STANDARD & POOR'S

STRUCTURED FINANCE

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Covered Bond Program Presale Report

Société Générale SCF

Up To €1.5 Billion Fixed-Rate Obligations Foncières (Covered Bonds) (€25 Billion Program)

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This presale report is based on information as of March 20, 2008. The credit rating shown is preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of an initial credit rating that differs from the preliminary credit rating.

Class	Prelim. credit rating*	Preliminary amount	Available credit support	Legal final maturity
Obligations Foncières (French covered bonds)	AAA	Up to €1.5 billion	Dynamic (see "*Structural Enhancements*")	According to the terms and conditions of each series of notes

**The rating on each class of securities is preliminary as of March 20, 2008, and subject to change at any time. An initial credit rating is expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion. Standard & Poor's ratings address timely payment of interest and ultimate payment of principal on the final maturity date.*

Program Participants	
Issuer	Société Générale SCF
Arranger, fiscal agent, principal paying agent, calculation agent	Société Générale
Dealers	To be determined
Luxembourg listing agent	Société Générale Bank & Trust
Listing authority and stock exchange	Luxembourg Stock Exchange or any other regulated market according to the final terms
Specific controller	Cailliau, Dedouit et Associés

Supporting Ratings	
Société Générale as the issuer account bank, servicer, administrator, and liquidity facility provider	AA-/Negative/A-1+
Hedging counterparties	Any entity rated at least 'A-1'

Key Features Of The Cover Pool As Of Dec. 31, 2007	
Issuer collateral	A secured loan facility between Société Générale and the issuer
Collateral security	A pool of eligible French public sector assets and substitution assets of up to 15% of the outstanding covered bonds
Country of origin	France
Current balance of the cover pool (Bil. €)	2.01
Number of loans	158
Number of obligors	104
Concentration per top 20 borrowers and largest obligor	53%, largest individual obligor: 6.2%
Fixed interest rates/variable interest rates	78% fixed interest rate

Key Features Of The Covered Bond Structure	
Overcollateralization levels	32.6% on a nominal basis

Program Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the inaugural issuance of "*Obligations Foncières*" (OFs, French legislation-enabled covered bonds) issued by Société Générale SCF (SGSCF), a "*société de credit foncier*" (SCF) owned by Société Générale, under its €25 billion medium-term note program. The issuance will be backed by a French portfolio of loans to public sector entities, owned by Société Générale.

Depending on market conditions, the first issuance of OFs is expected to take place in April 2008, up to €1.5 billion. The issuance is expected to pay a fixed-rate and have a five-year bullet maturity. The OFs will constitute unsubordinated senior secured obligations ("privileged obligations") and will rank pari passu among themselves.

This covered bond program is a complementary funding technique for Société Générale's assets, liabilities, and liquidity management to the more traditional, existing unsecured note issuance. SGSCF should therefore be viewed as a financing tool for Société Générale, although it is an independent operating subsidiary.

Under the French law applicable to SCFs, the OF holders benefit from the privilege granted to these bonds over the SCF's eligible assets. If the issuer becomes insolvent, OFs are paid in accordance with their payment schedule and have priority over any of the SCF's other debts in respect of such assets.

Under the French monetary and financial code (*Code monétaire et financier*), SGSCF may grant or purchase high quality mortgage loans, exposures to public sector entities, or other notes issued by a "*fonds commun de creances*" that are secured by high quality mortgage loans or exposures to public sector entities. The program has been designed to accommodate this business (see "*Covered Bond Program Structure*").

Under the terms of the program and for the first issuance, SGSCF will issue OFs and use the proceeds to fund a credit facility to be made available to Société Générale. Any advance will be secured by a pool of loans to French public sector entities that meet the eligibility criteria of the *Code monétaire et financier* (see "*Legal Framework*"). Société Générale will transfer the legal title on such collateral assets to the SGSCF by way of security. If Société Générale defaults, the issuer will notify the debtors of the transfer of the loans in order to obtain direct payment from them.

The program benefits, for its inaugural transaction, from the collateral provisions of the *Code monétaire et financier* (Articles L 431-7-3). As a result, the structure provides for the transfer of legal ownership of the collateral assets (rather than only the provision of security interest in them) to the issuer on Day 1.

Standard & Poor's expects to gain appropriate legal comfort that the French courts would recognize a valid transfer of title to SGSCF in the public sector loans even if, from an accounting perspective, they will remain on the balance sheet of Société Générale. Furthermore, that if Société Générale defaults on certain financial obligations, these collateral assets will remain fully available for the SCF to repay the OFs without any negative interference from French insolvency provisions.

The preliminary credit rating assigned to this issuance reflects Standard & Poor's level of comfort in the French legal framework and the credit quality of the underlying assets and their cash flows. In particular, the analysis verified that the notes could be repaid even under 'AAA' stress test scenarios.

