BASE LISTING DOCUMENT DATED 3 APRIL 2019

> *If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.*
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Non-collateralised Structured Products
Base Listing Document
relating to Structured Products to
be issued by

SG Issuer

(incorporated in Luxembourg)

unconditionally and irrevocably guaranteed by

Société Générale

(incorporated in France)

Sponsor, Liquidity Provider & Placing Agent
SG Securities (HK) Limited

This document, for which we and Société Générale (the "**Guarantor**") accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to us, SG Issuer, and the Guarantor, our derivative warrants (the "**Warrants**"), callable bull/bear contracts (the "**CBBCs**") and other structured products (the Warrants, the CBBCs and such other structured products are, collectively, the "**Structured Products**") to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda.

Our obligations under the Structured Products are guaranteed by the Guarantor under a guarantee executed by the Guarantor dated 3 April 2019 (the "**Guarantee**"). We and the Guarantor, having made all reasonable enquiries, confirm that to the best of our knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

The Structured Products are complex products. You should exercise caution in relation to them. Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products involve derivatives. Investors should not invest in the Structured Products unless they fully understand and are willing to assume the risks associated with them.

The Structured Products constitute our general unsecured contractual obligations and of no other person, and the Guarantee constitutes the general unsecured contractual obligations of the Guarantor and of no other person. The Structured Products will rank equally among themselves and with all our other unsecured obligations and the other unsecured obligations of the Guarantor (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and the creditworthiness of the Guarantor and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of the underlying index. If we become insolvent or default on our obligations under the Structured Products or the Guarantor becomes insolvent or defaults on its obligations under the Guarantee, you may not be able to recover all or even part of the amount due under the Structured Products (if any). The Issuer is subject to the exercise of the bail-in powers under the Luxembourg legislation for implementation of the Bank Recovery and Resolution Directive. The Guarantor is subject to the exercise of the bail-in powers under the French legislation for implementation of the Bank Recovery and Resolution Directive.

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1. IMPORTANT INFORMATION

What documents should you read before investing in the Structured Products?

A launch announcement and supplemental listing document of each series of the Structured Products will include detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time), together with such relevant launch announcement and supplemental listing document (including any addendum to such relevant launch announcement and supplemental listing document to be issued from time to time) (together, the "**Listing Documents**"), before investing in any series of the Structured Products. You should carefully study the risk factors set out in the Listing Documents.

Is there any guarantee or collateral for the Structured Products?

Our obligations under the Structured Products are unconditionally and irrevocably guaranteed by the Guarantor. If we become insolvent or default on our obligations under the Structured Products and the Guarantor becomes insolvent or defaults on its obligations under the Guarantee, you can only claim as an unsecured creditor of the Issuer and the Guarantor. In such event, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

What are the Guarantor's credit ratings?

The Guarantor's long term credit ratings are:

Rating agency	*Ratings as of the day immediately preceding the date of this document*
Moody's Investors Service, Inc. ("**Moody's**")	A1 (with stable outlook)
S&P Global Ratings ("**S&P**")	A (with positive outlook)

The ratings of the Guarantor are only an assessment by the rating agencies of the Guarantor's overall financial capacity to pay its debts.

A1 is among the top three major credit rating categories and is the fifth highest investment–grade ranking of the ten investment-grade ratings (including 1, 2 and 3 sub-grades) assigned by Moody's.

A is among the top three major credit rating categories and is the sixth highest investment–grade ranking of the ten investment-grade ratings (including + or – sub-grades) assigned by S&P.

Please refer to the brief guide in Appendix 5 to this Base Listing Document for more information about credit ratings.

Rating agencies usually receive a fee from the companies that they rate. When evaluating the Guarantor's creditworthiness, you should not solely rely on the Guarantor's credit ratings because:

(a) a credit rating is not a recommendation to buy, sell or hold the Structured Products;

(b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;

(c) a high credit rating is not necessarily indicative of low risk. The Guarantor's credit ratings as of the day immediately preceding the date of this document are for reference only. Any downgrading of the Guarantor's ratings could result in a reduction in the value(s) of the Structured Product(s);

(d) a credit rating is not an indication of the liquidity or volatility of the Structured Products; and

(e) a credit rating may be downgraded if the credit quality of the Guarantor declines.

The Structured Products are not rated. The Guarantor's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to the Guarantor's ratings from time to time.

Is the Issuer or the Guarantor regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission referred to in Rule 15A.13(3)?

We are a Financial Institution in the meaning of the Luxembourg Law of 5 April 1993 on the Financial Sector (as amended) relating to the financial sector. We are being a 100 per cent. owned subsidiary of Société Générale Bank & Trust S.A. and a fully consolidated company. We are also registered with the Luxembourg trade and companies register under No. B 121.363.

The Hong Kong Branch of the Guarantor is a licensed bank in Hong Kong regulated by the Hong Kong Monetary Authority. The Guarantor is also regulated by, amongst others, the *Autorité de Contrôle Prudentiel et de Résolution* (French Prudential Supervisory Authority) in France.

Is the Issuer or the Guarantor subject to any litigation?

Save as disclosed in the sections headed "Group Management Report" and "Risk Factors and Capital Adequacy" (including, in particular, the subsections headed "Compliance and reputational risk, litigation" and the Note 9 headed "Information on risks and litigation") in Appendix 4 of this document, none of us, the Guarantor or any of our or its subsidiaries is aware of any litigation or claims of material importance pending or threatened against any of us or them.

Authorisation for the issue of the Structured Products

The issue of the Structured Products was authorised by our executive board on 19 November 2015.

Has the Guarantor's financial position changed since last financial year-end?

There has been no material adverse change in the financial or trading position of the Guarantor since 31 December 2018.

Do you need to pay any transaction cost?

The Stock Exchange charges a current trading fee of 0.005 per cent. and the Securities and Futures Commission charges a current transaction levy of 0.0027 per cent. in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

Do you need to pay any tax?

You may be required to pay stamp duty, other taxes or other charges in accordance with the laws and practices of the country of your purchase in addition to the issue price of each Structured Product. See section 11 (Taxation) of this document for further information.

Where can you inspect the relevant documents?

The following documents are available for inspection during the usual business hours on any weekday (public holidays excepted) at SG Securities (HK) Limited (presently at Level 38, Three Pacific Place, 1 Queen's Road East, Hong Kong):

(a) our Memorandum and Articles of Association and the constitutional documents of the Guarantor;

(b) our updated audited financial statements, unaudited condensed interim financial information and report (if any) and quarterly unaudited reports (if any);

(c) the Guarantor's updated audited financial statements, interim unaudited reports (if any) and quarterly unaudited reports (if any);

(d) the consent letters from our auditors, Ernst & Young Société Anonyme, and the auditors of the Guarantor, Deloitte & Associés and Ernst & Young et Autres (together, the "**Auditors**");

(e) this document and any addendum to this document;

(f) the Guarantee;

(g) the other Listing Documents (including the launch announcement and supplemental listing document) as long as the relevant series of the Structured Products is listed on the Stock Exchange;

(h) the master instrument by way of deed poll (the "**Instrument**") executed by us and the Guarantor on 1 April 2016 which constitutes the Structured Products; and

(i) a Chinese translation of each of the Listing Documents.

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the costs of making such copies.

The Listing Documents are also available on:

(a) in respect of Warrants, the website of HKEX at *www.hkex.com.hk/eng/dwrc/search/listsearch.asp*; and

(b) in respect of CBBCs, the website of HKEX at *www.hkex.com.hk/eng/cbbc/search/listsearch.asp*.

各上市文件亦可於下列網站瀏覽:

(a) 就認股權證而言，香港交易所的網站 *www.hkex.com.hk/chi/dwrc/search/listsearch_c.asp*; 及

(b) 就牛熊證而言，香港交易所的網站 *www.hkex.com.hk/chi/cbbc/search/listsearch_c.asp*.

Please refer to (i) the base listing document dated 3 April 2018 ("**2018 BLD**") for the Guarantor's consolidated financial statements for the year ended 31 December 2017 and the Statutory Auditors' Report on such consolidated financial statements and (ii) the addendum to the 2018 BLD dated 30 April 2018 for the Issuer's annual financial statements for the year ended 31 December 2017 and the Independent Auditor's report on such financial statements.

How can you get further information about the Guarantor?

You may visit the corporate website of the Guarantor at *www.societegenerale.com* to obtain further information relating to the Guarantor.

What is this document about?

This document is for information purposes only and does not constitute an offer, an advertisement or an invitation to the public to subscribe for or to acquire any of the Structured Products.

HKEX, the Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the financial soundness of the Guarantor or the merits of investing in any of the Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

This document has not been reviewed by the Securities and Futures Commission. You are advised to exercise caution in relation to the offer of the Structured Products.

We do not imply that there has been no change in the information set out in this document since its date. No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

Sales restrictions and grey market

No action has been taken to permit a public offering of any of the Structured Products or the distribution of this document in any jurisdiction where action would be required for such purposes. The distribution of this document and the offering of the Structured Products may, in certain jurisdictions, be restricted by law. You must inform yourself of and observe all such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Structured Products and the distribution of any Listing Document, see section 9 (Sales Restrictions) of this document.

Following the launch of a series of Structured Products, the Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by us and/or any of our subsidiaries or associated companies in the grey market to the Stock Exchange on the listing date through the website of HKEX at *http://www.hkex.com.hk/?sc_lang=en*.

Have the Auditors agreed to the inclusion of their report in this document?

Our auditors and the Guarantor's auditors have given and have not withdrawn their written consent to the inclusion of their reports dated 28

September 2018 and 8 March 2019 respectively in this document and/or the references to their names in the Listing Documents, in the form and context in which they are included. Their report was not prepared exclusively for incorporation into this document. The Auditors do not hold our shares or shares in the Guarantor or any of our subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities, the securities of the Guarantor or any of our subsidiaries.

Authorised Representatives

Mr. BOUSSER Timothee and Ms. BURTON Sallie of SG Securities (HK) Limited, Level 38, Three Pacific Place, 1 Queen's Road East, Hong Kong are our authorised representatives.

SG Securities (HK) Limited of Level 38, Three Pacific Place, 1 Queen's Road East, Hong Kong has been authorised to accept, on behalf of us and the Guarantor, service of process and any other notices required to be served on us or the Guarantor.

Capitalised terms

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the terms and conditions applicable to the relevant Structured Products set out in Appendices 1 and 2 (each, the "**Conditions**"). Terms not defined in this document in respect of the Structured Products shall have the meanings ascribed to them in the other Listing Documents.

Governing Law

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of the Hong Kong Special Administrative Region of the People's Republic of China.

2. OVERVIEW OF THE WARRANTS

What is a derivative warrant?

A derivative warrant linked to a security, an index, a currency, a commodity (such as oil, gold and platinum), a commodity futures contract, a unit trust or other asset (each, the "**Underlying Asset**") is an instrument which gives the holder a right to "buy" or "sell" the Underlying Asset at, or derives its value by reference to, a pre-set price or level called the Exercise Price or Strike Level (as the case may be). Investing in a derivative warrant does not give you any right in the Underlying Asset. It usually costs a fraction of the value of the Underlying Asset.

