

14:45 – 16:00 - STREAM 1- Marly

“Are Euro Debt Capital Markets a Sustainable Option to Fulfill Funding Requirements in the Current Financial Crisis?”



SOCIETE GENERALE
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Are Euro Debt Capital Markets a Sustainable Option to Fulfil Funding Requirements in the Current Financial Crisis?

Paris, July 2 2008

Pavillon d'Armenonville

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Introduction
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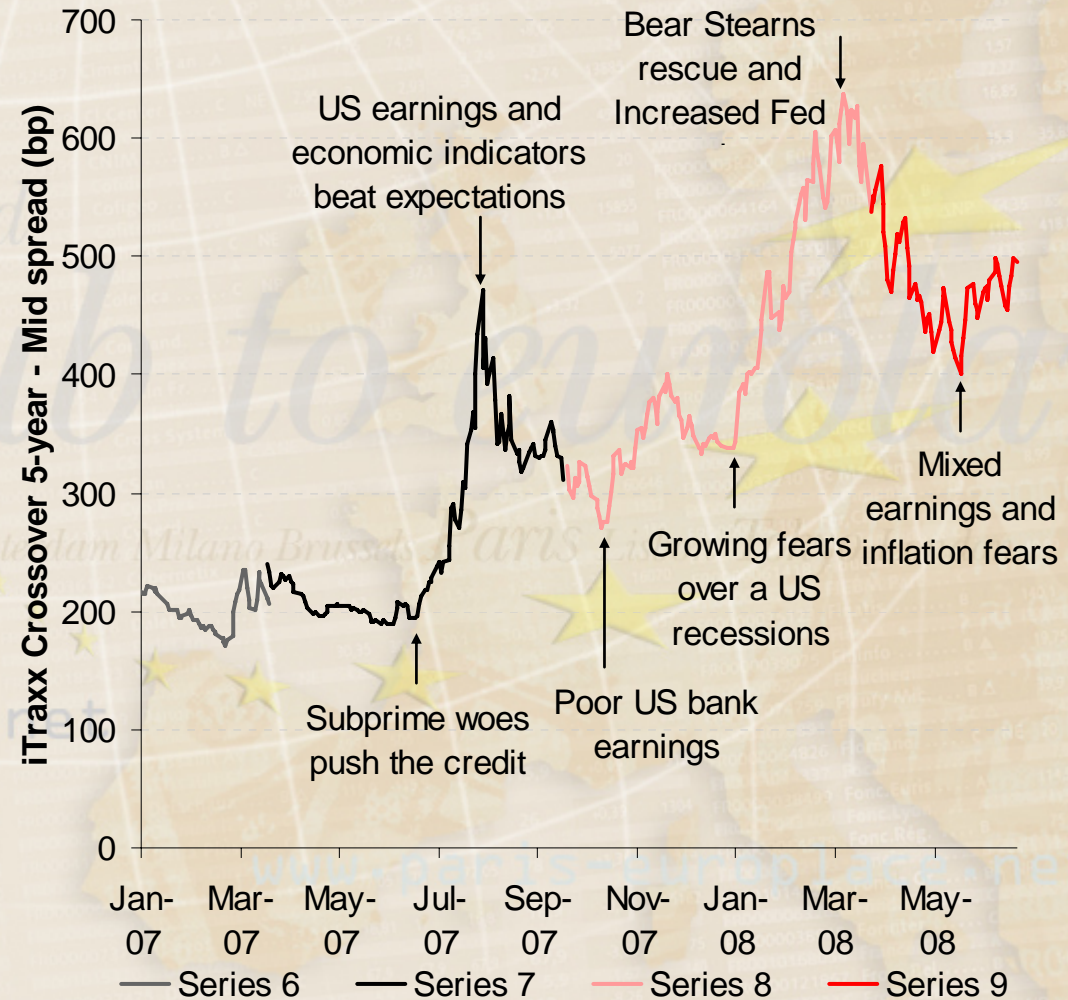
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The Credit Crisis Led To High Market Volatility...

- Credit spreads significantly wider since July 2007
- High volatility across asset classes
- Market turbulence persists a year after crisis began
- Uncertainties remain: inflation and weak economic prospects

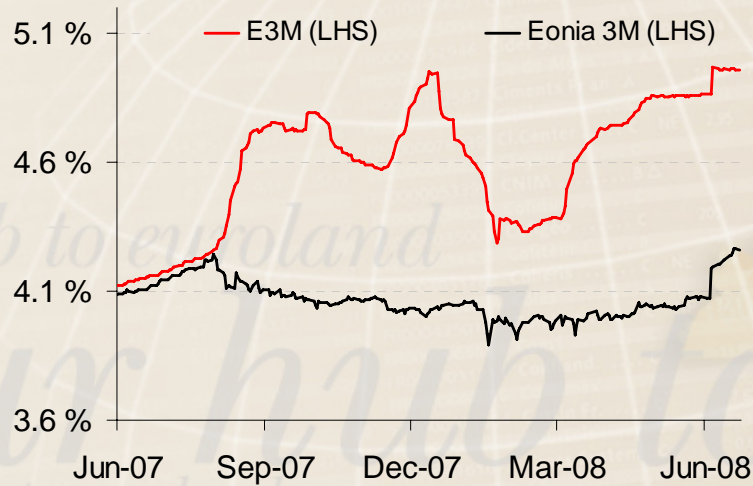
Evolution of the iTraxx 5-year Crossover