Strengths, Concerns, And Mitigating Factors

Strengths

- Credit risk: The credit quality of the first pool of assets forming the collateral pool is good as it comprises a diverse pool of loans to French local public sector entities.
- Overcollateralization: An overcollateralization test is designed to ensure that the face value of the collateral assets is at least 105% of the loan amount granted by SGSCF to Société Générale, which will be equivalent to the outstanding amount of covered bonds. The overcollateralization test gives no value to the loans in arrears for more than 180 days and Société Générale will be required to add loans or substitutions asset, if required, as long as Société Générale is solvent The level of overcollateralization based on the preliminary pool of collateral assets, which is in excess of the covenanted 5%, is commensurate with a 'AAA' rating level.
- The high probability of repayment of the OFs. Standard & Poor's has stress-tested cash flows at a level that is commensurate with a 'AAA' rating.
- The French covered bond legislation creates a sound basis to assign ratings predominately based on the strength of the cover pool and with limited recourse to Société Générale once it has defaulted.

Concerns

- Credit risk: The concentration of the largest 20 obligors (53%) is above average compared with other European public sector cover pools. The preliminary portfolio also exhibits a higher degree of intra-obligor correlation. In addition, expected growth of the cover pool may result in a change in the composition and credit quality of the cover pool assets. The average quality of the collateral assets is slightly below that of other European public sector covered bonds that have exposures concentrated in the country of origin.
- Market risk: Market risk that is linked to the mismatch of interest under the collateral assets and the OFs won't be hedged at closing.
- Liquidity risk: Uneven maturity profiles between cover assets and covered bonds, and limited secondary market liquidity for some cover assets might lead to reliance on alternative liquidity in times of stress.
- Overcollateralization: While Société Générale is committed to provide overcollateralization of the collateral pool in relation to the loan amount and therefore to the amount of outstanding OFs over and above the regulatory minimum requirements, this level of overcollateralization may not be sufficient to support the target rating at all times.
- Société Générale will receive the collections under the loans or the substitution assets until the overcollateralization test is breached twice, i.e., if Société Générale has failed a second time to transfer additional collateral security so that the overcollateralization test is met. As a consequence, collections belonging to SGSCF, i.e., the collections received by Société Générale from the last date the test was satisfied, could be commingled with Société Générale’s other assets until the borrowers under the public sector loans have redirected their payments away from Société Générale.

Mitigating factors

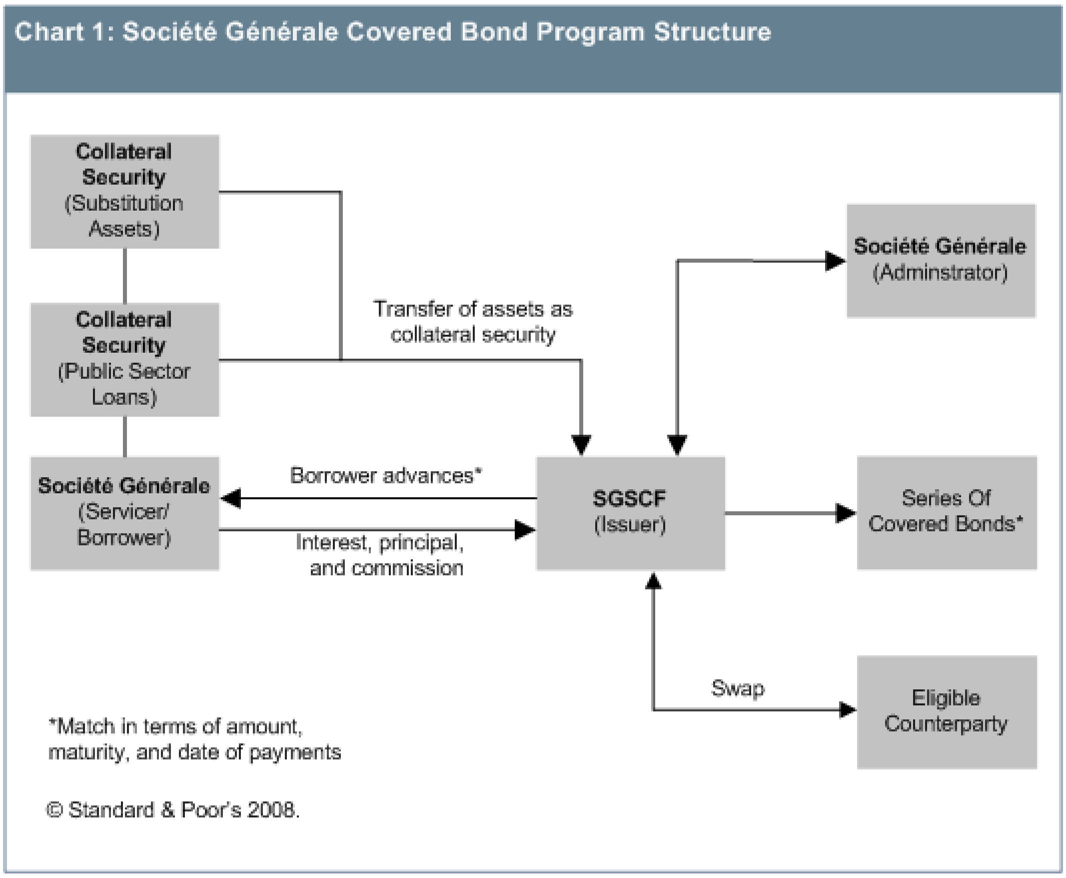
- Credit risk: In its credit analysis, Standard & Poor's has taken into account the concentration and correlation risk of the collateral and will monitor the cover pool regularly to identify credit trends early on. Regular monitoring by Standard & Poor' will be performed on a loan-by-loan basis.
- Market risk: Société Générale covenants that if a rating trigger is breached, it will provide ongoing protection against the market risk linked to the mismatch between the collateral security and the OFs.
- Liquidity risk: According to its rating guidelines, Standard & Poor's expects the bank to maintain sufficient amounts of cover assets that can be used for repurchase transactions with the central bank to allow for timely payment of principal and interest during the 180 days following a potential insolvency of the issuer without recourse to other liquidity generating measures. Société Générale will provide a liquidity facility to cover any liquidity gap during the 180 business days before the final maturity or the 90 business days before each installment date of a series of