A list of eligible Underlying Assets for warrants is available on the website of HKEX at *https://www.hkex.com.hk/Products/Securities/Derivative-Warrants/Derivative-Warrant-Eligible-Underlying-Assets/Eligible-Single-Hong-Kong-Stocks-for-Derivative-Warrant-Issuance-in-Current-Quarter?sc_lang=en.*

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

How and when can you get back your investment?

The Warrants are European Style Warrants, meaning that they can only be exercised on the Expiry Date.

The Warrants will be automatically exercised on the Expiry Date, entitling you to receive a cash amount called the "**Cash Settlement Amount**" (if positive) according to the applicable Conditions.

You will receive the Cash Settlement Amount less any Exercise Expenses upon expiry. If the Cash Settlement Amount is at or below the Exercise Expenses, you will not receive any payment upon expiry of the Warrants.

How do the Warrants work?

The potential payoff of a Warrant is calculated by us by reference to the difference between:

(a) for a Warrant linked to a security, a currency, a commodity, a commodity futures contract or a unit trust, the Exercise Price and the Average Price/Closing Price; and

(b) for a Warrant linked to an index, the Strike Level and the Closing Level.

Call Warrants

A call Warrant is suitable for an investor holding a bullish view of the price or level of the Underlying Asset during the term of the Warrant.

A call Warrant will be exercised if the Average Price/Closing Price or the Closing Level is greater than the Exercise Price or the Strike Level (as the case may be). The more the Average Price/Closing Price or the Closing Level exceeds the Exercise Price or the Strike Level (as the case may be), the higher the payoff upon expiry. If the Average Price/Closing Price or the Closing Level is at or below the Exercise Price or the Strike Level (as the case may be), an investor in the call Warrant will lose all of his investment.

Put Warrants

A put Warrant is suitable for an investor holding a bearish view of the price or level of the Underlying Asset during the term of the Warrant.

A put Warrant will be exercised if the Average Price/Closing Price or the Closing Level is lower than the Exercise Price or the Strike Level (as the case may be). The more the Average Price/Closing Price or the Closing Level is below the Exercise Price or the Strike Level (as the case may be), the higher the payoff upon expiry. If the Average Price/Closing Price or the Closing Level is at or above the Exercise Price or the Strike Level (as the case may be), an investor in the put Warrant will lose all of his investment.

Other types of Warrants

The launch announcement and supplemental listing document applicable to other types of Warrants will specify the type of such Warrants and whether such Warrants are exotic warrants.

Where can you find the Conditions applicable to the Warrants?

You should review the Conditions applicable to each type of the Warrants before you invest in the Warrants.

The Conditions applicable to each type of the Warrants are set out in Appendix 1 (as may be amended or supplemented by any addendum or the relevant launch announcement and supplemental listing document).

What are the factors determining the price of a derivative warrant?

The price of a Warrant generally depends on the price or level of the Underlying Asset. However, throughout the term of a Warrant, its price will be influenced by a number of factors, including:

(a) the Exercise Price or the Strike Level (as the case may be);

(b) the value and volatility of the price, level or exchange rate of the Underlying Asset (being a measure of the fluctuation in the price, level or exchange rate of the Underlying Asset over time);

(c) the time remaining to expiry: generally, the longer the remaining life of the Warrants, the greater its value;

(d) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index (as the case may be);

(e) the liquidity of the Underlying Asset or of the futures contracts relating to the underlying index (as the case may be);

(f) the supply and demand for the Warrant;

(g) our related transaction cost; and

(h) our creditworthiness and the creditworthiness of the Guarantor.

What is your maximum loss?

Your maximum loss in investing in a series of the Warrants will be limited to your investment amount plus any transaction costs.

How can you get information about the Warrants after issue?

You may visit HKEX's website at *http://www.hkex.com.hk/products/securities/derivative-warrants?sc_lang=en* to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to the Warrants.

3. OVERVIEW OF THE CBBCS

What are the CBBCs?

The CBBCs are a type of Structured Products that tracks the performance of the Underlying Asset. The CBBCs can be issued on different types of Underlying Assets, including:

(a) securities listed on the Stock Exchange;

(b) the Hang Seng Index, the Hang Seng China Enterprises Index and the Hang Seng China H-Financials Index; and/or

(c) overseas securities, overseas indices, currencies or commodities (such as oil, gold and platinum) as prescribed by the Stock Exchange from time to time.

A list of eligible Underlying Assets for the CBBCs is available on the website of HKEX at *https://www.hkex.com.hk/Products/Securities/Callable-Bull-Bear-Contracts/CBBC-Eligible-Underlying-Assets/Eligible-Single-Hong-Kong-Stocks-for-CBBC-Issuance-in-Current-Quarter?sc_lang=en*.

The CBBCs are issued either as bull CBBCs or bear CBBCs, allowing you to take either bullish or bearish positions on the Underlying Asset.

Bull CBBCs are designed for investors who have an optimistic view on the Underlying Asset.

Bear CBBCs are designed for investors who have a pessimistic view on the Underlying Asset.

Your maximum potential loss in investing in a series of the CBBCs will be limited to the purchase price, which is generally a fraction of the value of the Underlying Asset, for the CBBCs plus the costs involved in your purchase.

The CBBCs have a mandatory call feature (the "**Mandatory Call Event**") and, subject to the limited circumstances set out in the relevant Conditions in which the Mandatory Call Event may be reversed, we must terminate the CBBCs upon the occurrence of the Mandatory Call Event. See "*What is the mandatory call feature of the CBBCs?*" below.

There are 2 categories of CBBCs, namely:

(a) Category R CBBCs; and

(b) Category N CBBCs.

Your entitlement following the occurrence of the Mandatory Call Event will depend on the category of the CBBCs. See "*What is the mandatory call feature of the CBBCs*" below for further details.

If the Mandatory Call Event does not occur, the CBBCs will be exercised automatically on the Expiry Date by payment of the applicable Cash Settlement Amount (if any) less the Exercise Expenses at expiry.

The applicable Cash Settlement Amount at expiry (if any) represents the difference between the Closing Price or the Closing Level of the Underlying Asset on the Valuation Date and the Strike Price or the Strike Level (as the case may be).

The Conditions applicable to each type of the CBBCs are set out in Appendix 2.

What is the mandatory call feature of the CBBCs?

Mandatory Call Event

Subject to the limited circumstances set out in the relevant Conditions in which the Mandatory Call Event may be reversed, we must terminate the CBBCs if the Mandatory Call Event occurs. The Mandatory Call Event occurs if the Spot Price or Spot Level (as the case may be) of the Underlying Asset is:

(a) at or below the Call Price or the Call Level (as the case may be) (in the case of bull CBBCs); or

(b) at or above the Call Price or the Call Level (as the case may be) (in the case of bear CBBCs),

at any time on any Trading Day or Index Business Day (as the case may be) during the Observation Period.

The Observation Period starts from and including the Observation Commencement Date of the relevant CBBCs and ends on and including the close of trading on the Stock Exchange on the Trading Day immediately preceding the Expiry Date.

Subject to the limited circumstances set out in the relevant Conditions in which the Mandatory Call Event may be reversed and subject to such modification and amendment as may be prescribed by the Stock Exchange from time to time:

(a) in the case where the Mandatory Call Event occurs during a continuous trading session, all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event; and

(b) in the case where the Mandatory Call Event occurs during a pre-opening session or a closing auction session (if applicable), all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session,

will be invalid and will be cancelled, and will not be recognised by us or the Stock Exchange.

The time at which the Mandatory Call Event occurs will be determined by reference to:

(a) in respect of the European Style CBBCs over single equities (the "**Single Equity CBBCs**"), the Stock Exchange's automatic order matching and execution system time at which the Spot Price is at or below the Call Price (for a series of bull CBBCs) or at or above the Call Price (for a series of bear CBBCs);

(b) in respect of European Style CBBCs over an index (the "**Index CBBCs**"), the time when the relevant Spot Level is compiled and published by the Index Compiler and at which the Spot Level is at or below the Call Level (for a series of bull CBBCs) or at or above the Call Level (for a series of bear CBBCs); or

(c) in respect of the European Style CBBCs over single unit trust (the "**Single Unit Trust CBBCs**"), the Stock Exchange's automatic order matching and execution system time at which the Spot Price is at or below the Call Price (for a series of bull CBBCs) or at or above the Call Price (for a series of bear CBBCs).

Category R CBBCs vs. Category N CBBCs

The launch announcement and supplemental listing document for the relevant series of the CBBCs will specify whether the CBBCs are Category R CBBCs or Category N CBBCs.

"**Category N CBBCs**" refer to CBBCs of which the Call Price or the Call Level is equal to the Strike Price or the Strike Level (as the case may be). In respect of a series of Category N CBBCs, you will not receive any cash payment following the occurrence of the Mandatory Call Event.

"**Category R CBBCs**" refer to CBBCs of which the Call Price or the Call Level is different from the Strike Price or the Strike Level (as the case may be). In respect of a series of Category R CBBCs, you may receive a cash payment called the Residual Value upon the occurrence of the Mandatory Call Event. The amount of the Residual Value payable (if any) is calculated by reference to:

(a) in respect of bull CBBCs, the difference between the Minimum Trade Price or the Minimum Index Level of the Underlying Asset and the Strike Price or the Strike Level (as the case may be); and

(b) in respect of bear CBBCs, the difference between the Strike Price or the Strike Level and the Maximum Trade Price or the Maximum Index Level (as the case may be) of the Underlying Asset.

You must read the relevant Conditions and the relevant launch announcement and supplemental listing document to obtain further information on the calculation formula of the Residual Value applicable to the relevant series of Category R CBBCs.

You may lose all of your investment in a particular series of the CBBCs if:

(A) in the case of a series of bull CBBCs, the Minimum Trade Price or the Minimum Index Level of the Underlying Asset is equal to or less than the Strike Price or the Strike Level (as the case may be); or

(B) in the case of a series of bear CBBCs, the Maximum Trade Price or the Maximum Index Level of the Underlying Asset is equal to or greater than the Strike Price or the Strike Level (as the case may be).

Where can you find the Conditions applicable to the CBBCs?

You should review the Conditions applicable to each type of the CBBCs before your investment.

The Conditions applicable to each type of the CBBCs are set out in Appendix 2 (as may be amended or supplemented by any addendum or the relevant launch announcement and supplemental listing document).

How is the funding cost calculated?

The issue price of a CBBC represents the difference between the initial spot price or level of the Underlying Asset as at the Launch Date of the CBBC and the Strike Price or the Strike Level (as the case may be), plus the applicable funding cost.

The initial funding cost applicable to each series of CBBCs will be specified in the relevant launch announcement and supplemental listing document for the relevant series and will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the Strike Price or the Strike Level (as the case may be), the prevailing interest rate, the expected life of the CBBCs, expected notional dividends/ distributions in respect of the Underlying Asset and the margin financing provided by us.

Further details about the funding cost applicable to a series of the CBBCs will be described in the relevant launch announcement and supplemental listing document.

Do you own the Underlying Asset?

The CBBCs convey no interest in the Underlying Asset. We may choose not to hold the Underlying Asset or any derivatives contracts linked to the Underlying Asset. There is no restriction through the issue of the CBBCs on our and/or our affiliates' abilities to sell, pledge or otherwise convey all right, title and interest in any Underlying Asset or any derivatives products linked to the Underlying Asset.

