging markets.

Country limits are validated annually by General Management. They can also be revised downward at any time if the country's situation deteriorates or is expected to deteriorate.

All Group exposures (securities, derivatives, loans and guarantees) are taken into account by this monitoring.

The Country Risk methodology determines an initial country of risk and a final country of risk (after the effects of any guarantees). The latter is governed by country limits.

Specific monitoring of hedge funds

Hedge funds are important counterparties for the Group. Because they are not regulated, hedge funds pose specific risks: they are able to use significant leverage as well as investment strategies that involve illiquid financial instruments, which leads to a strong correlation between credit risk and market risk.

Activities carried out in the hedge fund sector are governed by a set of global limits established by the General Management:

- a Credit VaR limit which controls the maximum replacement risk that may be taken in this segment;
- a stress test limit governing market risks and the risks associated with financing transactions guaranteed by shares in hedge funds.

Credit stress tests

With the aim of identifying, monitoring and managing credit risk, the Risk Division works with the business divisions to conduct a set of specific stress tests relating to a country, a subsidiary or an activity. These specific stress tests combine both recurring stress tests, conducted on those portfolios identified as structurally carrying risk, and occasional stress tests, designed to recognise emerging risks. Some of these stress tests are presented to the Risk Committee and used to determine how to govern the activities concerned.

Like global stress tests, specific stress tests draw on a central scenario and a stressed scenario that are defined by the Group's sector experts and economists. The central scenario draws on an in-depth analysis of the situation surrounding the activity or the country concerned. The stressed scenario describes triggering events and assumptions about the sequence of a crisis, both in quantitative terms (changes in a country's GDP, the unemployment rate, deterioration in a sector) and qualitative terms.

Structured around the portfolio analysis function, the Risk Division teams translate these economic scenarios into impacts on risk parameters (default exposure, default rate, provisioning rate at entry into default, etc.). To do this, the leading methods are based in particular on the historical relationship between economic conditions and risk parameters. Like in global stress tests, in connection with the regulatory Pillar, stress tests routinely take into account the possible effect of counterparty performance for counterparties in which the Group is most highly concentrated in a stressed environment.

Impairment

Impairment break down into impairments on groups of homogeneous assets, which cover performing loans, and specific impairment, which cover counterparties in default.

- **Impairment on groups of homogeneous assets**

Impairments on groups of homogeneous assets are collective impairments booked for portfolios that are homogenous and have a deteriorated risk profile although no objective evidence of default can be observed at an individual level.

These homogeneous groups can include sensitive counterparties, sectors or countries. They are identified through regular analyses of the portfolio by sector, country or counterparty type.

These impairments are calculated on the basis of assumptions on default rates and loss rates after default. These assumptions are calibrated by homogeneous group based on their specific characteristics, sensitivity to economic environment and historical data. They are reviewed periodically by the Risk Division.

- **Specific impairment**

Decisions to book individual impairments on certain counterparties are taken where there is objective evidence of default. The amount of impairment depends on the probability of recovering the amounts due. The expected cash flows are based on the financial position of the counterparty, its economic prospects and the guarantees called up or that may be called up.

A counterparty is deemed to be in default when at least one of the following conditions is verified:

- a significant decline in the counterparty's financial condition leads to a high probability of it being unable to fulfil its overall commitments (credit obligations) hence a risk of loss to the bank whether or not the debt is restructured; and/or
- one or more payments past due by more than 90 days are recorded; (excepted for retail loans secured by real estate and those relating to local authorities); and/or
- an out of court settlement procedure is initiated, and/or
- a legal proceeding such as a bankruptcy, legal settlement or compulsory liquidation is in progress.

The Group applies the default contagion principle to all of a counterparty's outstandings: when a transaction exposure is assessed as defaulted, all of a counterparty's outstandings are assessed as defaulted. When a debtor belongs to a group, all of the group's outstandings are generally defaulted as well.

REPLACEMENT RISK

Counterparty risk associated with derivative transactions is a type of credit risk (potential loss in the event the counterparty defaults) that is also called replacement risk. It represents the current cost to the Group of replacing transactions with a positive value should the counterparty default. Transactions giving rise to a replacement risk are, inter alia, security repurchase agreements, securities lending and borrowing and over-the-counter derivative contracts such as swaps, options and futures.

Management of counterparty risk linked to market transactions

Societe Generale places great emphasis on carefully monitoring its credit and counterparty risk exposure in order to minimise its losses in case of default. Counterparty limits are assigned to all counterparties (banks, other financial institutions, corporates and public institutions).

In order to quantify the potential replacement risk, Societe Generale uses an internal model: the future fair value of trading transactions with counterparties is modelled, taking into account any netting and correlation effects. Estimates are derived from Monte-Carlo models developed by the Risk Division, based on a historical analysis of market risk factors, and take into account guarantees and collateral.

Societe Generale uses two indicators to describe the subsequent distribution resulting from the Monte-Carlo simulations:

- current average risk, suited to analysing the risk exposure for a portfolio of customers;
- credit VaR (or CVaR): the largest loss that would be incurred after eliminating the top 1% of the most adverse occurrences, used to set the risk limits for individual counterparties.

Societe Generale has also developed a series of stress test scenarios used to calculate the exposure linked to changes in the fair value of transactions with all of its counterparties in the event of an extreme shock to market parameters.

Setting individual counterparty limits

The credit profile of counterparties is reviewed on a regular basis and limits are set both according to the type and maturity of the instruments concerned. The intrinsic creditworthiness of counterparties and the reliability of the associated legal documentation are two factors considered when setting these limits. Fundamental credit analysis is also supplemented by relevant peer comparisons and a market watch.

Information technology systems allow both traders and the Risk Division to ensure on a day-to-day basis that counterparty limits are not exceeded and that incremental authorisations are requested as needed.

Any significant weakening in the bank's counterparties also prompts urgent internal rating reviews. A specific supervision and approval process is put in place for more sensitive counterparties or more complex financial instruments.

Calculation of Exposure at Default[1] within the regulatory framework

In 2012 then in 2013, the *Autorité de contrôle Prudentiel et de Résolution* (ACPR - French Prudential and Resolution Supervisory Authority approved the use of the internal model described above to determine the Effective Expected Positive Exposure (EEPE) indicator used in calculating counterparty risk-adjusted capital. Since December 2013, the EAD relative to the counterparty risk calculated since June 2012 on the basis of this new indicator for the simplest products has also been calculated for the most complex derivative products. This new method is used for 90% of transactions.

For other purposes, the Group uses the marked-to-market valuation method. In this method, the EAD relative to the bank's counterparty risk is determined by aggregating the positive market values of all transactions (replacement cost) and increasing the sum with an add-on. This add-on, which is calculated in line with the CRD (Capital Requirement Directive) guidelines, is a fixed percentage according to the type of transaction and the residual maturity, which is applied to the transaction's nominal value.

(1) Exposure at default (EAD) of a loan is equal to its nominal amount. The potential loss amount of a derivative product is its marked-to-market valuation when the counterparty defaults, which can be only statistically approximated. Therefore, two methods for the calculation of the EAD of derivative products are allowed, one using the marked-to-market valuation and one using the internal model approach (see above).

In both cases, the effects of netting agreements and collateral are factored in by applying the netting rules as defined by the marked-to-market method and subtracting guarantees or collateral. Regulatory capital requirements also depend on the internal rating of the debtor counterparty.

Credit adjustment

Reserve policies are recognised on CVA (Credit Value Adjustments) on the over-the-counter trading portfolio per counterparty in order to take into account counterparty risk.

Since the start of 2013, the Group has fine-tuned its method of taking credit risk into account in the pricing of derivatives products.

Wrong-way risk adjustment

Wrong-way risk is the risk that Group exposure strongly increases when the probability that the counterparty defaults also increases.

Two separate cases exist:

- specific wrong-way risk, where the amount of exposure is directly related to the counterparty's credit quality;
- general wrong-way risk, where there is a significant correlation between some market factors and the counterparty's creditworthiness.

Wrong-way risk is subject to identification procedures, calculation of exposures as well as specific and regular monitoring of identified counterparties.

HEDGING OF CREDIT RISK

Guarantees and collateral

The Group uses credit risk mitigation techniques both for market and commercial banking activities. These techniques provide partial or full protection against the risk of debtor insolvency.

There are two main techniques:

- personal guarantees correspond to the commitment made by a third party to substitute for the primary debtor in the event of the latter's default. Guarantees encompass the protection commitments and mechanisms provided by banks and similar credit institutions, specialised institutions such as mortgage guarantors (such as Crédit Logement in France), monoline or multiline insurers, export credit agencies, etc. By extension, credit insurance and credit derivatives (purchase of protection) also belong to this category;
- collateral can consist of physical assets in the form of property, commodities or precious metals, as well as financial instruments such as cash, high-quality investments and securities and also insurance policies.

Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity.

The Group proactively manages its risks by diversifying guarantees: physical collateral, personal guarantees and others (including CDS).

During the credit approval process, an assessment of the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations is undertaken. This process also ensures that the collateral or guarantee successfully meets the criteria set forth in the Capital Requirements Directive (CRD).

Guarantor ratings are reviewed internally at least once a year and collateral is subject to revaluation at least once a year.

The Risk Department is responsible for validating the operating procedures established by the business divisions for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, both during the approval phase for a new loan or upon the annual renewal of the credit application.

The total amount of guarantees and collateral related to on and off-balance sheet assets, allocated for the calculation of Group capital requirements was EUR 156.5 billion as at 31 December 2013 of which EUR 137.9 billion related to on-balance sheets assets. The total amount is split between EUR 91.8 billion for retail customers and EUR 64.7 billion for non-retail customers (versus EUR 92.8 billion and EUR 70 billion, respectively as at 31 December 2012).

Alongside the regulatory calculation of Group capital requirements, a data collection process is in place for guarantees and collateral related to past due loans not individually impaired as well as individually impaired loans. The amount of guarantees and collateral related to past due not individually impaired loans was EUR 3.1 billion (EUR 1.8 billion for retail customers and EUR 1.3 billion for non-retail customers) as at 31 December 2013. The amount of guarantees and collateral related to individually impaired loans was EUR 7.3 billion (EUR 3.3 billion for retail customers and EUR 4 billion for non-retail customers) as at 31 December 2013. These amounts are capped to the individually impaired loan outstanding amount.

Use of credit derivatives to manage corporate concentration risk

Within Corporate and Investment Banking, it is the responsibility of the Credit Portfolio Management (CPM) department to work in close cooperation with the Risk Division and the core businesses to reduce excessive portfolio concentrations and react quickly to any deterioration in the creditworthiness of a particular counterparty. CPM has now been merged with the department responsible for managing scarce resources for the credit and loan portfolio.

The Group uses credit derivatives in the management of its Corporate credit portfolio, primarily to reduce individual, sector and geographic concentration and to implement a proactive risk and capital management approach. Individual protection is essentially purchased under the over-concentration management policy. For example, the ten most hedged names account for 98% of the total amount of individual protections purchased.

The notional value of Corporate credit derivatives (Credit Default Swaps, CDS) purchased for this purpose is booked in off-balance sheet commitments under guarantee commitments received.

Total outstanding purchases of protection through Corporate credit derivatives is stable at EUR 1.4 billion at end-December (compared to EUR 1.9 billion at end-December 2012).

In 2013, the spreads on Credit Default Swaps (CDS) from European investment-grade issuances (Itraxx index) narrowed, reducing the portfolio's sensitivity to tightening spreads. Consequently, the credit derivatives transactions implemented in prior years to limit the earnings volatility generated by this CDS portfolio (these positions are valued at marked-to-market) have not needed to be renewed.

Almost all protection was purchased from bank counterparties with ratings of BBB+ or above, the average being A/A-. Concentration with any particular counterparty is also carefully monitored.

Mitigation of counterparty risk linked to market transactions

Societe Generale uses different techniques to reduce this risk. With regard to trading counterparties, it seeks to implement master agreements with termination-clearing clause wherever it can. In the event of default, they allow netting of all due and payable amounts. The contracts usually call for the revaluation of required collateral at regular time intervals (often on a daily basis) and for the payment of the corresponding margin calls. Collateral is largely composed of cash and high-quality liquid assets such as government bonds with a good rating. Other tradable assets are also accepted, provided that the appropriate haircuts are made to reflect the lower quality and/or liquidity of the asset.

At 31 December 2013, most over-the-counter (OTC) transactions were secured: by amount, 59% of transactions with positive mark to market (collateral received by Societe Generale) and 75% of transactions with negative mark to market (collateral posted by Societe Generale).

Management of OTC collateral is monitored on an ongoing basis in order to minimise operational risk:

- the exposure value of each collateralised transaction is certified on a daily basis;
- specific controls are conducted to make sure the process goes smoothly (settlement of collateral, cash or securities; monitoring of suspended transactions, etc.);
- all outstanding secured transactions are reconciled with those of the counterparty according to a frequency set by the regulator (mainly on a daily basis) in order to prevent and/or resolve any disputes on margin calls;
- any legal disputes are monitored daily and reviewed by a committee.

Credit insurance

In addition to using export credit agencies (for example Coface and Exim) and multilateral organisations (for example the EBRD), Societe Generale has been developing relationships with private insurers over the last several years in order to hedge some of its loans against commercial and political non-payment risks.

This activity is performed within a risk framework and monitoring system validated by the Group's General Management. This system is based on an overall limit for the activity, along with sub-limits by maturity, and individual limits for each insurance counterparty which must meet strict eligibility criteria.

The implementation of such a policy contributes overall to sound risk reduction.

RISK MEASUREMENT AND INTERNAL RATINGS

The Group's rating system relies on a quantitative analysis of the credit risks based on models that estimate the internal Basel parameters. In this regard, these models are used to calculate the Group's regulatory capital requirements. They also comply with the Group's risk management objectives and operational activities. As such, they are used as a tool to structure, price and approve transactions and help to determine the limits for approval decisions assigned to the operational teams and the Risk function.

In calculating capital requirements according to the IRBA (Internal Ratings Based Approach) method, Societe Generale uses the Basel parameters below:

- Exposure at Default (EAD): EAD is defined as the Group's exposure in the event the counterparty should default. EAD includes exposures recorded on balance sheet (loans, receivables, income receivable, market transactions, etc.), and off-balance sheet exposures converted into a balance-sheet equivalent using internal or regulatory credit conversion factors (CCF) (drawdown assumption);
- Probability of Default (PD): the probability that a counterparty of the bank will default within one year;
- Loss Given Default (LGD): the ratio between the loss incurred on an exposure in the event a counterparty defaults and the exposure amount at the time of default.

These three parameters help to estimate regulatory capital requirements by calculating risk-weighted assets (RWA) and expected losses (EL), the losses likely to be incurred considering the quality of the transaction arrangement and all the measures taken to mitigate the risk.

For guarantees and credit derivatives, the Group takes into account their impact by substituting the guarantor's PD, LGD and risk-weighting formula for that of the borrower (the exposure is considered as a direct exposure to the guarantor) where the guarantor's risk-weighting is more favourable than the borrower's.

For exposures under the internal approach, the Group takes into account the collateral (physical or financial) in the LGD calculation.

The impact is taken into account in the LGD model or individually for each transaction.

For exposures under the standard approach: eligible CRM techniques (after regulatory deductions) are taken into account directly in EAD.

Internal models, used to estimate PDs and LGDs, cover the vast majority of the Group's credit portfolios. They were IRBA-validated (Internal Ratings Based Advanced approach) by the regulator in 2007 and have since undergone regular performance assessments.

In addition, the Bank received authorisation from the regulator to use the Internal Assessment Approach (IAA) when calculating regulatory capital requirements for Asset-Backed Commercial Paper conduits.

The Group's rating system makes a key distinction between:

- retail customers, for which the Basel parameters are automatically assigned, in line with the Basel guidelines;
- the corporate, bank and sovereign customers, for which the rating system relies on two main pillars: a counterparty rating system, supported by models, and a system that automatically assigns LGD and CCF (Credit Conversion Factor) parameters according to the characteristics of the transactions.

In both cases a set of procedures defines the rules relating to ratings (scope, frequency of rating review, rating approval procedure, etc.), and for the supervision, backtesting and validation of models. Among other things, these procedures aid human judgement, which provides a critical view of the results and is an essential complement to the models for these portfolios.

All Group risk models are developed and validated based on the longest available internal historical data, which must be representative (both in terms of the portfolios in question and the effects of the economic environment during the period considered) and conservative. As a result, the Group's risks estimates are not excessively sensitive to changes in the economic environment, while being able to detect any deterioration of risks. PD modelling for large corporates has also been calibrated against long-term default statistics obtained from an external rating agency.

Each internal model is reviewed on an annual basis, in particular by comparing estimated PD and LGD with actual PD and LGD and includes appropriate conservatism margin. The models' and calibrations' reviews in 2013 confirm that the parameters used to calculate the regulatory capital requirements are appropriate by calibrating of default and actual loss when compared with historical series.

Risk-modelling governance

Governance consists in developing, validating, monitoring and making decisions on changes with respect to internal rating models. A dedicated department within the Risk Division is specifically in charge of defining the bank's process for evaluating and validating the key credit metrics used under the IRBA method.

The internal validation scheme for new models as well as annual backtesting is broken down into two stages:

- an investigation stage that aims to collect all statistical and banking data used to assess model quality. Subjects with statistical components are reviewed by the independent entity in charge of model verification. The results of this review are formally presented to modelling entities within the framework of a Model Committee.
- a validation stagethat is structured around the Expert Committee, which aims to validate the Basel parameters of an internal model from a banking perspective. The Expert Committee is sponsored by the Group Chief Risk Officer and the Heads of the relevant business divisions. The role of the Expert Committee is to assess the consistency of the Basel parameters of internal models from a banking perspective. The Expert Committee is also responsible for defining review guidelines and overhauling models. These guidelines take the economic and financial issues facing business lines into account.

In accordance with instruction no. 2011-I-10 governing the monitoring of internal models used to calculate capital requirements, changes in the Group's rating system are submitted to the appropriate supervisor for approval prior to being implemented for regulatory purposes, as long as the change was deemed significant and approved by the Expert Committees. Otherwise, the supervisor is informed through the annual report monitoring the internal models.

SCOPE OF APPLICATION OF CAPITAL EVALUATION METHODS

Since 2007, Societe Generale has obtained authorisation from its supervisory authorities to apply the internal ratings (IRB) method for most of its exposures for calculating capital requirements in respect of credit risk.

The Group will selectively transition to the IRB method for some of its activities and exposures that currently use the standard approach. These transitions will have a marginal impact on the Group's regulatory capital.

BREAKDOWN OF EAD(1) BY BASEL APPROACH(2)

	31.12.2013	31.12.2012
IRB	83%	82%
Standard	17%	18%
Total	**100%**	**100%**

(1) The EAD reported here are presented in accordance with the Capital Requirements Directive (CRD), transposed into French regulation.

(2) Excluding equity investments, fixed assets and accruals.

CREDIT RISK: QUANTITATIVE INFORMATIONS

Credit Risk exposure

The measurement used for credit exposures in this section is EAD—Exposure At Default (on-balance sheet and off-balance sheet), excluding fixed assets, equity investments, and accruals.

At 31 December 2013, the Group's Exposure at Default (EAD) amounted to EUR 650 billion (including EUR 531 billion in on-balance sheet) and to EUR 635 billion excluding securitisation.

CREDIT RISK EXPOSURE BY EXPOSURE CLASS EXCLUDING SECURITISATION (EAD)

Global portfolio *(In millions of euros)*	31.12.2013	31.12.2012(1)
Exposure Class		
Sovereign	143,041	143,422
Institutions*	61,113	71,585
Corporate	250,248	266,682
Retail	180,646	184,282
TOTAL	**635,048**	**665,971**

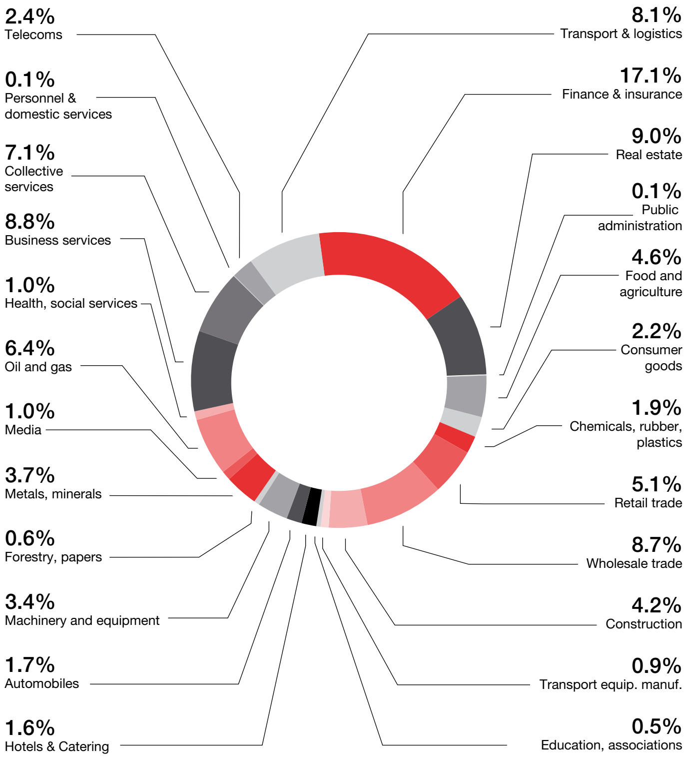
* Institutions: Basel classification banks and public sector entities.

RETAIL CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD)

Retail portfolio *(In millions of euros)*	31.12.2013	31.12.2012(1)
Exposure Class		
Residential mortgages	93,640	94,565
Revolving credit	8,896	9,686
Other credit to individuals	53,268	54,081
Very small enterprises and self-employed	24,841	25,950
TOTAL	**180,646**	**184,282**

(1) EAD under Standard Approach calculated net of collateral.

SECTOR BREAKDOWN OF GROUP CORPORATE EXPOSURE AT 31 DECEMBER 2013 (BASEL CORPORATE PORTFOLIO, EUR 250 BILLION IN EAD)

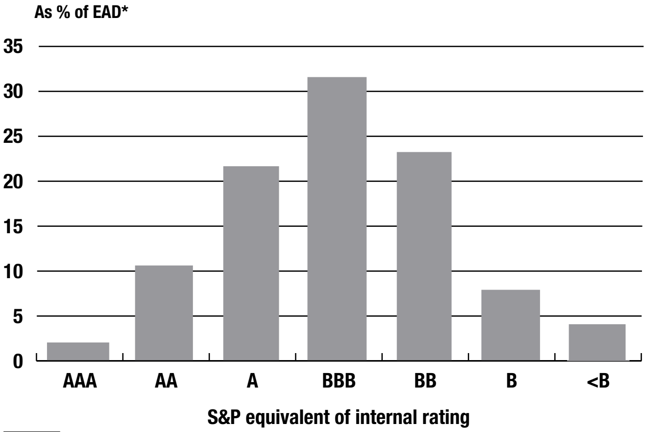


The Group's Corporate portfolio (Large Corporates, SMEs and Specialised Financing) is highly diversified in terms of sectors.

Only the Finance and Insurance sector accounts for more than 10% of the portfolio.

The Group's exposure to its ten largest corporate counterparties accounts for 6% of this portfolio.

BREAKDOWN OF RISK BY INTERNAL RATING FOR CORPORATE CLIENTS AT 31 DECEMBER 2013



* Exposure at Default (EAD) relative to borrower, issuer and replacement risk on outstanding loans measured using the IRB method, excluding fixed assets, equity investments, accruals, and doubtful loans.

The scope includes performing loans recorded under the IRB method for the entire Corporate client portfolio, all divisions combined, and represents EAD of EUR 192 billion (out of total EAD for the Basel Corporate client portfolio of EUR 250 billion, standardised method included).

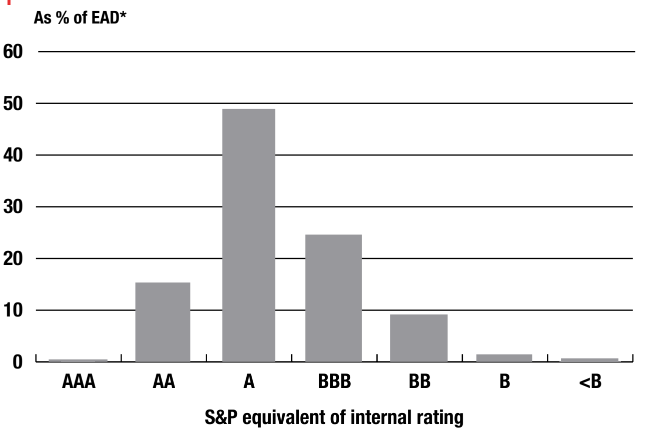
The breakdown by rating of the Societe Generale Group's Corporate exposure demonstrates the sound quality of the portfolio. It is based on an internal counterparty rating system, presented above as its S&P equivalent.