covered bonds. If Société Générale is downgraded below 'A-1', it has committed to providing a replacement liquidity provider or to contributing cash collateral for the same amount as just described.

- Overcollateralization: Standard & Poor's expects Société Générale to provide, on an ongoing basis, overcollateralization at a level that is commensurate with the quantitative requirements for the target rating. Standard & Poor's will regularly discuss with the issuer the level of overcollateralization and the expected risk profile that is commensurate with the then current rating. Standard & Poor's is currently of the opinion that the issuer intends to and is able to maintain the current 'AAA' rating. We will continuously monitor the financial strength of the issuer.
- Commingling risk: If Société Générale is downgraded below 'A-1', a cash collateral contribution (commingling reserve) from Société Générale will cover, in advance, two months of loans collections. The debtors of the collateral assets will be notified to pay further sums due under the collateral assets to a dedicated account opened in the name of Société Générale at an eligible bank. This account would be secured in favor of SGSCF under the protective financial collateral regime of article L.431-7-3 of the *Code monétaire et financier* , and therefore available to the issuer if Société Générale defaults.

Covered Bond Program Structure

Under the program, the proceeds of the first issuance of OFs will be made available by the issuer to Société Générale through secured loans that rank pari passu and without priority among themselves. The date of each principal and interest payment due under the advances will match that of (i) the corresponding principal and interest payments under the relevant series of covered notes, and (ii) all senior expenses of the issuer. However, interest and principal payments due under the loan facility and payable by Société Générale will match the payments due by SGSCF under the hedges; which ensure full and timely payment under the OFs (see chart 1).



The payment obligations of Société Générale under the advances will be fully secured by a portfolio of loans to French public sector entities originated by Société Générale. These collateral assets can be substituted by Société Générale by new eligible assets at any time as long as the face value of the collateral assets is, after substitution, at least equal to the value of the collateral assets before substitution. Eligible assets under the program are:

- Exposures to, or guaranteed by, public sector entities;
- Mortgage loans secured by either first-ranking mortgages or guarantees; and
- Any eligible securities or assets treated similar to the loans or exposures referred to above, such as notes issued by a *fonds commun de creances* or any other similar European entity.

Before Société Générale chooses to add assets other than public sector assets to the portfolio of collateral assets, Standard & Poor's will typically perform further analysis on Société Générale's lending policy and servicing procedures.

The program also allows the debt to be secured by substitution assets in the form of highly liquid securities.

Most of the eligible assets will come from Société Générale's financial activities. Each time new assets are transferred or allocated to SGSCF, their eligibility and their clear identification will be verified by a law firm and the specific controller.

Under the program, OFs can be issued in various currencies and the final terms of the issuance can provide for, among other things, full redemption at final maturity, or full redemption at an extended maturity.

Société Générale (Arranger, Borrower, Servicer, Calculation Agent, Administrator, And Issuer Account Bank)

Société Générale is one of the 10 largest universal banks in Europe, and is the third-largest French bank by total assets. It benefits from a sound domestic stronghold, solid worldwide market positions in selected business areas, and broadly diversified income sources.

Standard & Poor's has conducted a review of Société Générale's origination, underwriting, and collection and default management procedures of loans to French local authorities. All loans that are part of the collateral pool in this transaction must meet eligibility criteria as set out in the French monetary and financial code (see "*Legal Framework*").

In its role as issuer administrator, Société Générale will manage all cash transactions and the day-to-day management of the issuer. This includes the management of the OFs, the servicing of the debt between the bank and the issuer, the performance of the obligations, and the issuer's regulatory duties.

If Société Générale defaults, the administrator will notify the debtors to pay the issuer amounts due under the public sector loans. To meet the payments under the OFs, the administrator will be able to draw liquidity under the liquidity facility, to offer the public sector loans for repurchase agreement or to sell them or substitution assets.