What are the factors determining the price of a CBBC?

The price of a CBBC tends to mirror the movement in the value of the Underlying Asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one Underlying Asset).

However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

(a) the Strike Price or the Strike Level and the Call Price or the Call Level (as the case may be);

(b) the likelihood of the occurrence of the Mandatory Call Event;

(c) for Category R CBBCs only, the probable range of the Residual Value (if any) upon the occurrence of the Mandatory Call Event;

(d) the time remaining to expiry;

(e) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index (as the case may be);

(f) the liquidity of the Underlying Asset or of the futures contracts relating to the underlying index (as the case may be);

(g) the supply and demand for the CBBCs;

(h) the probable range of the Cash Settlement Amounts;

(i) our related transaction cost; and

(j) our creditworthiness and the creditworthiness of the Guarantor.

What is your maximum loss?

Your maximum loss in investing in a CBBC will be limited to your investment amount in that CBBC plus any transaction costs.

How can you get information about the CBBCs after issue?

You may visit HKEX's website at *http://www.hkex.com.hk/Products/Securities/Callable-Bull-Bear-Contracts?sc_lang=en* to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to the CBBCs.

4. OVERVIEW OF THE BRRD AND ITS IMPLICATIONS TO THE STRUCTURED PRODUCTS

What is the BRRD?

The Bank Recovery and Resolution Directive (2014/59/EU) ("**BRRD**") is a legislative development in the European Union ("**EU**") which was introduced to address the shortcomings in the national laws and regulations of EU Member States for the resolution of failing banks and financial institutions. The BRRD provides that it should be applied by EU Member States from 1 January 2015, except for the Bail-In Power (as described below) which should be applied from 1 January 2016. The implementation date of the BRRD in each EU Member State depends on the implementation legislation enacted, or which will be enacted, in each such EU Member State. The BRRD has been implemented in both Luxembourg and France. In March 2016, the European Commission has adopted a Commission Delegated Regulation setting out a number of regulatory technical standards for the BRRD.

The BRRD provides for the establishment of an EU-wide framework for the recovery and resolution of EU credit institutions and investment firms as well as certain of their group companies falling under the scope of the BRRD. The BRRD requires the governments of all EU Member States to provide their relevant resolution authorities with a set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of that institution's critical financial and economic functions, while minimising the impact of that institution's failure on the broader economy and financial system.

The BRRD contains four resolution tools and powers (the "**Resolution Tools**") which may be used alone or in combination where the relevant resolution authority considers that (a) an affected institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such affected institution within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business – which enables the relevant resolution authorities to direct the sale of the affected institution or the whole or part of its business on commercial terms; (ii) bridge institution – which enables the relevant resolution authorities to transfer all or part of the business of the affected institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation – which enables the relevant resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) Bail-In Power (as described in the paragraph headed "What is "Bail-In Power"?" below).

It is important to note that certain protections are granted to the creditors of an EU credit institution in case of the exercise of the Resolution Tools (including the Bail-In Power) over such institution. The most important one is the principle known as the "no creditor worse off principle" as provided for in the BRRD. This principle is intended to ensure that the creditors of an affected institution which is subject to the exercise of the Bail-In Power under the BRRD shall not incur greater losses than they would have incurred if such affected institution had been wound up under normal insolvency proceedings. For this purpose, the relevant resolution authorities in the EU have to ensure that it is assessed at the time of exercise of the Bail-In Power whether shareholders and creditors of an affected institution would have received better treatment if such affected institution had entered into normal insolvency proceedings.

The Issuer is subject to the BRRD

The Issuer is a financial institution incorporated in Luxembourg and is subject to Luxembourg legislation implementing the BRRD.

Under Luxembourg legislation implementing the BRRD, substantial powers are granted to the *Commission de surveillance du secteur financier* ("**CSSF**") acting as resolution council, the Luxembourg resolution authority, and/or to other relevant resolution authorities in the EU, to implement resolution measures (including the use of the Resolution Tools) in respect of a Luxembourg financial institution (including, for example, the Issuer) and certain of its affiliates (each a "**relevant entity**") to protect and enhance the stability of the financial system of Luxembourg if the relevant resolution authorities consider the relevant entity as failing or likely to fail and that certain other conditions are satisfied (in particular, that resolution measures would be necessary in the public interest).

The Guarantor is subject to the BRRD

The Guarantor is a credit institution incorporated in France and is subject to French legislation implementing the BRRD.

Under French legislation implementing the BRRD, substantial powers are granted to the *Autorité de contrôle prudentiel et de résolution ("***ACPR**"), the French resolution authority, and/or to other relevant resolution authorities in the EU, to implement resolution measures (including the use of the Resolution Tools) in respect of a French credit institution (including, for example, the Guarantor) and certain of its affiliates to protect and enhance the stability of the financial system of France if the relevant resolution authorities consider the failure of the relevant entity has become likely and certain other conditions are satisfied.

The Resolution Tools may be exercised over the Issuer and/or the Guarantor

The exercise of any Resolution Tool or any suggestion of any such exercise under the BRRD over the Issuer and/or the Guarantor could adversely affect the value of the Structured Products. You may therefore lose all or a substantial part of your investment in the Structured Products.

In addition, the resolution powers could be exercised (i) prior to the commencement of any insolvency proceedings in respect of the Issuer and/or the Guarantor, and (ii) by the relevant resolution authority without your consent or any prior notice to you. It is also uncertain how the relevant resolution authority would assess triggering conditions in different pre-insolvency scenarios affecting the Issuer and/or the Guarantor under the BRRD. Accordingly, you may not be able to anticipate a potential exercise of any such resolution powers over the Issuer and/or the Guarantor.

What is "Bail-In Power"?

"Bail-In Power" (as defined in the Conditions) means the power of the relevant resolution authorities to write down or convert to equity certain claims of unsecured creditors of a failing institution existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg and/or in France, relating to the transposition of the BRRD as amended from time to time, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer under the Structured Products and/or the Guarantor in respect of the Guarantee can be reduced (in part or in whole), cancelled, modified, or converted into shares, other securities or other obligations of the Issuer and/or the Guarantor or any other person. Please see the Conditions as set out in Parts A to G of Appendix 1 and Parts A to C of Appendix 2 of this document for further details, in particular Condition 1(f) of the Conditions with respect to the Bail-In Power. Please also see section 5 (Description of the Guarantee relating to the Structured Products) of this document for further details, in particular clause 4 of the Guarantee with respect to the Bail-In Power.

The Issuer's obligations under the Structured Products and the Guarantor's obligations with respect to the Guarantee are subject to the "Bail-In Power"

In addition to applicable relevant Luxembourg law provisions relating to the use of the bail-in tool, the Conditions include a contractual term regarding the "Bail-In Power" and will be contractually subject to the exercise of any "Bail-In Power" by the relevant resolution authority if such authority should so decide at the relevant time.

In addition, the Guarantee includes a contractual term regarding the "Bail-In Power" and will be contractually subject to the exercise of any "Bail-In Power" by the relevant resolution authority if such authority should so decide at the relevant time.

By investing in the Structured Products, you acknowledge, accept, consent and agree to be contractually bound by the exercise of any Bail-In Power by the relevant resolution authorities over the Issuer and the Guarantor. You further acknowledge, accept, consent and agree that your rights under the Structured Products and/or the Guarantee are contractually subject to, and will be varied, if necessary, so as to give effect to, the exercise of any Bail-In Power by the relevant resolution authorities.

The effect of the exercise of the Bail-In Power by the relevant resolution authority over the Issuer and/or the Guarantor may include and result in any of the following, or some combination thereof:

(a) the reduction of all, or a portion, of the amounts payable by the Issuer under the Conditions and/or by the Guarantor under the terms of the Guarantee (including a reduction to zero);

(b) the conversion of all, or a portion, of the amounts due under the Structured Products and/or the Guarantee into shares or other securities or other obligations of the Issuer and/or the Guarantor or of another person, including by means of an amendment, modification or variation of the Conditions and/or the terms of the Guarantee, in which case you agree to accept in lieu of your contractual rights under the terms of the Structured Products and/or the Guarantee any such shares, other securities or other obligations of the Issuer and/or the Guarantor or another person;

(c) the cancellation of the Structured Products and/or the Guarantee;

(d) the amendment or alteration of the maturity of the Structured Products and/or the Guarantee or amendment of the amount of interest payable on the Structured Products and/or the Guarantee, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and/or

(e) if applicable, the variation of the Conditions and/or the terms of the Guarantee, if necessary to give effect to the exercise of the Bail-In Power by the relevant resolution authority.

By investing in the Structured Products, you acknowledge, accept, consent and agree that neither a cancellation of the Structured Products and/or the Guarantee, a reduction of all, or a portion of, the amounts due under the Conditions and/or the Guarantee, the conversion thereof into other securities or other obligations of the Issuer and/or the Guarantor or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the holders of the Structured Products to any remedies (including equitable remedies) which are expressly waived.

Accordingly, if any Bail-In Power is exercised over the Issuer and if any Bail-In Power is exercised over the Guarantor (with respect to the Guarantee), you may not be able to recover all or even part of the amount due under the Structured Products (if any) from the Issuer and/or from the Guarantor (under the Guarantee), or you may receive a different security issued by the Issuer and/or by the Guarantor (or another person) in place of the amount (if any) due to you under the Structured Products from the Issuer, which may be worth significantly less than the amount due to you under the Structured Products (if any).

Moreover, the relevant resolution authorities may exercise the Bail-In Power without providing any advance notice to, or requiring your further consent.

Please see the paragraph headed "Risks relating to the BRRD" under section 12 (Risk Factors) of this document for further details of the relevant risk factors applicable to the Structured Products.

5. DESCRIPTION OF THE GUARANTEE RELATING TO THE STRUCTURED PRODUCTS

Our obligations under the Structured Products issued during the Issue Period are guaranteed by the Guarantor pursuant to a guarantee dated 3 April 2019, the text of which is set out below. Mr Patrick Sommelet, Deputy Chief Financial Officer of the Guarantor, who signed the guarantee, was empowered by the power of attorney dated 27 October 2017 by Mr Phillippe Heim, Group Chief Financial Officer of the Guarantor, to execute guarantees in favour of third parties on behalf of the Guarantor. The power of attorney dated 1 October 2017 granted by Mr. Frédéric Oudéa, Chief Executive Officer of the Guarantor, authorised Mr Phillippe Heim, Group Chief Financial Officer of the Guarantor, with power of substitution to execute guarantees in favour of third parties on behalf of the Guarantor.

"This guarantee (the "**Guarantee**") is made by way of deed poll by Société Générale, a *société anonyme* registered under No. 552 120 222 R.C.S. Paris, duly organized and existing under the laws of the Republic of France, with its principal office at 29 boulevard Haussmann, 75009 Paris, France (the "**Guarantor**").

1. In this Guarantee, unless the context otherwise requires:

   "**Exchange**" means The Stock Exchange of Hong Kong Limited.

   "**Creditor**" means any person to whom an Obligation is from time to time owed.

