SOCIETE GENERALE

# Press Release

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**Société Générale Group has uncovered an exceptional fraud in a sub-section of its market activities.**

**The Group expects its net income for 2007 to be in the range of Euro 0.6-0.8bn[1], including the loss resulting from this fraud and additional US residential mortgage and monoline related write-downs. The Group intends to pay a dividend for 2007 in line with its pay-out ratio target of 45%.**

**As a result of this fraud and in order to strengthen its capital base, the Group will launch a capital increase of Euro 5.5bn which has been fully underwritten.**

[1] Estimated unaudited net income, group share

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## Losses on a fraudulent and concealed position

Société Générale Group (the "Group") has uncovered a fraud, exceptional in its size and nature: one trader, responsible for plain vanilla futures hedging on European equity market indices, had taken massive fraudulent directional positions in 2007 and 2008 beyond his limited authority. Aided by his in-depth knowledge of the control procedures resulting from his former employment in the middle-office, he managed to conceal these positions through a scheme of elaborate fictitious transactions.

There is no residual exposure in relation to these positions, which were discovered and investigated on January 19th and 20th, 2008. It was decided to close these positions as quickly as practicable in the best interest of market integrity and the Group's shareholders. Given the combination of the size of the positions and the very unfavourable market conditions encountered, this fraud has a negative impact of Euro 4.9bn that the Group has decided to recognise in its 2007 pre-tax income.

The trader's positions have been reviewed and a thorough analysis of all his department's positions confirmed the isolated and exceptional nature of this fraud. The employee who has confessed to the fraud has been suspended and a dismissal procedure has been initiated. The individuals in charge of his supervision will leave the Group.

## Additional write-downs in relation to US RMBS CDOs and monoline insurers

The Group will post additional write-downs of Euro 2.05bn in Q4 07, comprising the following:

- Euro 1.1bn in relation to US residential mortgage risk;
- Euro 550mm in relation to exposure to US monoline insurers; and
- Euro 400mm unallocated additional provision in relation to the above-mentioned exposures.

*US residential mortgage exposure*

The Group's exposure to US residential mortgage risk mainly consists of a portfolio of unhedged super senior CDO tranches of RMBS. In light of the worsening of the US residential mortgage crisis, the Group will apply new write-downs of Euro 1.1bn in Q4 07, consistent with the valuation levels of the ABX indices where they exist (see detailed assumptions and outcome in Appendices 1 to 3). The consistency of the modelling and the parameters has been reviewed by the Group's auditors.

The subprime RMBS portfolio (Euro 550mm as of September 30th, 2007), which is valued directly on the basis of market parameters, has been hedged, amortised or sold. As of end 2007, residual exposure stood at around Euro 35mm.

*Exposure to US monoline insurers*

Other assets on the Group's balance sheet benefit from credit enhancements supplied by monoline insurers. Applying the same stress test methodology to the underlying portfolio as to the assets underlying the unhedged CDO portfolios, the Group will book a write-down of Euro 500mm in Q4 07 (see Appendix 4). In addition, a write-down of Euro 50mm has been taken to eliminate the whole of its ACA-related exposure.

## Estimated net income for FY 2007

Underlining the sound and diversified development strategy and business model of the last decade, the Group's other activities are expected to post good profits for 2007:

- The French Networks are expected to generate full-year revenue growth of around +4.7% (excluding PEL/CEL provisions and Euronext capital gain) with solid net interest income and a lower cost-income ratio.
- The performance of International Retail Banking remains very strong (around 40% year-on-year net profit increase) due to the development strategy implemented in the last few years and resulting dynamic competitive positions in high growth banking markets.
- Strong performances are also expected at the Group's other businesses, in particular Financial Services (around 14% year-on-year net profit growth) and Private Banking (around 35% year-on-year net profit growth).
- Lower contribution to the Group's 2007 net income by SGAM related to the liquidity provided to its clients of dynamic money-market funds (write-downs or final losses of Euro 0.2bn in Q4 07).
- Lastly, in Q4 07 the Corporate Centre will post capital gains from disposals of just under Euro 300mm (before tax) on its equity portfolio.

Taking into account the above, the Corporate and Investment Banking arm is expected to post an after tax loss of around Euro 2.3bn in 2007, and the Group itself a net profit of Euro 0.6-0.8bn for 2007.

The Board of Directors, which met on January 23rd, 2008 to review the 2007 estimated financial data, rejected Daniel Bouton's offer to resign and reaffirmed its confidence in him and in the Group's Management. The Board has asked him to lead the Group back on track for profitable growth. A committee comprising the Chairmen of the Nomination Committee and the Audit Committee as well as an independent director, will be responsible for monitoring recovery.