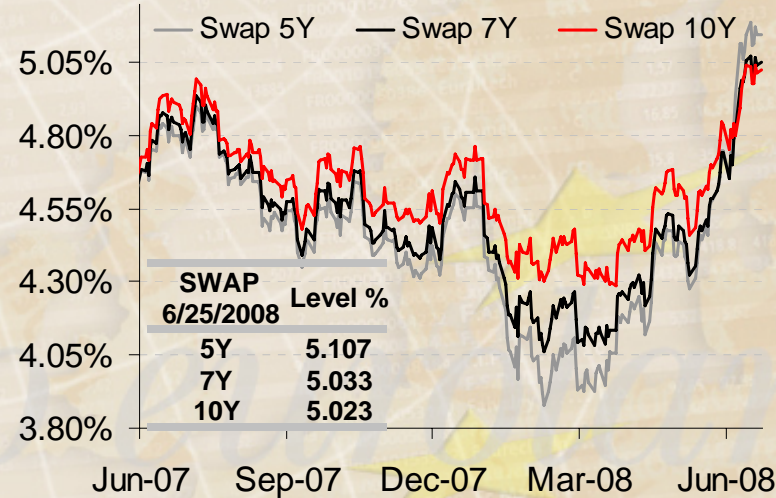
... Fuelled by higher rates and dislocation in fundamentals ...

● Rates:

Decorrelation between Eonia and E3m

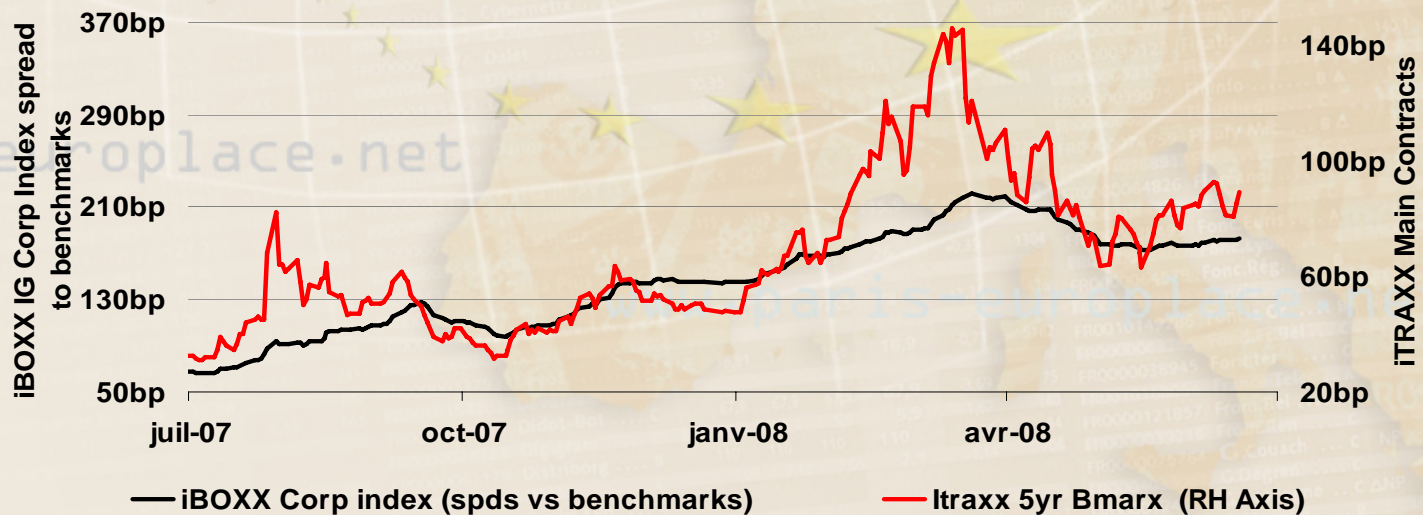


Swap rates since June 2007



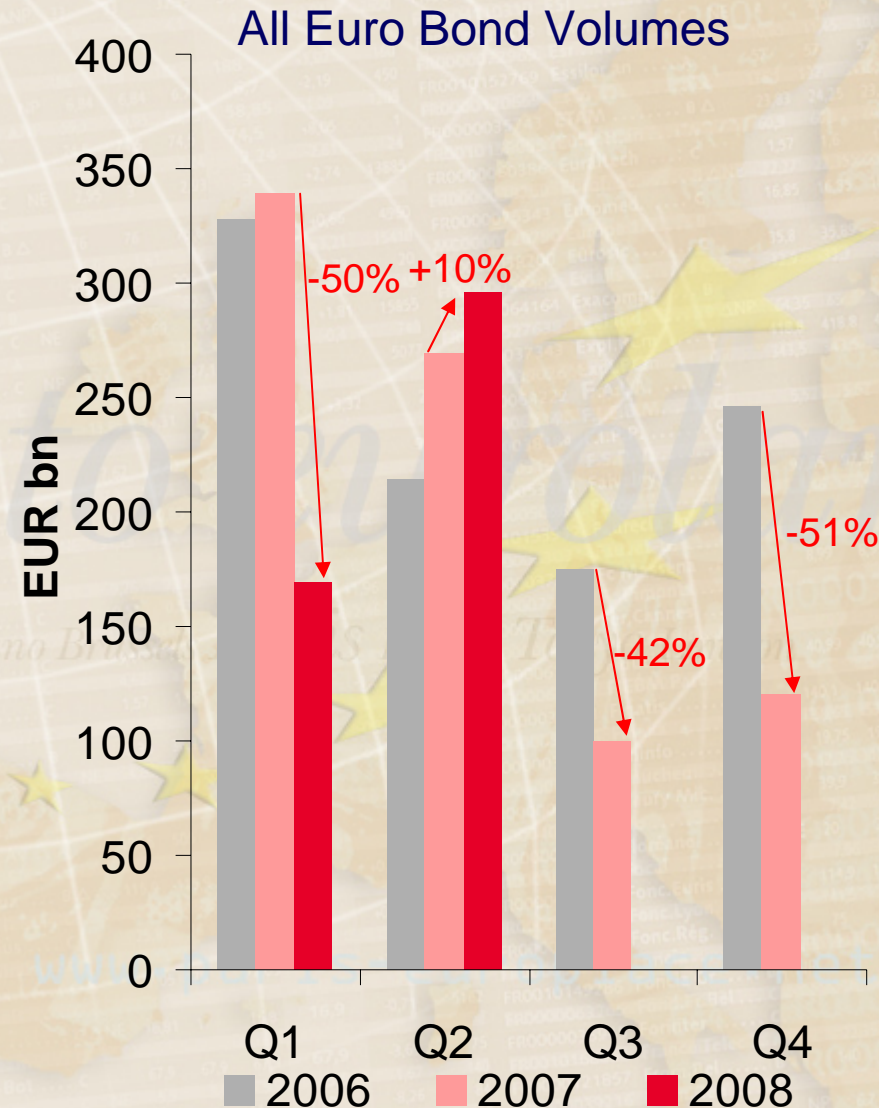
● Credit:

Dislocation between Cash and CDS



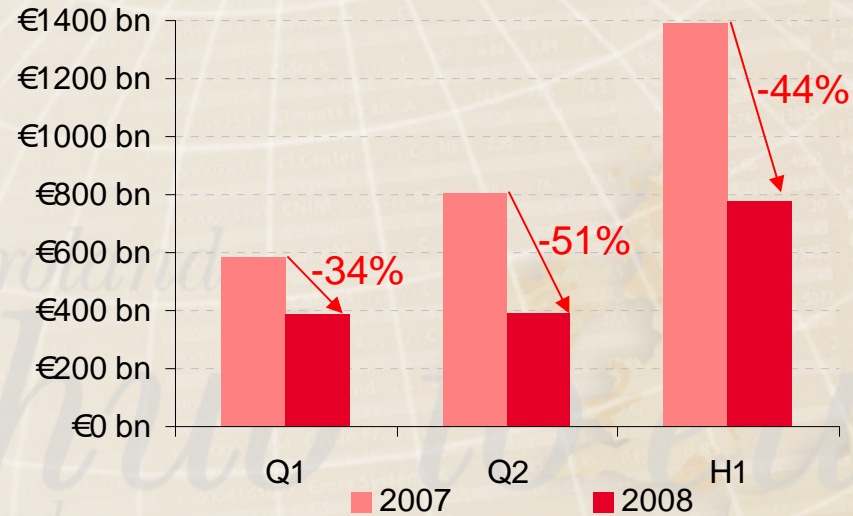
... But The Euro Primary Market Remains Well Supported

- Euro bond volumes have substantially decreased since Q3 2007
- However, strong credits have still been able to tap the market
- In Q2 2008, we saw some signs of the market re-opening to broader credits
- As a consequence, the past quarter witnessed higher volumes than in previous years