At 31 December 2013, the majority of the portfolio (65% of Corporate customers) had an investment grade rating, i.e. counterparties with an S&P-equivalent internal rating higher than BBB-.

Transactions with non-investment grade counterparties are often backed by guarantees and collateral in order to mitigate the risk incurred.

Bank Counterparty exposure

BREAKDOWN OF RISK BY INTERNAL RATING FOR GROUP BANKING CLIENTS AT 31 DECEMBER 2013



* Exposure at Default (EAD) relative to borrower, issuer and replacement risk on outstanding loans measured using the IRB method, excluding fixed assets, equity investments, accruals, and doubtful loans.

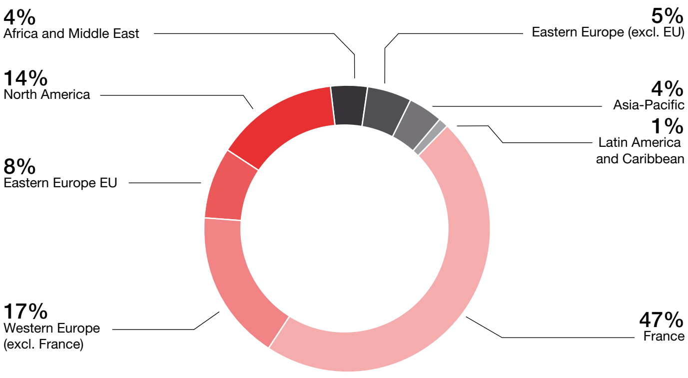
The scope includes performing loans recorded under the IRB method for the entire bank customer portfolio, all divisions combined, and represents EAD of EUR 36 billion (out of total EAD for the Basel bank client portfolio of EUR 61 billion). The breakdown by rating of the Societe Generale Group's bank counterparty exposure demonstrates the sound quality of the portfolio. It is based on an internal counterparty rating system, presented above as its S&P equivalent.

At 31 December 2013, exposure was concentrated in investment grade counterparties (89% of exposure), and developed countries (71%).

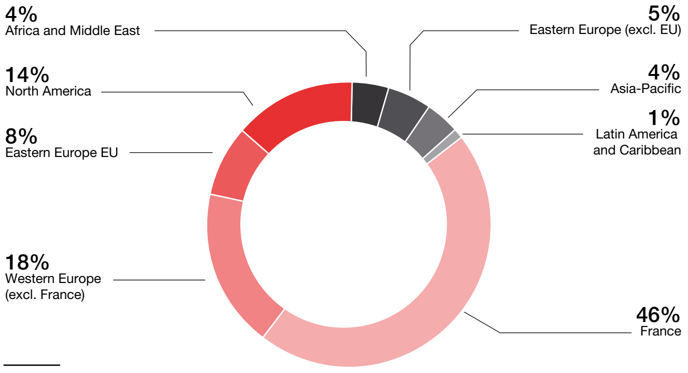
Geographic breakdown of group credit risk exposure

GEOGRAPHIC BREAKDOWN OF GROUP CREDIT RISK EXPOSURE AT 31 DECEMBER 2013 (ALL CLIENTS TYPES INCLUDED)(1)

BALANCE SHEET EXPOSURE (EUR 531 BILLION IN EAD):



ON-BALANCE SHEET AND OFF-BALANCE SHEET EXPOSURE (EUR 650 BILLION IN EAD):

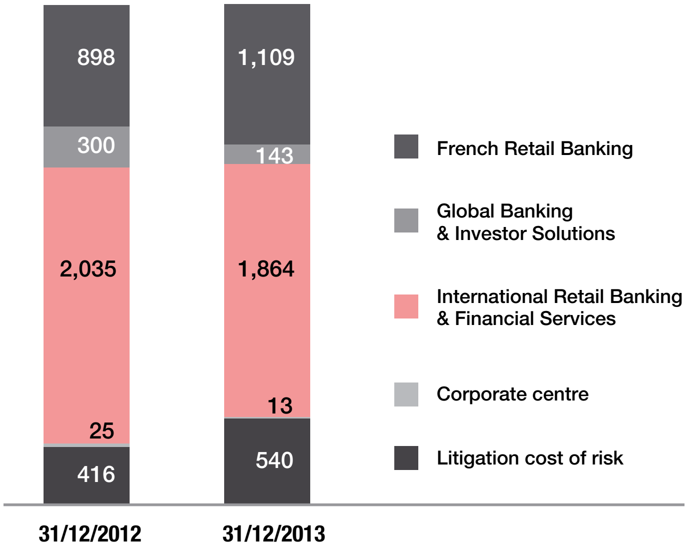


(1) According to the country of the counterparty.

At 31 December 2013, 86% of the Group's on and off-balance sheet exposure was concentrated in the major industrialised countries. Almost half of the overall amount of outstanding loans was to French customers (26% exposure to non-retail portfolio and 20% to retail portfolio).

Provisions and impairments for credit risks at 31 December 2013

CHANGE IN GROUP NET COST OF RISK (IN MILLIONS OF EUROS)*



* Excluding legacy assets.

The Group's **net cost of risk** amounted to EUR 4,052 million for 2013, up +3.0% vs. 2012. It includes in particular an additional collective provision in respect of the litigation risk amounting to EUR -400 million. This provision amounted to EUR 700 million at end-2013 and reflects the level of risk identified to date. The net cost of risk was EUR -1,045 million in Q4 13, vs. EUR -1,314 million in Q4 12, which incurred a collective provision for litigation risk amounting to EUR -300 million.

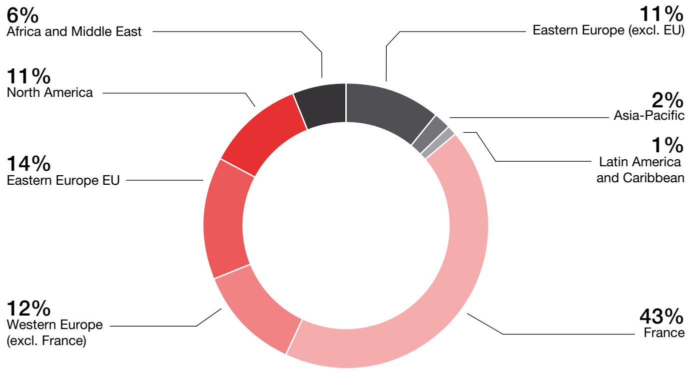
The Group's **commercial cost of risk** (expressed as a fraction of outstanding loans) was stable at 75[(1)] basis points in 2013, (75 basis points in 2012), in a persistently challenging economic environment.

- In **French Retail Banking**, it increased to 62 basis points (vs. 50 basis points in 2012). After declining sequentially during the first three quarters of 2013, the commercial cost of risk amounted to 69 basis points in Q4 due notably to the increased NPL coverage ratio for both business and individual customers.
- At 153 basis points (vs. 158 basis points in 2012), **International Retail Banking & Financial Services**' cost of risk was stable year-on-year, with mixed trends according to region. In the Czech Republic, the situation continued to be satisfactory. In Russia, the increase in the cost of risk remained contained, marked in Q4 13 by provisions on a property portfolio that was originated prior to the acquisition of Rosbank. Substantial provisioning was carried out in Romania, essentially in Q4 13, leading to a significant increase in the gross NPL coverage ratio to 69% in Q4 13 vs. Q4 12. The cost of risk of the Financial Services to Corporates business line was stable vs. 2012.
- **Global Banking & Investor Solutions**' cost of risk remained low at 13 basis points (vs. 26 basis points in 2012), confirming the quality of the loan portfolio. Legacy assets' net cost of risk amounted to EUR -382 million in 2013.

Specific provisions and impairments for credit risks

Impairments for credit risks are primarily booked for doubtful and disputed loans. These loans amounted to EUR 27.8 billion at 31 December 2013 (EUR 27.1 billion at 31 December 2012), of which EUR 3 billion in loans on legacy assets.

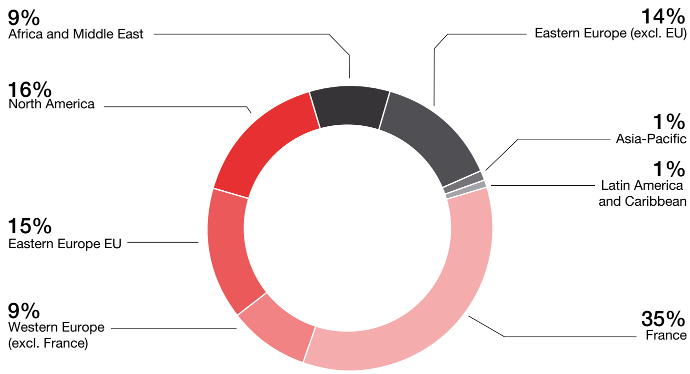
BREAKDOWN OF DOUBTFUL AND DISPUTED LOANS BY GEOGRAPHIC REGION AT 31 DECEMBER 2013*



* Including legacy assets.

GEOGRAPHIC BREAKDOWN OF PROVISIONS AND IMPAIRMENTS AT 31 DECEMBER 2013*

At 31 December 2013, these loans were provisioned or impaired for an amount of EUR 15.8 billion, of which EUR 2.5 billion for legacy assets.



* Including legacy assets.

(1) Annualised, excluding litigation issues and legacy assets, in respect of assets at the beginning of the period and including operating leases.

Impairments for groups of homogeneous assets

At 31 December 2013, the Group's provisions for groups of homogeneous assets amounted to EUR 1.2 billion.

Doubtful loans coverage ratio

	31.12.2013	31.12.2012
Gross book outstandings in EUR bn*	416.7	417.6
*Doubtful loans in EUR bn**	*24.9*	*23.8*
*– Collateral relating to doubtful loans in EUR bn**	*7.3*	*6.1*
– Provisionable commitments in EUR bn*	17.5	17.7
Net doubtful loans ratio (provisionable commitments / gross book outstandings)*	*4.2%*	*4.2%*
Gross doubtfu loans ratio (doubtful loans / gross book outstandings)*	*6.0%*	*5.7%*
Specific impairments nts in EUR bn*	13.3	12.7
*Specific impairments/Provisionable commitments**	*76%*	*72%*
*Impairment for groups of homogenous assets in EUR bn**	1.2	1.1
Net doubtful loans coverage ratio (overall provisions / provisionable commitments)	*83%*	*78%*
Gross doubtful loans coverage ratio (overall provisions / doubtful loans)	*58%*	*58%*

* Excluding legacy assets (provisions of EUR 2.5bn as of 31 December 2013, and EUR 2.3bn as of 31 December 2012).

Customer loans, deposits at banks and loans due from banks and leasing. Including lease assets (outstandings of EUR 10.8bn as of 3 December 2013; EUR 10.4bn as of 31 December 2012).

5. SECURITISATION

SECURITISATIONS AND REGULATORY FRAMEWORK

This chapter presents information on Societe Generale's securitisation activities, acquired or carried out for proprietary purposes or for its customers. It describes the risks associated with these activities and the management of said risks. Finally, it contains some quantitative information to describe these activities during 2013 as well as the capital requirements for the Group's regulatory banking book and trading book within the scope defined by prudential regulations.

As defined in prudential regulations, the term securitisation refers to 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 contingent on 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 risk transfer scheme.

Securitisation positions are subject to the regulatory accounting treatment defined in the CRD, as transposed into French law through Title V of the 20 February 2007 Decree on capital requirements applicable to credit institutions and investment firms (European regulation 575/2013, applicable from 1 January 2014, does not change the calculation methods). Such positions held in the regulatory banking book or trading book are given weightings ranging from 7% to 1,250% depending on their credit quality and subordination rank.

ACCOUNTING METHODS

The securitisation transactions that Societe Generale invests in are recognised in accordance with Group accounting principles, as set forth in the notes to the consolidated financial statements ("Significant accounting principles").

After initial recognition, securitisation positions booked to "Loans and receivables" are measured at amortised cost using the effective interest rate method and impairment may be recorded if appropriate.

Securitisation positions booked to "Available-for-sale financial assets" are measured at their fair value at the closing date. Interest accrued or paid on fixed-income securities is recognised in the income statement using the effective interest rate method under "Interest and similar income – Transactions in financial instruments". Changes in fair value other than income are recorded in shareholders' equity under "Gains and losses recognised directly in equity".

The Group only records these changes in fair value in the income statement when the asset is sold or impaired, in which case they are reported as "Net gains or losses on available-for-sale financial assets". When a decline in the fair value of an Available-for-sale financial asset has been recognised directly in shareholders' equity under "Gains and losses recognised directly in equity" and subsequent objective evidence of impairment emerges, the Group recognises the total accumulated unrealised loss previously booked to shareholders' equity in the income statement under "Cost of risk" for debt instruments and under "Net gains and losses on available for-sale financial assets" for equity securities.

This cumulative loss is measured as the difference between acquisition cost (net of any repayments of principal and amortisation) and the current fair value, less any impairment of the financial asset that has already been booked through profit or loss.

For assets transferred from another accounting category, amortised cost is determined based on estimated future cash flows determined at the date of reclassification. The estimated future cash flows are reviewed at each closing. In the event of an increase in estimated future cash flows, as a result of an increase in their recoverability, the effective interest rate is adjusted prospectively. However, where there is objective evidence of impairment due to an event occurring after the reclassification of the financial assets under consideration, and said event has an adverse impact on initially estimated future cash flows, an impairment on the asset in question is booked to "Cost of risk" on the income statement.

Synthetic securitisations in the form of Credit Default Swaps follow accounting recognition rules specific to trading derivatives.

The securitisation transactions are derecognised when the contractual rights to the cash flows on the asset expire or when the Group has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset. Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Group derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it in the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the income statement for an amount equal to the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in equity.

The originated loans awaiting for securitisation remains in their intial classification.

TREATMENT OF SPECIAL PURPOSE VEHICLES (SPV)

Special Purpose Vehicles are independent legal entities that are set up specifically to manage a transaction or group of similar transactions. They are consolidated whenever they are effectively controlled by the Group, even in cases where the Group has no equity in the entities.

Control of a special purpose vehicle is generally considered to exist if any one of the following criteria applies:

- The SPV is acting exclusively on behalf of, and for the benefit of the Group;
- The Group effectively controls the SPV so that it can obtain the majority of the benefits of the SPV, whether or not this control has been delegated through an "autopilot" mechanism;
- The Group receives the majority of the benefits of the SPV;
- The Group retains the majority of the risks of the SPV.

In consolidating SPVs considered to be effectively controlled by the Group, those shares of entities not held by the Group are recognized as debt in the balance sheet.

When customers loans are securitised and partially sold to external investors, the SPV carrying the loans are consolidated if the Group remains exposed to the majority of the risks and benefits associated with these loans. Furthermore, such loans can neither be used as collateral nor sold outright in other transactions.

The new standard IFRS 10 "Consolidated Financial Statements" modifies the definition of control in a way that will imply a more judgmental approach to assess the control over an entity. The new definition of control includes all of the following elements: power over the investee, rights or exposure to variable returns of the investee and ability to use the power over the investee to affect the amount of the investor's returns. Following this new definition of control, two securitisation vehicles, Barton and Antalis, structured on behalf of third parties will be consolidated from 1 January 2014.

MONITORING OF SECURITISATION RISKS

Securitisation risks are monitored according to the rules established by the Group, depending on whether the assets are recorded in the regulatory banking book (via credit risk and counterparty risk) or in the trading book (via market risk and counterparty risk).

Structural risks and liquidity risk

Structural risks and foreign exchange risk associated with securitisation activities are monitored in the same way as for other Group assets. Oversight of structural interest rate risks is described in section 8 of this chapter, p. 186.

However, liquidity risk linked to securitisation activities is subject to more specific monitoring, both at the level of the responsible business lines and centrally at the Finance Division level. The internal liquidity monitoring model is used primarily to measure the impact of these activities on the Group's liquidity ratios, stress tests and liquidity gaps. The organisation and oversight of liquidity risk is described in section 9 of this chapter, p. 190.

Operational risk

Securitisation activities are monitored specifically for operational risk. Reports targeting zero tolerance for operational risk in the Group's originator and sponsor activities are established and checked on a monthly basis. Oversight of operational risk is described in section 7 of this chapter, p. 181.

SOCIETE GENERALE'S SECURISATION ACTIVITIES

Securitisation activities allow the Group to raise liquidity or manage risk exposures, for proprietary or customers' purposes. Within the framework of these activities, the Group can act as originator, sponsor/arranger or investor.

- As an originator, the Group directly or indirectly participates in the initial agreement on assets which subsequently serve as underlying in securitisation transactions, primarily for refinancing purposes;
- as a sponsor, the Group establishes and manages a securitisation programme used to refinance customers' assets, mainly via the non-consolidated vehicles Antalis and Barton and via certain other special purpose vehicles;
- as an investor, the Group invests directly in certain securitisation positions, is a liquidity provider or a counterparty of derivative exposures.

The securitisation transactions detailed in tables 12, 13 and 14 represent all the transactions in which the Group acted as originator and/or sponsor and in which the Group maintained some exposure (investment in a tranche, liquidity line or interest rate derivatives).

The exposures are shown based on the gross book value, before depreciation, as at 31 December 2013 and at 31 December 2012. All positions are related to the banking book, as no originator or sponsor activities are related to the trading book.

TABLE 12: AGGREGATE AMOUNTS OF EXPOSURES SECURITISED BY THE GROUP AT 31 DECEMBER 2013 AND 2012 BY EXPOSURE CLASS

Exposure securtised at 31.12.2013	Banking book				Trading book			
	Traditional transactions		Synthethic transactions		Traditional transactions		Synthethic transactions	
Underlying assets (in EUR m)	**Originator**	**Sponsor**	**Originator**	**Sponsor**	**Originator**	**Sponsor**	**Originator**	**Sponsor**
Residential mortgages	0	76	0	0	0	0	0	0
Commercial mortgages	0	4	0	0	0	0	0	0
Credit card receivables	0	82	0	0	0	0	0	0
Leasing(1)	1,808	500	0	0	0	0	0	0
Loans to corporates and SMEs	0	157	576	0	0	0	0	0
Consumer loans	0	2,610	0	0	0	0	0	0
Trade receivables	0	3,561	0	0	0	0	0	0
Securitisations/Re-securitisations	359	2,770	0	0	0	0	0	0
Other assets	1,425	767	0	0	0	0	0	0
Total	**3,593**	**10,527**	**576**	**0**	**0**	**0**	**0**	**0**

(1) 2012 amount has been amended and correspond to the amount as of the end of the year and not at the date of issue as published.

Exposure securtised at 31.12.2012	Banking book				Trading book			
	Traditional transactions		Synthethic transactions		Traditional transactions		Synthethic transactions	
Underlying assets (in EUR m)	**Originator**	**Sponsor**	**Originator**	**Sponsor**	**Originator**	**Sponsor**	**Originator**	**Sponsor**
Residential mortgages	0	0	0	0	0	0	0	0
Commercial mortgages	0	0	0	0	0	0	0	0
Credit card receivables	0	416	0	0	0	0	0	0
Leasing	979	415(2)	0	0	0	0	0	0
Loans to corporates and SMEs	119	0	0	0	0	0	0	0
Consumer loans	0	2,410	0	0	0	0	0	0
Trade receivables	0	3,156	0	0	0	0	0	0
Securitisations/Re-securitisations	156	2,961	0	0	0	0	0	0
Other assets	0	644	0	0	0	0	0	0
Total	**1,254**	**9,587**	**0**	**0**	**0**	**0**	**0**	**0**

(2) 2012 amount has been amended to exclude the transactions for which the Group is the unique originator.

Table 13 shows exposures securitised by the Group, for which the underlying assets are past due, in default or impaired. The scope of the data collected is the same as for table 12.

TABLE 13: AMOUNTS PAST DUE OR IMPAIRED WITHIN THE EXPOSURES SECURITISED BY THE GROUP, BY EXPOSURE TYPE

(In millions of euros)	Exposure securtised at 31.12.2013				Exposure securtised at 31.12.2012			
	Past due		Impaired		Past due		Impaired	
Underlying assets (in EUR m)	**Originator**	**Sponsor**	**Originator**	**Sponsor**	**Originator**	**Sponsor**	**Originator**	**Sponsor**[(1)]
Residential mortgages	0	0	0	0	0	0	0	0
Commercial mortgages	0	0	0	0	0	0	0	0
Credit card receivables	0	3	0	4	0	16	0	20
Leasing	0	1	0	0	0	1	0	0
Loans to corporates and SMEs	0	18	0	0	0	0	0	0
Consumer loans	0	89	0	22	0	60	0	13
Trade receivables	0	784	0	310	0	676	0	291
Securitisations/Re-securitisations	0	0	0	2 470	0	0	0	2,070
Other assets	0	2	0	7	0	2	0	1
Total	**0**	**898**	**0**	**2 813**	**0**	**754**	**0**	**2,395**

(1) 2012 amount for Sponsor part has been amended due to the unavailability of the data at the date of the report publication.

This information must be considered within the context of the specific structure of each transaction and vehicle, which cannot be described in this report. Taken separately, the level of payments past due or in default does not provide sufficient information on the types of exposures securitised by the Group, mainly because the default criteria may vary from one transaction to another. Furthermore, these data reflect the situation of the underlying assets:

In securitisation transactions, past-due exposures are generally managed via structural mechanisms that protect the most senior positions.

Impaired exposures belong mainly to two CDOs of US subprime residential mortgages occurred in 2013.

Societe Generale as originator

As part of its refinancing activities, the Group securitises some of its portfolios of loans granted to individual or corporate customers. With the securities created in these transactions, the Group is able to fund its own operations or expand its portfolio of assets eligible for repurchase transactions, notably with the European Central Bank.

In 2013, four securitisation transactions were carried out:

- a EUR 3.8 billion securitisation of consumer loans, fully subscribed for by the Group,
- a EUR 0.6 billion securitisation of leasing, placed in the market for EUR 0.5 billion.
- a EUR 1 billion securitisation of auto loans, placed in the market for EUR 0.9 billion.
- three securitisations transaction of rent receivables and auto residual values derived from long-term leases, totaling EUR 1.4 billion; two of which were placed in the market under private management for EUR 0.5 billion and EUR 0.4 billion.

As there was no significant risk transfer with the prudential definition as a result of these transactions, these activities are not included in tables 15 and following because they have no impact on the Group's regulatory capital. The vehicles carrying the transferred loans are consolidated. The Group remains exposed to the majority of the risks and benefits associated with these loans; furthermore, these loans cannot be used as collateral or sold outright as part of another transaction.

Total outstanding assets securitised for the Group with no risk transfer amounted to EUR 15.3 billion at 31 December 2013, including EUR 4.9 billion in residential mortgages in France, EUR 2.1 billion in auto loans, EUR 0.3 billion in leasing, EUR 2.7 loans to corporates, EUR 3.8 billion in consumer loans and EUR 1.4 billion in rent receivables and auto residual values derived from long-term leases. The share of securitisations placed on the market amounted 21.2% whereas the share of self-held amounted 78.8%.

TABLE 14: ASSETS AWAITING SECURITISATION AT 31 DECEMBER 2013 AND 2012

	Banking book		Trading book	
(In millions of euros)	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Residential mortgages	0	0	0	0
Commercial mortgages	0	0	0	0
Credit card receivables	0	0	0	0
Leasing	0	600	0	0
Loans to corporates and SMEs	0	0	0	0
Consumer loans	0	0	0	0
Trade receivables	0	0	0	0
Securitisations/Re-securitisations	0	0	0	0
Other assets	460	1,118	0	0
Total	**460**	**1,718**	**0**	**0**

Societe Generale as sponsor

The Societe Generale Group carries out securitisation transactions on behalf of its customers or investors. At 31 December 2013, there were two non-consolidated multi-seller vehicles in operation (Barton and Antalis), structured by the Group on behalf of clients. This ABCP (Asset-Backed Commercial Paper) activity funds the working capital requirements of some of the Group's customers by backing short-term financing with traditional assets such as trade receivables or consumer loans. Total assets held by these vehicles and financed through the issuance of commercial paper amounted to EUR 6,654 million at 31 December 2013 (EUR 6,938 million at 31 December 2012).

Based on the main assessment criteria used to measure the risk exposure and benefits these vehicles which are not consolidated at 31 December 2013. As part of the implementation of the new IFRS 10, under the new definition of control, the two vehicles, Barton and Antalis, will be consolidated from 2014 onwards.

The default risk on the assets held by these vehicles is borne by the transferors of the underlying receivables or by external investors, including initial loss tranches. Societe Generale bears part of the risk through the issuance of letters of credit in the amount of EUR 639 million (EUR 649 million at 31 December 2012) used for credit enhancement and through liquidity lines in the amount of EUR 8,683 million at 31 December 2013 (EUR 9,180 million at 31 December 2012).

ABCP activity remained solid in 2013, with newly securitised outstandings predominantly comprising trade receivables, leasing or consumer loans.