   "**Obligation**" means any obligation or liability of SG Issuer, 33, Boulevard Prince Henri, L-1724, Luxembourg (the "**Company**") in respect of any structured products (the "**Structured Products**") permitted by the rules governing the listing of securities on the Exchange issued by the Company between 3 April 2019 and 2 April 2020 (the "**Issue Period**") and any further Structured Products issued by the Company after the Issue Period but forming part of the same series as the Structured Products issued during the Issue Period listed on the Exchange together with all reasonable costs, commissions and other expenses incurred by any person in connection with the enforcement of this Guarantee and, for the avoidance of doubt, "**Obligations**" shall include any such obligation or liability assumed under or incurred pursuant to any novation, transfer, assignment or other similar agreement between the Company and any other company within the same group of companies as the Guarantor.

   "**person**" means any person, firm, trust estate, corporation, association, cooperative, government or government agency, or other entity.

2. (a) The Guarantor hereby unconditionally and irrevocably guarantees, for the benefit of each Creditor, in accordance with the terms and conditions of this Guarantee, the full performance by the Company when due (whether at stated maturity, upon acceleration or otherwise) of each and every Obligation and in the event that the Company shall default in the due and punctual performance of any Obligation, undertakes to perform or procure the performance of such Obligation including the payment of all amounts payable by the Company in respect of such Obligation (in the case of any payment Obligation, in the currency in which the particular Obligation is expressed to be payable).

   As a separate and independent stipulation, the Guarantor agrees that each and every Obligation which is not binding on, or is not performed by, the Company for whatever reason and in whatever circumstance, shall nevertheless be performed by the Guarantor in accordance with its terms as though the Structured Products had been issued by the Guarantor and as though the Guarantor were the sole or principal obligor in respect of such Obligation.

   (b) The Guarantor waives any right it may have of first requiring any Creditor to make demand, proceed or enforce any rights or security against the Company or any other person before making a claim against the Guarantor under this Guarantee.

3. The Creditor shall only be entitled to take or obtain the benefit of this Guarantee upon the condition that the Guarantor shall be entitled to deal with the Creditor, and the Creditor shall be obliged to deal with the Guarantor with respect to the Obligation due to the Creditor and this Guarantee without the necessity or duty to rely on, act through or otherwise involve or deal with one another as principals in relation to the same provided that the rights, powers, privileges and remedies of the Creditor under this Guarantee shall not thereby be in any way limited or otherwise affected.

4. Each Creditor acknowledges, accepts, consents and agrees by its acquisition of the Obligations:

   (a) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under this Guarantee fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

      (i) the reduction of all, or a portion, of the amounts due under this Guarantee;

      (ii) the conversion of all, or a portion, of the amounts due under this Guarantee into shares, other securities or other obligations of the Guarantor or another person, including by means of an amendment, modification or variation of the terms of this Guarantee, in which case the Creditor agrees to accept in lieu of its rights under this Guarantee any such shares, other securities or other obligations of the Guarantor or another person;

      (iii) the cancellation of this Guarantee;

      (iv) the amendment or alteration of the maturity of this Guarantee or amendment of the amount of interest payable on this Guarantee, or the date on which the interest becomes payable, including by suspending payment for a temporary period;

   (b) if applicable, that the terms of this Guarantee are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

   (c) that neither a cancellation of this Guarantee, a reduction of all, or a portion of, the amounts due under this Guarantee, the conversion thereof into other securities or other obligations of the Guarantor or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Obligations will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Creditor to any remedies (including equitable remedies) which are hereby expressly waived.

For these purposes, the "**Bail-In Power**" is any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in France, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**") as amended from time to time and as implemented under French law inter alia by the banking law dated 26 July 2013 regarding the separation and the regulation of banking activities *(Loi de séparation et de régulation des activités bancaires)* and by the Ordinance no. 2015-1024 dated 20 August 2015 *(Ordonnance no 2015-1024 du 20 août 2015 portant diverses dispositions d'adaptation de la législation au droit de l'Union européenne en matière financière)* (the Ordinance) published in the Official Journal on 21 August 2015, (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under French law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Guarantor can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

A reference to the "**relevant resolution authority**" is to the *Autorité de contrôle prudentiel et de resolution* (ACPR) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Bail-In Powers against the Guarantor from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this clause 4 shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Guarantor and any Creditor.

5. No delay or omission on the part of the Creditor in exercising any right, power, privilege or remedy (hereinafter together called "**Rights**") in respect of this Guarantee shall impair any such Rights or be construed as a waiver of any thereof nor shall any single or partial exercise of any such Rights preclude any further exercise thereof or the exercise of any other Rights. The Rights herein provided are cumulative and not exclusive of any rights, powers, privileges or remedies provided by law. Nothing in this Guarantee shall be construed as voiding, negating or restricting any right of set-off or any other right whatsoever existing in favour of the Creditor or arising at common law, by statute or otherwise howsoever.

6. This Guarantee is a continuing guarantee and shall not be satisfied, discharged or affected by any intermediate payment, performance or settlement of account. The provisions of this Guarantee shall continue in full force and effect until each and every Obligation shall have been performed in full.

7. The Guarantor shall be subrogated to all rights of the Creditors against the Company in respect of any amounts paid under this Guarantee, provided however that the Guarantor will not exercise any rights of subrogation or any other rights or remedies (including, without limiting the generality of the foregoing, the benefit of any security or right of set-off) which it may acquire due to its performance of any Obligation pursuant to the terms of this Guarantee and will not prove in the liquidation of the Company in competition with the Creditor unless and until each and every Obligation due to the Creditor hereby guaranteed have been satisfied in full by the Guarantor, and/or the Company. In the event that the Guarantor shall receive any payment or distribution on account of such rights while any Obligation remains outstanding, the Guarantor shall account for all amounts so received to the Creditor.

8. If the Guarantor makes a payment of any additional amount hereunder by reason of any requirement to deduct or withhold amounts from any payment hereunder and the Creditor determines that it has received or been granted a credit against or relief or payment of any tax paid or payable by it in respect thereof the Creditor shall to the extent that it can do so without prejudice to the retention of the amount of such credit relief or repayment pay to the Guarantor such amount as shall be attributable to such deduction provided that nothing contained in this clause shall interfere with the right of any Creditor to arrange its tax affairs in whatsoever manner it thinks fit and, in particular, no Creditor shall be under any obligation to claim relief in respect of any such deduction in priority to any other claims for relief available to it.

9. Any notice in respect of this Guarantee will be sufficiently given to a party if in writing and delivered in person, sent by certified or registered mail (airmail, if overseas) or their equivalent (with return receipt requested or by overnight courier or given by telex) (with answerback received). A notice will be effective:

   (a) if delivered by hand or sent by overnight courier, on the day it is delivered (or if that day is not a day on which commercial banks are open for business in Paris and Hong Kong (a "**Banking Day**"), or if delivered after the close of business on a Banking Day, on the first following day that is a Banking Day);

   (b) if sent by telex, on the day of the recipient's answerback is received (or if that day is not a Banking Day, or if after the close of business on a Banking Day, on the first following day that is a Banking Day); or

   (c) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), three Banking Days after despatch if the recipient's address for notice is in the same country as the place of despatch and otherwise seven Banking Days after despatch.

10. The liability of the Guarantor under this Guarantee shall not be affected by the liquidation, winding up or other incapacity of the Company. In the event that performance of any Obligation is avoided or reduced by virtue of any enactments for the time being in force relating to liquidation or insolvency the Creditor shall be entitled, subject to clause 4, to recover the value or amount so avoided or reduced from the Guarantor as if such Obligation had not been performed by the Company.

11. This Guarantee shall remain in full force and effect irrespective of the validity, regularity, legality or enforceability against the Company of, or of any defence or counterclaim whatsoever available in relation to, any Obligation whether or not any action has been taken to enforce the same or any judgment obtained against the Company or any other person, whether or not any time, indulgence, waiver or consent has been granted to the Company or any other person by or on behalf of the Creditor; whether or not there have been any dealings or transactions between the Company or any other person and any of the Creditors; whether or not the Company or any other person has been dissolved, liquidated, merged, consolidated, become bankrupt, has changed its status, functions, control or ownership or conveyed or transferred its asset; whether or not the Company or any other person has been prevented from performing any Obligation by foreign exchange or any other provision applicable at its place of registration or incorporation, and whether or not any circumstances have occurred which might otherwise constitute a legal or equitable discharge of or a defence to a guarantor.

12. The Guarantor represents and warrants to the Creditor that it has the full power and authority, and has taken all necessary steps, to execute and deliver this Guarantee and to perform its obligations hereunder and this Guarantee constitutes the valid and binding obligations of the Guarantor and is enforceable in accordance with its terms.

13. A person who is not a Creditor has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of this Guarantee.

14. The Guarantor agrees to submit for all purposes in connection with this Guarantee to the non-exclusive jurisdiction of the courts of Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**").

15. The Guarantor not having a place of business in Hong Kong agrees that the process by which any suit, action or proceeding is begun may be served on it by being delivered in connection with any suit, action or proceeding in Hong Kong, to SG Securities (HK) Limited at Level 38, Three Pacific Place, 1 Queen's Road East, Hong Kong.

16. In the event that any of the terms or provisions of this Guarantee are or shall become invalid, illegal or unenforceable, the remaining terms and provisions hereof shall survive unaffected.

17. This Guarantee shall be governed by and construed in accordance with the laws of Hong Kong."

6. INFORMATION ABOUT US

Incorporation, Duration, Seat and Purpose

We were incorporated on 16 November 2006 for an unlimited duration as a limited liability company under the laws of Luxembourg. We are a 100 percent. subsidiary of the Société Générale Bank & Trust S.A. and a fully consolidated company. We have no subsidiaries.

Our registered address is located at 16, Boulevard Royal, L-2449, Luxembourg. We are registered in the Luxembourg trade and companies register under No. B 121.363. We have not established a place of business in Hong Kong.

Our purpose and object pursuant to our Articles of Association, is to invest in particular financial instruments, or any other debt securities, acknowledgements of debts or capital securities and to issue debt securities, bonds, certificates, warrants and other debt securities or acknowledgements of debt or financial securities.

Share Capital

Our issued capital as at 28 February 2019 is EUR 2,000,240 divided into 50,006 ordinary shares of EUR 40.00 each, all issued and fully paid up.

Indebtedness

As at the date of this document we have no hire purchase commitments, guarantees or other material contingent liabilities.

Under a debt instruments issuance programme, we (together with the Guarantor, SGA Société Générale Acceptance N.V. and SG Option Europe) may issue medium term notes. As at 28 February 2019, debt instruments amounting to EUR 183,600,332,090.27 (non-audited) were issued under the aforementioned programme. The medium term notes issued by us, SGA Société Générale Acceptance N.V. and SG Option Europe under the Debt Instruments Issuance Programme are unconditionally and irrevocably guaranteed by the Guarantor.

Management and Supervision

Pursuant to our Articles of Association, we are managed by an executive board under the supervision of a supervisory board. The members of the executive board as at 31 December 2018 are Yves Cacclin, Laurent Weil, Alexandre Galliche, Thierry Bodson, Estelle Stephen-Jaspard, Noel Alison and Amaury de Beler (individually a "Director" and collectively the "**Executive Board**"). Laurent Weil, Alexandre Galliche, Yves Cacclin and Thierry Bodson currently hold full-time management positions within the Société Générale Group.

The business address of Laurent Weil, Noel Alison and Estelle Stephen-Jaspard as at 31 December 2018 is Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France. The business address of Alexandre Galliche, Yves Cacclin, Thierry Bodson and Amaury de Beler is 11, avenue Emile Reuter, L-2420 Luxembourg.