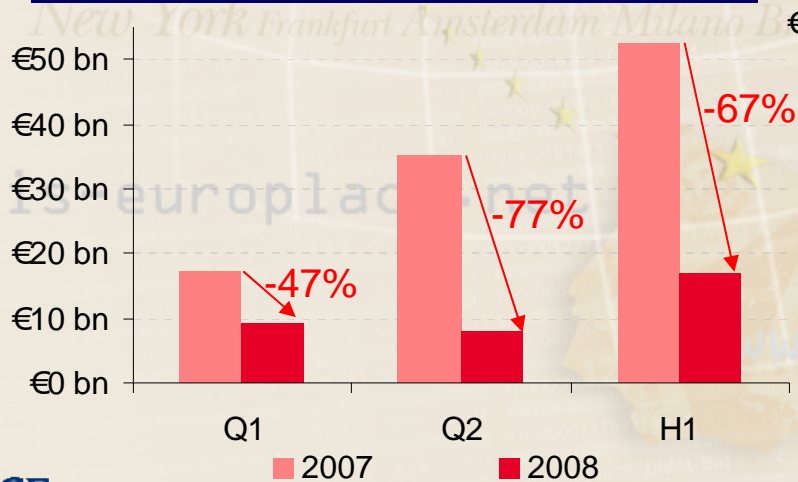


Drop in M&A Transactions and Primary Equity Issuance

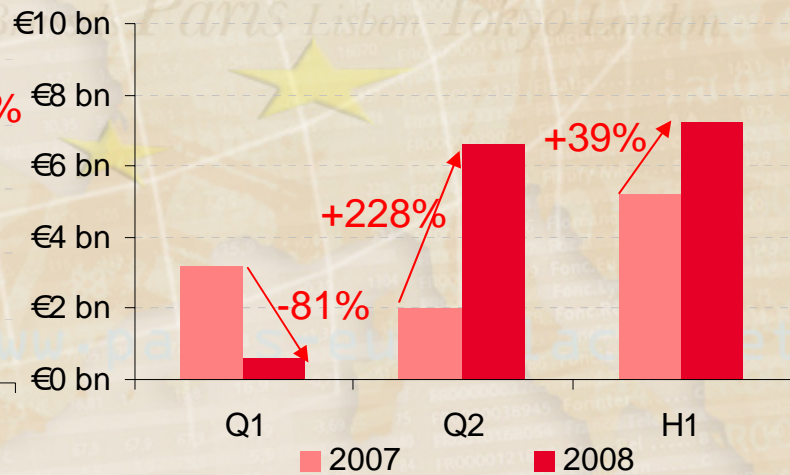
Announced Euro-Denominated M&A Volumes



Euro-Denominated Equity Issuance

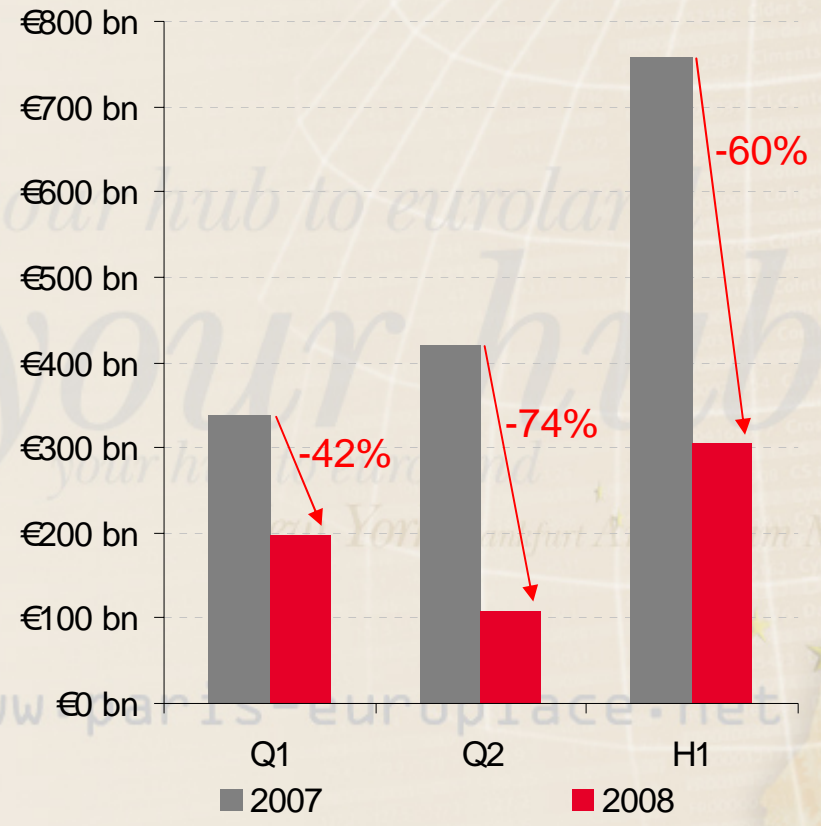


Euro-Denominated Equity-linked Issuance

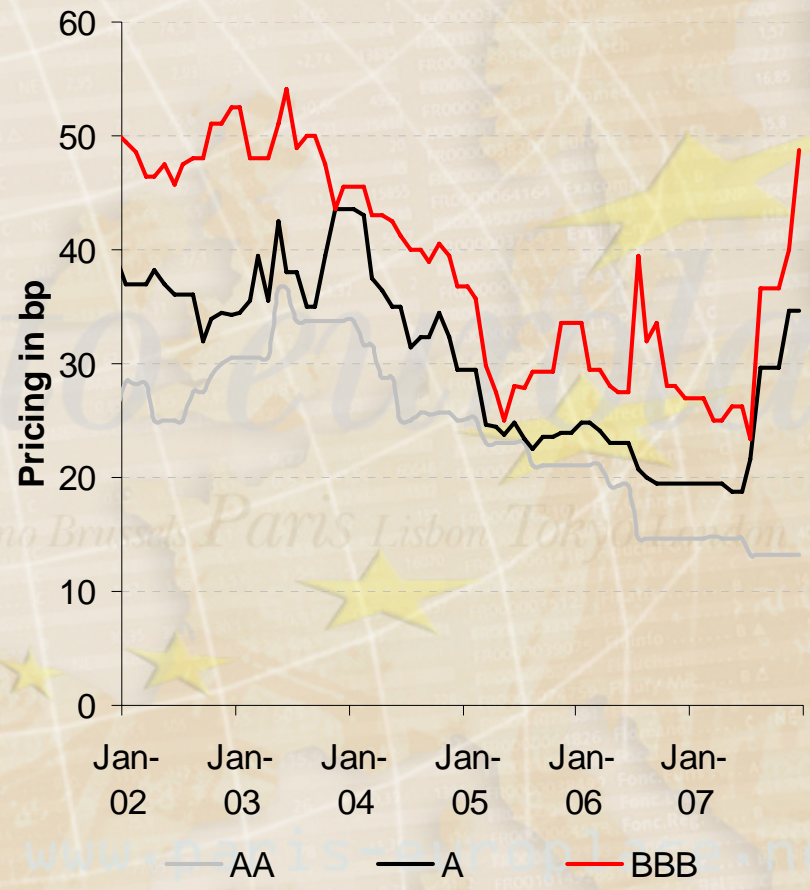


Reduced volumes in the Loan Market

Syndicated Loan Volumes in Europe



Average multi-year drawn pricing by rating



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Stability and Regularity Drive SSA Market

- Supply in the SSA sector has not been affected by the crisis
- Supply has been stable this year and has even slightly increased (+8%) compared to 2007
- Comparing 2007 to 2006, supply had decreased by 4% in 2007 in the SSA sector for the same period