Société Générale will also act as the issuer bank account provider and will calculate the overcollateralization test on a monthly basis.

SGSCF (The Issuer)

SGSCF is a wholly owned subsidiary of Société Générale and was established by Société Générale as a "*société de crédit foncier*" (SCF, a special-purpose financial institution) on Nov. 2, 2004. Regulatory authorization to operate as an SCF was granted on Dec. 20, 2007.

Based on the French law on SCFs (No. 99-532, passed on June 25, 1999, and part of the "*Code monétaire et financier*"), the rating on this type of debt can be largely independent of Société Générale.

The SCF is a limited company incorporated in France and licensed by the banking authorities. Its activities and corporate objectives are strictly limited by the *Code monétaire et financier.*

SGSCF was established for the sole purpose of this program.

Specific Controller

Cailliau, Dedouit et Associés, as the specific controller, will check the regulatory minimum of overcollateralization on at least a quarterly basis.

Structural Enhancements

Overcollateralization levels

According to Article L515-20 of the *Code monétaire et financier*, a measure to protect the OF holders, an SCF's total assets must be greater than its OF debt. The eligible assets (see "*Covered Bond Program Structure*") are accounted at their historical cost and receive a 100% weighting. The specific controller will check the compliance of that ratio at least on a quarterly basis.

After the inaugural issuance, SGSCF's cover pool will exhibit an overcollateralization level of 133%, on a nominal basis. This level exceeds that required by law and mitigates the prevailing risks with a comfort commensurate with the 'AAA' target rating level.

Société Générale has covenanted to maintain a certain minimum overcollateralization by means of an overcollateralization test. The test will be calculated on a monthly basis and will ensure that the face value of the collateral exceeds the amounts owed by Société Générale to SGSCF under the guaranteed loan, by at least 5%. The overcollateralization test gives no value to the loans in arrears for more than 180 days and Société Générale will be required to add loans or substitution asset, if required, as long as Société Générale is solvent. The excess amount of 5% mirrors the minimum overcollateralization of the collateral assets compared with the outstanding amount of the OFs. Following a downgrade of Société Générale below 'A-2', the overcollateralization is expected to increase to cover market risk that would occur following an insolvency of Société Générale. The specific controller will verify the compliance with the overcollateralization test at least on a quarterly basis. As the composition of the eligible assets and the risk profile of the cash flows may change over time, the minimum overcollateralization as required by the overcollateralization test may not at all times be sufficient to support the current rating on the OFs.

The monthly calculation of the overcollateralization test by Société Générale will be monitored quarterly by the specific controller. If Société Générale is downgraded below 'A-2', the monitoring will be done monthly.

If the overcollateralization test is breached, Société Générale will have until the next overcollateralization test date to provide additional collateral security. If Société Générale can not do so and the test is breached once again, Société Générale will default under the loan facility and borrowers will be notify to pay any sums due under the collateral assets directly to SGSCF. However, any collection under the loans or the substitution assets since the last date the test was satisfied, will remain with Société Générale.

If Société Générale is downgraded below 'A-1', a cash collateral contribution (commingling reserve) from Société Générale will cover, in advance, two months of loans collections. The debtors of the collateral assets will be notified to pay further sums due under the collateral assets to a dedicated account opened in the name of Société Générale at an eligible bank. This account would be secured in favor of SGSCF under the protective financial collateral regime of article L.431-7-3 of the *Code monétaire et financier*, and therefore available to the issuer if Société Générale defaults

Liquidity line

Société Générale will provide a liquidity facility to cover any liquidity gap during the 180 days before the final maturity or the 90 days before each installment date of a series of covered bonds. The downgrade language provides for an eligible replacement liquidity provider or draw-down of cash at least in the amount mentioned above if Société Générale, as liquidity provider, is rated below 'A-1'. Following a potential insolvency of the issuer, Standard & Poor's will monitor that the amount of interest and principal to be paid in the 180 days does not exceed the maximum available amount under the liquidity line.

Other structural enhancements
Upon a Société Générale event of default, the administrator will instruct the obligors under the public sector loans to make payment directly to the issuer.

Under the program, a Société Générale event of default will occur if:

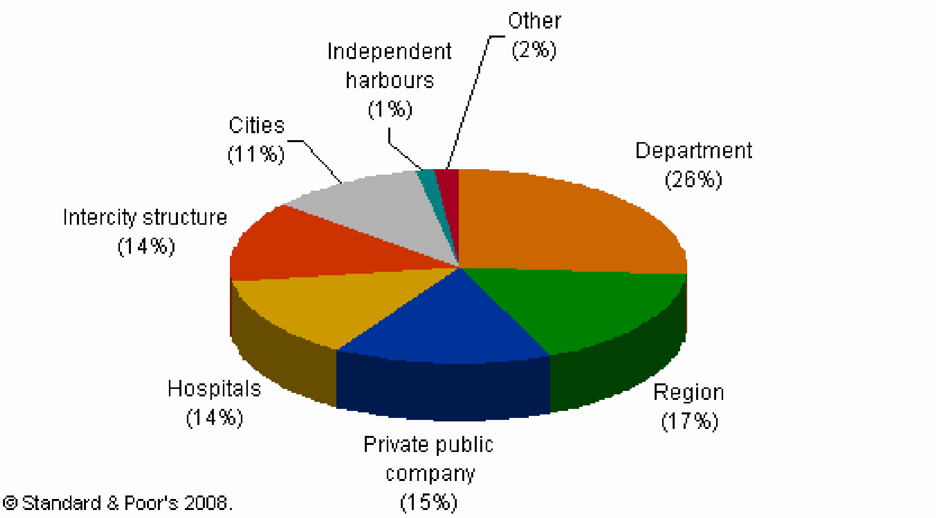
- Société Générale fails to pay any sums due under the loan between Société Générale and the issuer, subject to a cure period of three days.
- Société Générale defaults on any material obligation or any representation made by Société Générale proves to be incorrect, provided the default is prejudicial to the interests of the noteholders.
- Proceedings are initiated against Société Générale under any applicable liquidation, winding-up, or insolvency.
- It becomes unlawful for Société Générale to perform any of its obligations.
- Société Générale fails to transfer any collateral assets until the next overcollateralization test date.
- There is a failure by Société Générale to comply with any of its obligations under the Société Générale collateral security.
- Société Générale fails to fund the commingling reserve following its downgrade below 'A-1'.
- The hedging is not concluded if the rating on Société Générale is lowered below 'A-1'.

Cover Pool At Program Set-Up Date

At Dec. 31, 2007, the portfolio of loans to French local public sector entities was valued at €2 billion. This pool serves as collateral for the planned loan advances funded by covered bond issuances.

Chart 2 shows the major asset types in the preliminary portfolio.

Chart 2: Distribution Of Asset Types



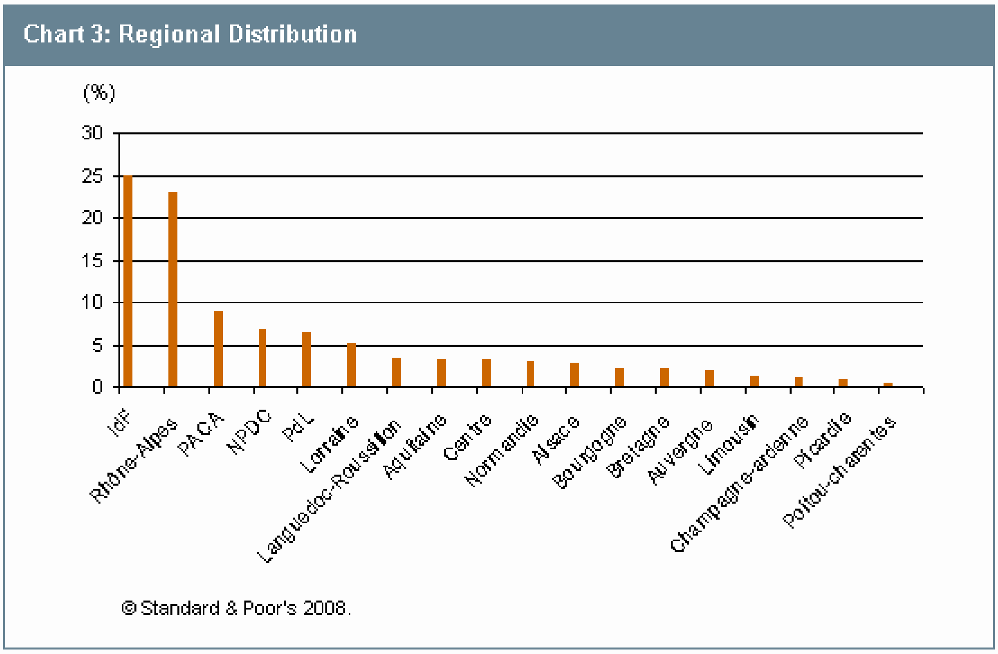
As is typical for public sector pools, the 20 largest exposures already comprise a large portion of the pool. At 53.38%, it is at the higher end of the average numbers compared with other public-sector-focused cover pools. The exposure to the largest individual obligor accounts for 6.3%, which is around average. However, the share of a group of highly correlated obligors exceeds the portion of the largest obligor. Currently, the pool only accounts for 158 loans, which relate to 104 obligors. Standard & Poor's expects the cover pool to grow over time, and does not expect the top 20 concentration measure to decrease substantially. It also expects the number of individual exposures per large obligor to increase, but not for the number of large obligors to decrease.

The asset quality of the cover pool is measured by the percentage of portfolio defaults that it has to be able to withstand for the target rating (not the expected default). As a result of the current small size of the cover pool and its resulting low granularity, and because of the average ratings being slightly below the average ratings on other public-sector-focused pools, the percentage of portfolio defaults is regarded as being at the upper end when compared with other European public-sector-focused cover pools.