Societe Generale as investor

In 2013, Societe Generale has significantly decreased the size of its legacy portfolio assets, especially through assets disposal. The remaining EUR 5.1 billion as of 2013, December 31st, including EUR 4.6 billion from securitisation activity, including EUR 0.7 billion rated under investment grade. Therefore, the portfolio is no longer classified under major risk by the Group.

Societe Generale also acts as a market maker for securitised assets, resulting in securitisation positions in the Group's trading book. As of 31 December 2011, CRD3 requires the same prudential treatment regardless of prudential classification.

The following tables show the securitisation exposures retained or purchased by the Group by type of underlying asset, by region, by type of tranche, separately for the banking book and trading book. These exposures cannot be seen as part of the specific financial information, as published in the registration document (p. 208), as the definitions and scope used are different.

TABLE 15: AGGREGATE AMOUNTS OF SECURITISED EXPOSURES RETAINED OR PURCHASED IN THE BANKING BOOK

(In millions of euros)	Banking book					
	31.12.2013			31.12.2012		
Underlying assets	**On-balance sheet**	**Off-balance sheet**	**Total**	**On-balance sheet**	**Off-balance sheet**	**Total**
Residential mortgages	781	77	858	1,926	373	2,299
Commercial mortgages	344	33	377	828	10	838
Credit card receivables	0	570	570	0	811	811
Leasing	84	582	665	93	554	647
Loans to corporates and SMEs	1,005	53	1,058	698	63	761
Consumer loans	419	2,455	2,874	235	2,797	3,032
Trade receivables	174	4,205	4,379	229	4,223	4,452
Securitisations/Re-securitisations	2,987	0	2,987	3,613	1,197	4,810
Other assets	335	1,790	2,125	389	1,350	1,739
Total	**6,129**	**9,766**	**15,895**	**8,011**	**11,379**	**19,390**

At 31 December 2013, securitisation exposures in the banking book amounted to EUR 15,895 million, including EUR 6,129 million recorded on the balance sheet, the rest consisting predominantly of liquidity lines linked to the Group's sponsor conduit activity. The main underlying assets are securitisations, trade receivables, consumer loans and residential mortgages.

In 2013, banking book exposures decreased by EUR 3,495 million, down 18% year-on-year. This decline was especially prominent in on-balance sheet exposures. In 2013, the Group continued its legacy asset disposal programme. The portfolio of securitisations in run-off was halved over the year, mainly in the following underlyings: residential mortgages (RMBS), re-securitisations (CDOs) and loans to corporates (CLOs).

Exposures to the conduits managed by the Group fell slightly, mainly in credit card receivables.

TABLE 16: AGGREGATE AMOUNTS OF SECURITISED EXPOSURES RETAINED OR PURCHASED IN THE TRADING BOOK

(In millions of euros)	31.12.2013		31.12.2012	
Underlying assets	**Net long positions**	**Net short positions**	**Net long positions**	**Net short positions**
Residential mortgages	104	5	138	55
Commercial mortgages	1,646	50	3,478	162
Credit card receivables	12	0	0	0
Leasing	0	0	0	0
Loans to corporates and SMEs	129	61	46	177
Consumer loans	1	0	4	0
Trade receivables	0	0	0	0
Securitisations/Re-securitisations	241	924	43	2,761
Other assets	0	0	48	78
Total	**2,132**	**1,041**	**3,757**	**3,233**

Long and short positions in the trading book have significantly decreased: -74% on long and -77% on short.

The decrease reflects the switching and unwinding of certain derivatives positions; especially on re-securitization positions, which is in line with the Group policy regarding the legacy assets portfolio management.

TABLE 17: AGGREGATE AMOUNTS OF SECURITISED EXPOSURES RETAINED OR PURCHASED BY REGION IN THE BANKING BOOK AND THE TRADING BOOK

(in M EUR)	31.12.2013			31.12.2012		
	Banking book	Trading book		Banking book	Trading book	
Underlying assets	**Securitisation positions**	**Net long positions**	**Net short positions**	**Securitisation positions**	**Net long positions**	**Net short positions**
America	8,225	1,911	988	10,015	3,594	3,121
Asia	66	0	0	328	5	0
Europe	7,467	220	38	8,927	143	103
Others	137	1	15	119	15	9
Total	**15,895**	**2,132**	**1,041**	**19,390**	**3,757**	**3,233**

Banking book disposals mainly concerned positions with North American underlyings, and to a lesser extent positions with European underlyings. The Americas region still accounted for half of banking book positions at the end of 2013.

In the trading book, the reduction of long and short positions in 2013 mainly concerned assets exposed to the Americas region.

TABLE 18: QUALITY OF SECURITISATION POSITIONS RETAINED OR PURCHASED

Trading Book table

(In millions of euros)	31.12.2013					
	Trading book					
	Net long positions			Net short positions		
Underlying assets	**Highest-ranking tranche**	**Mezzanine tranche**	**Initial loss tranche**	**Highest-ranking tranche**	**Mezzanine tranche**	**Initial loss tranche**
Residential mortgages	55	35	14	0	0	5
Commercial mortgages	1,526	114	5	45	6	0
Credit card receivables	12	0	0	0	0	0
Leasing	0	0	0	0	0	0
Loans to corporates and SMEs	93	32	4	0	0	61
Consumer loans	1	0	0	0	0	0
Trade receivables	0	0	0	0	0	0
Securitisations/Re-securitisations	140	83	17	813	108	4
Other assets	0	0	0	0	0	0
Total	**1,827**	**264**	**41**	**857**	**113**	**70**

Banking Book Table

(In millions of euros)	31.12.2013		
	Nominal		
Underlying assets	**Highest-ranking tranche**	**Mezzanine tranche**	**Initial loss tranche**
Residential mortgages	748	110	0
Commercial mortgages	221	154	0
Credit card receivables	577	37	0
Leasing	663	2	0
Loans to corporates and SMEs	896	74	46
Consumer loans	2,828	47	0
Trade receivables	4,084	265	30
Securitisations/Re-securitisations	2,934	53	0
Other assets	1,497	627	0
Total	**14,449**	**1,370**	**76**

In the banking book, senior tranches made up 91% of securitisation positions retained or purchased as of 31 December 2013. It mainly comes from trade receivables, consumer loans and re-securitisations underlying, thus reflecting the robust quality of the portfolio and the positive results of the legacy asset disposal programme.

In the trading book, the highest-ranking tranches accounted for 76% of long positions and 73% of short positions.

PRUDENTIAL TREATMENT OF SECURITISATION POSITIONS

Approach for calculating risk-weighted exposures

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

For the securitisation positions that Societe Generale decides to hold either on- or off-balance sheet, capital requirements are determined based on the bank's exposure, irrespective of its underlying strategy or role. For the trading book, long and short positions are offset within the limits set out by law. Risk-weighted assets resulting from securitisation positions are calculated by applying the appropriate risk ratios to the amount of the exposures.

Most of the Group's positions in securitised receivables, both in the banking book and the trading book, are valued using the Internal Ratings Based (IRB) approach, for which there are three calculation methods:

- the external ratings based approach (RBA) must be applied to all rated exposures or those for which a rating can be inferred. Under this approach, risk weightings are calculated so as to also reflect the positions' seniority and granularity;
- the Supervisory Formula Approach (SFA) 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. To use this approach, the capital charge must be calculated using the IRB approach for the portfolio of assets underlying the securitisation exposure;
- finally, the positions arising from the Asset Backed Commercial Paper (ABCP) programmes' off-balance sheet exposures (such as liquidity facilities and letters of credit) are determined using the Internal Assessment Approach (IAA). An equivalence table defined by the regulation is used to calculate risk weightings based on the internal rating determined by the model.

For letters of credit and liquidity facilities issued by the Bank to the securitisation vehicles it sponsors, Societe Generale received approval in 2009 to use its internal ratings-based approach, in accordance with the provisions of Section V of the Decree of 20 February 2007. Accordingly, Societe Generale has developed an Internal Assessment Approach (IAA), whereby an internal rating is assigned to the Group's securitisation exposures, with each rating automatically resulting in a capital weighting based on an equivalence table defined by the regulation.

Like the Group's other internal models, the IAA meets the regulatory standards for the validation of internal models, as defined by the regulation. An annual review of the model is performed to ensure that the configuration is sufficiently conservative. Finally, the model is used to measure impacts in stress scenarios and as a transaction structuring tool.

External credit assessment institutions used by Societe Generale

Assets securitised by Societe Generale are usually rated by one or more ECAI (External Credit Assessment Institution) rating agencies, the list of which is established by the French Prudential Supervisory Authority (ACP - *Autorité de Contrôle Prudentiel*). The agencies used are DBRS, FitchRatings, Moody's Investors Service and Standard & Poor's. Since 31 October 2011, these four rating agencies have been registered with and supervised by the European Securities and Market Authority (ESMA). For securitisation positions valued using the standardised method, capital requirements are calculated based on the lowest external rating of the securitisation exposure. An equivalence table (Table 11) between external ratings and Societe Generale's internal rating scale is provided hereunder.

The following table presents Societe Generale's internal rating scale and the corresponding scales of the main External Credit Assessment Institutions, as well as the corresponding mean estimated probability of default.

TABLE 19: SOCIETE GENERALE'S INTERNAL RATING SCALE AND CORRESPONDING SCALES OF RATING AGENCIES

Counterparty internal rating	DBRS	FitchRatings	Moody	Standards & Poor's	1 year probability of default
1	AAA	AAA	Aaa	AAA	0.01%
2	AA high to AA low	AA+ to AA-	Aa1 to Aa3	AA+ to AA-	0.02%
3	A high to A low	A+ to A-	A1 to A3	A+ to A-	0.04%
4	BBB high to BBB low	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	0.30%
5	BB high to BB low	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	2.16%
6	B high to B low	B+ to B-	B1 to B3	B+ to B-	7.93%
7	CCC high to CCC low	CCC+ to CCC-	Caa1 to Caa3	CCC+ to CCC-	20.67%
8, 9 and 10	CC and below	CC and below	Ca and below	CC and below	100.00%

About 2% of the banking book's securitisation exposures are valued using the Standardised Approach (SA), whereby risk-weighted assets are determined based on the credit rating attributed by an external rating agency to the said exposures (e.g. 20% for instruments rated between AAA and AA- and 50% for instruments rated between A+ and A-, etc.).

Regulatory capital requirements

Tables 20 and 21 show the bank's securitisation exposures and corresponding regulatory capital requirements for the banking book at 31 December 2013 and 31 December 2012. These exposures cover the same scope as that of tables 15, 17 and 18.

TABLE 20: AGGREGATE AMOUNTS OF SECURITISED EXPOSURES RETAINED OR PURCHASED IN THE BANKING BOOK BY APPROACH AND BY WEIGHTING AT 31 DECEMBER 2013

	Banking book			
(In millions of euros)	31.12.2013			
	Exposure at Default (EAD)[1]		Capital requirements	
Weighting	Securitisation	Re-securitisation	Securitisation	Re-securitisation
6 to 10%	1,400	615	9	0
12 to 18%	456	748	5	3
20 to 35%	294	18	6	0
40 to 75%	224	73	12	3
100%	91	464	8	2
150 to 250%	11	421	1	22
>250 and <425%	41	0	23	0
>425% and <850%	26	11	0	1
RBA method	**2,542**	**2,350**	**64**	**31**
IAA method	7,985	661	50	23
Supervisory Formula Approach	576	0	3	0
1,250%/Capital deductions	186	688	65	66
Total IRB approach	**11,289**	**3,699**	**182**	**120**
100% weighting	0	0	0	0
RBA approach	1	0	0	0
Transparency method	213	0	21	0
Total standardised approach	**215**	**0**	**22**	**0**
Total banking book	**11,504**	**3,699**	**203**	**120**

(1) 1,250%-weighted EAD, re-securitisation EAD and EAD in RBA method correspond exclusively to fully-impaired positions and are shown before impairments for EUR 2,553 million

TABLE 21: AGGREGATE AMOUNTS OF SECURITISED EXPOSURES RETAINED OR PURCHASED IN THE BANKING BOOK BY APPROACH AND BY WEIGHTING AT 31 DECEMBER 2013

	Banking book			
(In millions of euros)	31.12.2012			
	Exposure at Default (EAD)		Capital requirements	
Weighting	**Securitisation**	**Re-securitisation**	**Securitisation**	**Re-securitisation**
6 to 10%	1,744	0	12	0
12 to 18%	725	0	9	0
20 to 35%	437	107	11	2
40 to 75%	445	141	24	6
100%	86	83	7	7
150 to 250%	87	246	18	32
>250 and <425%	150	10	53	3
>425% and <850%	64	1	27	1
RBA method	**3,739**	**587**	**163**	**50**
IAA method	8,924	0	75	0
Supervisory Formula Approach	1,058	0	6	0
1,250%/Capital deductions(1)	408	3,276	294	1,030
Total IRB approach	**14,129**	**3,863**	**538**	**1,080**
100% weighting			0	0
RBA approach			0	0
Transparency method	807		40	0
Total standardised approach	**807**		**40**	**0**
Total banking book	**14,936**	**3,863**	**577**	**1,080**

(1) 1,250%-weighted EAD correspond exclusively to fully-impaired positions and are shown before impairments of EUR 2,360 million.

At 31 December 2013, 98% of banking book securitisation exposures were valued using the IRB method. Under this method, 32% of exposures were weighted using the RBA method, 4% using the supervisory formula approach and 56% using the IAA method. Under the standardised approach, all securitisation positions are valued using the transparency method.

Regulatory capital requirements in respect of banking book securitisation positions fell by EUR 1,337 million in 2013. This decrease predominantly reflected a decline in positions deducted from capital and a drop in capital requirements of EUR 144 million excluding deductions. In both cases, the declines highlighted the success of the legacy asset disposal policy described above.

TABLE 22: AGGREGATE AMOUNTS OF SECURITISED EXPOSURES RETAINED OR PURCHASED IN THE TRADING BOOK BY WEIGHTING

(In millions of euros)	31.12.2013		
Weighting	**Net long positions[2]**	**Net short positions[2]**	**Capital requirements**
6% - 10%	1,545	99	10.3
12% - 18%	82	0	0.4
20% - 35%	179	81	5.5
40% - 75%	155	0	6.4
100%	17	0	0.5
>100% <= 250%	20	0	13.3
>250% - <=425%	79	0	25.9
>425% <=850%	3	0	4.4
1,250%/Capital deductions[1]	0	0	0.0
EAD subject to risk weight	2,081	180	67
Supervisory formula method	1	850	0.5
Transparency method	0	0	0
IRB method	0	0	0
Total, net of capital deductions	**2,083**	**1,030**	**67**
1,250%/Positions deducted from capital[2]	49	10	53
Total	**2,132**	**1,041**	**120**

(In millions of euros)	31.12.2012		
Weighting	**Net long positions[2]**	**Net short positions[2]**	**Capital requirements**
6% - 10%	3,013	142	19
12% - 18%	110	0	1
20% - 35%	164	114	6
40% - 75%	24	5	1
100%	16	0	1
>100% <= 250%	230	0	36
>250% - <=425%	38	9	32
>425% <=850%	61	0	36
1,250%/Capital deductions[1]	0	0	0
EAD subject to risk weight	**3,656**	**269**	**133**
Supervisory formula method	2	2,737	16
Transparency method	0	0	0
IRB method	0	0	0
Total, net of capital deductions	**3,658**	**3,006**	**149**
1,250%/Positions deducted from capital[2]	99	227	259
Total	**3,757**	**3,233**	**408**

(1) 1,250%-weighted EAD correspond exclusively to fully-impaired positions.

(2) The amounts of long positions and short positions in the trading book in 2012 were restated to show exposures net of hedges and excluding intra-Group positions. The same definition was used in 2013.

Trading book securitisation positions are valued using the IRB method.

Derivative positions, which by definition are not rated, are valued using the supervisory formula approach.

TABLE 23: REGULATORY CAPITAL REQUIREMENTS FOR SECURITISATIONS HELD OR ACQUIRED IN THE TRADING BOOK

(In millions of euros)	31.12.2013				31.12.2012			
	Net long positions	**Net short positions**	**Total risk-weighted positions**	**Capital**	**Net long positions**	**Net short positions**	**Total risk-weighted positions**	**Capital**
Securitisation	1,996	185	587	47	3,648	270	1 694	136
Re-securitisation	95	850	253	20	11	2,737	172	14
Positions deducted from capital	41	5	-	53	99	227	0	259
TOTAL 2013	**2,132**	**1,041**	**840**	**120**	**3,757**	**3,233**	**1,866**	**408**

In accordance with the exemption provided for until 31 December 2014, Societe Generale calculates capital requirements in respect of trading book positions as the maximum between the capital requirement relative to long positions for which the Group directly bears the credit risk, and short positions for which the Group is hedged for credit risk (mainly replacement risk), including positions deducted from capital. In 2013, the regulatory capital requirement relative to trading book positions was attributable to long positions, as it was in 2012.

Capital requirements in respect of trading book securitisation positions fell by 71% year-on-year to EUR 120 million in 2013, including positions deducted from capital.

TABLE 24: SECURITISATION EXPOSURES DEDUCTED FROM CAPITAL BY EXPOSURE CATEGORY

(In millions of euros)	Banking book		Trading book	
Underlying assets	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Residential mortgages	29	142	14	48
Commercial mortgages	20	93	5	7
Credit card receivables	0	0	0	0
Leasing	0	4	0	0
Loans to corporates and SMEs	12	20	17	11
Consumer loans	3	8	0	0
Trade receivables	0	0	0	0
Securitisations/Re-securitisations	67	1,053	17	180
Other assets	0	5	0	13
Total	**131**	**1,324**	**53**	**259**

2013 saw a sharp decrease (-84%) in deductions for initial securitisation losses. These deductions can primarily be attributed to the legacy assets portfolio and re-securitisation exposures.

The decline in deductions is attributable to derivatives switching and sales of securities on re-resecurtisation positions, but also to a reduced position on RMBS particularly in North America.

6. MARKET RISKS

Market risks are the risks of losses resulting from unfavourable changes in market parameters.

They concern all the trading book transactions as well as some of the banking book portfolios.

ORGANISATION

Although primary responsibility for managing risk exposure lies with the front office managers, the supervision system is based on an independent structure, the Market Risk Department of the Risk Division.

This Department duties include:

- ensuring the existence and the implementation of an effective market risks framework based on suitable limits;
- approving of the limit requests submitted by the different businesses within the framework of the overall limits set by the Board of Directors and the General Management, and based on the use of these limits;
- proposal to the Group Risk Committee of appropriate market risks limits by Group activity;
- definition of risk measurement methods, approval of the valuation models used to calculate risks and results, and definition of provisions for market risks (reserves and adjustments to earnings).

To carry out these different duties, the Market Risk Department uses the data and analysis provided by the Finance Department of GBIS, which monitors the Group's market positions on a permanent, daily and independent basis, notably via:

- daily calculation and certification of market risk indicators based on formal and secure procedures;
- reporting and first-level analysis of these indicators;
- daily monitoring of the limits set for each activity;
- verification of the market parameters used to calculate risks and results in line with the methodologies defined by the Market Risk Department;
- monitoring and control of the gross nominal value of positions. This system is based on alert levels applied to all instruments and desks which are defined in collaboration with the Market Risk Department, and contributes to the detection of possible rogue trading operations.

Accordingly, the Finance Department of GBIS, in conjunction with the Market Risk Department, defines the architecture and functionalities of the information system used to produce the risk indicators for market operations to ensure it meets the needs of the different business lines.

A daily report on use of limits on VaR (Value at Risk) and stress tests (extreme scenarios) is submitted to the General Management and the managers of the business lines, in addition to a monthly report which summarises the key events in the area of market risk management.

INDEPENDENT PRICING VERIFICATION

Market products are marked to market, when such market prices exist. Otherwise, they are valued using parameter-based models.

Firstly, each valuation model is independently validated by the Market Risk Department.

Secondly, the parameter values are subject to regular comparison with external sources:

- if there is a difference between the values used and the external sources, and if the sources are deemed reliable by the Market Risk Department, the values are aligned with the external data. This process, known as IPV (Independent Pricing Verification), contributes to the internal certification of the accounts;
- if there are no reliable external sources, a conservative valuation is made based on reserves whose calculation methods have been validated by the Market Risk Department.

METHODS FOR MEASURING MARKET RISK AND DEFINING LIMITS

The Group's market risk assessment is based on three main indicators, which are monitored through limits:

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

In accordance with CRD 3 (Capital Requirement Directive), the following indicators are also calculated on a weekly basis: stressed VaR, IRC (Incremental Risk Charge) and CRM (Comprehensive Risk Measure). The capital charges arising from these internal models complement the previous measure (VaR) so as to better take into account extreme risks (in particular rating migration and default) and to limit the procyclical nature of capital requirements.

99% VALUE AT RISK (VAR)

The Internal VaR Model was introduced at the end of 1996 and has been approved by the French regulator within the scope of the Regulatory Capital requirements.

The method used is the "historical simulation" method, which implicitly takes into account the correlation between all risk factors and is based on the following principles:

- storage in a database of 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.);
- definition of 260 scenarios, corresponding to one-day variations in these market parameters over a rolling one-year period;
- application of these 260 scenarios to the market parameters of the day;
- revaluation of daily positions, on the basis of the 260 sets of adjusted daily market parameters.

The 99% Value-at-Risk is the largest loss that would occur after eliminating the top 1% of the most adverse occurrences over a one-year historical period. Within the framework described above, it corresponds to the average of the second and third largest losses computed. The VaR assessment is based on a model and a certain number of conventional assumptions whose 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 losses arising beyond this point; VaR is therefore an indicator of losses under normal market conditions and does not take into account exceptionally large fluctuations;
- VaR is computed 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 indices are used instead of more detailed risk factors and not all of the relevant risk factors are taken into account, in particular due to difficulties in obtaining historical daily data.

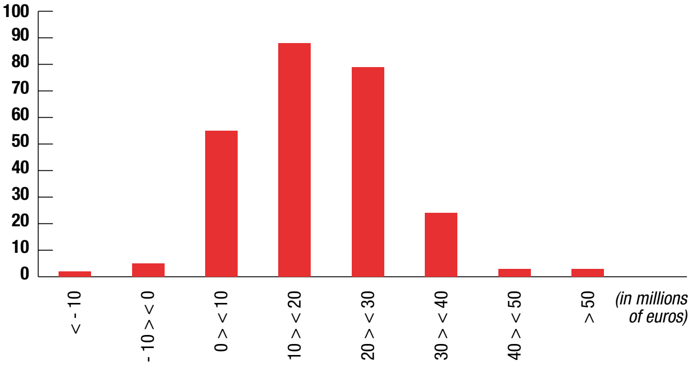
The Market Risk Department of the Risk Division mitigates the limitations of the VaR model by:

- performing stress tests and other additional measurements;
- assessing the relevance of the model through ongoing backtesting to verify whether the number of days for which the negative result exceeds the VaR complies with the 99% confidence interval.

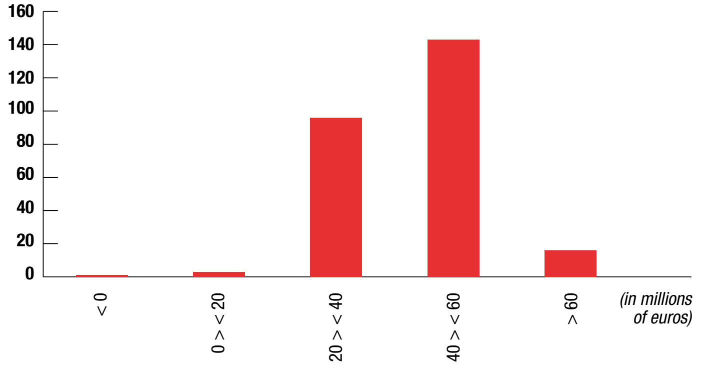
Daily profit and loss used for backtesting includes in particular the change in value of the portfolio (book value) and the impact of new transactions and of transactions modified during the day (including their sales margins), refinancing costs, the various related commissions (brokerage fees, custody fees, etc.), as well as provisions and parameters adjustments made for market risk. Some components calculated at various frequencies (for example, some adjustements for market risk) are allocated on a daily basis.

The following histograms show the distribution of this daily P&L over the last year, as well as the difference between daily P&L and VaR (negative values corresponding to any backtesting breaches): in 2013, losses were observed 7 times and daily P&L exceeded VaR once on the beginning of May 2013 due to a loss on a hedge position on MBIA.