As at 9/06/08, in million €	2007	2008	y/y
Public sector issuance through syndicator			
Sovs, Agencies, Supras	130,466	143,001	10%
Sovereigns	53,280	73,685	38%
Agencies	52,080	44,710	-14%
Supranationals	5,900	8,603	46%
Municipalities	19,206	16,003	-17%
Public sector issuance through auctions	205,174	220,942	8%
Total Sov, Agencies, Supras Issuance	335,640	363,942	8%

As at 9/06/07, in million €	2006	2007	y/y
Public sector issuance through syndicator			
Sovs, Agencies, Supras	129,529	129,066	0%
Sovereigns	61,450	53,280	-13%
Agencies	39,621	50,680	28%
Supranationals	8,269	5,900	-29%
Municipalities	20,189	19,206	-5%
Public sector issuance through auctions	224,285	211,539	-6%
Total Sov, Agencies, Supras Issuance	353,814	340,605	-4%

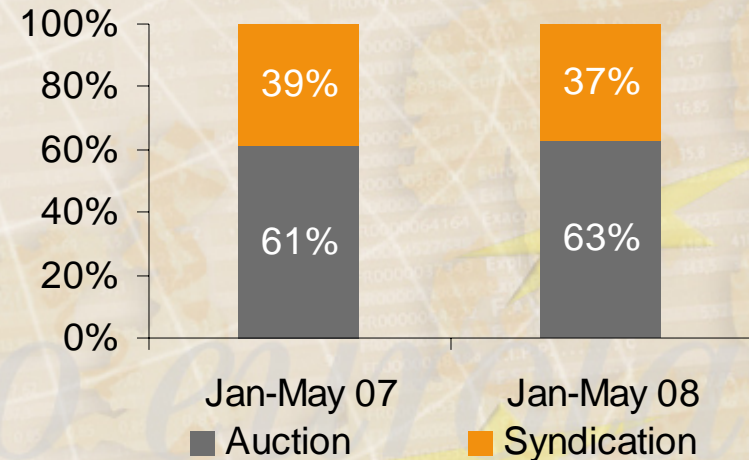
H1 2008 SSA Sector Primary Volume Breakdown