As French public entities are not automatically linked between themselves by statutory or financial relationships, developments affecting one individual region (department) do not automatically affect other regions or other public sector entities within that region. Therefore, a geographical concentration would typically not require higher correlation. Accordingly, while 25% of the obligors are located in the Region of Ile-de-France (AAA/Stable/A-1+) and 23% in Rhone-Alpes—both with a high economic profile—within those regions, the pool exhibits an appropriate degree of diversity in terms of asset types.

Standard & Poor's has taken into account the higher correlation for certain obligors that demonstrated strong financial integration between themselves, e.g., between a constituent city of an intercity structure and the intercity structure itself.

Chart 3 shows the regional distribution of the cover pool.

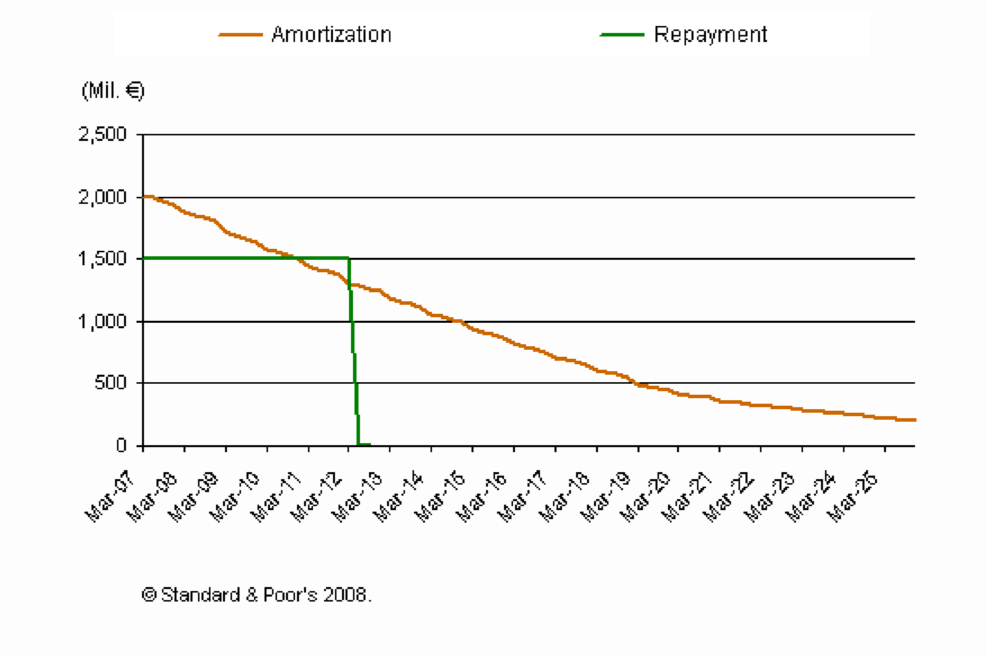


To achieve SGSCF's aim of relatively matched funding, the inaugural issuances will be euro-denominated and will exhibit relatively long maturities. Standard & Poor's expects that SGSCF's planned issuance behavior will result in relatively limited duration mismatches between the cover pool and the covered bonds issued against it.

At the reporting date, Dec. 31, 2007 the duration of the assets was 6.7 years and the duration of the liabilities was 4.5 years, giving a duration gap of approximately 2.2 years. In most start-up pools, the asset and liability profiles are expected to evolve over time and Standard & Poor's expects the matching to become more closely aligned as cover assets are added and covered bonds are issued.

Chart 4 shows SGSCF's amortization profile.

Chart 4: Amortization Profile



In a run-down scenario, the amortization of the cover pool will end with the maturity of the last asset in 2046, and all covered bonds will have repaid by 2012. A liquidity line (see "*Structural Enhancements*") will allow for timely repayment of the OFs.

The collateral assets bear fixed and floating interest rates. Variable rate assets comprise less than a third of the pool.

Given the expected growth of SGSCF, the current composition might not be representative of the composition in future. Therefore, Standard & Poor's has reviewed the bank's distinct set of credit and market risk guidelines, which are used to source assets for the cover pool. Standard & Poor's draws some comfort from these guidelines regarding the long-term composition of the cover pool.

Market Risk And Hedging Structure

From the closing date, SGSCF will enter into hedges with eligible derivative counterparties to hedge interest and principal payments due by SGSCF under the OFs. Payments due by Société Générale under the loan facility to SGSCF will match the payments payable by SGSCF under these hedges. Therefore, Société Générale will retain any interest risk or currency risk linked to the mismatch between the collateral assets and the OFs.

According to its covered bond derivative counterparty framework, Standard & Poor's consider that an issuer rated 'A-1' or higher (or 'A+' or higher if the issuer has no short-term rating) is sufficiently strong to cover market risks—such as currency or interest rate risk—that may arise in the covered bonds. In this case, Société Générale's credit rating will become a supporting party to the rating on the OFs.