BREAKDOWN OF THE DAILY P&L



DIFFERENCE BETWEEN VAR AND DAILY P&L

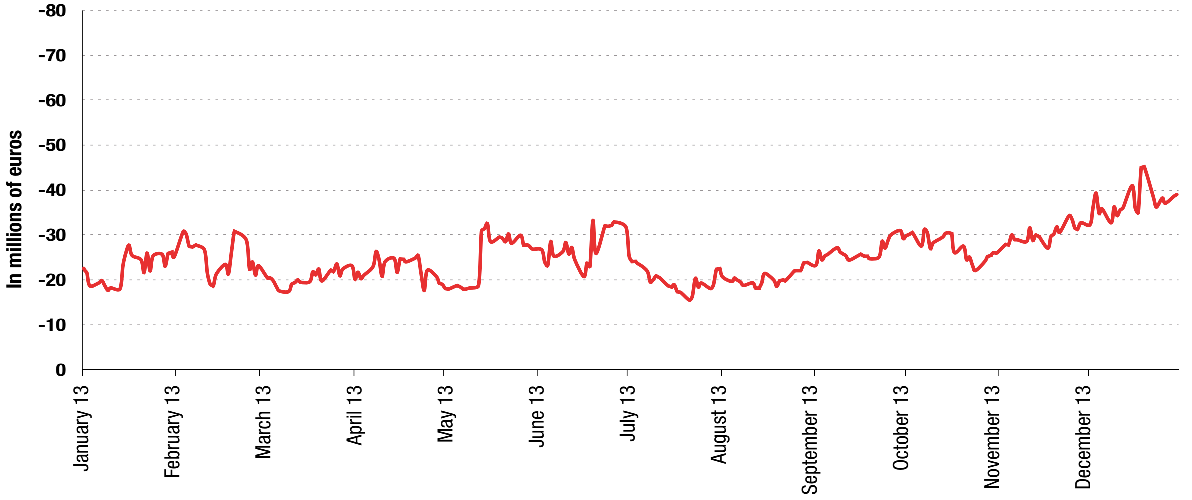


Today, the market risks for almost all of Corporate and Investment Banking's activities are monitored using the VaR method, including those related to the most complex products, as well as the main market activities of Retail Banking and Private Banking. The few activities not covered by the VaR method, either for technical reasons or because the stakes are too low, are monitored using stress tests and give rise to capital charges calculated using the standard method or through alternative in-house methods.

In 2013, the VaR model continued to improve. In particular, the shocks applied to sovereign bonds are now based on historic yield curve spreads (Z-spread), instead of shocks observed on CDS. This treatment allows capturing the basis between bond and CDS.

The changes in the Group's trading VaR in 2013, are presented below:

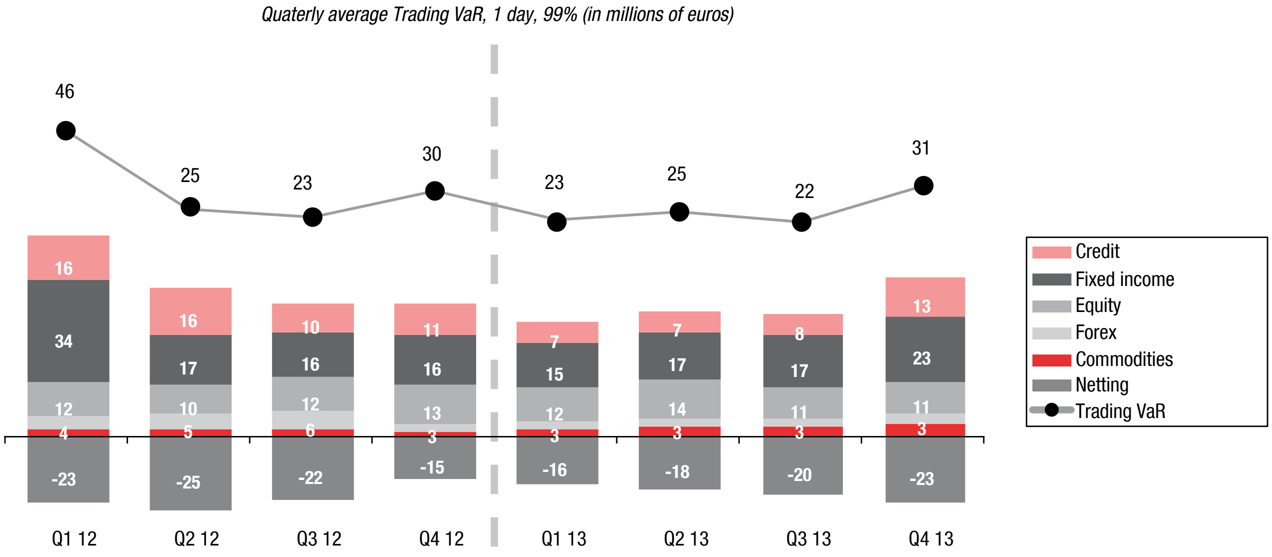
TRADING VAR (TRADING PORTFOLIOS) CHANGES OVER THE COURSE OF 2013 (1 DAY, 99%) (IN MILLIONS OF EUROS)



VAR 2013 (1 DAY, 99%)

(in EUR m)	Beginning of the year	End of the year	Minimum	Average	Maximum
VaR	**22.5**	**39.1**	**15.5**	**25.3**	**45.2**

BREAKDOWN BY RISK FACTOR OF TRADING VAR – CHANGES IN QUARTERLY AVERAGE OVER THE 2012-2013 PERIOD (IN MILLIONS OF EUROS)



Average VaR amounted to EUR 25 million for 2013 compared to EUR 31 million in 2012. VaR, which on average remained relatively low throughout 2013, was subject to the following changes:

- drop until mid-May, with a return to the historic lows seen in Q3 12 despite a relatively buoyant market backdrop (ample liquidity linked to proactive central bank policies), which is explained by the exit from the window used to calculate VaR of the scenarios at the end of 2011 when credit spreads were particularly volatile;
- spike from mid-May to June following the repurchase of positions and new scenarios linked to volatility on the fixed-income and credit markets;
- new decrease during the summer triggered by a drop in positions and the implementation of defensive strategies in an uncertain market environment following tensions on the emerging markets and the Fed's announcement of a possible tapering in monetary policy;
- lastly, a gradual increase in risk which accelerated in mid-September and at the end of the year due to a more favorable market environment: drop in tensions on the emerging markets, deferral in the tapering of the Fed's monetary policy until the start of 2014, and increase in the US debt ceiling.

STRESSED VAR (SVAR)

Societe Generale has been authorised by the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR - French Prudential and Resolution Supervisory Authority) to complement its internal models with the CRD3 measurements, in particular Stressed VaR, for the same scope as VaR.

The calculation method used is the same as under the VaR approach. This consists in carrying out a historical simulation with 1-day shocks and a 99% confidence interval. Contrary to VaR, which uses 260 *scenarios* for one-day fluctuations over a rolling one-year period, Stressed VaR uses a fixed one-year historical window corresponding to a period of significant financial tension.

The historical window, which is determined using a method approved by the regulator, captures significant shocks on all risk factors (risks related to equity, interest rates, foreign exchange rates and commodities). It is subject to an annual review.

SVAR 2013 (1 DAY, 99%)

(in EUR m)	Beginning of the year	End of the year	Minimum	Average	Maximum
SVaR	**33.3**	**75.4**	**33.3**	**55.1**	**83.0**

STRESS TEST ASSESSMENT

Methodology

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

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

This stress test risk assessment is applied to all of the Bank's market activities. It is based on a set of historical and theoretical scenarios that include the "Societe Generale Hypothetical Financial Crisis Scenario" (or "Generalised" scenario) based on the events observed in 2008. These scenarios apply shocks to all substantial risk factors including exotic parameters.

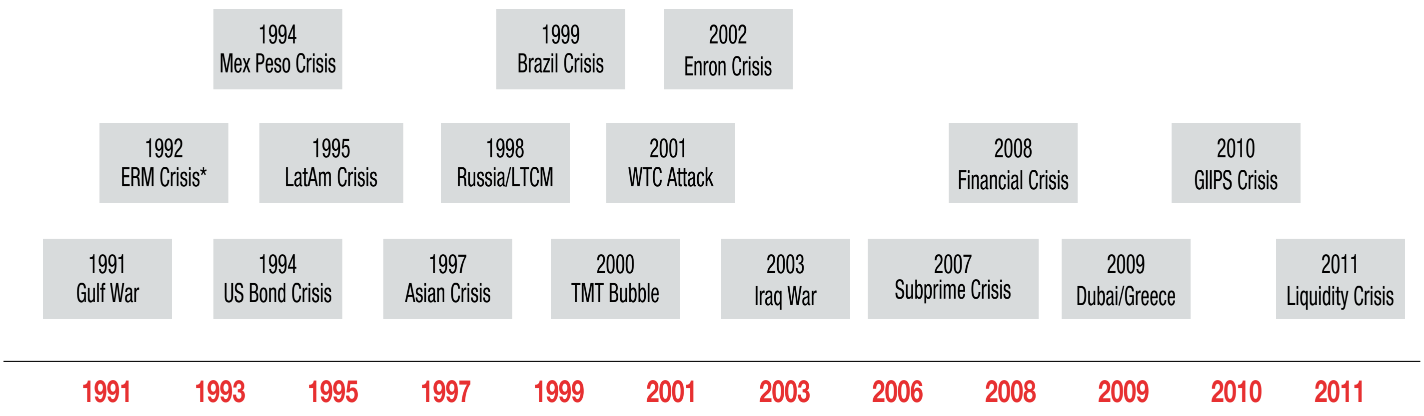
Together with the VaR model, this stress test risk assessment methodology is one of the main pillars of the risk management framework. The underlying principles are as follows:

- risks are calculated every day for each of the Bank's market activities (all products together), using the historical and hypothetical scenarios;
- stress test limits are established for the Group's activity as a whole and then for the Bank's various business lines. They frame the most adverse result arising from the set of historical and hypothetical scenarios.

The various stress test scenarios are revised and improved by the Risk Division on a regular basis, in conjunction with the Group's teams of economists and specialists In 2013, this stress assessment was based on a set of 34 scenarios (26 of which are historical scenarios and 8 hypothetical).

HISTORICAL STRESS TESTS

This method consists of an analysis of the major economic crises that have affected the financial markets since 1995 (a date from which the financial markets have become global and subject to increased regulatory requirements): the changes in the prices of financial assets (equities, interest rates, exchange rates, credit spreads, etc.) during each of these crises have been analysed 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 defined 26 historical scenarios.



* Exchange rate mechanism.

HYPOTHETICAL STRESS TESTS

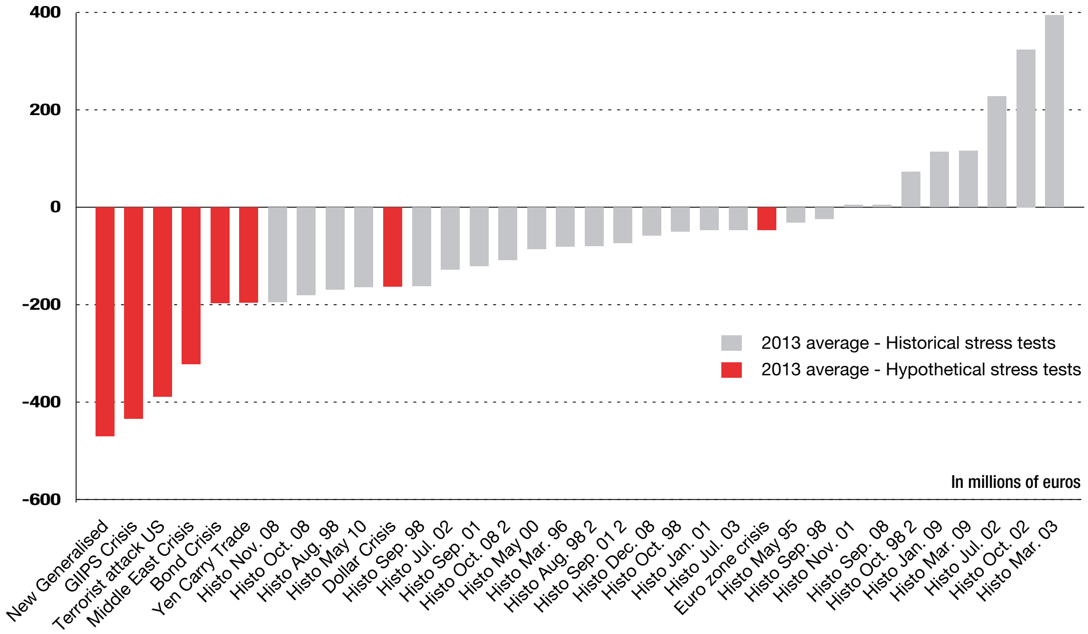
The hypothetical scenarios are defined with the Bank's economists and are designed to simulate the possible sequences of events that could lead to a major crisis in the financial markets (e.g. a major terrorist attack, some political instability in the main oil-producing countries, etc.). The Bank's aim is to select extreme but yet plausible events which would have major repercussions on all the international markets. Societe Generale has therefore adopted 8 hypothetical scenarios described below:

- **generalised (the Societe Generale Hypothetical Financial Crisis Scenario):** considerable mistrust of financial institutions after the Lehman Brothers' bankruptcy; collapse of equity markets, sharp decline in implied dividends, significant widening of credit spreads, pivoting of yield curves (rise in short-term interest rates and decline in long-term interest rates), substantial flight to quality;
- **GIIPS crisis:** mistrust in risky sovereign issuers and increased interest in higher-rated sovereign issuers such as Germany, followed by contagion of fears to other markets (equities, etc.);
- **Middle East crisis:** instability in the Middle East leading to a significant shock in oil prices and other energy sources, a stock market crash, and a steepening of the yield curve;
- **terrorist attack:** major terrorist attack on the United States leading to a stock market crash, strong decline in interest rates, widening of credit spreads and sharp decline of the US dollar;
- **bond crisis:** crisis in the global bond markets inducing the delinking of bond and equity yields, strong rise in US interest rates (and a more modest rise for other international rates), moderate decline on the equity markets, flight to quality with moderate widening of credit spreads, rise in the US dollar;

- **US dollar crisis:** collapse of the US dollar against major international currencies due to the deterioration of the US trade balance and budget deficit, rise of interest rates and narrowing of US credit spreads;
- **Eurozone crisis:** decline in euro exchange rates, sharp rise in Eurozone interest rates, sharp fall in euro equities and rise in US equities, significant widening of euro credit spreads;
- **Yen carry trade unwinding:** change in monetary policy in Japan leading to yen carry trade strategies being abandoned: significant widening of credit spreads, decline in JPY interest rates, rise in US and Eurozone long-term interest rates and flight to quality.

Average stress tests in 2013(1)

The scenarios leading to the largest potential losses are hypothetical scenarios, as illustrated in the chart below, which displays average stress tests amounts in 2013 by type of scenario. The potential losses generated by these scenarios remained relatively low on average, although slightly higher compared to 2012, in a favourable market environment on the whole: the central banks have continued to provide abundant liquidity and have strengthened market confidence in the Eurozone. Risk was taken while still manoeuvring, which allowed a quick decrease in stress tests in periods of uncertainty, particularly after the announcement by the Fed of a possible tapering in its monetary policy.



Market risk capital requirements

Societe Generale's capital requirements related to market risk (excluding securitisation) are essentially determined using an internal model approach (91% in 2013). Risk-weighted assets used to calculate capital requirements for market transactions are detailed on p.147.

Societe Generale received the approval of the ACPR to expand its internal market risk modelling system and, in particular to include Stressed VaR (VaR on one-year historical window corresponding to a period of significant financial tensions), IRC (Incremental Risk Charge) and CRM (Comprehensive Risk Measure), for the same scope as VaR. These last two measurements estimate the capital charge on debt instruments that is related to rating migration and issuer default risks. A constant 1 year liquidity horizon is used for the calculation of these two metrics. Capital charges are incremental, meaning they are added to charges calculated based on VaR and stressed VaR.

Societe Generale estimates its capital charges using a simulation model that distributes the various risk factors covered by regulatory requirements, while accounting for the relationships between these factors. IRC and CRM are 99.9% risk factors, which is the highest risk obtained after eliminating the 0.1% of most adverse occurrences.

(1) Excluding legacy assets.

These internal models are subject to the same governance as other internal models that meet the regulatory Pillar 1 requirements.

In particular:

- a weekly analysis is performed on these metrics;
- they are then compared with standard stress tests as defined by the regulator (25 historical scenarios);
- a review of model assumptions at least once a year and an ex-post consistency control are carried out;
- the methodology and its implementation were approved by the Group Internal Audit Division and the ACPR.

In accordance with the regulations, IRC is applied to debt instruments already measured using internal models other than securitisation and the correlation portfolio. In particular, this includes bonds, CDS and related derivative products.

CRM exclusively covers the correlation portfolio, i.e., CDO tranches for liquid issuers and “first-to-default” products as well as their hedging using CDS and indices. Aside from the credit-migration and default risk, the CRM also covers any other pricing risks (for example, spread, collection and correlation risks). Ultimately, the capital charge corresponds to the largest value between the charge calculated by the internal model and 8% of the charge calculated using the standard method for market risks.

2013 Figures

(In millions of euros)	Beginning of the year	End of the year	Minimum	Average	Maximum
IRC	**601.2**	**569.2**	**542.5**	**621.2**	**743.5**
CRM	**198.6**	**155.1**	**110.5**	**140.7**	**203.3**

TABLE 25: CAPITAL REQUIREMENTS BY RISK FACTOR

	Capital requirement		RWA	
(In millions of euros)	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Market risks assessed by internal model	**1,860**	**1,868**	**23,244**	**23,356**
VaR	477	460	5,961	5,752
Stressed VaR	643	605	8,038	7,565
Incremental risk charge (IRC)	585	603	7,307	7,543
Correlation portfolio (CRM)	155	200	1,938	2,496
Market risks assessed by standard approach	**244**	**423**	**3,051**	**5,282**
Specific risk on securitisation exposures on the trading book	67	149	840	1,866
Forex risk	105	214	1,316	2,672
Interest rate risk	62	51	772	642
Risk on securities	5	2	61	28
Risk on exposure to base product	5	6	61	74
Total	**2,104**	**2,291**	**26,295**	**28,637**

7. OPERATIONAL RISKS

OPERATIONAL RISK MANAGEMENT: ORGANISATION AND GOVERNANCE

Over the last few years, Societe Generale has developed processes, management tools and a control infrastructure to enhance the control and management across the Group of the operational risks that are inherent to its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans(1), New Product Committees(2) and functions dedicated to the oversight and management of specific types of operational risks, such as fraud, risks related to payment systems, legal risks(3), information system security risks(4) and non-compliance risks(5).

The Operational Risk Department

The Operational Risk Department within the Group's Risk Division works in close cooperation with operational risk staff in the Core Businesses and Corporate Divisions.

The Operational Risk Department is notably responsible for:

- running the Operational Risk function;
- devising and implementing Societe Generale's operational risk control strategy, in cooperation with the Core Businesses and Corporate Divisions;
- promoting an operational risk culture throughout the Group;
- defining, at Group level, methods for identifying, measuring, monitoring, reducing and/or transferring operational risk, in cooperation with the Core Businesses and Corporate Divisions, in order to ensure consistency across the Group;
- preparing a global Group business continuity plan (BCP) and crisis management policy, managing the policy and coordinating its implementation.

The operational risk function

In addition to the Operational Risk Department, the operational risk function includes Operational Risk Managers (ORMs) in the Core Businesses and Corporate Divisions, who are under the operational authority of the Group's Chief Operational Risk Officer.

ORMs operate throughout the Group's entities and are responsible for implementing the Group's procedures and guidelines, and for monitoring and managing operational risks, with the support of dedicated operational risk staff in the business lines and entities and in close collaboration with the respective entities' line management.

Operational Risk Committees have been set up at Group level, as well as at Business Division, Corporate Division and subsidiary levels.

OPERATIONAL RISK MEASUREMENT

Since 2004, Societe Generale has used the Advanced Measurement Approach (AMA), as proposed by the Capital Requirements Directive, to measure operational risk. This approach notably makes it possible to:

- identify i) the businesses that have the greatest risk exposures and, ii) the types of risk that have the greatest impact on the Group's risk profile and overall capital requirements;
- 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;
- in 2007, the *Autorité de Contrôle Prudentiel* (ACP - French Prudential Supervisory Authority) conducted an in-depth review of the system in place at Societe Generale. As a result, it authorised the Group to use the most advanced measurement approach, as defined by the Basel 2 Accord (i.e. the AMA or Advanced Measurement Approach) to calculate the Group's capital requirements for operational risks, starting from 1 January 2008. This authorisation covers more than 90% of the Societe Generale Group's total net banking income.

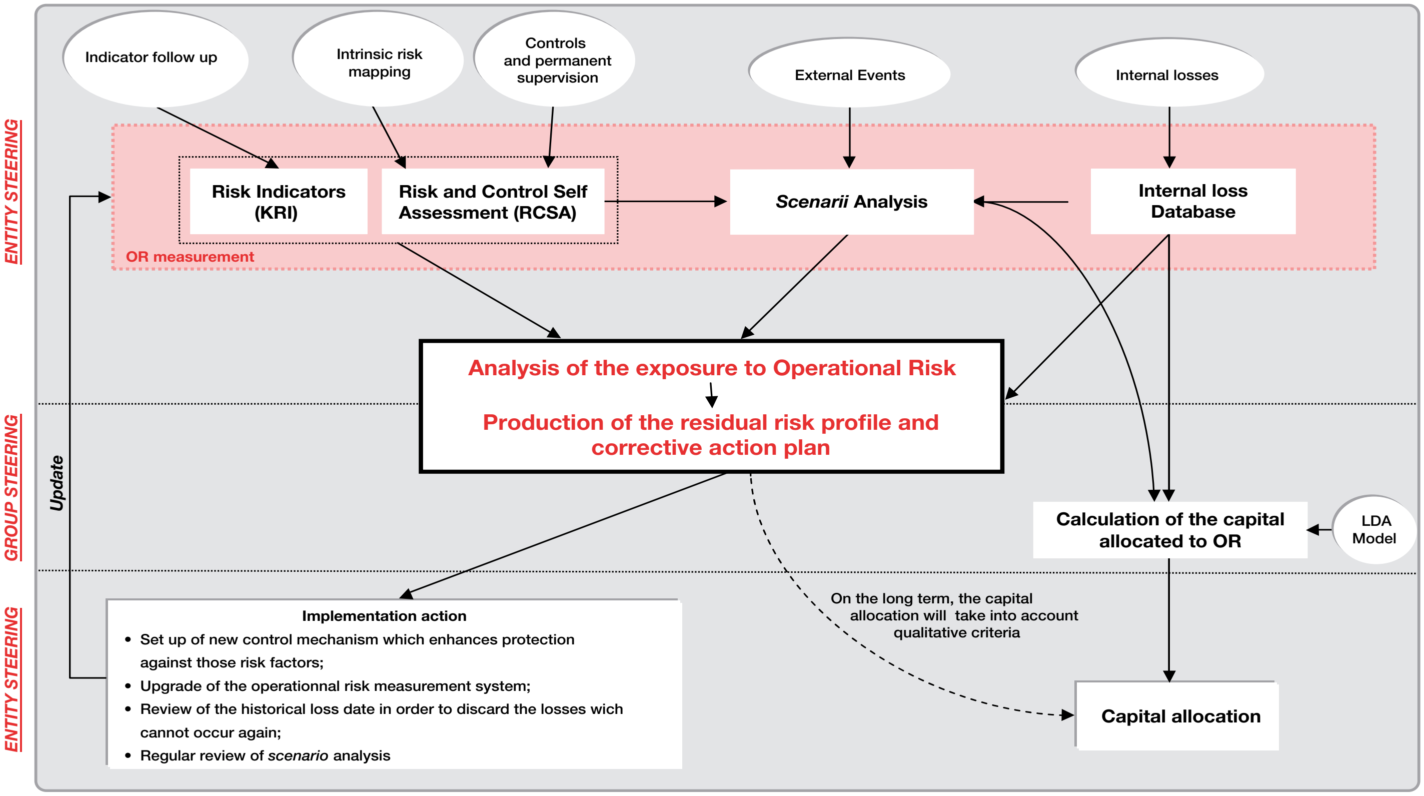
A few subsidiaries still use the standardised approach. A gradual transition to the advanced measurement approach is in place for some of them.

(1) See Chapter 3, page 110 and Chapter 4, page 184.
(2) See Chapter 3, page 113.
(3) See Chapter 4, page 197 and following.
(4) See Chapter 3, page 115-116.
(5) See Chapter 4, page 197 and following.

OPERATIONAL RISK MONITORING PROCESS

The frameworks specifically established by the Basel 2 regulations (the Capital Requirements Directive and "Sound practices for the management and supervision of operational risk") have been implemented, on the basis of existing procedures wherever possible, to support the "virtuous circle" referred to previously. They notably include:

- gathering of internal data on operational risk losses;
- Risk and Control Self-Assessment (RCSA) processes;
- Key Risk Indicators (KRI);
- scenario analyses;
- analysis of external loss data;
- crisis management and business continuity planning;
- combating fraud.