- Slight progress in the **Sovereign** sector: (+14%, auctions and syndications)
 - A number of Sovereign issuers have completed almost 70% of their annual funding programmes despite the volatile market
- Slight decrease in the **Agency & Supranational** sector (-8%):
 - Supranational issuers (+46%) have partly compensated for the decreasing amount of new issues from Agencies (-14%)
- A significant slowdown in the **Municipalities** market (-17%):
 - Cyclical nature of municipality funding programmes
 - Compliance with Maastricht rules regarding the debt ratios of countries belonging to the European Union
 - Higher forecast regarding budget and fiscal revenues for 2008
 - Externalisation of assets that may generate cash flows to compensate for higher financing needs in 2009

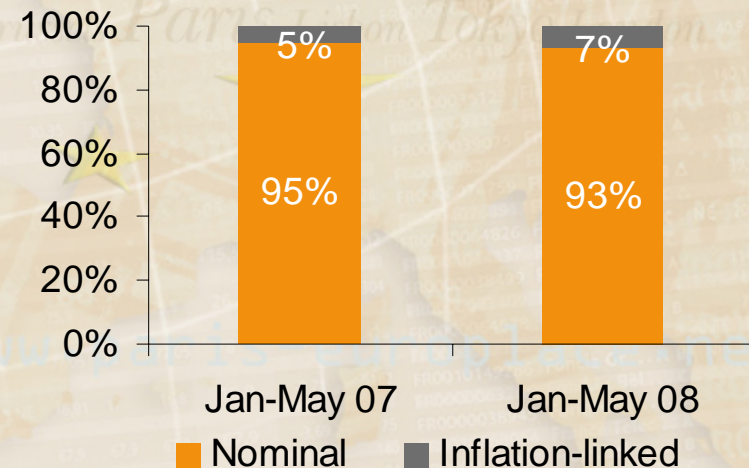
Stable Funding Structure Between 2007 and 2008ytd

- Volumes of auctions vs. syndicated deals have been stable during the crisis
- Inflation-linked supply has also remained steady (+2%). Surprisingly, the supply did not follow investor demand in an environment of rising inflation
- Overall, SSA supply has been resilient with a 10% increase of syndicated deals on last year in H1

Syndicated/auction bond issues



Nominal/inflation-linked bond issues



Includes Auctions and Syndicated issues

A Turbulent SSA Secondary Market

- Although activity remains, SSA secondary market conditions have been very turbulent, reflecting the volatility and nervous nature of the market
- In summary:
 - Liquidity and trading activity is affected
 - Global de-leveraging process is ongoing within the bank and hedge fund sectors
 - Dislocation in the short-term money market contributes to reduced activity
- The aforementioned factors have led to:
 - a widening of bid/ask spreads
 - a widening of ASW spreads for agencies and non-core sovereigns
 - a significant drop in the activity of trading platforms

Conclusion on the SSA market

- The crisis did not hamper primary market activity
- The public sector even benefited from it, partly due to a flight to quality
- However, the stability and regularity experienced by the primary market has not been reflected in the secondary market, which has been heavily affected by the crisis
- The only difference between the SSA sector and the other asset classes is that the market remained broadly open for new issues despite the volatile conditions, on the back of higher pick-up levels required by investors

Corporate & Financial Bond Markets

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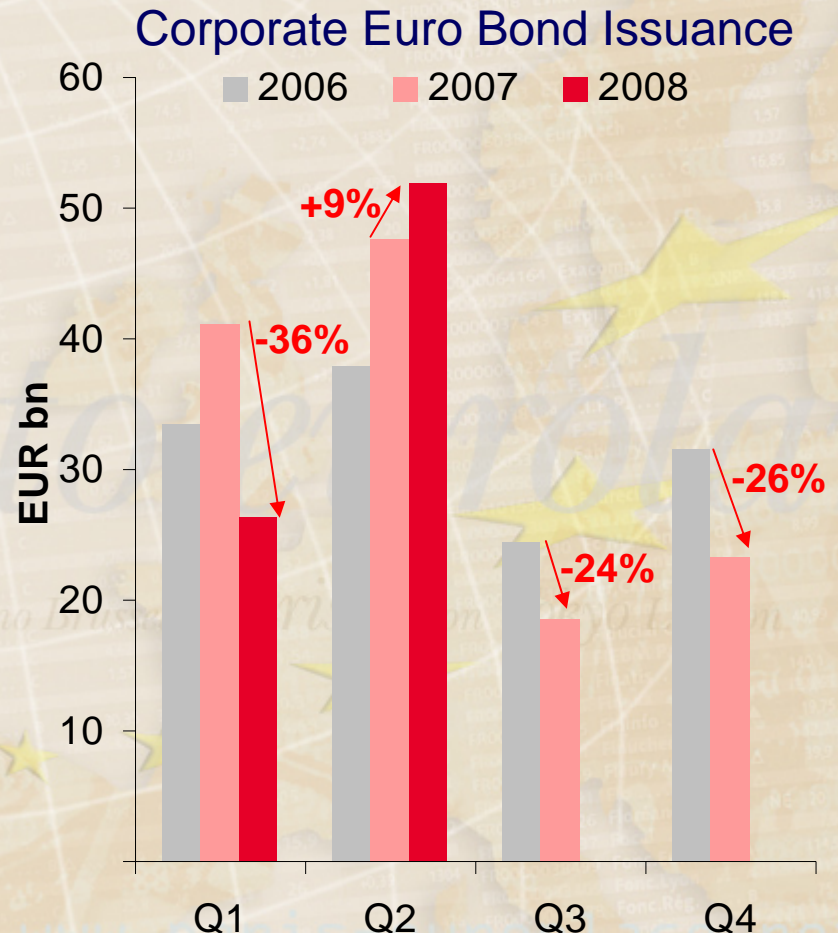
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Resilient Primary Corporate Bond Supply