The Group will publish its full-year results 2007 results on February 21, 2008.

## Euro 5.5bn capital increase

In order to strengthen the Group's capital position, the Board of Directors has decided to launch a capital increase of Euro 5.5bn, which has been fully underwritten. The capital increase is expected to raise the Group's Tier One ratio (Basel 1) to 8.0% pro-forma for the acquisition of Rosbank.

The Board of Directors also intends to recommend a dividend in respect of 2007 in line with Group's 45% pay-out target.

The Board of Directors and the Management are fully confident in the underlying earnings power and franchise of Société Générale Group and all its business divisions.

## Important notice

Please note that all figures contained in this press release are unaudited and are subject to finalisation of the financial statements for the relevant dates and periods.

## Information for the public

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## Appendices

### Appendix 1: Cumulative losses on CDO subprime assets and sensitivity analysis

| | 2005 | 2006 | 2007 | | Impact on NBI |
|---|---|---|---|---|---|
| Assumptions for cumulative Q3 07 losses | 9,1% | 14,6% | 14,5% | → | EUR -167m for 9M 07 |
| Assumptions for cumulative Q4 07 losses | 9,0% | 23,0% | 25,0% | → | EUR -1,250m for FY 2007 |

| Sensitivity | | Impact on NBI |
|---|---|---|
| + 10% cumulative losses for each year of production | → | EUR -431m (1) |

*(1) : Impact of average exchange rate in Q4 07*

Total US residential real estate loss assumptions

- Approximately USD 200bn in October 2007
- Approximately USD 350bn in January 2008

### Appendix 2: Depreciation rate of underlying subprime RMBS

| | Depreciation rate credit stress test | Depreciation rate based on ABX indices |
|---|---|---|
| **Production 2005** | -25% | NA |
| **Production 2006 & 2007** | | |
| A and above | -62% | -57% |
| BBB and below | -100% | -82% |

CDO tranches in CDOs have been fully written down

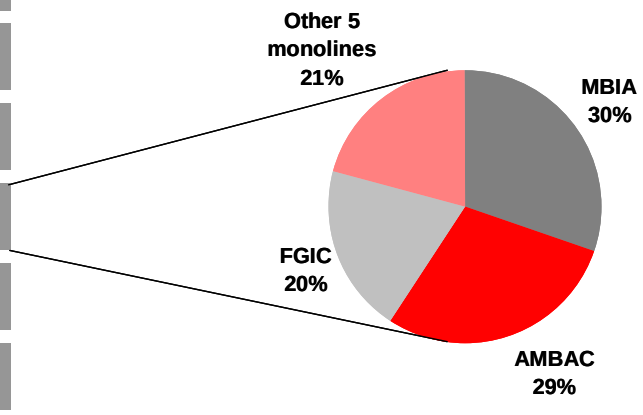
## Appendix 3: Exposure at risk to US residential real estate

| | CDO: AAA super senior tranches | | |
|---|---|---|---|
| | portfolio # 1 | portfolio # 2 | portfolio # 3 |
| **Gross exposure at 31/12/07 in EURm** | **1 401** | **1 736** | **1 717** |
| Attachment point | 31% | 15% | 32% |
| Underlying | mezzanine | high grade | mezzanine |
| % of underlying subprime assets | 84% | 53% | 73% |
| *o.w. originated in 2005 and earlier* | *53%* | *20%* | *62%* |
| *o.w. originated in 2006* | *31%* | *20%* | *6%* |
| *o.w. originated in 2007* | *1%* | *12%* | *5%* |
| Write-downs recorded in 2007 (1) | -458 | -629 | -164 |
| % total of CDO depreciations (2) | 32% | 36% | 9% |
| **Net exposure at 31/12/07 in EURm (3)** | **955** | **1 116** | **1 554** |

*(1) Write-down at average exchange rate for each quarter*
*(2) Net of hedging by subordination*
*(3) Exchange rate exposure at December 31st 2007*

## Appendix 4: Counterparty risk exposure to "monolines"

| | In EUR bn |
|---|---|
| Gross counterparty exposure 1 & 2 | 1.8 |
| CDS bought from banks | -0.6 |
| Net counterparty exposure | 1.2 |
| Mark-downs | -0.5 |
| Net residual counterparty exposure | 0.7 |




*(1) Based on valuation methodologies consistent with those applied for uninsured assets*
*(2) Including EUR 1.35 bn gross counterparty exposure related to a EUR 7.9 bn US mortgage related nominal exposure, of which EUR 4.3 bn subprime (vintages : 3% 2007, 21% 2006 and 76% 2005 and earlier)*