General Meetings of Shareholders

The annual general meeting of shareholders is held on the penultimate Thursday of March or, if it is not a bank working day in Luxembourg, the following day.

Shareholders are entitled to one vote per share. Resolutions proposed at ordinary annual general meetings of shareholders require a simple majority of the votes cast. Resolutions proposed at extraordinary meetings of shareholders require a two third of the votes cast when the resolution deals with either a modification of the Issuer's Articles of Association or the Issuer's dissolution.

Each time all of the shareholders are present or represented and if they declare being informed of the agenda of the shareholders meeting, the shareholders meeting can be held without notification.

Financial Information

We publish both unaudited condensed interim financial information and report and audited annual financial statements following the end of each financial year. Our financial year runs from 1 January to 31 December. We do not publish consolidated statement.

For the six-month period ended 30 June 2018, the condensed interim financial information was published in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and reviewed, without qualification. For the financial year ended on 31 December 2017, the accounts were published in accordance with international financial reporting standards as adopted by the European Union (IFRS) and audited, without qualification.

Our financial liabilities at fair value through profit or loss increased from EUR 47.9 billion on 31 December 2017 to EUR 49.2 billion on 31 December 2018 (non-audited). The EUR 1.3 billion increase can be detailed as follows:

- Increase in EUR 1 billion (non-audited) for notes issued under the euro medium term note programme activity; and

- Decrease in EUR 0.4 billion (non-audited) for the warrants.

The nominal of warrants activity in the related off-balance sheet is approximately EUR 124.5 billion as of 31 December 2018 (non-audited).

Save as disclosed in this Base Listing Document, no person has, or is entitled to be given, an option to subscribe for our shares or debentures.

Our Deed of Incorporation provides that our directors may exercise all our powers to borrow money for the purposes of the company without limit and upon such terms as they think fit.

7. INFORMATION ABOUT THE GUARANTOR

Incorporation, Duration, Seat, Purpose and Financial Year

The Guarantor was founded in France in 1864. It was then nationalized in 1945, but returned to the private sector in July 1987 as a *Société Anonyme* under the laws of the Republic of France. Its existence has been extended to 31 December 2047.

The Guarantor, which is registered under n° 552 120 222 R.C.S. Paris, has its registered office at 29, boulevard Haussmann, 75009 Paris.

The purpose of the Guarantor is to engage in banking, finance, insurance brokerage and credit operations in France and outside France with all persons, corporate entities, public and local authorities in accordance with the regulations applicable to *établissements de crédit* (credit institutions).

The Guarantor may also engage on a regular basis in all transactions other than those listed above, including in particular insurance brokerage, under the conditions set by the *Comité de la réglementation bancaire et financiére* (French Banking and Financial Regulations Committee).

Generally, the Guarantor may also carry out, on its own account, on behalf of third parties or in a joint venture, all financial, commercial, industrial or agricultural personalty and realty transactions, directly or indirectly related to the above-mentioned activities or likely to facilitate the accomplishment of such activities.

The Guarantor's financial year runs from 1 January to 31 December.

Organisational Structure

The Guarantor's subsidiaries included in its consolidated group as at 31 December 2018 are set out on pages 26 and 27 of the section headed "Group Management Report" in Appendix 4 of this document.

Business Overview

FRENCH RETAIL BANKING

French Retail Banking offers a wide range of products and services suited to the needs of a diversified base of individual and professional customers, businesses, non-profit associations and local authorities.

Drawing on the expertise of its teams and an efficient multi-channel distribution system, including nearly 2,740 branches, the pooling of best practices, and the optimisation and digitalisation of processes, French Retail Banking combines the strengths of three complementary brands: Societe Generale, the renowned national bank; Crédit du Nord, a group of regional banks; and Boursorama Banque, a major online bank.

The Retail Banking networks are innovating to build the relationship-focused banking group of tomorrow. French Retail Banking excels in its:

- recognised customer service;
- leading position in online and mobile banking in France;
- sales momentum;
- continual adaptation to its customers' needs and expectations.

French Retail Banking not only strives to improve customer satisfaction across all segments, but also to further develop value-added services and support businesses with their expansion in France and worldwide. It capitalises on synergies with the specialised business lines, particularly with Insurance, Private Banking, and Corporate and Investment Banking. For example, French Retail Banking distributes insurance products from Sogécap and Sogessur, subsidiaries operating within the International Retail Banking and Financial Services Division.

Life insurance outstandings amounted to EUR 93.2 billion at the end of 2018, compared with EUR 92.0 billion in 2017.

The networks continue to support the economy and help their customers finance their projects, with growth in average outstanding loans from EUR 180 billion in 2017 to EUR 186 billion in 2018. At the same time, and amid rife competition for savings inflows, dynamic deposit inflows led to a loan-to-deposit ratio of 93% in 2018 stable compared to 2017.

Societe Generale network

The Societe Generale network offers solutions tailored to the needs of its individual customers and nearly 450,000 professional customers, non-profit associations and business customers trusting it with their business, drawing on three major strengths:

- 1,906 branches located mainly in urban areas where a large portion of national wealth is concentrated;

- a full and diversified range of products and services, from savings vehicles to asset management solutions, including corporate finance and payment instruments;

- a comprehensive and innovative omnichannel system: Internet, mobile, telephone and service platforms.

With nearly 5.7 million current accounts, the individual customer base is a key component of the Societe Generale network portfolio.

Individual customer deposits amounted to EUR 91 billion in 2018, *versus* EUR 88 billion in 2017. Outstanding loans granted to individual customers came to EUR 78 billion in 2018, and are stable compared with 2017. Home loans accounted for 89% of this total.

With the launch of *Sobrio* at the start of 2018, Societe Generale has overhauled its everyday banking offering in order to simplify, streamline and secure customers' everyday banking experiences. This refined offering provides services with proven everyday utility which are immediately understandable and therefore more responsive to everyone's needs.

Societe Generale is developing a sales programme targeting high net worth customers through a partnership with Societe Generale Private Banking, which has 82 centres in France. This new programme must provide our high net worth customers with a high level of expertise, personal attention and responsiveness over time. This development involves the implementation of 750 new asset management advisers, a process which began in the final quarter of 2018 and should continue until the beginning of 2020. With annual growth of nearly 2% over the last five years, assets under management exceeded EUR 55 billion at the end of 2018.

Societe Generale has deployed its new sales programme for its 246,000 professional customers in order to better meet their specific requirements and their new expectations with a triple relationship-focused promise: more personal attention, expertise and simplicity.

Our professional customers now enjoy full support with two expert advisers available to them: one for their working life and the other for their private life. A specific system with dedicated advisers has also been rolled out for the self-employed.

Moreover, 103 areas dedicated to professionals were opened in 2018, the goal being to reach 150 by end-2019. These areas provide all the experts and services that professional customers need to manage the everyday challenges and development of their activity.

In addition, 620 self-service areas are available to customers enabling them to benefit from extended hours to deposit cheques or cash, withdraw currency, etc. There will be 950 such areas by end-2020.

In the corporate market, 2018 was marked by strong sales momentum. At end-2018, the Bank was serving more than 94,000 corporate customers (+2% compared with 2017).

As part of its commitment to support the economy, the Societe Generale network helps its customers finance their investment projects. Business customer deposits (professionals, corporates, non-profit associations and the public sector) in 2018 came to EUR 51 billion and loans at EUR 59 billion, compared with EUR 51 billion and EUR 58 billion respectively in 2017.

In the interest of developing ever closer relations with entrepreneurs, the sales programme of the Societe Generale network is specialised according to market, with the creation, by 2020, of around 30 Regional Business Centres, dedicated to business customers, public economic actors and social and institutional economic actors. Five Business Centres have already been opened in 2018.

Moreover, the Societe Generale network can rely on the Mid Cap Investment Banking (MCIB) platform. MCIB, the Corporate and Investment bank for French SMEs and mid-caps, works in partnership with Global Banking and Investor Solutions to support listed and unlisted mid-cap companies in their development (both internal and external) and transfers (disposals, capital restructuring). It offers them a broad range of integrated Corporate and Investment Banking services (advisory, bank or market financing, private equity). The MCIB team is made up of nearly 100 professionals based in Paris and in the six regional divisions of the Societe Generale network: Lille, Rennes, Strasbourg, Marseille, Lyon and Bordeaux. This platform complements the Private Banking offer specifically targeting entrepreneurs and rooted in personal attention and responsiveness.

Moreover, the "SG ENTREPRENEURS" programme combines strategic advice for business owners with complementary solutions through the expertise of Retail Banking, Corporate and Investment Banking, Private Banking and Real Estate Finance, grouped together in regional divisions. We are committed to being the preferred partner of business owners through a comprehensive package, Societe Generale Entrepreneurs, and to supporting them at key moments of their career path as entrepreneurs, both in terms of developing their business and from a private and wealth perspective.

In order to support the businesses of the new economy, Societe Generale launched a programme aimed at start-ups in 2017. This programme is structured around several aspects, including a partnership with Bpifrance in order to strengthen relations between our two networks, and the appointment of 150 advisers dedicated to start-ups nationwide. This programme was strengthened in 2018 with dedicated support from the Mid Cap Investment Banking (MCIB) platform with their expertise in raising capital.

Crédit du Nord Network

The Crédit du Nord group consists of eight regional banks – Courtois, Kolb, Laydernier, Nuger, Rhône-Alpes, Société Marseillaise de Crédit, Tarneaud and Crédit du Nord – and an investment services provider, the brokerage firm Gilbert Dupont.

The different entities of the Crédit du Nord group enjoy a great deal of autonomy in the management of their activities, which is expressed in particular by rapid decision-making and responsiveness to the demands of their customers.

The strategy of the group's banks is structured around three key elements:

- being a leading player in terms of quality Customer relations;
- developing a high level of individual and collective professionalism;
- making the most advanced services and technologies available to their customers.

The quality and strength of the results of the Crédit du Nord group are recognised by the market and confirmed by the long-term A rating attributed by Standard & Poor's and the A rating attributed by Fitch.

With a network of 836 branches, the Crédit du Nord group is on hand to serve more than 2 million individual customers, 218,000 professional customers and non-profit associations and 47,000 corporate and institutional customers.

On average in 2018, Crédit du Nord's outstanding deposits totalled EUR 43.6 billion (*vs*. 42.8 billion in 2017) and outstanding loans amounted to EUR 41.5 billion (*vs*. EUR 39.8 billion in 2017).

Boursorama

A wholly-owned subsidiary of Societe Generale, Boursorama, created in 1995, is a pioneer and leader in its three main activities in France: online banking, online brokerage and online financial information with *boursorama.com*, the leading portal for economic and stock market news.

With nearly 1,690,000 customers at end-2018, the acceleration of customer acquisition continues and allows Boursorama to advance by one year, its 2020 growth target of 2 million customers, which will be reached in 2019.