Societe Generale's classification of operational risks in eight event categories and 49 mutually exclusive sub-categories is the cornerstone of its risk modelling, ensuring consistency throughout the system and enabling analyses across the Group.

The eight event categories are the following:

Commercial disputes

Disputes with authorities

Pricing or risk valuation errors

Execution errors

Fraud and other criminal activities

Rogue trading

Loss of operating resources

IT system interruptions

Internal loss data collection

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

- define and implement the appropriate corrective actions (changes to activities or processes, strengthening of controls, etc.);
- build expertise in operational risk management concepts and tools;
- achieve a deeper understanding of their risk areas;
- help foster an operational risk culture throughout the Group.

The minimum threshold above which a loss is recorded is EUR 10,000 throughout the Group, except for Corporate and Investment Banking, where this threshold is EUR 20,000 due to the scope of its activity, the volumes involved and the relevance of regulatory capital modelling points. Below these thresholds, loss information is collected by the Group's various divisions but is not identified by the Operational Risk Department.

Risk and Control Self-Assessment (RCSA)

The purpose of Risk and Control Self-Assessment (RCSA) is to assess the Group's exposure to operational risks in order to improve their monitoring. Based on the results of other operational risk management frameworks (internal losses, KRI, etc.), risk areas identified by functions for their respective fields of expertise, and interviews with Group experts, its objectives are as follows:

- identifying and assessing the major operational risks to which each business is inherently exposed (the "intrinsic" risks), while disregarding prevention and control systems. Where necessary, risk mapping established by the functions (e.g. Compliance, Information Systems Security, etc.) contribute to the evaluation of intrinsic risks;
- assessing the quality of major risk prevention and mitigation measures, including their existence and effectiveness in detecting and preventing major risks and/or their capacity to reduce their financial impact;
- assessing the major risk exposure of each business that remains once the risk prevention and mitigation measures are taken into account (the "residual risk"), while disregarding insurance coverage;
- correcting any deficiencies in risk prevention and mitigation measures and implementing corrective action plans;
- facilitating and/or supporting the implementation of key risk indicators;
- adapting the risk insurance strategy, if necessary.

As part of this exercise, major risks of a given scope are described using a double scale of severity and frequency.

Key risk indicators (KRI)

KRIs supplement the overall operational risk management system, by providing a dynamic view of changes in business line risk profiles as well as a warning system. Regular KRI monitoring assists managers of the entities in their assessment of the Group's operational risk exposure obtained from the RCSA, the analysis of internal losses and scenario analyses, by providing them with:

- a quantitative, verifiable risk measurement;
- a regular assessment of the improvements or deteriorations in the risk profile and the control and prevention environment which require particular attention or an action plan.

KRIs that may have a significant impact on the entire Group are reported to the Group's General Management via a relevant KRI dashboard.

Scenario analyses

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

For the calculation of capital requirements, the Group uses scenario analyses to:

- measure its exposure to potential losses arising from low frequency/very high severity events;
- provide an expert's opinion of loss distribution for event categories whose internal loss data history is insufficient.

In practice, various *scenario*s are reviewed by experts, who gauge severity and frequency of the potential impacts for the Bank by factoring in internal and external loss data as well as the internal framework (controls and prevention systems) and the external environment (regulatory, business, etc.).

Analyses are undertaken for two types of scenarios:

- major Group stress scenarios, involving very severe events that cut across businesses and departments, having an external cause in most cases and requiring, if necessary, a business continuity plan (BCP). The scenarios of this type analysed so far have helped to develop the Business Impact Analysis aspects of the BCPs;
- business line scenarios that do not, strictly speaking, fall into the category of business continuity, but are used to measure the unexpected losses to which the businesses may be exposed. Specific actions are performed in order to prevent the portfolio from being diluted over too many scenarios and to maintain the system's focus on risks that could severely impact the Group.
- Governance is established in order to, notably:
  - allow the approval of the annual scenario update programme by the Risk Committee (CORISQ)
  - allow validation of the internal loss scenarios and frequency by the senior management of core businesses and Corporate Divisions, through internal control coordination committees (CCCI) for the departments involved or through *ad hoc* meetings;

– conduct an overall review of the Group's risk hierarchy and the appropriateness of scenarios through the "Expert Committees", chaired by the Group Chief Risk Officer and the Corporate Secretary;

Analysis of external losses

Societe Generale also uses externally available loss databases to enrich the identification and assessment of the Group's exposures to operational risks, by benchmarking internal loss records against industry-wide data.

Crisis management and business continuity planning

The crisis management and business continuity systems aim to mitigate as much as possible the impacts of potential damages on clients, staff and infrastructure, thus protecting the Group's reputation, its brands' image and its financial resiliency. The systems also meet a regulatory requirement.

The approach used to implement and optimise the business continuity systems of each Group entity is based on a methodology that meets international standards. It consists primarily in identifying risks to which the company is exposed as well as their possible impacts, implementing an effective response capability to withstand various crisis scenarios (including extreme shocks) and maintaining these systems to ensure they remain effective.

Combating fraud

The Group pays particular attention to preventing and detecting fraud. Losses due to fraud have dropped steadily since 2008, notably due to the implementation of effective systems in all business and corporate divisions. Since the end of 2009, an anti-fraud coordination unit within the Operational Risk Department has been supplementing these specific systems. Its primary goal is to be a centre of expertise in order to strengthen fraud prevention through Group-wide initiatives (training and awareness-raising) as well as to disseminate best practices issued from lessons learned from established or prevented cases of fraud, or to carry out more focused actions for evaluating and managing specific risks.

OPERATIONAL RISK MODELLING

The method used by the Group for operational risk modelling is based on the Loss Distribution Approach (LDA).

Under this approach, operational risks are modelled using segments, each segment representing a type of risk and a Group core business. The frequency and severity of operational risks, based on past internal losses, external losses, or scenario analyses, are estimated and the distribution of annual losses is calculated for each segment. This approach is supplemented by transversal scenario analyses that measure cross-business risks for core businesses, such as, for example, property destruction and pandemic risks.

Aside from the individual risks associated with each segment or cross-business scenario analysis, the model takes into account the diversification between various types of risks and core businesses, as well as the effect of insurance policies underwritten by the Group.

The Group's regulatory capital requirements for operational risks within the scope eligible for the AMA (Advanced Measurement Approach) internal model are then defined as the 99.9% quantile of the Group's annual loss distribution.

Societe Generale's capital requirements for operational risks were EUR 3.2 billion at the end of 2013, representing EUR 40.3 billion in risk-weighted assets. This assessment integrates capital requirements on both the AMA and Standard scopes.

Insurance cover in risk modelling

In accordance with regulations, Societe Generale incorporates risk cover provided by insurance policies when calculating regulatory capital requirements for operational risks, within the limit of 20% of said requirements.

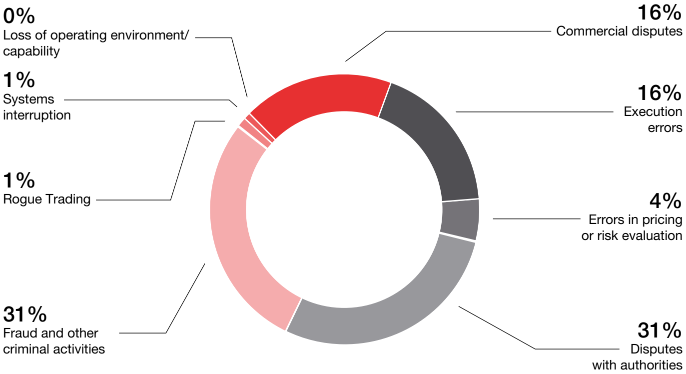
These insurance policies cover part of the Group's major risks, i.e. civil liability, fraud, fire and theft, as well as systems interruptions and operating losses due to a loss of operating resources.

Taking into account risk reduction through insurance policies results in a 19.2% reduction of total capital requirements for operational risks.

Quantitative data

The following chart breaks down operating losses by risk category for the 2009-2013 period.

OPERATIONAL RISK LOSSES: BREAKDOWN BY SOCIETE GENERALE RISK EVENT TYPE (FROM 2009 TO 2013)



Over the past five years, Societe Generale's operational risks were concentrated on average on four types, accounting for 96% of the Group's total operating losses:

- **Disputes with authorities** represented 31% of losses over the period. These became the main cause of losses (along with fraud) primarily due to the 2013 Euribor transaction, which alone accounted for 56% of total losses within this category. Other disputes with authorities were largely related to tax reassessments. The share of disputes with authorities in operating losses is expected to rise in a more challenging regulatory environment;
- **Fraud** also represented 31% of losses on average over the 2009-2013 period. These were distributed among several isolated cases involving large sums and a combination of much smaller losses, mostly involving forged documents approval process for the purposes of obtaining loans. Fraud was only the fourth most frequent source of new losses in 2013; in 2011 and 2012, it had been the most frequent. Special action plans have been undertaken in the various businesses, particularly since 2011. However, one must remain cautious given the challenging economic context, with tightened credit conditions, a rise in cybercrime and an increase in international and domestic payment fraud across distribution channels;
- **Execution errors** represented 16% of operating losses and were the third most frequent source of losses for the Group over the period. Although down since 2011, total losses from execution errors remain volatile, depending largely on transaction volumes and market instability;
- While **commercial disputes** only represented 16% of losses over the 2009-2013 period, they nonetheless were up from 2011 and became the second most frequent source of losses in 2013, after disputes with authorities. Disputes experienced by other banks (especially in the UK and US) call for constant vigilance, particularly regarding the selection of products sold, their compliance and the quality of their documentation.

The other categories of Group operational risks (rogue trading, IT system interruptions, pricing or risk valuation errors and loss of operating resources) were still fairly insignificant, representing barely 6% of the Group's losses on average over the 2009 to 2013 period.

OPERATIONAL RISK INSURANCE

Description of insurance policies

GENERAL POLICY

Since 1993, Societe Generale has implemented a global policy of hedging Group operational risks through insurance. This consists in looking on the market for the broadest and highest levels of guarantee with regard to the risks incurred and enabling all entities to benefit from these guarantees wherever possible. Coverage is taken out with leading insurers. Where required by local legislation, local policies are taken out, which are then reinsured by insurers that are part of the global programme.

In addition, special insurance policies may be taken out by entities which perform specific activities.

A Group internal reinsurance company intervenes in several policies in order to pool high frequency, low-level risks between entities. This approach contributes to the improvement of the Group's knowledge and management of its risks.

Description of coverage

GENERAL RISKS

Buildings and their contents, including IT equipment, are insured at their replacement value. The guarantee covering acts of terrorism abroad has been renewed.

Liability other than professional liability (i.e. relating to operations, Chief Executive Officers and Directors, vehicles, etc.) is covered by insurance policies around the world. The amounts insured vary from country to country to meet operating requirements.

RISKS ARISING FROM OPERATIONS

Insurance is only one of the measures to offset the consequences of the risks inherent in the Group's activity. It complements the risk monitoring policy led by the Group.

THEFT/FRAUD

These risks are included in the "Bankers Blanket Bond" policy that insures all the Bank's financial activities around the world. Fraudulent actions by an employee or by a third party acting on its own or with the aid of an employee with the intent to obtain illicit personal gain or through malice (which implies intent to harm the Group) are covered.

PROFESSIONAL LIABILITY

The consequences of any legal action against staff or managers as a result of their professional activity are insured under a global policy.

OPERATING LOSSES

The consequences of any accidental interruption to activity are insured under a global policy. This policy supplements the business continuity plans. The amounts insured are designed to cover losses incurred between the time of the event and the implementation of an emergency solution.

8. STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS

Structural exposure to interest rate risks encompasses exposures resulting from commercial activities and their hedging transactions and corporate centre for each of the Group's consolidated entities.

The interest rate and exchange rate risks linked to trading activities are excluded from the structural risk measurement scope as they belong to the category of market risks. The structural and market exposures constitute the total interest rate and exchange rate exposure of the Group.

The general principle is to reduce structural interest rate and exchange rate risks to the greatest extent possible within the consolidated entities. Wherever possible, commercial transactions are hedged against interest rate and exchange rate risks, either through micro-hedging (individual hedging of each commercial transaction) or macro-hedging techniques (hedging of portfolios of similar commercial transactions within a treasury department). Interest rate and exchange rate risks linked to corporate centre must also be hedged as far as possible excepted for some foreign exchange positions kept to immunise the solvency ratio.

ORGANISATION OF THE MANAGEMENT OF STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS

The principles and standards for managing these risks are defined at the Group level. The entities are first and foremost responsible for managing these risks. The ALM (Asset and Liability Management) Risks Control Departments of the Group Business divisions conduct Level 2 controls of the entities' structural risk management.

The Group Finance Committee, a General Management body:

- validates and oversees the structural risk monitoring, management and supervision system;
- reviews changes in the Group's structural risks through consolidated reporting by the Finance Division;
- examines and validates the measures proposed by the Group Finance Division.

The ALM Risk Control Department, which is part of the Finance Division is responsible for:

- defining the structural risks policies for the Group;
- defining the steering indicators and overall stress test scenarii of the different types of structural risks and setting the main limits for the business divisions and the entities;
- analysing the Group's structural risk exposure and defining hedging strategies;
- monitoring the regulatory environment concerning structural risk;
- defining of the ALM principles for the Group;
- defining the normative environment of the structural risk metrics;
- validating the models used by the Group entities with regard to structural risks;
- inventorying, consolidating and reporting on Group structural risks;
- performing controls of structural risk limits.

The ALM Risk Control Department reports to the Chief Financial Officer of the Group and is functionally supervised by the Chief Risk Officer, to whom it reports its activities and who validates its working plan jointly with the Chief Finance Officer. The ALM Risk Control Department is integrated in the Group Risk function in compliance with CRBF 97-02.

Entities are responsible for structural risk management

In this respect, entities apply the standards defined at the Group level, develop their models, measure their risk exposure and implement the required hedges.

Each entity has its own structural risk manager, who reports to the entity's Finance Department and is responsible for conducting first level controls and for reporting the entity's structural risk exposure to the Group Finance Division via a shared IT system.

Retail banking entities both in France and abroad generally have an ad-hoc ALM (Asset Liability Management) Committee responsible for validating the models used, managing their exposures to interest rate and exchange rate risks and implementing the hedging programmes in compliance with the principles set out by the Group and the limits validated by the Finance Committee.

STRUCTURAL INTEREST RATE RISK

Structural interest rate risk is measured within the scope of structural activities (transactions with clients, the associated hedging transactions and corporate center) for each of the Group's entities.

Structural interest rate risk arises mainly from the residual gaps (surplus or deficit) in each entity's fixed-rate forecasted positions.

Objective of the Group

The Group's main aim is to reduce each Group entity's exposure to structural interest rate risk as much as possible.

To this end, any residual structural interest rate risk exposure must comply with the sensitivity limits set for each entity and for the overall Group as validated by the Finance Committee. Sensitivity is defined as the variation in the net present value of future (maturities of up to 20 years) residual fixed-rate positions (surplus or deficit) for a 1% parallel increase in the yield curve (i.e. this sensitivity does not relate to the sensitivity of the annual net interest margin). The limit set at Group level is EUR 1 billion, representing an amount equal to 2.15% of its regulatory capital.

Measurement and monitoring of structural interest rate risks

Societe Generale uses several indicators to measure its interest rate risk. The three most important indicators are:

- interest rate gap analysis (the difference between outstanding fixed-rate assets and liabilities by maturity): the schedule of fixed rate positions is the main indicator for assessing the characteristics of the hedging operations required, it is calculated on a static basis;
- the economic value sensitivity is a supplementary and synthetic indicator used to set limits for the entities. It is calculated as the sensitivity of the economic value of the balance sheet to variations in interest rates. This measurement is calculated for all currencies to which the Group is exposed;
- the net interest margin sensitivity to variations in interest rates in various stress scenarios takes into account the sensitivity which is generated by future commercial productions over a three-year rolling horizon. It is calculated on a dynamic basis.

In order to quantify its exposure to structural interest rate risks, the Group analyses all fixed-rate assets and liabilities in the future. These positions come from transactions remunerated or charged at fixed rates and from their maturities.

Assets and liabilities are analysed independently, without any a priori matching. The maturities of outstanding assets and liabilities are determined on the basis of the contractual terms of transactions, models based on clients' historic behaviour patterns (particularly for regulated savings accounts, early loan repayments, etc.), as well as conventional assumptions relating to certain balance sheet items (principally shareholders' equity and sight deposits).

Once the Group has identified its fixed-rate positions (surplus or deficit), it calculates the sensitivity (as defined above) to interest rate variations. This sensitivity is defined as the variation of the net present value of the fixed-rate positions for a 1% instantaneous parallel increase in the yield curve.

In addition to this analysis, the Group also analyses the sensitivity to different yield curve configurations of the fixed rate position (steepening and flattening of the yield curve). The measurement of the net interest income sensitivity is also used by the Group to quantify the structural interest rate risk of significant entities.

Throughout 2013, the Group's overall sensitivity to interest rate risk remained below 1.5% of Group regulatory capital and within the EUR 1 billion limit.

The following observations can be made with regard to the business lines' structural interest rate risk:

- within the Societe Generale French retail networks, the outstanding amounts of customer deposits, generally considered to be fixed-rate, exceed fixed-rate loans for maturities over 1 year. Thanks to macro-hedging essentially through the use of interest rate swaps, the French retail networks' sensitivity to interest rate risk (on the basis of the adopted scenarii) has been kept inside its limits. At end of December 2013, the sensitivity of the French retail networks' economic value, based on their essentially euro-denominated assets and liabilities, was EUR 304 million;
- transactions with large corporates are generally micro-hedged and therefore present no residual interest rate risk;
- transactions with clients of the Specialised Financial Services subsidiaries are generally macro-hedged and therefore present only a very low interest rate risk;
- client transactions at our subsidiaries and branches located in countries with weak currencies can generate structural interest rate risk, which remains limited at the Group level. These entities may have problems in optimally hedging interest rate risk due to the weak development of the financial markets in some countries;
- proprietary transactions are well hedged. Residual positions are limited and arise primarily from shareholders' equity that has not been fully reinvested at expected maturities.

Sensitivity to interest rate variations of the Group's main entities represented EUR 291 million as at 31 December 2013 (for a 1% parallel and instantaneous rise in the yield curve). These entities account for 90% of the Group's outstanding loans.

TABLE 26: MEASUREMENT OF THE ENTITIES' SENSITIVITY TO A 1% INTEREST RATE SHIFT, AT 31 DECEMBER 2013, INDICATED BY MATURITY

(In millions of euros)

Less than one year	between 1 and 5 years	More than 5 years	**Total sensitivity**
70	(260)	481	291

The results of the gap measurements (difference between liability and asset outstandings, at a fixed rate, by maturity) for the same entities are as follows (liabilities minus assets/ figures in millions of euros):

TABLE 27: INTEREST RATE GAPS BY MATURITY AT 31.12.2013

(In millions of euros)

Maturities	1 year	3 years	5 years	7 years
Amount of gap	5 574	(23)	3,886	3,009

The Group analyses the sensitivity of earnings to variations in market interest rates using stress tests on the net interest margin.

At 31 December 2013, the Group's net interest margin sensitivity for 2014 was as follows:

TABLE 28: SENSITIVITY OF THE GROUP'S INTEREST MARGIN

(In M EUR) – o 31 December 2013	31.12.2013	31.12.2012
Parallel increase in interest rates of 200 bp	487.6	52.6
Parallel decrease in interest rates of 200 bp	(390.6)	(188.4)
Parallel increase in interest rates of 100 bp	245.0	5.0
Parallel decrease in interest rates of 100 bp	(200.5)	(111.3)
Steepening	6.5	(44.6)
Flattening	81.8	(42.5)

Calculations are based on aggregated estimates at 31 December of a scope of consolidated entities representing more than 80% of the total interest margin over a full year, excluding insurance.

The dynamic vision of the balance sheet varies according to the amortisation of outstanding transactions and transaction renewals based on outstanding amounts budgeted for 2014. The steepening assumptions used allow for a 100bp increase in long-term rates with short-term rates remaining constant. The flattening scenario used for the simulation allows for a 100bp increase in short-term rates with long-term rates remaining constant.

The Societe Generale Group's interest margin sensitivity over the full year 2014 is relatively low. In the event of a parallel shift in the yield curves of +200bp, the sensitivity is positive and represents less than 1.5% of regulatory capital.

The net interest margin sensitivity mainly stems from the impact on:

- customer deposits: generally little or no interest is paid on deposits, and pricing is only partly impacted by fluctuations in interest rates, as the margin on deposits is mainly derived from reinvestment rates;
- new loan production, for which pricing is not adjusted as quickly as market rates.

The margin sensitivity on outstanding customer transactions results from the renewal of amounts due on reinvested deposits, the residual sensitivity to interest rate variations, which is low thanks to hedging, and the use of variable-rate positions (this is the case for the majority of private banking commitments).

The French and International Retail Banking activities are favourably exposed to a rise in interest rates, as deposits can then be reinvested at higher rates, while margins on outstanding loans remain stable. This increase in margin is, however, partially offset by the fall in margins on new loan production (loan rates do not adjust as quickly as market rates) and by an increase in funding costs. Conversely, retail banking activities are unfavourably exposed to a fall in interest rates as deposits are then reinvested at lower rates and the margin on outstanding loans falls due to prepayments. This fall in margin is partially offset by the rise in margins on new loan production (customer loan rates do not fall as quickly as market rates) and by a reduction in funding costs.

In an environment of low interest rates with a probability that rates will rise, the retail networks' margin is favourably exposed to an increase in interest rates as this means that deposits can be reinvested at higher rates, while the margin on outstanding loans remains stable.

STRUCTURAL EXCHANGE RATE RISK

Structural exchange rate risk is mainly caused by:

- foreign-currency denominated capital contributions and equity investments financed through the purchase of foreign currencies;
- retained earnings in foreign subsidiaries;
- investments made by some subsidiaries in a currency other than the one used for their equity funding for regulatory reasons.

Objective of the Group

The Group's policy is to immunise its solvency ratio against fluctuations in the currencies it operates. To this end, it may decide to purchase currencies to finance very long-term foreign currency-denominated investments, thus creating structural foreign exchange positions. Any differences in the valuation of these structural positions are subsequently booked as translation differences.

Measurement and monitoring of structural foreign exchange rate risks

The Group quantifies its exposure to structural foreign exchange rate risks by analysing all assets and liabilities denominated in foreign currencies, arising from commercial transactions and the corporate center for each of the Group's entities.

Foreign exchange risk resulting from trading activities does not enter the perimeter of structural foreign exchange risk measure. It remains the scope of market risks. Structural foreign exchange positions thus represent only a part of the overall currency transactions of the Group Societe Generale. The foreign exchange transactions of the Group Societe Generale, as of 31 December 2013, are presented in table 29.

TABLE 29: FOREIGN EXCHANGE TRANSACTIONS

	31.12.2013				31.12.2012*			
(In millions of euros)	**Assets**	**Liabilities**	**Currencies bought, not yet received**	**Currencies sold, not yet delivered**	**Assets**	**Liabilities**	**Currencies bought, not yet received**	**Currencies sold, not yet delivered**
EUR	759,501	798,551	18,745	17,329	775,855	812,717	20,499	14,189
USD	274,042	235,627	44,610	42,048	238,438	210,808	30,975	35,509
GBP	45,940	33,880	3,179	7,667	50,243	51,228	4,144	3,231
JPY	41,283	43,911	9,847	8,458	36,984	36,260	6,705	5,844
AUD	4,307	4,168	6,232	4,887	6,549	6,527	2,154	1,626
CZK	27,335	29,064	157	403	29,107	30,361	91	331
RUB	4,762	6,515	221	96	18,230	14,697	205	414
RON	15,752	13,567	84	150	5,588	6,279	124	96
Other currencies	62,340	69,979	10,620	11,318	89,895	82,012	15,812	9,085
TOTAL	**1,235,262**	**1,235,262**	**93,695**	**92,356**	**1,250,889**	**1,250,889**	**80,709**	**70,325**

* Amounts restated with regard to financial statements published in 2012, further to the coming into force of the amendments in the standard IAS 19 which apply in retrospect.

The Group monitors structural exchange rate positions and manages the immunisation of the solvency ratio to exchange rate fluctuations.

Table 30 presents the impact on the Group Core Tier 1 ratio of a 10% currency depreciation or appreciation for 31 December 2013.

TABLE 30: SENSITIVITY OF THE CORE TIER 1 RATIO OF THE GROUP TO A CHANGE OF 10% OF THE CURRENCY (IN BASIS POINTS)

Currency	**Impact on the Core Tier 1 ratio of a currency depreciation of 10%**	**Impact on the Core Tier 1 ratio of a currency appreciation of 10%**
USD	6	(6)
GBP	2	(2)
JPY	(1)	1
AUD	1	(1)
CZK	(1)	1
RUB	1	(1)
RON	(1)	1
OTHERS	(2)	2

In 2013, the Group successfully neutralised the sensitivity of its solvency ratio to currency fluctuations by monitoring the structural positions in these currencies (the sensitivity of the solvency ratio is managed with limits per currency set according to the Group's risk Appetite in these currencies).