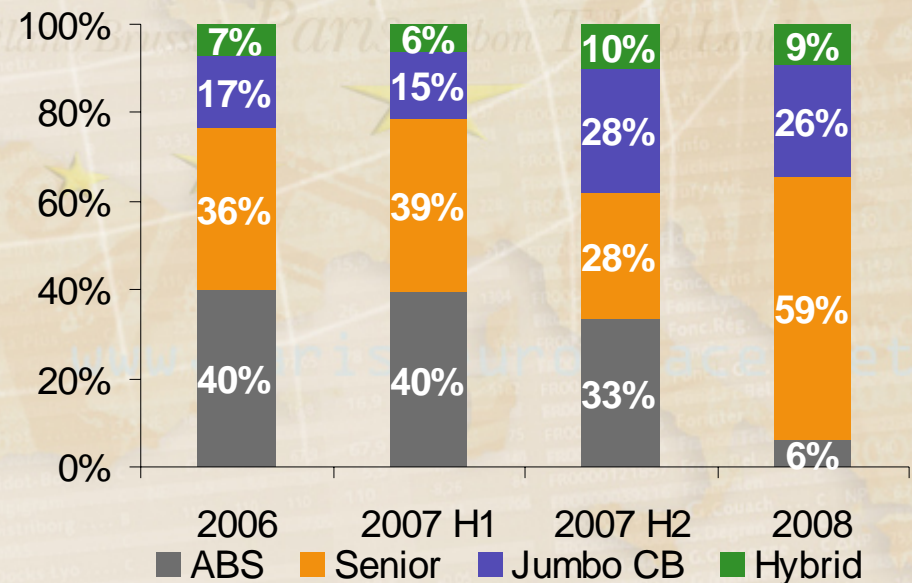
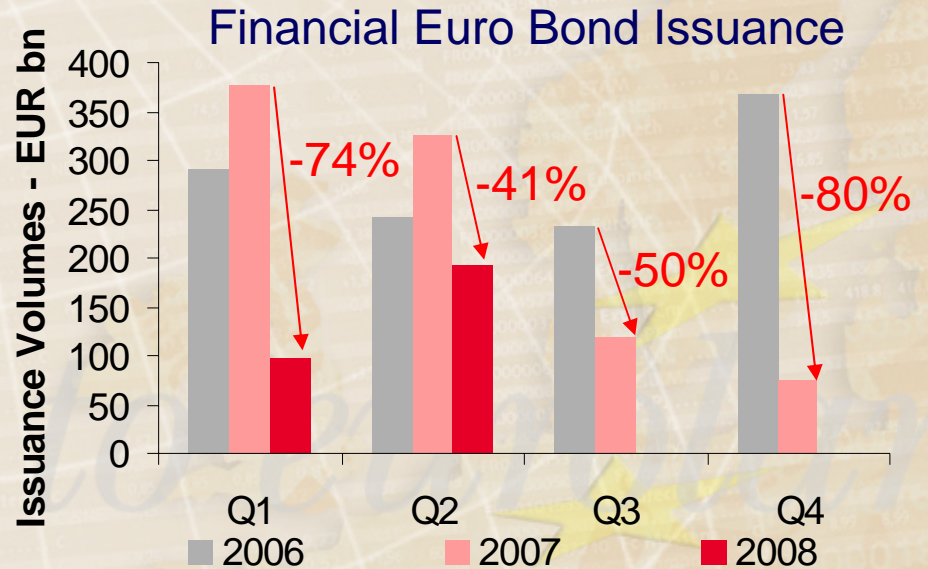
- H1 2007 began on a strong note but H2 volumes were below expectation
- In Q1 2008, new issue supply was particularly affected by the crisis...
- ... but in Q2 2008 new issuance reached an all-time high, fuelled by Investment Grade paper issues.
- No HY bonds were issued in Euros since July 2007 (from €18bn in H1-2007).