From the device of their choice, Boursorama customers can access a range of banking products and services that:

- is comprehensive (conventional banking products – debit card, savings accounts, mortgage loans, personal loans – and investment products such as UCITS and life insurance vehicles, including the full range of products for investing in the markets – equities, trackers, warrants, certificates, turbos, SRD – deferred settlement service –, CFDs, Forex);

- is innovative (customers can open an account online in just a few clicks, access Google Home, Wicount, exclusive money management tools available in their personal banking space, which also offers a free account consolidation and management service, including accounts held with other banks);

- offers low and transparent fees (Boursorama Banque was named "Least Expensive Bank in France" for the eleventh consecutive year (Le Monde ranking – Meilleurebanque.com – 10th January 2019);

- is available and safe (advisers available until 10 p.m., secure transactions, SMS alerts, etc.).

In 2018, Boursorama expanded its range of products and services by launching car insurance, car leasing, eco-responsible credit and mobile payment solutions (Apple Pay, Samsung Pay and Google Pay). The boursorama.com portal also offers a new design and new features to facilitate analyses and decision-making. Accordingly, individual investors and shareholders can place their orders more quickly and effectively. The application has also been overhauled to make it more user-friendly.

INTERNATIONAL RETAIL BANKING AND FINANCIAL SERVICES

International Retail Banking and Financial Services (IBFS) combines:

- International Retail Banking activities, divided into three Business Units: Europe, Russia and AFMO (Africa, Mediterranean Basin and Overseas France);

- three specialised businesses: Insurance, Operational Vehicle Leasing and Fleet Management, and Vendor and Equipment Finance.

Through this pillar, the Group's ambition is to better serve all its individual and corporate customers, by adapting to changes in the economic and social environments and supporting the international growth of the Group's customers by drawing on the strength of its network in fast-growing regions. IBFS bases its strategy on the relationship-focused universal banking model, the enhancement of its customer base through an extended range of products, and the distribution and pooling of expertise aimed at improving revenues while continually seeking to optimise risk management and the allocation of scarce resources.

With almost 73,000 employees[(1)] and commercial operations in 66 countries, IBFS is dedicated to offering a wide range of products and services to its clients (individuals, professionals and corporates).

Boasting a complementary range of expertise, IBFS enjoys solid and recognised positions in its different markets.

International Retail Banking

International Retail Banking combines the services of the international banking networks and consumer finance activities. These networks are forging ahead with their growth policy and currently hold leading positions in their various regions of operation, such as Europe, Russia, the Mediterranean Basin and

(1) Headcount at end of period excluding temporary staff.

Sub-Saharan Africa. They help finance the economies in their different regions of development. In this way, the Group will continue to support the development of its activities through these high-potential geographic regions.

EUROPE

The Group is established in **Western Europe** predominantly in consumer finance and car finance activities (in France, Germany and Italy). Outstanding loans grew by 10% in 2018 to EUR 20.1 billion, mainly due to the strong growth on car finance markets.

In **Czech Republic**, Komercni Banka (KB) is ranked third in terms of balance sheet size, with outstanding loans of EUR 24.6 billion, 364 branches and 8,022 employees (FTE) as of December 2018. KB, which was created in 1990 and became a subsidiary of Societe Generale in 2001, has developed its universal banking activities for individual customers and expanded its traditionally significant presence among corporate customers and municipalities. The KB group also offers a range of products intended for individual customers with ESSOX (consumer loans and car financing), Modra Pyramida (mortgage facilities), as well as a range developed in collaboration with Private Banking. In May 2018, it presented to analysts its strategic program "KB Change 2020", aimed at adapting the Bank to the evolutions of the banking sector.

In **Romania**, BRD is the leading privately-owned banking network in the country, with 723 branches, and the No. 3 bank in terms of balance sheet size, with market share of approximately 13% in deposits and 12% in loans as of June 2018. The Societe Generale Group became BRD's main shareholder in 1999. The BRD group's activity is divided into three major business lines: Retail Banking (individual and professional customers, SMEs), Corporate and Investment Banking, and Consumer Finance with BRD Finance. The bank was awarded "Best Bank in Romania" by The Banker magazine. Outstanding loans and deposits totalled respectively EUR 6.8 billion and EUR 9.7 billion.

In 2018, Societe Generale announced the sales of its majority stake in 4 of its European subsidiaries (SG Express Bank in Bulgaria, SG Albania in Albany, Eurobank in Poland, SG Srbija in Serbia).

The Group is also established in Slovenia, Moldova[(2)], Montenegro[(2)] and Macedonia[(2)].

RUSSIA

The Group is developing its universal banking model and has established itself as the No. 2 banking group financed with foreign capital in Russia based on balance sheet size, with outstanding loans and deposits reaching respectively EUR 9.1 billion and EUR 9.3 billion at the end of 2018. Societe Generale operates in Russia through several banking entities covering the different individual and corporate customer markets: DeltaCredit is specialised in home loans, Rusfinance Bank in car & POS loans, and Rosbank is continuing to roll out a more "everyday banking"– oriented range of products and services.

Regarding its corporate customers, the Group continues to focus on financing and investment activities (in partnership with SG CIB), targeting Russian and multi-national large corporates in particular, while gradually expanding its target client base. At the same time, operational efficiency and risk reduction continue to be a primary focus.

Furthermore, the Group operates in Russia through other consolidated entities in the Insurance activity (Societe Generale Insurance) and in corporate financial services.

(2) In 2019, SG announced the sales of its entities.

AFRICA, MEDITERRANEAN BASIN AND OVERSEAS FRANCE

Societe Generale reaffirmed its commitment for Africa within the strategic plan "Transform to Grow", and its contribution the development of the banking and financial system through its operations in 19 countries. This commitment was greeted by Euromoney magazine which named Societe Generale "Best bank in Africa" at the 2018 Awards for excellence ceremony.

In the **Mediterranean Basin**, the Group is mainly present in Morocco (since 1913), Algeria (since 1999), and Tunisia (since 2002). Overall, this set-up covers 681 branches with more than 2 million customers. As at 31st December 2018, outstanding deposits came to EUR 9.9 billion and outstanding loans to EUR 11.0 billion.

In **Sub-Saharan Africa**, the Group intends to take advantage of the continent's strong potential for economic growth and bank account penetration by building on its presence in 16 countries with strong local positions, notably Côte d'Ivoire (No. 1 for loans and deposits), Senegal (No. 2 for loans and deposits) and Cameroon (No. 1 for loans and No. 2 for deposits). In 2018, the region experienced a considerable increase in outstanding loans to EUR 5.8 billion (+6%) and deposits to EUR 7.2 billion (+9%).

Besides the "Best bank in Africa" award, Euromoney granted Societe Generale Algérie and SGBCI (Côte d'Ivoire) the "Best bank" awards in their respective countries. Societe Generale was also granted by many other awards: "Best bank" and "Best investment bank" in Cameroon for the fourth consecutive year; "Best foreign bank", "Best investment bank" and "Best asset manager" in Morocco (EMEA Finance magazine); "Best bank" in Algeria, Benin, Côte d'Ivoire, Guinea and Cameroon, and "Best trade finance bank" in Algeria, Cameroon, Côte d'Ivoire and Tunisia (Global Finance).

To support the strategic stakes within the Group's "Transform to grow" program, the "Grow with Africa" initiative, launched in November 2018, aims to contribute collectively to the sustainable development of Africa. This initiative, which runs in partnership with local territories and actors as well as international experts, by establishing dialogue, listening and sharing innovative means and approaches, focuses on 4 areas of development: supporting the development of African SMEs, taking part in the infrastructure financing, offering services that promote people's development through financial inclusion, and developing innovative financing for renewable energies and agribusiness.

In **Overseas France**, the Group is established in Reunion and Mayotte, in the West Indies (Martinique, Guadeloupe), Guyana, French Polynesia and New Caledonia, where it has been present for more than 40 years. In these regions, Societe Generale offers the same services as available in mainland France for individual and corporate customers.

Insurance (Societe Generale Insurance)

Based on an integrated bank insurance model, Societe Generale Group's Insurance business covers the needs of individual, professional and corporate customers for life insurance investment solutions, personal protection and property and casualty insurance. The life and non-life insurance companies of Societe Generale Insurance offer the Group's networks, in France and abroad, a full range of insurance products and services: life insurance investment solutions, retirement savings, and personal protection, health, credit life, group life, property and casualty, and other insurance. Societe Generale Insurance is also diversifying its distribution models and developing partnership agreements with players outside the Group.

In 2018, Societe Generale Insurance forged ahead with the growth of its activities while enriching the services offered to policyholders. Furthermore, the diversification of Societe Generale Insurance's business mix picked up speed with the development of the share of unit-linked funds in life insurance investment solutions and the development of personal protection and property and casualty insurance. From the 1st of April 2017, the Group's Insurance business has integrated Antarius, the life insurance company dedicated to the Crédit du Nord networks.

At the end of 2018, Societe Generale Insurance's outstandings in life assurance investment solutions rose by + 1% to reach EUR 115 billion; the share of unit-linked outstandings amounted to 26%, stable compared with 2017. In personal protection and property and casualty insurance, revenue was up by 9% compared with 2017. In 2018, Societe Generale Insurance accelerated the digital transformation of its bank insurance model by favouring the development of innovative products to increase its clients' satisfaction. Thus, in property and casualty insurance, Societe Generale Insurance has rolled out in France, online sales with digital signature for the subscription of car insurance and property insurance policies for clients of the Societe Generale network, while in Russia, it has put forward a full online subscription programme for mortgage loan insurance distributed by DeltaCredit. In life insurance investment solutions, Societe Generale Insurance has rolled out Synoé, an innovative digitalised advisory management solution, in partnership with Societe Generale Private Banking France. Societe Generale Insurance has also continued to diversify its business model in synergy with other Group businesses such as ALD and Boursorama, but also with external partners in order to experiment with new markets and new offers.

Financial Services to Corporates

OPERATIONAL VEHICLE LEASING AND FLEET MANAGEMENT (ALD AUTOMOTIVE)

ALD Automotive offers mobility solutions centred on operational vehicle leasing and fleet management for businesses of all sizes in both local and international markets, as well as for private individuals. This activity combines the financial benefits of operational leasing with a complete range of high-quality services, including in particular maintenance, tyre management, fuel consumption, insurance and vehicle replacement.

ALD Automotive has the largest geographical coverage of any leasing company (43 countries), and manages more than 1.66 million vehicles. It has unique knowledge of emerging markets and has established partnerships with Wheels in North America, FleetPartners in Australia and New Zealand, Absa in South Africa, AutoCorp in Argentina, and Arrend Leasing in Central America. In 2018, the business holds the No. 1 position in Europe in multi-brand operational vehicle leasing and fleet management, and the second position worldwide.

A pioneer in mobility solutions, ALD Automotive is constantly innovating in order to provide the best support to its customers, fleet managers and drivers, with an offer tailored to their needs. This strategy was recognised once again in 2018: for the eleventh year in a row, ALD Automotive France won the "2019 Customer Service" award on the operational vehicle leasing market (BVA group -Viséo CI survey conducted from May to July 2018).

ALD has been listed on the Euronext Stock Market since June 2017 with the listing of 20.18% of its shares. Societe Generale remains ALD's controlling shareholder and ALD Automotive continues to benefit from the Group's financing capacity.

VENDOR AND EQUIPMENT FINANCE (SGEF)

Societe Generale Equipment Finance is specialised in vendor and professional equipment finance. This business is conducted through partnership agreements with vendors (professional equipment manufacturers and distributors), banking networks and also directly. Societe Generale Equipment Finance develops its expertise in three major sectors: transport, industrial equipment and high-tech.