9. LIQUIDITY RISK

Liquidity risk is defined as the risk of not being able to meet cash flow or collateral requirements when they fall due and at a reasonable price.

GOVERNANCE AND ORGANISATION

The principles and standards applicable to the management of liquidity risks are defined by the Group's governing bodies, whose duties in the area of liquidity are listed below:

- The Group's Board of Directors:
  - meets on a quarterly basis to examine the Group's liquidity risk situation,
  - conducts an annual review of the liquidity risk management and steering system,
  - establishes the level of liquidity risk tolerance, including the time period during which the Group can operate under conditions of stress ("survival horizon") for the purpose of determining the Group's Risk Appetite,
  - monitors adherence to the main liquidity limits.
- General Management:
  - presents a framework of Group-wide liquidity risk tolerance levels to the Board of Directors for validation in line with the Group's risk appetite,
  - sets liquidity limits for each business division and major Group entity,
  - monitors adherence to liquidity limits for the Group and for each business division,
  - validates remedial action plans in the event that liquidity limits are exceeded at the Group or business division level.
- The Finance Committee:
  - meets at least quarterly under the chairmanship of the Chairman and Chief Executive Officer or a Deputy Chief Executive Officer with the representatives from the Risk Division and business divisions,
  - prepares the decisions of General Management in the areas of general policy, liquidity risk tolerance and liquidity limits,
  - ensures the adequacy of the risk management and control system,
  - examines and validates the measures proposed by the Departments,
  - monitors developments in the liquidity situation within the Group's scope of management.

The business divisions and major Group entities manage liquidity under the direct supervision of the Group Finance Division. The other operating entities are responsible for managing their own liquidity and for adhering to applicable regulatory constraints, under the supervision of the business division to which they report. The entities submit reports on their structural liquidity risk to the Group via a shared IT system.

The Group Finance Division provides liquidity risk management, steering and monitoring via three distinct entities in compliance with the principles advocating a separation of risk steering, execution and control functions.

- The Strategic and Financial Steering Department, responsible for:
  - establishing the Group's liquidity framework in compliance with its strategic objectives, regulatory requirements and market expectations,
  - ensuring that liquidity steering is in line with the Group's other objectives in terms of profitability and scarce resources,
  - adapting targets and limits for the businesses and monitoring their compliance,
  - monitoring the regulatory environment and developing liquidity steering standards for the business divisions.
- The Balance Sheet and Global Treasury Management Department, responsible for:
  - the operational implementation of the Group's financing through management of programmes and long-term issues,
  - supervising and coordinating the Group's Treasury functions,
  - monitoring the market and contributing its operational expertise to the establishment of liquidity steering objectives,
  - managing the collateral used in refinancing operations (central banks, covered bonds, securitisations, secured fundings),
  - managing the Group's central funding department (management of liquidity and shareholders' equity within the Group).
- The Structural Risk Monitoring and Control Department, responsible for:
  - supervising and managing the structural risks (interest rates, foreign exchange rates, liquidity) to which the Group is exposed;
  - defining the modelling standard and validating models, monitoring compliance with limit restrictions and management practices by the divisions, business lines and entities of the Group,
  - reporting hierarchically to the Chief Financial Officer and reporting functionally to the Group Chief Risk Officer.

In addition, several Risk Division departments contribute, together with the Finance Division, to the operational supervision of liquidity risk. Their actions are coordinated by the Cross-Business Risk Monitoring Department under the direction of the Group Chief Risk Officer. Specifically, they relate to:

- the independent review of capital market models;
- the validation of all the Group's liquidity models within the framework of centralised governance;
- the examination of requests for risk limits relating to liquidity risk metrics and the monitoring of any limit breaches.

GROUP'S PRINCIPLES AND APPROACH TO LIQUIDITY RISK MANAGEMENT

The Group's primary objective is to ensure the funding of its activities in the most cost-effective way by managing liquidity risk and adhering to regulatory constraints. The liquidity steering system is aimed at organising the balance sheet around a target structure for assets and liabilities that is consistent with the risk appetite defined by the Board of Directors.

- the assets structure should allow the businesses to develop their activities in a way that is liquidity-efficient and compatible with the target liabilities structure. This development must comply with the liquidity gaps defined at the Group level (under static and stress scenarios) as well as regulatory requirements;
- the liabilities structure is based on the ability of the businesses to collect financial resources from customers and the ability of the Group to sustainably raise financial resources on the markets, in accordance with its risk appetite.

This steering system calls for measuring and determining the businesses' liquidity gaps under reference and stress scenarios, their Group funding needs, the funds raised by the Group on the market, eligible assets and the businesses' contribution to regulatory ratios. Accordingly, the principles of liquidity management are as follows:

1. The businesses must observe low to nil static liquidity gaps within the operating limits of their activities by using to the Group's Central Treasury, which can, if needed, run a (anti) transformation position and manage it within the framework of the established risk limits.
2. Internal liquidity stress tests, established on the basis of the systemic, specific or combined scenarios, are controlled on the Group level. They are used to ensure compliance with the survival horizon established by the Board of Directors and to calibrate liquidity reserves. They are accompanied by a Contingency Funding Plan that foresees measures to be taken in the event of a liquidity crisis.
3. The businesses' funding needs (short-term and long-term) are determined on the basis of the development objectives for the franchise and in line with the Group's fund raising targets and capabilities.
4. A plan for long-term funding, which complements the resources raised by the business divisions, is designed to ensure the repayments of upcoming maturities and finance the growth of the businesses. It takes into account the Group's investment capabilities and aims to optimise the cost of fund-raising while complying with limits in terms of market concentration. Diversification in terms of issuers and investor pools is also examined and managed.
5. The Group's short-term resources are sized to finance the short-term needs of the businesses over periods appropriate to their management and in line with market concentration limits. As outlined above, they are proportioned with respect to the liquidity reserve on the assets side based on the established stress survival horizon as well as the Group's LCR target.
6. The Group's liquidity steering takes into account compliance with the target regulatory ratios (LCR, ACP liquidity ratio), as the businesses are supervised regarding their contribution to these ratios.

Finally, liquidity is framed in terms of cost via the Group's internal transfer pricing scheme. Funding allocated to the businesses is charged to them based on scales that must reflect the average liquidity cost for the Group. This system is aimed at optimising the use of external financing sources by businesses and is used to monitor the balance of funding on the balance sheet.

Societe Generale has undertaken a specific review of its liquidity risks and believes that it is able to meet its upcoming maturities.

REFINANCING STRATEGY

The Group's financing strategy is based on the following principles:

- the Group's stable funding resources (including shareholders' equity, customer deposits and medium/long-term market resources) finance the long-term needs of the businesses (including tangible and intangible assets, customer loans and the portfolio of available-for-sale or held-to-maturity securities);
- short-term market resources finance the Group's liquid assets, which are predominantly carried by GBIS' Global Markets business line;
- the Group maintains a liquidity reserve to cover ouflows in situations of stress.

MARKET FINANCING

The Group's market resources totalled EUR 240 billion at 31 December 2013. Of this total, EUR 124 billion have a remaining maturity of less than one year, of which EUR 24 billion correspond to debt securities issued with an initial medium/long-term maturity (more than one year).

The table below details the Group's market resources at 31 December 2013 according to their remaining maturities based on contractual management schedules.

	31.12.2013							
(In billions of euros)	**<3M**	**3-6M**	**6-12M**	**Sub-total < 1 YR**	**1-2 YRS**	**2-5 YRS**	**> 5 YRS**	**TOTAL**
Interbank deposits	25	2	3	31	3	5	4	42
Other customer deposits	14	0	0	15	0	0	0	15
Short-term issues	38	7	10	55	1	0	0	56
Public senior vanilla issues	1	1	2	4	8	7	5	24
Vanilla private placements	0	0	0	1	1	5	3	10
Covered bonds, CRH, SFEF	2	2	1	5	0	7	16	28
Structured issues(1), other	2	2	4	9	4	15	15	42
Subordinated debt(2)	0	0	0	1	1	3	3	7
LT debt of the business divisions(1)	1	1	2	5	6	4	1	15
TOTAL	**84**	**17**	**23**	**124**	**24**	**46**	**46**	**240**

(1) Net of the portion invested in the Group's retail banking networks. Structured debts scheduled according to likely redemption dates.
(2) Tier 2 debt instruments.

Group short-term market resources consist of unsecured notes issued under the Group's short-term programmes (Certificates of Deposit, promissory notes and commercial paper), and deposits from banks and financial customers. The majority of the short-term market resources are issued by the Group's Central Treasury to international institutional investors. The Group's Central Treasury adheres to diversification thresholds on its funding sources by counterparty and by currency.

Medium/long-term market resources (including the portion of securities originally issued with a maturity of more than one year and maturing within the year) totalled EUR 140 billion at 31 December 2013. These consist of long-term interbank liabilities (long-term credit lines granted by banks and international financial institutions, etc.), and medium/long-term debt securities, the breakdown of which reflects the Group's policy concerning the diversification of funding sources. The Group has access to large and complementary investor pools via:

- senior vanilla issues in the form of public issues or private placements;
- mortgage bonds issued by SG SFH and SG SCF vehicles and by Caisse du Refinancement de l'Habitat;
- senior structured issues issued by Societe Generale SA and distributed to institutional investors and, to a large extent, to individual customers (via retail and private banking networks belonging to the Group or its partners);
- subordinated debt (Tier 2 debt instruments) issued by Societe Generale SA, in addition to Group Tier 2 and Tier 1 issues booked to equity.

Furthermore, access to diversified investor pools is ensured by a wide array of Group issuers: Societe Generale SA, Crédit du Nord and the IBFS subsidiaries issuing secured (securitisations, mortgage bonds) and unsecured notes. IBFS issues, along with its deposit inflows and bilateral borrowings, are aimed specifically at increasing the financing independence of its subsidiaries as part of a strategy that has been stepped up since 2010.

With respect to market financing, the Group closely monitors the proportion of collateralised financing and the associated overcollateralisation rate. The objectives are to optimise the use of collateral available within the Group, comply with existing obligations and reduce overall refinancing costs.

Collateralised financing, recorded under market financing of the balance sheet, and the associated collateral are shown in the table below. This table does not include collateral used in repurchase agreements or securities lending transactions, or for funding obtained from central banks.

	31.12.2013			31.12.2012		
(In billions of euros)	**Collateral used**	**Funds raised**	**Collateral used/total outstanding loans**	**Collateral used**	**Funds raised**	**Collateral used/total outstanding loans**
Residential mortgages	28	20	31%	25	18	28%
Public sector loans	11	8	71%	10	8	58%
Loans to businesses	12	11	7%	11	9	6%
Other loans	5	3	7%	2	2	4%
Total	55	42	16%	49	38	14%

LIQUIDITY RESERVE

The Group's liquidity reserve (see methodology section No. 7 page 44) contains cash and assets that can be used to cover liquidity outflows under a stress scenario. The reserve assets are available, i.e. not used as a guarantee or as collateral on any transaction. They are included in the reserve after applying a haircut to reflect their expected valuation under stress. The Group's liquidity reserve contains assets that can be freely transferred within the Group or used to cover subsidiaries' liquidity outflows in the event of a crisis.

The liquidity reserve includes:

- Central Bank deposits, excluding mandatory reserves;
- High-Quality Liquid Assets (HQLAs), which are securities that are quickly transferable on the market via sale or repurchase transactions; these include government bonds, corporate bonds and equities listed on major indices (after haircuts). These HQLAs essentially meet the Basel Committee's eligibility criteria for the LCR, according to the most recent standards known and published by regulators. The haircuts applied to HQLA securities are in line with those indicated in the most recent known texts on determining the numerator of the LCR;
- Non-HQLA Group assets that are central bank-eligible, including receivables and securitisations of Group receivables held by the Group.

The composition of the liquidity reserve is reviewed regularly by a special committee comprising the Finance Division, the Risk Division and the Management of the GBIS business division, and is adjusted by authorisation of the Finance Committee.

(In billions of euros)	31.12.2013	31.12.2012
Central bank deposits (excluding mandatory reserves)	60	58
HQLA securities available and transferable on the market (after haircut)	78	74
Other available central bank-eligible assets (after haircut)	35	22
Total	**174**	**154**

The Group's liquidity reserve covered 140% of short-term funding needs at 31 December 2013 (market resources with residual maturities of less than one year).

REGULATORY RATIOS

Changes in liquidity management regulations are proposed by the Basel Committee at the international level.

The Basel Committee has prescribed the implementation of two standard ratios with harmonised parameters which are intended to regulate bank liquidity positions:

- The Liquidity Coverage Ratio (LCR) aims to ensure that banks have enough liquid assets or cash to survive for one month in a combined stress scenario of a market crisis and another specific crisis. This ratio is scheduled to come into force on 1 January 2015. The minimum ratio is set at 60% by 1 January 2015 with a gradual increase of 10% per year, reaching 100% by 1 January 2019;
- the Net Stable Funding Ratio (NSFR) compares funding needs with stable resources over a one-year period subject to a specific stress scenario. This ratio is scheduled to come into force on 1 January 2019.

The Basel Committee finalised most of its work on the revision and calibration of the LCR and published the revised text on 7 January 2013. The NSFR, however, is in the process of being reworked, and consultations with the profession on the proposed new definition of the ratio are planned for the first quarter of 2014.

The transposition of the Basel 3 accords, CRD4 and CRR1 into EU law was published on 27 June 2013 for implementation at 1 January 2014.

While the European Commission text confirms important items concerning the calculation of the LCR, it leaves the EBA to establish technical standards with regard to the definition and calibration of the ratio. The precise definition of the LCR will be adopted by a Commission delegated act no later than 30 June 2014, on the basis of the technical standards recommended by the EBA. With respect to the NSFR, the Commission is expected to present a new regulation to the Parliament and Council, after consulting the EBA, by 31 December 2016.

In 2013, Societe Generale actively continued its efforts to transpose the Basel text and implement it through Groupwide steering standards. The automation and monitoring of the LCR calculation has been ongoing since 2013 via the Group Liquidity IS.

Societe Generale's LCR was above 100% at 31 December 2013 and remained above 100% in each quarter of 2013. This reflects the significant efforts made to reinforce the Group's liquidity reserve since the crisis and the extension of the average maturity of its short-term liabilities. It also demonstrates the Group's ability to withstand a severe combined, specific and widespread liquidity crisis.

The Group's liquidity steering incorporates compliance with the ACP standard liquidity ratio (defined under French regulations in force), which remained systematically higher than the minimum requirements of 100% in 2013.

BALANCE SHEET SCHEDULE

The main lines comprising the Group's financial liabilities are presented in Note 32 to the consolidated financial statements, under the following template:

		31.12.2013				
(In billions of euros)	**Note to the consolidated financial statements**	**0-3M**	**3M-1YR**	**1-5 YRS**	**> 5 YRS**	**TOTAL**
Due to central banks		3,567	-	-	-	3,567
Financial liabilities at fair value through profit or loss, excluding derivatives	Note 6	187,810	17,636	21,998	44,742	272,186
Due to banks	Note 18	68,722	8,967	8,578	3,660	89,927
Customer deposits	Note 19	288,811	22,183	28,219	5,326	344,539
Securitised debt payables	Note 20	42,987	25,719	40,800	21,220	130,726
Subordinated debt	Note 26	145	364	3,942	2,059	6,510

Note: The scheduling assumptions for these liabilities are presented in Note 32 to the consolidated financial statements. In particular, the data are shown without provisional interest and excluding derivatives. Consequently, the impact of the debt revaluation linked to own credit risk and interest accrued at 31 December 2013 are not scheduled.

Symmetrically, the main lines comprising the corresponding financial assets are presented below.

		31.12.2013				
(In billions of euros)	**Note to the consolidated financial statements**	**0-3M**	**3M-1YR**	**1-5 YRS**	**> 5 YRS**	**TOTAL**
Cash, due from central banks	Note 5	65 179	623	714	87	66 602
Financial assets at fair value through profit or loss, excluding derivatives	Note 6	320 463	1 268	-		321 731
Available-for-sale financial assets	Note 8	114 362	18 433	-	1 769	134 534
Due from banks	Note 9	69 272	7 360	6 299	1 905	84 836
Customer loans	Note 10	83 588	43 797	113 651	92 660	333 696
Lease financing and similar agreements	Note 12	2 280	4 941	14 266	6 238	27 725

It should be noted that due to the nature of its activities, Societe Generale holds derivative products and securities whose residual contractual maturities are not representative of its activities or risks.

By convention, the following residual maturities were used for the classification of financial assets:

1. Assets measured at fair value through profit or loss, excluding derivatives (customer-related trading assets):
   - Positions measured using prices quoted on active markets (L1 accounting classification): maturity of less than 3 months;
   - Positions measured using observable data other than quoted prices (L2 accounting classification): maturity of less than 3 months;
   - Position measured mainly using unobservable market data (L3): maturity of 3 months to 1 year.
2. Available-for-sale assets (insurance company assets and Group liquidity reserve assets in particular):
   - Available-for-sale assets measured using prices quoted on active markets: maturity of less than 3 months;
   - Bonds measured using observable data other than quoted prices (L2): maturity of 3 months to 1 year;
   - Finally, other securities (shares held long-term in particular): maturity of more than five years.

As regards the other lines comprising the balance sheet, other assets and liabilities and their associated conventions can be broken down as follows:

OTHER LIABILITIES

	31.12.2013						
(In billions of euros)	**Note to the consolidated financial statements**	**Not scheduled**	**0-3M**	**3M-1YR**	**1-5 YRS**	**> 5 YRS**	**TOTAL**
Revaluation difference on portfolios hedged against interest rate risk		3,706					3,706
Tax liabilities	Note 14			1,275		364	1,639
Other liabilities	Note 21		59,761				59,761
Non-current liabilities held for sale				4			4
Underwriting reserves of insurance companies	Note 32		7,480	6,522	24,843	58,322	97,167
Provisions	Note 23	3,829					3,829
Shareholders' equity		54,101					54,101

OTHER ASSETS

	31.12.2013						
(In billions of euros)	**Note to the consolidated financial statements**	**Not scheduled**	**0-3M**	**3M-1YR**	**1-5 YRS**	**> 5 YRS**	**TOTAL**
Revaluation differences on portfolios hedged against interest rate risk		3,047					3,047
Held-to-maturity financial assets	Note 13					989	989
Tax assets	Note 14	7,337					7,337
Other assets	Note 15		55,895				55,895
Non-current assets held for sale				116			116
Investments in subsidiaries and affiliates accounted for by the equity method						2,129	2,129
Tangible and intangible fixed assets	Note 16					17,624	17,624
Goodwill	Note 17					4,972	4,972

1. Revaluation differences on portfolios hedged against interest rate risk are not scheduled, as they comprise transactions backed by the portfolios in question. Similarly, the schedule of tax assets whose schedule would result in the early disclosure of income flows is not made public.
2. Held-to-maturity financial assets have a residual maturity of more than five years.
3. Other assets and Other liabilities (guarantee deposits and settlement accounts, miscellaneous receivables) are considered as current assets and liabilities.
4. The notional maturities of commitments in derivative instruments are presented in Note 32 to the consolidated financial statements. The net balance of transactions in derivatives measured at fair value through profit or loss on the balance sheet is EUR 3,419 million (current trading < 3 months, see Note 6 to the consolidated financial statements).
5. Non-current assets held for sale have a maturity of less than 1 year, as do the associated liabilities.
6. Investments in subsidiaries and affiliates accounted for by the equity method and Tangible and intangible fixed assets have a maturity of more than 5 years.
7. Provisions and shareholders' equity are not scheduled.

10. COMPLIANCE, REPUTATIONAL AND LEGAL RISKS

COMPLIANCE

Compliance means to act in accordance with the applicable banking and financial rules, whether these are legal or regulatory, or relevant professional, ethical or internal standards.

Fair treatment of customers and, from a more general standpoint, the integrity of banking and financial practices contribute decisively to the reputation of our institution.

By ensuring that these rules are observed, the Group is working to enhance a key asset, namely the trust of its customers, other counterparties and employees, as well as the various regulatory authorities to which it answers.

The Compliance System

Independent compliance structures have been set up within the Group's different businesses around the world in order to identify and prevent any risks of non-compliance.

The Group's Corporate Secretary is the Chief Compliance Officer.

He is assisted in these duties by the Compliance Department, the Group Compliance Committee, and a compliance function consisting of a coordinated network of Compliance Officers operating in all Group entities.

THE COMPLIANCE DEPARTMENT

In September 2013, the Compliance Department was reorganised into three cross-business departments responsible for: (i) the Group's financial security (prevention of money laundering, terrorism financing and tax fraud; "know your customer" obligations; embargoes and financial sanctions; the fight against corruption), (ii) the development and maintenance of consistent standards for the function and for spreading compliance values, (iii) the management of IT tools and the system of compliance controls within the Group.

The Compliance Department verifies that all laws and regulations as well as compliance rules and principles applicable to the Group's banking and investment services activities are observed, and that all staff respect codes of good conduct and individual compliance. It also monitors the prevention of reputational risk. It provides expertise and performs controls at the highest level for the Group and assists the Corporate Secretary with the day-to-day operation of the function.

Its main tasks are namely: to define, in accordance with the regulators' requests and legal or regulatory requirements, the policies, principles and procedures applicable to compliance and financial security, and to manage their implementation and monitor their application:

- to ensure that professional and financial market regulations are respected;
- to prevent and manage conflicts of interest;
- to propose the ethical rules to be respected by all Group employees;
- to train and advise employees and raise their awareness of compliance issues;
- to ensure that the role of Head Compliance Officer (RCO) is performed under adequate conditions, by setting out the RCO's prerogatives, ensuring that they have the necessary resources, tools and normative framework while monitoring their correct implementation;
- to build and implement steering and organisation tools for the structure: dashboards, forum to share best practices, bimonthly meetings of the Core Business Head Compliance Officers committee;
- to coordinate relations between Group entities and French and foreign regulators on matters relating to compliance;
- to generally monitor issues likely to be harmful to the Group's reputation.

THE GROUP COMPLIANCE COMMITTEE

The Group Compliance Committee meets once a month and is chaired by the Group's Corporate Secretary. The Committee examines current topics pertaining to compliance, reviews the most significant incidents that occurred over the period across the entire Group and decides on the actions to be taken, and monitors any changes in regulations. Aside from representatives from the Compliance function, the Head of Group Internal Control Coordination and representatives from General Inspection, the operational Risk Department and the Legal Department take part in the Committee.

THE COMPLIANCE FUNCTION

The Compliance function is carried out in the business and corporate divisions by dedicated teams operating under the authority of Compliance Officers. The Compliance Department supervises the function within its own governance framework.

The 2013 reorganisation tightened the compliance control system for the businesses, which now comprises four dedicated teams: Group Retail Banking, Private Banking, Investment Banking and Investor Services and Insurance. These teams are under the hierarchical authority of the Head of the Compliance Department, except for Insurance, which remains under the Head's operational authority. French and international subsidiaries continue to be under the Head's operational authority, but under closer supervision. Hierarchical authority over French Retail Banking will come into effect in 2014.

The Compliance Officers implement the governance and principles defined at Group level within their remit. They contribute to the identification and prevention of compliance risks, the validation of new products, the analysis and reporting of compliance anomalies, the implementation of corrective measures, staff training and the promotion of compliance values throughout the Group. They notably rely on a pyramid structure of business line or subsidiary RCOs under their hierarchical or operational authority.

The objectives of the compliance function's structure are:

- centralising the Group's compliance specialists with the goal of developing expertise in this area;
- setting up cross-business functions aimed at disseminating and harmonising compliance values throughout the Group, covering all the Group's business and corporate divisions;
- establishing a clear separation between the advisory and control functions;
- simplifying the system in order to improve information flow and decision-making.

GROUP FINANCIAL SECURITY SYSTEM

The Group Financial Security Department relies on the Head Compliance Officers for the businesses and also on an organised network of FCOs (Financial Crime Officers). It is responsible for:

- defining the standards and policy applied at the Group level, in cooperation with the legal department, monitoring its implementation and circulating new regulatory provisions while providing guidelines for operational departments, particularly through a dedicated compliance portal;
- organising and managing the Financial Security system within the Group, as well as raising the awareness of the compliance function and business lines regarding these particularly complex and evolving topics;
- reporting suspicious activity to TRACFIN for all of the Group's French entities (except Crédit du Nord and Boursorama Banque), as well as reporting asset freezes to and requesting approval from the French Treasury for Societe Generale SA. For entities established outside France, the FCOs report suspicious activity to the local authorities.