If Societe General is downgraded to 'A-2', SGSCF will enter into two sets of swap agreements, which will be agreed by Société Générale and SGSCF at closing. SGSCF will enter into swap agreements with eligible derivative counterparties (issuer pool hedging agreements) to hedge the amount of interest and principal payable under the collateral assets, which will at this point in time still reside on the balance-sheet of Société Générale. In addition, the issuer will enter into a back-to-back swap agreement with Société Générale to transfer the proceeds from the issuer pool hedging agreements to Société Générale as long as Société Générale has not defaulted. The hedging agreements will follow Standard & Poor's guidelines for derivative counterparties participating in covered bonds (see "*Related Articles*"). Société Générale remains a supporting party to the rating on the OFs for termination costs that may be payable by SGSCF to a derivative counterparty if the derivative counterparty defaults.

Standard & Poor's can only consider the benefits of swaps as long as Société Générale has an issuer credit rating of 'A-1'. If the rating on Société Générale falls below 'A-2', Standard & Poor’s will not consider the hedging agreements with eligible derivative counterparties in its analysis and the level of overcollateralization commensurate with the 'AAA' rating may rise. However, Société Générale will, on its downgrade to 'A-2', add further assets to the collateral security portfolio to provide ongoing adequate protection against the market risk. That risk arises when Société Générale defaults under the loan facility and is linked to the mismatch between the collateral assets and the OFs. Société Générale has committed to an increase of the overcollateralization under the OCT and Standard & Poor’s currently considers that Société Générale intends and is able to maintain the current 'AAA' rating.

Credit Analysis

The credit analysis of the cover pool includes an exposure-by-exposure review of underlying assets to estimate the credit risk of each individual exposure. Together with correlation assumptions between the assets, a portfolio default rate tailored to the rating on the covered bonds is generated using CDO Evaluator. The portfolio default rate is not the expected default rate, but also takes into account portfolio granularity and correlation effects. The derived portfolio default rate, the expected recoveries, the recovery periods, and the servicing costs are then used as input for the cash flow analysis.

Standard & Poor's CDO Evaluator

CDO Evaluator is an integral part of the methodology for the rating and surveillance of public sector covered bonds. Using a Monte Carlo methodology, it evaluates the credit quality of a collateral pool, taking into consideration the issuer credit rating, size, domicile, and maturity of each asset, and the correlation between each pair of assets. The credit quality of the collateral pool is presented in terms of a probability distribution for potential default rates. From this distribution, CDO Evaluator derives a set of scenario default rates that identify, for each credit rating, the maximum level of collateral pool defaults a CDO tranche should be able to withstand without defaulting itself.

Cash Flow Analysis

Standard & Poor's evaluates a pool of covered bonds on a cash flow basis to determine whether under conditions of severe economic stress the cash flow generated by the assets would be sufficient to meet the debt service payments due on the liabilities in a timely manner. The aim of the cash flow analysis is to assess the pools for:

- Credit risk, as described above;
- Market risk in the form of interest rate and currency risk;
- Liquidity risk as a result of cash flow mismatches between assets and liabilities in terms of maturity;
- Prepayment risks and servicing costs; and
- An appropriate stress testing of these risks using the Covered Bond Monitor (CBM).

CBM is a Monte Carlo model that simulates approximately 100,000 different economic scenarios, or more if required, to establish an accurate default distribution. Each scenario produces a different path for interest rates and exchange rates for each currency included in the issuer's cover pool. Using these input parameters, a corresponding set of cash flows is computed to determine whether under these stressed assumptions the pool exhibits sufficient strength to pass the target rating eligibility test. The average maturity of the outstanding covered bonds defines the target rating default probability against which the cash flows are benchmarked. If the respective cover pool cash flows exhibit fewer defaults than accepted under the threshold, the cover pool passes the rating eligibility test from a quantitative point of view.

The cash flow analysis is based on the assumption of a static pool—that is, no active pool management or new issues other than servicing the liabilities as they come due and, if necessary, taking out bridge financing to cover temporary liquidity needs. This assumption stems in turn from Standard & Poor's central rating assumption, where the issuer is insolvent and the pool is managed until it has fully amortized.

If a covered bond issuer has registered derivatives in the cover pool, we grant benefit if these hedges comply with the applicable counterparty criteria for derivative transactions. If Standard & Poor's criteria are not met, structures are analyzed on a case-by-case basis. If noncompliant structures result in negative market values, these stresses are fully reflected in our analysis. If the structure results in positive market values, some limited benefit might be granted, if appropriate.

Legal Framework

An SCF is regulated by the *Code monétaire et financier* and can issue OFs and other borrowing that benefits from a priority right of payment on all the eligible assets of the SCF. In addition, the SCF may issue ordinary bonds or raise funds that do not benefit from such a priority right of payment.

The French covered bond legislation changed in April and May 2007 to implement Directive 2006-48 on capital requirements, which itself incorporate the principles of the Basel II Accord into European law. The revised legislation expands the type of assets eligible to an SCF (with the guaranteed loans limit raised to 35% from 20%, exposures to public entities, and certain eligible securities, including up to 10% mortgage bonds (*Billet hypothécaire*)). The assets can be held directly or via eligible asset-backed securities structures.