As a leading company in Europe, SGEF operates in 22 countries and manages a portfolio of EUR 18.7 billion in outstandings. It has a broadly diverse customer base, ranging from large international companies to SMEs, to which it offers a varied range of products (financial leasing, loans, leasing, purchase of receivables, etc.) and services (insurance, truck leasing with services).

Regularly recognised by the leasing industry, Societe Generale Equipment Finance was named "European Lessor of the Year" at the Leasing Life Awards held on 15th November 2018 in Tallinn.

GLOBAL BANKING AND INVESTOR SOLUTIONS

The purpose of Global Banking and Investor Solutions (GBIS) is to provide Global Markets and Investor Services, Financing and Advisory, and Asset Management and Private Banking to a select customer base of businesses, financial institutions, investors, wealth managers and family offices, as well as private clients.

At the hub of economic flows between issuers and investors, GBIS supports its customers over the long-term, offering them a variety of services and integrated solutions tailored to their specific needs.

GBIS employs around 22,000 people located in 45 countries, and has operations[3] in more than 70 countries. It has extensive European coverage and representative offices in Central and Eastern Europe, the Middle East, Africa, the Americas and the Asia-Pacific region.

GBIS experts offer their issuers (large corporates, financial institutions, sovereigns and the public sector) strategic advice on their development as well as market access to finance this development and hedge their risks. They also offer services for investors managing savings according to set risk/return targets. Whether they are asset managers, pension funds, family offices, hedge funds, sovereign funds, public agencies, private banks, insurance companies or distributors, the Bank provides comprehensive access to the equities and fixed income, credit, currencies and commodities markets along with a range of unique cross-asset solutions and advisory services, drawing on leading, research expertise. This offering is completed by a full range of investor services.

The Group's ambition is to become the leading partner bank, delivering the most relevant and value-added experience to its clients, from Europe to the rest of the world. To achieve this ambition, the Group is accelerating its platform strategy with the aim of building THE pioneering marketplace for Business-to-Business financial services, capitalising on the functionality of the SG Markets tool.

Against a backdrop of growing disintermediation, and given the new regulations, SG is continuing its repositioning process focused on enhancing distribution capacities and streamlining operations that do not generate significant synergies.

Global Markets and Investor Services

The Global Markets and Investor Services (GMIS) Division continues to develop an integrated capital markets offering for its customers combining the "Fixed Income, Currencies and Commodities", "Equities and Prime Services" and Securities Services Departments. As such, the division combines the strength of a leading financial institution offering global access to markets with the customer-oriented approach of a broker positioned as a market leader in its activities.

In 2018, Societe Generale was awarded the prestigious title of "Global Best Derivatives Bank" (Global Finance Global Bank Award 2018), "Structured Products House of the year" (Risk Awards 2019) and "Most Innovative Investment Bank for Risk Management" (The Banker Awards 2018) for the excellence of its products and services. Global Capital also named Societe Generale "Corporate Solutions Provider of the Year".

To assist its customers in today's web of increasingly interconnected financial markets, experts (financial engineers, salespeople, traders and specialist advisors) use SG Markets, a unique integrated platform to offer bespoke solutions designed to meet the specific needs and risks of each customer.

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(3) In-country operations through partnerships within the Societe Generale Group.

FIXED INCOME, CURRENCIES AND COMMODITIES

Fixed income, currencies and commodities (FICC) activities cover a comprehensive range of products and services ensuring the liquidity, pricing and hedging of risks related to the fixed income, credit, forex and commodity activities of SG clients.

- Fixed income, currencies and credit: teams based in London, Paris, Madrid and Milan, as well as the United States and the Asia-Pacific region, offer a wide range of flow and derivative products. Covering a variety of underlyings (forex products, private and sovereign bonds, emerging or very liquid markets, cash or derivatives), they provide their customers with high-quality research, solutions specific to asset and liability management, risk management and revenue optimisation requirements, and are also recognised on a regular basis[4]. In 2018, SG was also named "Most Innovative Investment Bank" for FICC Trading" by The Banker for the second consecutive year, and recognised as a Best FX Provider 2019 (Global Finance Awards) in several categories ("Best FX Execution Algorithms, Best Bank for FX Trading Technology, Best FX Provider in CEE, and Best FX Provider for Corporates").

- Commodities: with more than 20 years of experience, the Societe Generale Group is a major player on the energy and metals markets, and has developed an agricultural commodities offer targeting producers. Societe General works alongside businesses and institutional investors, providing them with hedging and investment solutions. In commodities, the Bank holds the leading position in the Risk & Energy Risk Commodity 2018 Rankings in several categories[5].

EQUITIES AND PRIME SERVICES

Thanks to its historic presence on all of the world's major primary and secondary equity markets and its longstanding tradition of innovation, Societe Generale is a leader in a comprehensive range of varied solutions covering all cash, derivative and equity research activities. The Equity Department is one of the Group's areas of excellence. For several years, its expertise has been recognised by the industry and its clients. Accordingly, Societe Generale was named "Equity Derivatives House of the Year" (Risk Awards 2018) and "Best House Equities" (Structured Retail Products – SRP).

Societe Generale announced in 2018 the acquisition of Equity Markets and Commodities (EMC) activities at Commerzbank, a European leader in the design, distribution and maintenance of the structured products and flow products markets, as well as asset management solutions. With a cutting-edge platform, Commerzbank enjoys leading franchises in diversified and complementary segments. The activities concerned are based in Frankfurt, London, Hong Kong, Paris, Luxembourg and Zurich. Commerzbank's equity brokerage and commodities hedging activities are excluded from the scope of the transaction.

The Prime Services Department was created in 2015 following the Group purchase in May 2014 of Credit Agricole's 50% stake in Newedge.

This business combines clearing activities, prime brokerage and electronic and semi-electronic execution services.

Prime Services offers a range of expertise and offers global access to a complete cross-asset service in cash and derivative instruments. The department provides its customers with a single point of access to 130 financial markets and execution venues worldwide, and a state-of-the-art *Follow the Sun* service making it possible to meet the needs of customers at all times. This approach was repeatedly praised by

(4) Best House Interest Rates, Best House Credit and Best House FX by SRP Europe 2017; #1 CEE Foreign exchange for Corporates by Euromoney FX Exchange 2018.

(5) #1 Best Overall Dealers (# Oil Dealers, #1 Energy Dealers, # Base Metals Dealers, # Natural Gas Dealers) and #1 Best Overall Research.

the industry in 2018, notably with the title "Highly Commended EMEA" awarded by International Securities Finance Survey 2018 as well as "Best FCM Overall" and "Best Capital Introduction Service" awarded by CTA Intelligence US Services Awards.

Moreover, Societe Generale's research simplifies the interpretation of market trends, which are subsequently used to develop market strategies, and are regularly acknowledged[6].

SECURITIES SERVICES

Security Services (SGSS) activities offer a comprehensive range of cutting-edge services following the latest trends in the financial markets as well as regulatory changes, including the following:

- the market-leading clearing service range;
- custody and depository bank activities, covering all asset classes;
- fund administration services for managers of complex financial products;
- issuer services, comprising primarily the administration of stock option plans, employee shareholding, etc.;
- liquidity management services (cash and securities);
- transfer agent activities, providing a full range of services, from support to fund distribution.

With EUR 4,011 billion in assets under custody at end-December 2018 (*versus* EUR 3,904 billion at 31st December 2017), SGSS ranks second among European custodians. It also offers custodian services to more than 3,500 mutual funds and provides valuation services for more than 4,100 mutual funds totalling EUR 609 billion in assets under management in Europe.

In 2018, Societe Generale was awarded "Client clearing broker of the year" and "Transfer agent of the year" by Global Investor Awards.

Financing and Advisory

Financing and Advisory manages and develops global relations with strategic Corporate and Investment Banking Clients, mergers & acquisitions, advisory services, other corporate finance advisory services, and finance activities (structured financing, fund-raising (debt or equity), financial engineering and hedging solutions for issuers) as well as the services of Global Transaction and Payment Services.

The Coverage and Investment Banking teams offer their customers, which include businesses, financial institutions and the public sector, an integrated, comprehensive and tailored approach based on:

- extensive strategic advisory services, covering mergers and acquisitions and IPO structuring, as well as the secondary offering of shares. Societe Generale holds a leading position in the equity capital and equity-related markets, and also in euro-denominated issues for corporate and financial institutions[7]. This division received several awards in 2018, notably that of "Europe Investment-Grade Corporate Bond House of the Year" at the IFR Awards 2018; "ECM Bank of the Year in France and the Benelux" by Global Finance, and "Best Financial Advisor in Spain" by Merger Market;
- access to optimised fund-raising solutions through the joint venture with the Global Finance and Retail Banking teams.

[6] #1 Global Strategy, #1 Multi Asset Research, #1 Index Analysis and #1 Quantitative Research in Europe by Extel.

[7] #2 All EMEA Euro Corporate Bonds, #3 All Euro Bonds par IFR.

The Global Finance teams rely on global expertise and sector knowledge to provide issuers with a comprehensive offering and integrated solutions in three key areas: fund-raising, structured financing and strategic hedging of interest rate, foreign exchange, inflation and commodity risks.

The fund-raising (debt) solutions offered by the Group are made possible by its ability to offer issuers access to all of the global markets and to create innovative strategic financing and acquisition or LBO financing solutions.

The business offers its customers its world-renowned structured financing expertise in many sectors and businesses: natural resources, energy, international commerce and assets – where Societe Generale was named "Global Advisor of the Year" (PFI Awards 2018) and "Best Financing Bank in the CEE" by Euromoney.

The GTPS (Global Transaction & Payment Services) teams are aimed at economic and financial actors, in particular, domestic and international financial institutions, medium and large companies with international and multinational activities, who want support with flow (banking, commercial, corporate) and/or payments management.

Operating in more than 50 countries, this business line offers a full and integrated range of solutions and services based on the expertise of the Transaction Banking business lines. It brings together five transactional banking activities:

- cash management;
- trade finance;
- correspondent banking;
- supply chain finance;
- foreign exchange services associated with payments of our activities, in partnership with Global Markets.

The expertise of the Global transaction Banking teams is regularly rewarded: in 2018, Flmetrix awarded them "Distinguished Provider of Transaction Banking Services" for correspondent banking, Greenwich Associates named them "Trade Finance Leader" for large companies in France, Global Finance named them "Best International Commercial Bank in France, Western Europe and Emerging Markets" and EMEA Finance awarded them "Best Cash Management Services" and "Best Cash Management Services in EMEA" and "Best Factoring Services in EMEA and Europe".

Asset Management and Private Banking

This business unit encompasses Asset Management (Lyxor Asset Management) and Private Banking, which operates under the Societe Generale Private Banking brand.

Societe Generale Private Banking

Societe Generale Private Banking is a major player in wealth management and offers wealth management services to a domestic and international clientele, drawing on the expertise of its specialist teams in wealth engineering, investment and financing solutions, in accordance with the Tax Code of Conduct as approved by the Board of Directors.

Since January 2014 and in collaboration with the French Retail Banking Division, Societe Generale Private Banking has extensively developed its relationship banking model in France, extending its offering to all individual clients with more than EUR 500,000 in their books. These clients are able to benefit from a service combining increased proximity based on 80 regional franchises and the know-how of Private Banking's teams of experts.