Compliance values

Compliance and adherence to ethical rules that meet the profession's highest standards are part of the Societe Generale Group's core values. These values are shared by all of its staff and not just by a handful of experts.

The Group has developed a strict body of compliance procedures and rules of good conduct. The Group's Code of Conduct was rewritten in the form of a directive in January 2013. These rules go beyond applicable legal and regulatory provisions, particularly in countries that do not meet Societe Generale's own ethical standards.

In the banking sector, compliance values are primarily about:

- refusing to work with customers or counterparties for which it is not possible to gather enough information to meet due diligence standards;
- knowing how to assess the economic legitimacy of a transaction;
- being able to justify an adopted position under any circumstances.

Accordingly, the Group:

- does not carry out transactions within countries, and does not enter into relations with individuals or businesses, whose activities fall outside of the law or are contrary to the principles of responsible banking;
- refuses to conduct transactions for clients or counterparties if it is unable to determine the economic legitimacy of these transactions, or where the lack of transparency suggests they may be contrary to accounting and compliance principles;
- provides information that is accurate, clear and not misleading on the products and services it proposes and verifies that said products and services are suited to customer needs;
- has established whistleblowing rights which can be exercised by any employees who believe they have good reason to think that an instruction received, a transaction under review or, in general, a given situation is not in compliance with the rules that govern the conduct of the Group's activities.

Societe Generale has very strict rules on the prevention of corruption, which are included in the Code of Conduct and comply fully with the strictest regulation on the matter, particularly the UK's Bribery Act. Their implementation is closely monitored. Information concerning obligatory measures and controls has been disseminated and applied throughout the Group since 2001 in the form of instructions, which are updated on a regular basis.

IT applications dedicated to compliance

Various IT applications have been developed with the aim of ensuring compliance with current regulations and detection abuses or situations requiring special attention:

- profiling/scenario management tools that trigger alerts on identifying unusual account flows or transactions, particularly for retail banking. They particularly apply in the prevention of terrorism financing and money laundering, and in the detection of market abuse, price manipulation and insider trading;
- tools used to filter data based on pre-defined lists (internal lists, external databases, etc.) that trigger alerts on detecting people, countries or activities targeted by sanctions and embargoes;
- risk reporting/evaluation tools that provide reports/statements on specific characteristics of an entity, core business, business line or client in order to notify the relevant authorities (management, senior management, regulators, etc.). Of particular note: a tool for mapping and assessing compliance risks and for following up on action plans, a reporting tool for personal transactions, a set of tools for managing lists of persons holding inside information and conflicts of interests, a cross-business tool for meeting the Group's regulatory obligations, particularly regarding disclosure when share ownership thresholds have been exceeded.

These tools are regularly updated to incorporate regulatory changes and improve their efficiency.

2013 Initiatives

LAUNCH OF A MAP OF THE GROUP'S COMPLIANCE TOOLS

These tools were mapped in 2013 throughout Group scope. The map is intended to improve coverage of matters relating to compliance by using proven tools and standards and to minimise costs by giving preference to standardisation and pooling when applicable. This approach will lead to a convergence plan in mid-2014.

FURTHER INITIATIVES TO SPREAD THE GROUP'S COMPLIANCE VALUES

Key examples include:

- in terms of training, the focus was on e-learning. Of particular note was the ongoing distribution of the "anti-corruption" training module, and the rollout of new training on "preventing reputational risk". In terms of the prevention of money laundering and terrorism financing, a module reviewing key concepts was prepared in order to round out the existing system. Furthermore, case studies intended for the employees directly involved were designed and rolled out;
- the Group, as steered by the Corporate Secretary and Group Chief Compliance Officer, continued its initiative to upgrade the documentation system for standards and guidelines and establish consistency between documents. This project covered all standard-setting documentation, particularly with the mandatory integration of the major standards and procedures issued by Core Businesses and Corporate Divisions into the central system. It also ensured that the Group structure was fully covered by the directives issued by General Management; 185 standard-setting documents (directives, instructions, manuals…) were issued in 2013, compared to 211 in 2012 and 148 in 2011. Finally, the project to overhaul the central application for managing and producing standard-setting documents was completed;
- ongoing adaptation to new national and supranational regulations continued in 2013, with special emphasis on the DFA (Dodd-Frank Act), EMIR (European Market Infrastructure regulation) and FATCA (Foreign Account Tax Compliance Act) (see box below).

DFA (Dodd-Frank Act)

The US Dodd-Frank Act (DFA) reforms, especially its Title VII section, **aims to regulate trading of most over-the-counter derivatives on organised markets and electronic platforms as well as how they are cleared through clearing houses.** The European equivalent of this new regulatory system was launched with the MiFID system in 2007 and is ongoing, especially with the EMIR, Market Abuse II and MiFID II reforms.

DFA follows commitments made by the G20 at the Pittsburgh summit in September 2009. In particular, these obligations are imposed on "swap dealers", i.e. financial institutions whose dealings in over-the-counter derivatives with US counterparties are above a certain threshold. Societe Generale and all of its branches are registered as "swap dealers" with the US authorities. The first provisions of the Act came into force on 31 December 2012, with the rest scheduled to come into effect over the course of 2013 and 2014.

For more than three years, Societe Generale has been conducting an overhaul of trading and transaction processing procedures in all of its branches to ensure they comply with the new DFA requirements.

In this respect, Societe Generale is implementing and rolling out processes and new rules intended to:

- ensure clients are protected by offering products adapted to their needs, by sending them complete information on products and, in general, by implementing an advanced compliance programme;
- direct and execute orders on organised markets or platforms;
- transmit executed orders to central clearing houses, which will then carry out daily margin calls;
- ensure that transactions that are not cleared by a clearing house are secured bilaterally;
- declare all over-the-counter derivative transactions in real time;
- maintain an audit trail for all stages of negotiating and processing transactions.

EMIR (European Market Infrastructure Regulation)

EMIR is the European equivalent of the US Dodd-Frank Act in terms of provisions governing post-trade activities. The EMIR regulation, passed on 4 July 2012, entered into force on 16 August 2012, but its effective application depends on the gradual adoption of a certain number of technical standards by European regulatory authorities. Like the Dodd-Frank Act, EMIR was adopted after the 2008 financial crisis and the G20 summit in Pittsburgh aimed at creating a framework for over-the-counter (OTC) derivatives. EMIR imposes three kinds of obligations:

- Clearing for OTC derivatives considered by ESMA to be eligible for clearing (this should not come into effect before the second half of 2014);
- Establishment of measures to reduce risks on derivatives not cleared by a central counterparty. Some of these obligations entered into force on 15 March and 15 September 2013. The most important of these is related to the exchange of collateral for non-cleared derivatives,and should only enter into force in December 2015.
- Reporting OTC derivatives or derivatives negotiated on execution platforms to central repositories. This obligation will enter into force on 12 February 2014.

All EMIR obligations will apply to financial counterparties. They will also apply to non-financial counterparties that have exceeded certain clearing thresholds. Non-financial counterparties that have not exceeded these clearing thresholds will be subject to neither the clearing nor the collateral exchange obligations.

For those active in the derivatives market, such as Societe Generale, EMIR imposes requirements regarding operational and IT development, customer classification and contractual documents.

Although some items need further clarification, Societe Generale has already taken the necessary measures to comply with the new regulatory framework. Furthermore, we have sent several notifications to our clients in order to make it easier for them to comply with the new regulation.

FATCA (Foreign Account Tax Compliance Act)

FATCA, which is scheduled to come into force on 1 July 2014, makes non-US financial intermediaries responsible for identifying US taxpayers in their client databases in order to report income that directly or indirectly benefits these taxpayers to the US Internal Revenue Service (IRS). This law has a vast **extra-territorial reach,** as it imposes obligations on a broad assortment of financial intermediaries.

Since the end of 2012, FATCA has progressed according to an **alternative approach using intergovernmental agreements** between the United States and other countries, with the goal of resolving national legal obstacles (banking secrecy, data protection) and making it easier for financial intermediaries to implement the regulation.

A dozen countries, including France, have already signed this type of agreement, which will be enacted in national legislation to make FATCA implementation obligatory. This approach taken by US authorities is the subject of ongoing negotiations with many other countries.

The Societe Generale Group will ensure that all of its relevant financial institutions fully comply with FATCA using **an internal control system structured around Core Business Compliance Officers.**

271 Group entities have been identified as having more or less broad regulatory obligations depending on their locations.

ENHANCEMENT OF THE NON-COMPLIANCE RISK IDENTIFICATION AND MANAGEMENT SYSTEM:

2013 saw continued progress in our approach to non-compliance risks:

- the identification and classification of main risk areas by reviewing all regulations in force and carrying out initiatives to promote compliance with them (training, distribution of instructions, implementation of related procedures and controls, etc.), a process already implemented by Investment Banking, has gradually expanded in 2013 to include International Retail Banking;
- the “normative controls” for non-compliance risks, which correspond to general cross-business controls for the whole Group, have now been widely deployed. A tool for consolidating results has been established and led to several tests being carried out in 2013. A report on this system’s effectiveness has been planned for the second half of 2014;
- in addition, the Group’s most significant anomalies are reported to the Group Compliance Committee as part of a structured framework, using an application redefined in 2012 and enhanced with new information in 2013. This is an opportunity to exchange and share best practices. The sanctions that may be imposed on the Group are analysed in depth and systematically give rise to corrective measures;
- finally, the Group’s reputational risk is monitored each quarter using a specific dashboard that since 2012 has been distributed to members of the Executive Committee on a quarterly basis, and to the Board of Director’s Audit, Internal Control and Risk Committee twice annually. In 2013 this dashboard was enhanced with a CSR component and now focuses on three major topics: relations with regulators, public opinion and the quality of internal processes.

IMPLEMENTATION OF COMPLIANCE POLICIES

THE GROUP'S FINANCIAL SECURITY

Prevention of money laundering, terrorism financing and tax fraud

The main events in 2013 were:

- the overhaul of the Group Instruction on the fight against money laundering, terrorism financing and tax fraud in Societe Generale Group outside France;
- various adjustments made to adapt to regulatory changes:
  - a project was launched to establish systematic reporting of information (COSI) to TRACFIN,
  - the prevention of tax fraud is a major part of the the Financial Security department's activity.

Know Your Customer

Group standards established in 2012 continue to be operationally implemented in all of the bank's businesses. The implementation process provided the opportunity to review the Know Your Customer system. Integrating data gathered from information systems through this process is a major challenge for the future and structural projects have been launched in conjunction with all of the departments involved.

Embargoes and financial sanctions

The main events in 2013 were:

- a training campaign on embargoes and financial sanctions, particularly in French Retail Banking;
- the standardisation of controls and filtering tools was begun, along with their deployment throughout the Group.

EMPLOYEE TRANSACTIONS

Observation of the Compliance Charters is a constant obligation within the Societe Generale rules of conduct. Procedures and their proper application are constantly monitored. In 2013, emphasis was placed on supervision of external personnel.

BREACH OF SHARE OWNERSHIP THRESHOLDS

The cross-business tool for monitoring share ownership thresholds, SSD, ensures worldwide (90 countries) compliance with regulations regarding the breach of share ownership thresholds (legal, statutory, or during public offer periods). It monitors holdings of shares and derivatives for which the underlying securities are shares in Societe Generale Group, calculated according to the rules outlined by each country's laws.

FIGHT AGAINST CORRUPTION

The application of the instruction published at the end of 2011 was closely monitored during the compliance reviews of each business presented at Group Compliance Committee meetings. E-learning modules continued to be distributed in 2013. Finally, a systematic review of contracts was launched in order to identify any shortcomings in this regard.

CONFLICTS OF INTEREST

The 2012 publication of an instruction on the prevention and management of conflicts of interest provided an opportunity to identify the principles and mechanisms that need to be implemented for their appropriate management. The policy included the mapping of conflict of interest risks, involving the Group on the one hand and customers or employees on the other. In 2013 a register of conflicts of interest was established in Investment Banking.

MARKET ABUSES

In order to adapt to technological change (the development of new trading platforms) and the expansion of areas that can be manipulated (particularly indices), and incorporate regulatory developments already known to the Group, special efforts are made to raise employee awareness—including the staff of the retail banking arm—of procedures and their application in all business divisions, continued developments in detection and analysis tools, and harmonisation of controls.

CUSTOMER PROTECTION

Customer protection is crucial for the development of quality customer relations. As such, it is a key consideration for the Group. Among the initiatives undertaken in 2012 was the Compliance function's contribution to the definition of products through its participation in the New Product Committee meetings, where it establishes pre-requisites if needed. In addition, Compliance closely monitors customer complaints in order to identify inappropriate procedures or products. Finally, our approach to vulnerable customers was reviewed in 2013 in order to better comply with regulations.

RISKS AND LITIGATION

- In October 2005, the official receivers in charge of the restructuring plans of Moulinex and Brandt, companies that were put into bankruptcy in 2001, initiated a lawsuit against member banks of syndicated loans granted to Moulinex in 1997 and to Brandt in 1998. They are seeking compensatory damages to indemnify the creditors for the banks' alleged improper financial support to the aforementioned companies. The compensatory damages sought against Societe Generale and Credit du Nord amount to respectively EUR 192.4 million and EUR 51.7 million.

  Societe Generale and Credit du Nord only held a share of the syndicated loans. They vigorously oppose the claims since after attempting to support Moulinex and Brandt based on serious and credible recovery plans, the banks have been the first victims of the collapse of Moulinex and Brandt. By decisions dated 28 June 2013, the Nanterre Commercial Court dismissed all the claims of the receivers in charge of the restructuring plans. The receivers have appealed this decision.

- Societe Generale, along with numerous other banks, financial institutions, and brokers, is subject to investigations in the United States by the Internal Revenue Service, the Securities and Exchange Commission, the Antitrust Division of the Department of Justice, and the attorneys general of several states for alleged non-compliance with various laws and regulations relating to their conduct in the provision to governmental entities of Guaranteed Investment Contracts (GICs) and related products in connection with the issuance of tax-exempt municipal bonds. Societe Generale is cooperating fully with the investigating authorities.

  Several lawsuits were initiated in US courts in 2008 against Societe Generale and numerous other banks, financial institutions, and brokers, alleging violation of US antitrust laws in connection with the bidding and sale of GICs and derivatives to municipalities. These lawsuits have been consolidated in the US District Court for the Southern District of New York in Manhattan. Some of these lawsuits are proceeding under a consolidated class action complaint. In April 2009, the court granted the defendants' joint motion to dismiss the consolidated class action complaint against Societe Generale and all the other defendants except three. A second consolidated and amended class action complaint was filed in June 2009. Societe Generale's motion to dismiss the second consolidated and amended class action complaint was denied and the proceeding is continuing as to Societe Generale and numerous other providers and brokers. The class plaintiffs filed a third amended class action complaint in March 2013, to which Societe Generale has not yet responded. The parties are conducting pre-trial discovery. In addition, there are other actions that are proceeding separately from the consolidated class action complaint, including another purported class action under the US antitrust laws and California state law as well as lawsuits brought by individual local governmental agencies. Motions to dismiss the complaints have been filed in these related proceedings. The motions to dismiss have been denied in their entirety or in part, and discovery is now proceeding.

- On 24 October 2012 the Court of Appeal of Paris confirmed the first judgment delivered on 5 October 2010, finding Jérôme Kerviel guilty of breach of trust, fraudulent insertion of data into a computer system, forgery and use of forged documents. Jérôme Kerviel was sentenced to serve a prison sentence of five years two years, of which are suspended, and was ordered to pay EUR 4.9 billion as compensation for the financial loss suffered by the bank. Jérôme Kerviel has filed an appeal before the Supreme Court.

- Since 2003, Societe Generale had set up "gold consignment" lines with the Turkish group Goldas. In February 2008, Societe Generale was alerted to a risk of fraud and embezzlement of gold reserves held at Goldas. These suspicions were rapidly confirmed following the failed payment (EUR 466.4 million) of gold purchased. In order to recover the sums owed by the Goldas Group and to protect its interests, Societe Generale brought civil proceedings in Turkey against its insurance carriers and Goldas Group entities. Goldas, for its part, has recently launched various proceedings in Turkey against Societe Generale who intends to vigorously oppose the claims articulated against it. Societe Generale also brought proceedings against its insurers in the United Kingdom. The action has been discontinued by consent, without any admission of liability by any party. A provision has been made.

- In 1990 as part of a refinancing, Australian and European banks, including Societe Generale Australia Limited which is a subsidiary of Societe Generale, received security from certain companies in the Bell Group to cover unsecured loans previously granted to companies within the Bell Group. This security was realised when the Bell Group companies subsequently went into liquidation. The liquidator demanded that the banks reimburse the amounts realised from the exercise of the security and made other claims. In October 2008, the trial judge in Australia ordered the banks to pay the total principal amount of the claim plus compound interest. In December 2009, pursuant to court order, Societe Generale Australia Limited deposited approximately AUD 192.9 million (including interest) into court pending the result of an appeal. The Court of appeal entered into judgment on 17 August 2012, confirming the first judgment in part and awarded the payment by the banks of a higher amount of interest than had been ordered initially. On 15 March 2013, the High Court granted the banks special leave to appeal on the two grounds submitted by the banks: the directors' fiduciary duties and calculation of interest. During the month of September 2013, the parties reached a settlement, which will become binding subject to the fulfilment of various conditions precedent.

- Societe Generale Algeria (SGA) and several of its branch managers have been prosecuted for breach of Algerian laws on exchange rates and capital transfers with other countries. The defendants are accused of having failed to make complete or accurate statements to the Bank of Algeria on movements of capital in connection with exports or imports made by clients of SGA. The events were discovered during investigations by the Bank of Algeria who subsequently filed claims. Sentences were delivered by the court of appeal against SGA and its employees in some proceedings while charges were dropped in other ones. All the proceedings went to the Supreme Court. To date, six cases have been terminated in favor of SGA and thirteen remain pending at the Supreme Court level for a cumulative amount of EUR 107.97 million.

- In the early 2000s, the French banking industry decided the transition towards a new digital system for clearing checks in order to rationalise their processing.

To support this reform (known as EIC – *Echange d'Images Chèques*) which has contributed to the improvement of cheque payments security and to the fight against fraud, the banks established several interbank fees (including the CEIC which was abolished in 2007). These fees were implemented under the aegis of the banking sector supervisory authorities, and to the knowledge of the public authorities.

On 20 September 2010, after several years of investigation, the French competition authority considered that the joint implementation and the fixing of the amount of the CEIC and of two additional fees for "related services" were in breach of competition law rules. The authority fined all the participants to the agreement (including the Banque de France) a total of around EUR 385 million. Societe Generale was ordered to pay a fine of EUR 53.5 million and Crédit du Nord, its affiliate, a fine of EUR 7.0 million.

However, in its 23 February 2012 order, the French Court of Appeal upheld the absence of any competition law infringement, allowing the banks to recoup the fines paid. The French competition authority has filed an appeal before the Supreme Court.

- SG Private Bank (Suisse), S.A., along with several other financial institutions, has been named as a defendant in a putative class action that is pending in the US District Court for the Northern District of Texas. Plaintiffs seek to represent a class of individuals who were customers of Stanford International Bank Ltd. ("SIBL"), with money on deposit at SIBL and/or holding Certificates of Deposit issued by SIBL as of 16 February 2009.
- Plaintiffs allege that they suffered losses as a result of fraudulent activity at SIBL and the Stanford Financial Group or related entities, and that the defendants bear some responsibility for those alleged losses. Plaintiffs further seek to recoup payments made through or to the defendants on behalf of SIBL or related entities on the basis that they are alleged to have been fraudulent transfers.

  Connected with the allegations in this litigation, SG Private Bank (Suisse), S.A., and Societe Generale have also received requests for documents and other information from the US Department of Justice. SG Private Bank (Suisse), S.A., and Societe Generale are cooperating with these requests.
- Societe Generale, along with other financial institutions, has received formal requests for information from several authorities in Europe, the United States and Asia, in connection with investigations regarding submissions to the British Bankers Association for setting certain London Interbank Offered Rates ("LIBOR") and submissions to the European Banking Federation for setting the Euro Interbank Offered Rate ("EURIBOR"), as well as trading in derivatives indexed to various benchmark rates. Societe Generale is cooperating fully with the investigating authorities.

  Societe Generale, along with other financial institutions, has been named as a defendant in two putative class actions in the United States alleging violations of, among other laws, United States antitrust laws and the United States Commodity Exchange Act in connection with its involvement in the setting of US Dollar LIBOR rates and trading in derivatives indexed to LIBOR. These actions, which have been brought by purchasers of certain over the counter derivative contracts and purchasers of certain exchange-listed derivatives contracts, respectively, are pending before a single judge in the United States District Court in Manhattan. Société Générale has also been named as a defendant in several actions by "opt out" plaintiffs that make substantially the same allegations as those made in the class actions.

  Societe Generale, along with other financial institutions, also has been named as a defendant in three other putative class actions in United States District Court in Manhattan: the first alleges violations of, among other laws, US antitrust laws and the US Commodity Exchange Act, and is brought on behalf of individuals who purchased or sold Euroyen derivative contracts on the Chicago Mercantile Exchange which are alleged to have traded at artificial levels due to alleged manipulation of Yen Libor and Euroyen Tibor rates; the second alleges violations of various state antitrust laws, and is brought on behalf of those who owned preferred equity securities on which dividends were payable at a rate linked to US Dollar LIBOR rates which are alleged to have been manipulated; and the third alleges violations of, among other laws, US antitrust laws and the US Commodity Exchange Act, and is brought on behalf of individuals who purchased or sold EURIBOR-linked futures contracts on the NYSE LIFFE exchange or Euro currency futures contracts on the Chicago Mercantile Exchange which are alleged to have traded at artificial levels due to alleged manipulation of EURIBOR rates.

  On 4 December 2013, the European Commission issued a decision further to its investigation into the EURIBOR rate, that provides for the payment by Societe Generale of an amount of EUR 445.9 million in relation to events that occurred between March 2006 and May 2008.

  Societe Generale has filed an appeal with the Luxembourg Court regarding the method used to determine the value of the sales that served as a basis for the calculation of the fine.
- In September 2011, the Federal Housing Finance Authority ("FHFA") brought seventeen separate lawsuits, as conservator of Fannie Mae and Freddie Mac (collectively, the Government Sponsored Entities, or "GSEs") against various financial institutions in an effort to recover for alleged losses in residential mortgage backed securities ("RMBS") that the GSEs purchased over several years. One of the proceedings is directed against certain Societe Generale Group entities (SG Mortgage Finance Corp., SG Mortgage Securities, LLC ("SGMS"), SG Americas Securities, LLC, SG Americas, Inc., and SG Americas Securities Holdings, LLC) and certain Officers and Directors of SGMS. The complaint alleges that the GSEs purchased approximately USD 1.3 billion in RMBS certificates in connection with three issuances between May 2006 and December 2006. Societe Generale disputes the allegations and will defend the claims vigorously.

  On 27 February 2014 a USD 122 million settlement was reached with FHFA.

- A former affiliate of Societe Generale, Cowen and Company, has been sued by a group of plaintiffs in California state court in connection with alleged negligence by Cowen in 1998 in the course of an investment banking transaction. Cowen had been engaged by an entity that was acquired in a stock for stock transaction. Plaintiffs, who were shareholders of the acquired entity or its majority shareholder, allege that Cowen acted negligently in the engagement, including by making misrepresentations or omissions about the acquiring entity, and that they suffered financial harm as a result of the acquiror's subsequent bankruptcy. The litigation survived two motions to dismiss and discovery is proceeding.
- On 10 December 2012, the Council of State made a ruling on the lawfulness of withholding tax (précompte), a tax which has now been abolished. It concluded that this tax violated EC law and defined the conditions pursuant to which the amounts levied towards the withholding tax should be restituted to companies. The conditions for restitution defined by the Council of State significantly reduce the amount of restitution. In 2005, two companies assigned their rights to restitution to Societe Generale with a limited right of recourse against the assignors. The Council of State's ruling concerns one of the two companies in question (Rhodia). Societe Generale will continue to defend its rights in the proceedings that are currently pending against the French tax authorities including through available judicial remedies before the European authorities.
- Societe Generale has engaged in discussions with the US Office of Foreign Assets Control in relation to US dollar transfers made by Societe Generale on behalf of entities based in countries that are the subject of economic sanctions ordered by the US authorities. In connection with these discussions, Societe Generale has begun an internal review and is cooperating with the US authorities.
- Vladimir Golubkov, CEO of Rosbank at the time of the events, and an employee of the bank are under criminal investigation in the Russian Federation on a suspicion of corruption.
- On 22 May 2013, the ACPR launched disciplinary proceedings against Societe Generale in relation to the resources and procedures deployed by it pursuant to the legal requirements relating to the “right to a bank account” (“*Droit au compte*”).