Under the terms of the law, an SCF operates like a bank under the supervision of the banking authorities. The SCF appoints a specific controller that needs to be approved by the banking regulator. The specific controller is in charge of checking compliance with specific SCF requirements. One of its main tasks is to ensure that the principle of overcollateralization is complied with, i.e., that the SCF maintains at all time a ratio of at least 100% between its assets and liabilities, which have a priority right of payment. The specific controller has to confirm the compliance at least each quarter and for each issue amount exceeding €500 million.

By law, SGSCF's activity is restricted to the origination or purchase of highly secured assets (eligible assets) of the following types:

- Loans secured by first-ranking mortgages on real estate located in France, any other member state of the European Community, the European Economic Area, or in other countries of best quality as determined under Basel II (the eligible area) whose maximum loan-to-value ratio must not exceed 60% (or 80% if the loans are granted to individuals for the purchase or construction of housing).
- Guaranteed loans, whose guarantor is an independent credit institution or an insurance company that finances real estate within the eligible area. This type of loan cannot exceed 35% of the total assets of an SCF.
- Exposure to states or local authorities within the eligible area or loans that benefit from a guarantee from those entities. Up to 20% of the outstanding amount of OFs may be backed by exposure to states or local authorities in countries considered to be second-best quality, as determined under Basel II.
- Asset-backed securities issued by securitization vehicles within the eligible area, whose assets are at least 90% eligible assets.

The *Code monétaire et financier* also allows an SCF to invest in different types of exposures on credit institutions or investment firms considered to be best quality as determined under Basel II (replacement assets). The total amount of such replacement assets must not exceed 15% of the outstanding amount of OFs.

The French law allows the SCF to refinance maturing covered bonds by selling the assets or by taking out bridge loans. According to its rating approach, Standard & Poor's assumes that Société Générale is insolvent and that the OFs will be served by the payments received from the collateral assets. As a result of the typical uneven maturity profiles between collateral assets and outstanding covered bonds, Standard & Poor's stresses the liquidity costs in its cash flow analysis. If the program has excess cash, it assumes that the proceeds can be invested at the then-simulated market rates. Because Standard & Poor's assumes that Société Générale is insolvent, the administrator would only be able to invest the proceeds at a discount of 50 basis points. If insufficient proceeds have been accumulated for the upcoming maturities, Standard & Poor's assumes that the administrator can take out a bridge loan. Because of the distressed situation, Standard & Poor's assumes that in the 'AAA' scenario, the pool has to be able to service the simulated rates plus a premium of 100 bps.

Legal aspects of the structure

The transaction's legal structure, in particular regarding the enforceability of the transfer by way of security of the public sector loans in an insolvency of Société Générale, is based on the financial collateral provisions of the *Code monétaire et financier*. The code aims to protect the validity and enforceability of financial collateral arrangements from the adverse effects of bankruptcy.

Standard & Poor's expects to receive adequate legal comfort that the transaction will be eligible under the financial collateral provisions of the *Code monétaire et financier* and that, as owner of the collateral, SGSCF will remain entitled to use the collateral to satisfy its claims against Société Générale; including in an insolvency scenario.

The assets that will be transferred as security for the advances will be pre-identified before any transfer (in practice, by being flagged in the book and records of Société Générale).

Ongoing Surveillance

Regular surveillance is maintained on SGSCF's covered bonds until the notes mature or are otherwise retired. Regular loan-by-loan data and cash flow reports detailing the quality and performance of the underlying collateral will be analyzed, supporting ratings monitored, and regular contact made with the issuer to ensure that servicing standards will be sustained and that any material changes in the issuer's operations are communicated and assessed. Within a surveillance analysis Standard & Poor's assesses the following:

- Composition of the cover pool, which may change considerably as a result of new additions to the pool of collateral assets or substitutions; and
- Overcollateralization levels.

Reports received from the issuer include the following data:

- Loan-by-loan cover pool exposures, which include details as name, amount, maturity, and other relevant data;
- Liquidity information; and
- Cash flows for each currency.

Criteria Referenced

- "*Methodology & Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds*" (published on Feb. 26, 2008).
- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).

Related Articles

- "*European Covered Bond Outlook 2008—Increased Transparency Still The Goal?*" (published on March 6, 2008).
- "*All Covered Bonds Are Not Created Equal*" (published on Sept. 13, 2007).
- "*Expanding European Covered Bond Universe Puts Spotlight on Key Analytics*" (published on July 16, 2004).
- "*Société Générale LT Rating Cut To 'AA-'; Off Watch Neg; ST Rating Affirmed; Outlook Negative*" (published on Feb. 15, 2008).
- "*Société Générale*" (counterparty credit analysis, published on October 31, 2007).
- "*Tighter Framework Pushes French Local and Regional Governments Toward Stronger Budgetary Discipline*" (published on April 10, 2007).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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