EUR billion	2006	2007	2008YTD
H1	71.5	88.8	78.3
H2	56.1	41.9	0.0
Total	127.5	130.7	78.3

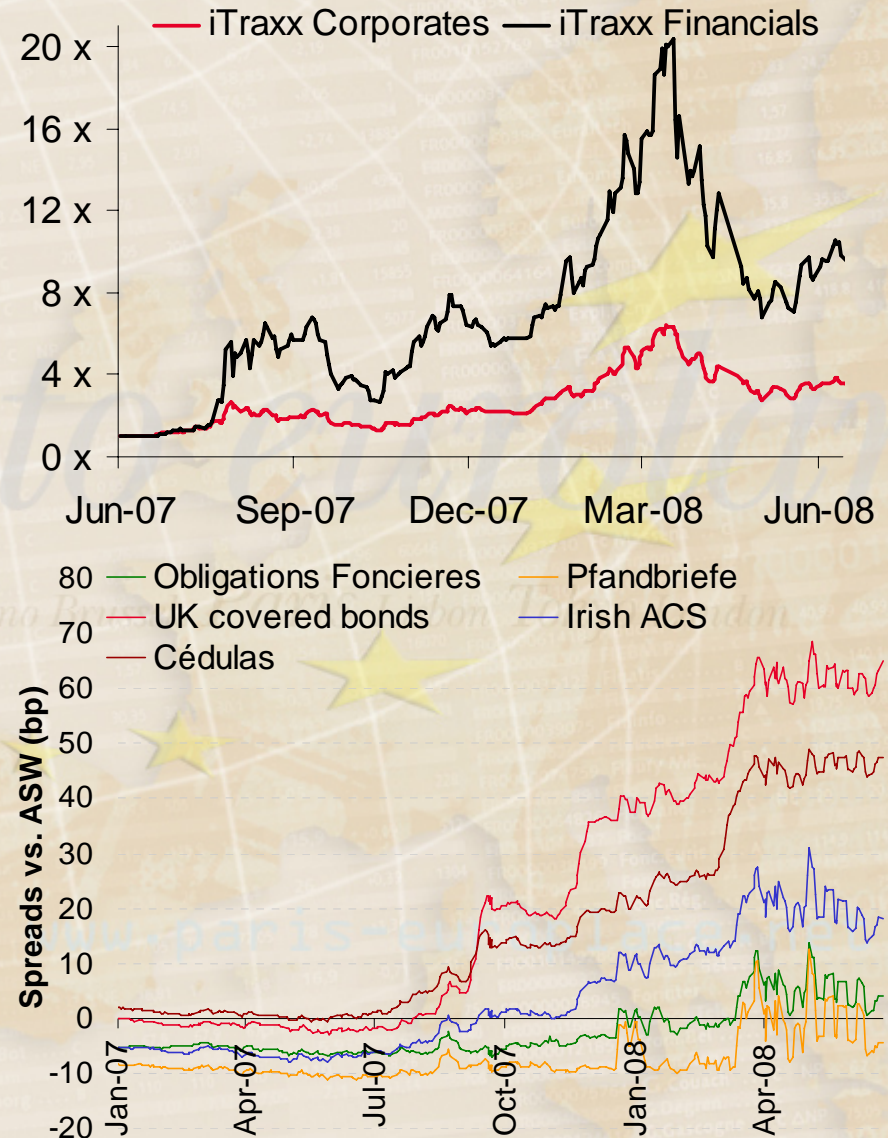
Funding Opportunities For Financials Have Shifted

- Lower supply with a structural reallocation of demand, though volumes are increasing
- The senior and hybrid markets have remained open to large banks
- The Jumbo covered bond segment has been the most resilient
- ABS market activity has been subdued with the majority of deals retained for ECB repo purposes



Secondary Market Trends

- Corporates outperformed Financials, with subdued secondary liquidity
- The primary market remains the preferred route for investors to add risk
- The combined Central Banks' efforts tightened spreads in Q2
- However, renewed economic fears are pushing spreads wider again
- Pfandbriefe and Obligations Foncières are the best Covered Bond performers



Conclusion: The Euro Primary Market Is Open

- The Euro bond market has remained open for quality signatures
 - SSAs, IG Corporates, Large Financials and Covered Bonds
- 2008 primary volumes are rapidly catching up with 2007 levels
 - Thanks to cash-rich investors and increasing confidence in the credit markets
- However, trust still needs to be rebuilt in some sectors...
 - Non-IG Corporates, 2nd Tier banks and ABS
- ... and uncertainty remains dominant
 - Due to poor Corporate and Financial earning expectations, rising inflation and weak economic prospects