11. OTHER RISKS

EQUITY RISK

Investment strategies and purpose

Societe Generale's exposure to its non-trading equity portfolio relates to several of the bank's activities and strategies. It includes equities and equity instruments, mutual fund units invested in equities, and holdings in the Group's subsidiaries and affiliates which are not deducted from shareholders' equity for the purpose of calculating solvency ratios. Generally speaking, due to their unfavourable treatment under regulatory capital, the Group's future policy is to limit these investments.

- First, the Group has a portfolio of industrial holdings which mainly reflect its historical or strategic relations with these companies;
- It also has small minority holdings in certain banks for strategic purposes, with a view to developing its cooperation with these establishments;
- In addition, the equities that are not part of the trading book include Group shares in small subsidiaries which operate in France and outside of France, and which are not included in its consolidation scope. This includes various investments and holdings that are ancillary to the Group's main banking activities, particularly its Corporate and Investment Banking, Retail Banking and Securities Services (stock market bodies, brokerages, etc.) activities;
- Lastly, Societe Generale and certain of its subsidiaries may hold equity investments related to their asset management activities (particularly seed capital for mutual funds promoted by Societe Generale), in France and outside of France.

Monitoring of banking book equity investments and holdings

The portfolio of industrial holdings is monitored on a monthly basis by the Group's Finance division, and where necessary value adjustments are recognised quarterly in accordance with the Group's provisioning policy. An annual review of the portfolio is also conducted by a special committee comprising representatives of the Group's Executive Committee, Risk division and Finance division. The purpose of this review is to validate the portfolio strategies and monitor the strategic nature of the holdings, as well as sale opportunities. Investment decisions are also submitted to this Committee for approval.

The holdings that are ancillary to the corporate and investment banking activity are monitored on a quarterly basis by the Group's Finance division, and where necessary value adjustments are recognized quarterly in accordance with the Group's provisioning policy. Decisions on the buying and selling of shares are subject to the approval of an Investment Committee comprising representatives of the Executive Committee, the Risk division, the Finance division and the Compliance division. They are also reviewed by the Corporate and Investment Banking activity's Finance division and the Group Finance division. The decision-making criteria used include the financial position and the contribution of the holdings to the Corporate and Investment Banking activities.

Valuation of banking book equities

From an accounting perspective, Societe Generale's exposure to equities that are not part of its trading book is classified under shares held for sale insofar as the equities may be held for an indefinite period or they may be sold at any time.

Societe Generale's exposure to equities that are not part of the trading book is equal to their book value net of provisions.

The table below shows the Bank's exposure at the end of December 2013 and 2012 for both the accounting and the regulatory scope. The regulatory data is not reconciled with the data in the Registration Document notably because the regulatory scope excludes shares held by the Group's insurance subsidiaries on behalf of clients.

TABLE 31: BANKING BOOK EQUITY INVESTMENTS AND HOLDINGS

(in EUR m)	31.12.2013	31.12.2012
Banking book equity investments and holdings - Accounting scope	**13,403**	**14,304**
Of which equities and other AFS(1) instruments	11,239	12,025
Of which AFS(1) equities held over the long term	2,163	2,279
Banking book equity investments and holdings - Prudential scope (EAD(2))	**3,169**	**1,447**
Of which listed shares	181	371
Of which unlisted shares	2,988	1,076

(1) AFS: Available For Sale.
(2) EAD: Exposure At Default.

With regard to the regulatory scope, the exposure to equities and holdings that are not included in the trading book, and calculated as EAD amounted to EUR 3.2 billion at the end of 2013.

Changes in fair value are recognised in shareholders' equity under "Unrealised or deferred capital gains and losses". In the event of a sale or durable impairment, changes in the fair value of these assets are recorded in the income statement under "Net gains and losses on available-for-sale financial assets". Dividends received on equity investments are recognised in the income statement under "Dividend income".

For listed shares, the fair value is estimated based on the closing share price. For unlisted shares, the fair value is estimated based on the category of financial instrument and one of the following methods:

- the share of net assets owned;
- the valuation based on recent transactions involving the company's shares (acquisition of shares by third parties, expert valuations, etc.);
- the valuation based on recent transactions involving companies in the same sector (earnings or NAV multiples, etc.).

TABLE 32: NET GAINS AND LOSSES ON BANKING BOOK EQUITIES AND HOLDINGS

(in EUR m)	31.12.2013	31.12.2012
Gains and losses on the sale of shares	771	(245)
Impairment of assets in the equity portfolio	(17)	(169)
In proportion to the net income on the equities portfolio	76	94
Net gains/losses on banking book equities and holdings	**830**	**(319)**
Unrealised gains/losses on holdings	1,669	1,420
Share included in Tier 1 and Tier 2 capital	**238**	**291**

Provisioning policy

The impairment of an available-for-sale financial asset is recognised as an expense in the income statement as soon as an objective indication of impairment arises as a result of one or more events occurring after the asset's initial booking in the accounts.

For listed equities, a significant or protracted fall in the share price below the acquisition cost constitutes an objective indication of impairment. The Group takes this to be the case for listed equities that show unrealised losses on the closing date of more than 50% of their acquisition cost, and for listed equities that show unrealised losses for a continuous period of 24 months or more preceding the closure date. Other factors, such as the financial situation of the issuer or its growth prospects, may indicate to the Group that its investment may not be recovered even in cases where the above-mentioned criteria are not evident. In such cases, an impairment is booked in the income statement in the amount of the difference between the listed share price on the closing date and its acquisition price.

For unlisted equities, the criteria based on which an impairment is recorded are identical to those mentioned above, and the value of the instruments on the closing date is determined based on the valuation methods described in Note 3 to the Consolidated Financial Statements on chapter 6 of the present Registration Document: "Fair value of financial instruments" (p. 291 and following)

Regulatory capital requirements

To calculate the risk-weighted assets under Basel 2, the Group applies the Internal Ratings Based approach for the majority of its non-trading equity portfolio. The shares in listed companies that are part of a diversified portfolio are allocated a risk-weighting coefficient of 190%, those in other listed companies are allocated a weighting of 290% and unlisted shares are allocated a weighting of 370%. Nevertheless, unlisted shares that are part of a diversified portfolio and which were acquired before January 2008 may be allocated a weighting of 150%.

At 31 December 2013, the Group's risk-weighted assets related to its non-trading equity portfolio, and its capital requirements were as follows:

TABLE 33: CAPITAL REQUIREMENTS RELATED TO BANKING BOOK EQUITIES AND HOLDINGS

(in EUR m)			31.12.2013			31.12.2012		
Equities & holdings	**Approach**	**Weighting**	**Exposure at default[(1)]**	**Risk weighted assets[(1)]**	**Capital requirements[(1)]**	**Exposure at default[(1)]**	**Risk weighted assets[(1)]**	**Capital requirements[(1)]**
Private equity	Standard	150%	71	107	9	79	119	9
Private equity	Simple approach	190%	110	210	17	114	217	17
Listed shares	Simple approach	290%	259	752	60	349	1,011	81
Unlisted shares	Simple approach	370%	2,230	8,251	660	906	3,351	268
Total			**2,671**	**9,319**	**745**	**1,447**	**4,697**	**376**

(1) Excluding cash investments.

At 31 December 2013, the risk-weighted assets related to the Group's banking book equities and holdings stood at EUR 9.3 billion. The sharp increase (+98%) in capital requirements in 2013 for the equity investments portfolio was mainly due to the end of the transition period regarding the treatment of financial conglomerates for insurance companies, securities of insurance companies acquired prior to 2007 are given a risk weighting equal to their historical cost since 1 January 2013.

STRATEGIC RISKS

Strategic risks are defined as follows:

- the inherent risk of the chosen strategy
- or resulting from the Group's inability to implement its strategy.

Strategic risks are monitored by the Board of Directors, which approves the Group's strategic direction and reviews them at least once every year. Moreover, the Board of Directors approves strategic investments and any transaction, particularly disposals and acquisitions, that could significantly affect the Group's results, the structure of its balance sheet or its risk profile.

Strategic steering is carried out, under the authority of the General Management, by the Executive Committee, with the assistance of the Group Management Committee. The Executive Committee meets once a week, barring exceptions.

The makeup of these different bodies is laid out in the Corporate Governance chapter of the Registration Document (p. 60 and following). The Internal Rules of the Board of Directors define the procedures for convening meetings as described in Chapter 7 of this Registration Document (p. 455).

BUSINESS RISKS

Activity risk is the risk of taking a loss if expenses incurred are higher than revenues generated. They are managed by the Finance Division through monthly revenue committees. During these meetings, which are chaired by a member of the General Management, the Group business lines present their results and comment on the state of business, and also present an analysis of their consumption of their budget and scarce resources (especially capital and liquidity).

RISKS RELATED TO INSURANCE ACTIVITIES

Through its insurance subsidiaries, the Group is also exposed to a variety of risks inherent to this business. These include ALM risk management (risks related to interest rates, valuations, counterparties, exchange rates) as well as premium pricing risk, mortality risk and structural risk related to life and non-life insurance activities, including pandemics, accidents and catastrophes (such as earthquakes, hurricanes, industrial disasters, terrorist attacks or military conflicts). The risk monitoring structure related to these risks and related issues are described in Note 34 of the consolidated financial statements and in chapter 6 of this Registration Document (p. 351).

ENVIRONMENTAL AND SOCIAL RISKS

These risks and how they are addressed are described in chapter 5 of this Registration Document (p. 215).

12. SPECIFIC FINANCIAL INFORMATION

Since June 2008 and in accordance with the recommendations of the Financial Stability Board, Societe Generale has disclosed the information on its exposure with regard to its assets affected by the global financial crisis.

In 2013, the Group continued to actively manage its exposure to risky assets by selling off part of its RMBS CDO portfolio and its CMBS portfolio.

There have been no reclassifications from the trading portfolio to the loans and receivables portfolio following the reclassifications in October 2008.

PROVISIONS FOR ASSETS AFFECTED BY THE FINANCIAL CRISIS IN 2008

Assets reclassified on 1 October 2008

On 1 October 2008 the Group reclassified some of its non-derivative financial assets from the “financial assets at fair value through profit or loss” and “available-for-sale financial assets” categories to the “available-for-sale financial assets” and “loans and receivables” portfolios, in accordance with the amendments to IAS 39 and IFRS 7.

In the case of structured products, the asset write-down process is triggered by events affecting the underlying assets: outstanding payments, defaults or losses. Generally, this situation occurs before the actual asset default is recorded (for example CDOs - Collateralised Debt Obligations).

Since 2009, the Group has carried out quarterly impairment tests on these assets. These tests are designed to estimate the total incurred loss after netting of protection. They are based on estimates of expected future cash flows which take account of:

- the performances observed for underlying assets; and
- estimated of incurred losses on underlying assets based on a statistical approach.

The resulting total impairment is booked under net allocation to provisions.

This is one of the main procedures for monitoring reclassified assets.

At 31 December 2013, provisions for reclassified financial assets amounted to EUR 2.5 billion versus EUR 2.3 billion at 31 December 2012.

UNHEDGED POSITIONS IN CDO (COLLATERALISED DEBT OBLIGATIONS) TRANCHES EXPOSED TO THE US REAL ESTATE SECTOR

Societe Generale holds unhedged positions in super senior and senior CDO tranches which are exposed to the US residential real estate sector.

The valuation of the CDOs was based on the marked-to-market value of the underlying assets as since 31 December 2012.

At 31 December 2013, gross exposure to super senior and senior RMBS CDO tranches classified as held for trading totalled EUR 1.08 billion (compared with EUR 1.56 billion at 31 December 2012). These assets were subject to an average haircut of 99%.

For the record, part of the portfolio was transferred from the trading portfolio to Loans and Receivables on 1 October 2008. Gross exposure held in the Loans and Receivables portfolios totalled EUR 4.35 billion at 31 December 2013 (compared with EUR 5.08 billion at 31 December 2012).

UNHEDGED CDOS EXPOSED TO THE US RESIDENTIAL MORTGAGE SECTOR

	CDO Super senior & senior tranches	
(In billions of euros)	**L&R Portfolio**	**Trading Book**
Gross exposure a 31 December 2012[(1)]	5.08	1.56
Gross exposure a 31 December 2013[(1)(2)]	4.35	1.08
Type of underlying	high grade/mezzanine	mezzanine
Attachment point a 31 December 2012	3%	0%
A 31 December 2013	10%	na
% of underlying subprime assets	57%	na
o/w 2004 and earlier	18%	na
o/w 2005	37%	na
o/w 2006	0%	na
o/w 2007	1%	na
% of Mid-prime and Alt-A underlying assets	9%	na
% of Prime underlying assets	7%	na
% of other underlying assets	27%	na
Total impairments and writedowns	(1.83)	(1.07)
Total provisions for credit risk	(2.39)	
% of total CDO write-downs a 31 December 2013	97%	99%
Net exposure a 31 December 2013[(1)]	0.14	0.01

(1) Exposure at closing price.

(2) The decrease in the Trading book was mainly due to the exit of the scope of CDOs after their dismantling or selling.

PROTECTION ACQUIRED TO HEDGE EXPOSURE TO CDOS OR OTHER ASSETS

Societe Generale is exposed to credit risk linked to monoline insurers and other financial institutions with regard to the financial guarantees received from them as hedges on certain assets.

The fair value of the Group's exposures to monolines that have enhanced the credit risk linked to assets reflects the deterioration in the estimated credit risk for these credit enhancers.

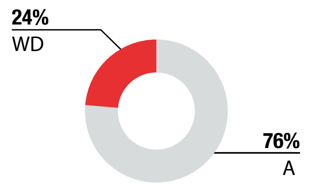
Since its settlement with MBIA, SG has no more exposure to US residential mortgage market CDOs hedged with monoline. Hedges purchased against monoline risk have been sold.

PROTECTION ACQUIRED FROM MONOLINES

	31.12.2012	31.12.2013			
(In billions of euros)	**Fair value of protection before value adjustements**	**Fair value of protection before value adjustements**	**Fair value of hedged instruments (net exposure)**	**Gross notional amount of rotection purchased**	**Gross notional amount of hedged instruments**
Protection purchased from monolines insurers					
against CDOs (US residential mortgage market)	1.11	0.00	0.00	0.00	0.00
against CDOs (excl. US residential mortgage market)	0.25	0.05	0.50	0.62	0.62
against corporate collateralised loan obligations (CLOs)	0.05	0.03	1.06	1.10	1.10
against structured and infrastructure finance	0.17	0.13	0.88	1.12	0.97
Other replacement risks	0.15	0.00			

(In billions of euros)	31.12.2012	31.12.2013
Fair value of protection before value adjustments	1.73	0.21
Value adjustments for credit risk on monoline insurers (booked under protection)	(1.24)	(0.10)
Net exposure to credit risk on monoline insurers	**0.49**	**0.11**
Nominal amount of hedges purchased	(0.34)	(0.00)

Fair value of protection before value adjustments at Dec. 31, 2013



EXPOSURE TO US RESIDENTIAL MORTGAGE MARKET: RESIDENTIAL LOANS AND RMBS

The Group is exposed to underlying assets related to the US residential mortgage market through RMBS.

Since the first half of 2011, the valuation method has used prices on external markets.

The residual exposure booked at fair value on the balance sheet to US RMBS amounted to EUR 0.09 billion as at 31 December 2013 versus EUR 0.16 billion as at 31 December 2012 (excluding the exotic credit derivative portfolio).

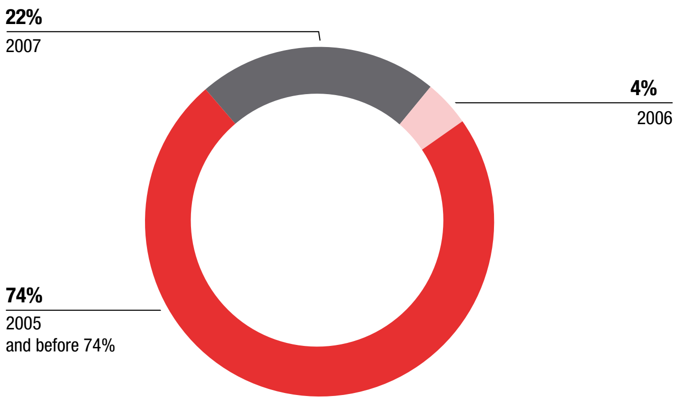
Societe Generale has no residential loan origination activity in the US.

"US" RMBS(1)

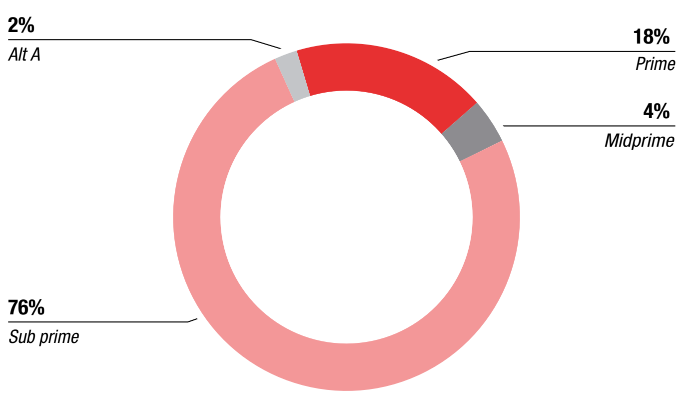
	31.12.2012	31.12.2013						2013		
			Gross exposure(3)							
(In billions of euros)	Net exposure(2)	Net exposure(2)	Amount	% net exposure	%AAA(4)	% AA & A(4)		Net banking income	Cost of risk	Equity
Held for Trading'portfolio	0.04	0.01	0.10	12%	0%	0%		0	0	0
Available-for-sale'portfolio	0.09	0.07	0.25	26%	0%	15%		0.01	0	0.02
Loans & Receivables'portfolio	0.03	0.01	0.01	90%	0%	32%		0	0	0
TOTAL	**0.16**	**0.09**	**0.36**	**26%**	**0%**	**11%**		**0.01**	**0**	**0.02**

(1) Excluding "exotic credit derivative portfolio" presented below.
(2) Net of hedging and impairments.
(3) Nominal exposure before hedging.
(4) As a % of nominal exposure.

DISTRIBUTION OF ASSETS BY VINTAGE(1) END-DECEMBER 2013



BREAKDOWN OF RMBS BY TYPE(1) END-DECEMBER 2013



(1) As a% of nominal exposure.

Note: Societe Generale has a portfolio of mid-prime loans purchased from an originator that defaulted (EUR 0.1 billion in the banking book net of write-downs).

EXPOSURE TO RESIDENTIAL MORTGAGE MARKETS IN SPAIN AND THE UNITED KINGDOM

The Group is exposed to underlying assets relative to the Spanish and UK residential mortgage markets through RMBS.

These exposures are marked-to-market.

Part of the portfolio was transferred from the trading portfolio to Loans and Receivables on 1 October 2008.

Societe Generale has no residential loan origination activity in Spain or the UK.

"SPAIN" RMBS[1]

	31.12.2012	31.12.2013					2013		
			Gross exposure[3]						
(In billions of euros)	Net exposure[2]	Net exposure[2]	Amount	% net exposure	%AAA[4]	% AA & A[4]	Net banking income	Cost of risk	Equity
Held for Trading'portfolio	0.00	0.00	0.01	na	0%	0%	0.00	0	0
Available-for-sale'portfolio	0.09	0.07	0.08	81%	0%	18%	(0.01)	(0.01)	0.02
Loans & Receivables'portfolio	0.06	0.02	0.03	77%	0 %	0%	0	0	0
Held To Maturity'portfolio	0	0.00	0.00	na	0%	0%	0	0	0
TOTAL	**0.15**	**0.09**	**0.12**	**71%**	**0%**	**13%**	**(0.01)**	**(0.01)**	**0.02**

(1) Excluding "exotic credit derivative portfolio" presented below.
(2) Net of hedging and impairments.
(3) Nominal exposure before hedging.
(4) As a % of nominal exposure.

"UK" RMBS[1]

	31.12.2012	31.12.2013					2013		
			Gross exposure[3]						
(In billions of euros)	Net exposure[2]	Net exposure[2]	Amount	% net exposure	%AAA[4]	% AA & A[4]	Net banking income	Cost of risk	Equity
Held for Trading'portfolio	0.04	0.05	0.05	96%	70%	13%	0.00	-	-
Available-for-sale'portfolio	0.07	0.06	0.07	92%	0%	64%	0.00	-	0.00
Loans & Receivables'portfolio	0	0	0	0	na	na	-	-	-
TOTAL	**0.11**	0.11	0.12	94%	30%	42%	0.00	-	0.00

(1) Excluding "exotic credit derivative portfolio" presented below.
(2) Net of hedging and impairments.
(3) Nominal exposure before hedging.
(4) As a % of nominal exposure.

EXPOSURE TO CMBS(1)

The Group is exposed to underlying assets related to the commercial real estate market through CMBS. This portfolio is marked-to-market.

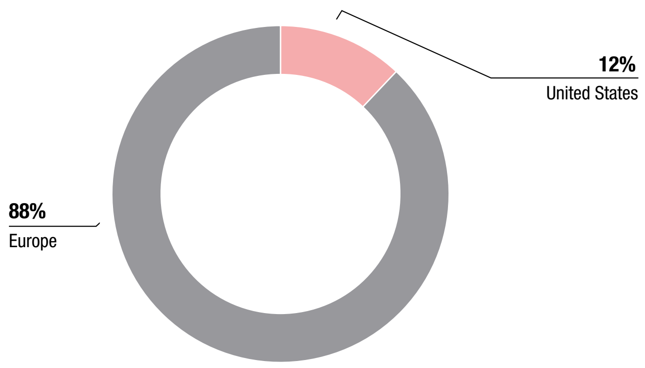
Part of the portfolio was transferred from the trading book to Loans and Receivables on 1 October 2008.

The residual exposure booked at fair value on the balance sheet to CMBS fell from EUR 0.77 billion as at 31 December 2012 to EUR 0.31 billion as at 31 December 2013 (excluding the exotic credit derivative portfolio).

	31.12.2012	31.12.2013					2013		
			Gross exposure(3)						
(In billions of euros)	Net exposure(2)	Net exposure(2)	Amount	% net exposure	%AAA(4)	% AA & A(4)	Net banking income	Cost of risk	Equity
Held for Trading'portfolio	0.09	0.07	0.12	60%	3%	18%	0.01	-	-
Available-for-sale'portfolio	0.08	0.02	0.03	79%	10%	12%	(0.01)	n.s.	0.02
Loans & Receivables'portfolio	0.59	0.20	0.29	68%	3%	19%	0.02	(0.02)	n.s.
Held To Maturity'portfolio	0.02	0.02	0.02	98%	0%	2%	0.00	-	-
TOTAL	**0.77**	0.31	0.45	68%	3%	18%	0.1	(0.02)	0.02

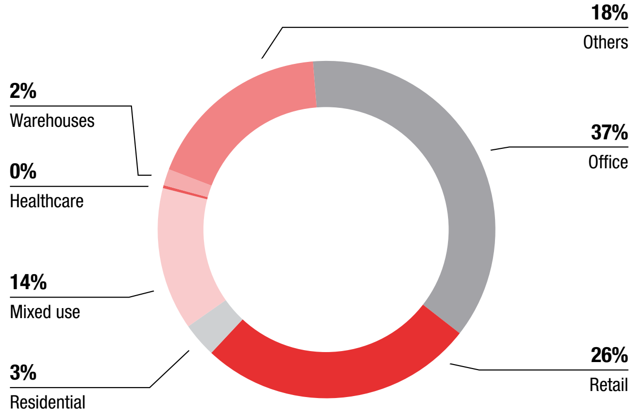
(1) Excluding "exotic credit derivative portfolio" presented below.
(2) Net of hedging and impairments.
(3) Nominal exposure before hedging.
(4) As a % of nominal exposure.
(5) Excluding losses on interest rated hedges.

GEOGRAPHICAL DISTRIBUTION(1) AT END-DECEMBER 2013



(1) As a % of nominal exposure.

SECTOR DISTRIBUTION(1) AT END-DECEMBER 2013



(1) As a % of nominal exposure.

EXOTIC CREDIT DERIVATIVES

The exotic credit derivatives portfolio is linked to a customer activity which consists in selling securities indexed on the credit quality of ABS portfolios.

The Group hedges the credit protection generated in its books by purchasing underlying ABS portfolios and selling indices, and actively manages its hedging based on the changes in credit spreads by adjusting the ABS portfolio held, index positions on indices and marketed securities.

The five-year long risk-equivalent net position at 31 December 2013 was EUR 9 million.

FIVE-YEAR LONG RISK-EQUIVALENT NET POSITION

(In billions of euros)	31.12.2013	31.12.2012
ABS américains	**9**	**(55)**
RMBS	0	9
dont Prime	*0*	*(0)*
dont Midprime	*0*	*(0)*
dont Subprime	*0*	*9*
CMBS(1)	(9)	(83)
Autres	18	19

(1) Net exposure corresponding to delta exposure of a hedged underlying portfolio of EUR 1 million at 31 December 2013.