Societe Generale Private Banking's offer is available in 16 countries. As part of the 2016-2020 strategic plan, "Transform to Grow", Societe Generale announced in 2018 the sale of its private banking activities in Belgium after entering into an agreement with the bank ABN AMRO.

In 2018, the success of Societe Generale Private Banking's strategy was recognised and the Bank was named "Private Banking – Best Credit Provider" (WealthBriefing Swiss Awards). It was also awarded the title of "Best Private Bank for Succession Planning" by PMW/The Banker.

At end-2018, Private Banking's outstanding assets under management totalled EUR 113 billion.

LYXOR ASSET MANAGEMENT

Lyxor Asset Management ("Lyxor") is a wholly-owned subsidiary of the Societe Generale Group and was founded in 1998. Lyxor is a European asset management specialist with expertise in all investment styles and has the ability to create innovative investment solutions to address the challenges of the future.

Thanks to its tradition of engineering and research, and building on an agile combination of passive, active and alternative management styles, Lyxor covers the whole liquidity spectrum and adapts to clients' needs whatever their financial constraints by offering the best combination of long-term performance and rigorous risk management.

As a financial architect and asset manager, Lyxor advises its clients on their allocation within a comprehensive investment universe, both developed internally and selected externally in an open architecture structure. Its fiduciary services and investment platforms help institutional investors meet their investment objectives while increasing their operational efficiency.

Lyxor pioneered the asset management industry with the creation of the first alternative managed accounts platform in 1998, and the European ETF market with the first ETF on the CAC 40 index in 2001. Lyxor is now positioned as the third leading European ETF provider with 9.7%[(8)]. The business was rewarded several times in 2018 including with the title of "Best ETF Provider" by WealthBriefing European Awards and "Leading UCITS Manager Selection" by The Hedge Fund Journal.

At end-2018, from ETFs to multi management, Lyxor's assets under management and advisory totalled EUR 118 billion.

(8) Source: ETFGI, ranking by total assets under management at end-December 2017.

Board of Directors

The members of the Board of Directors of the Guarantor as at 1 January 2019 are as follows:

Frédéric OUDÉA
(Date of birth: 3 July 1963)
- Chief Executive Officer

Lorenzo BINI SMAGHI
(Date of birth: 29 November 1956)
- Chairman of the Board of Directors
- Independent Director

William CONNELLY
(Date of birth: 3 February 1958)
- Company Director
- Independent Director, Member of the Risk Committee and Member of the Nomination and Corporate Governance Committee

Jérôme CONTAMINE
(Date of birth: 23 November 1957)
- Company Director
- Independent Director, member of the Audit and Internal Control Committee

Diane CÔTÉ
(Date of birth: 28 December 1963)
- Chief Risk Officer of LSE Group
- Independent Director, member of the Audit and Internal Control Committee

Kyra HAZOU
(Date of birth: 13 December 1956)
- Company Director
- Independent Director, member of the Audit and Internal Control Committee and of the Risk Committee

Jean-Bernard LÉVY
(Date of birth: 18 March 1955)
- Chairman and Chief Executive Officer of EDF
- Independent Director, Chairman of the Compensation Committee and member of the Nomination and Corporate Governance Committee

Gérard MESTRALLET
(Date of birth: 1 April 1949)
- Independent Director, Chairman of the Nomination and Corporate Governance Committee and Member of the Compensation Committee

Juan Maria NIN GENOVA
(Date of birth: 10 March 1953)
- Company Director
- Independent Director, member of the Risk Committee and of the Compensation Committee

Nathalie RACHOU
(Date of birth: 7 April 1957)
- Company Director
- Independent Director, Chairman of the Risk Committee and member of the Nomination and Corporate Governance Committee

Lubomira ROCHET
(Date of birth: 8 May 1977)
- Chief Digital Officer of the L'Oréal Group
- Independent Director

Alexandra SCHAAPVELD
(Date of birth: 5 September 1958)
- Company Director
- Independent Director, Chairman of the Audit and Internal Control Committee and Member of the Risk Committee

France HOUSSAYE
(Date of birth: 27 July 1967)
- Director elected by employees
- Branch manager of Bois Guillaume, DEC of Rouen
- Member of the Compensation Committee

David LEROUX
(Date of birth: 3 June 1978)
- Director elected by employees
- In charge of General Meeting conduct for Securities Services

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Group Management Committee

The Group Management Committee of the Guarantor as at 7 February 2019 is as follows:

Frédéric OUDÉA
Chief Executive Officer

Diony LEBOT
Deputy Chief Executive Officer

Philippe AYMERICH
Deputy Chief Executive Officer

Séverin CABANNES
Deputy Chief Executive Officer

Philippe HEIM
Deputy Chief Executive Officer

David ABITBOL(1)
Global Head of Societe Generale Securities Services

Philippe AMESTOY
Head of Operations and Transformation in Retail Banking activities in France

Hervé AUDREN de KERDREL
Deputy Group Head of Compliance

Pascal AUGÉ(1)
Head of Global Transaction and Payment Services

Cécile BARTENIEFF(1)
Chief Operating Officer at Global Banking and Investor Solutions

François BLOCH
Chief Executive Officer of BRD

Alain BOZZI
Head of Group Internal Control Coordination

Gilles BRIATTA[(1)]
Group General Secretary

Claire CALMEJANE
Group Chief Innovation Officer

Pavel ČEJKA[(1)]
Chief Operating Officer at International Banking and Financial Services

Antoine CREUX
Chief Security Officer

Thierry D'ARGENT[(1)]
Head of Coverage and Investment Banking

Bruno DELAS[(1)]
Chief Operating Officer of the French Networks

Marie-Christine DUCHOLET
Head of Clients for Retail Banking activities in France

Claire DUMAS
Deputy Chief Financial Officer

Ian FISHER
Head of the Culture & Conduct Programme

Patrick FOLLÉA[(1)]
Head of Societe Generale Private Banking, LYXOR supervisor

Jean-Marc GIRAUD[(1)]
Head of Inspection and Audit Division

Carlos GONCALVES
Head of Global Technology Services

Donato GONZALEZ-SANCHEZ
Head of Corporate & Investment Banking, Private Banking, Asset Management,

Securities Services and Group Country Head for Spain and Portugal

Laurent GOUTARD[(1)]
Head of Societe Generale Retail Banking in France

Jean-François GRÉGOIRE[(1)]
Head of Global Markets

Benoît GRISONI[(1)]
Chief Executive Officer of Boursorama

Éric GROVEN
Head of the Real Estate Division in Retail Banking activities in France

Caroline GUILLAUMIN[(1)]
Group Head of Human Resources and Group Head of Communication

Didier HAUGUEL[(1)]
Group Country Head for Russia

Édouard-Malo HENRY[(1)]
Group Head of Compliance

Alvaro HUETE
Deputy Head of Global Finance and Head of GLFI for the United Kingdom

Arnaud JACQUEMIN
CEO of Societe Generale Bank & Trust and Group Country Head for Luxembourg

Jochen JEHMLICH[(1)]
Head of the Equipment Finance businesses and CEO of GEFA Bank

Jan JUCHELKA
Chairman of the Board and CEO of Komerční Banka and Group Country Head for the Czech Republic and Slovakia

William KADOUCH-CHASSAING[(1)]
Chief Financial Officer

Jean-Louis KLEIN
Deputy Chief Executive Officer for Crédit du Nord

Slawomir KRUPA[(1)]
Chief Executive Officer for Societe Generale Americas

Christophe LEBLANC[(1)]
Group Head of Corporate Resources and Digital Transformation

Véronique LOCTIN
Head of Corporate Accounts for Societe Generale Retail Banking in France

Xavier LOFFICIAL
Deputy Chief Financial Officer of the Group

Michala MARCUSSEN
Group Chief Economist and Head of Economic and Sectorial Research

Anne MARION-BOUCHACOURT
Group Country Head for Switzerland et CEO of SG Zurich

Mike MASTERSON[(1)]
Chief Executive Officer of ALD Automotive

Laetitia MAUREL
Group Deputy Head of Communication

Alexandre MAYMAT[1]
Head of the Africa/Asia/Mediterranean Basin & Overseas region, International Banking and Financial Services

Jean-François MAZAUD
Head of Group transformation

Françoise MERCADAL-DELASALLES[1]
Chief Executive Officer of Crédit du Nord

Hikaru OGATA[1]
Chief Executive Officer of Societe Generale Asia Pacific

Pierre PALMIERI[1]
Head of Global Finance

Jean-Luc PARER
Advisor to the Deputy Chief Executive Officer

Philippe PERRET[1]
Head of the Insurance businesses

Ilya POLYAKOV
Chief Executive Officer and Chairman of Rosbank's Management Board

Sylvie PRÉA
Director of Corporate Social Responsibility

Sébastien PROTO
Head of Group Strategy

Sylvie RÉMOND[1]
Group Chief Risk Officer

Sadia RICKE
Group Country Head for the United Kingdom and Head of Coverage and Investment Banking in the United Kingdom

Grégoire SIMON-BARBOUX
Deputy Group Chief Risk Officer

Giovanni-Luca SOMA[1]
Head of the Europe region, International Banking and Financial Services Division

Guido ZOELLER
Group Country Head for Germany and Head of Societe Generale Corporate & Investment Banking activities in Germany

(1) Head of a Business Unit or Service Unit.

Auditors

In accordance with French law, the Guarantor is required to have two statutory auditors *(commissaires aux comptes)*.

As at the date of this document, the statutory auditors are:

- Ernst & Young et Autres (represented by Micha Missakian) of Tour First, TSA 14444, 92037 Paris-La Défense Cedex, France; and

- Deloitte & Associés (represented by Jean-Marc Mickeler) of 6, place de la Pyramide, 92908 Paris-La Défense Cedex, France.

General Meetings of Shareholders

The annual general meeting of shareholders is convened and held as provided by legal provisions in force.

Being a credit institution, the Guarantor is obliged by virtue of Article 8 of French décret no 84-708 of 24 July 1984 to submit its annual financial statements at the general meeting of shareholders before 31 May of each year, unless otherwise authorised by the *Autorité de Contrôle Prudentiel et de Résolution* (French Prudential Supervisory Authority).

Share capital

At 31 December 2018, the registered and fully-paid capital of the Guarantor are EUR 1,009,897,173.75 divided into 807,917,739 ordinary shares with a nominal value of EUR 1.25 each.

Risk Management Policies

Appendix 4 to this document contains a reproduction of the description of the Guarantor's risk management policies.

Financial Information of the Guarantor

The Guarantor's consolidated financial statements as at and for the year ended 31 December 2018 prepared in accordance with IFRS as endorsed by the European Union as of 31 December 2018 are included in Appendix 4 and have been audited in accordance with French auditing professional standards by Ernst & Young et Autres and Deloitte & Associés as stated in their auditors' report dated 8 March 2019 included therein.

Any interim and/or quarterly unaudited reports will be reproduced in the relevant launch announcement and supplemental listing document(s) or in an addendum to the Base Listing Document. All these reports are available for inspection at the address specified in section 1 (Important Information) on page 5 of this document.

Capitalisation of the Guarantor

The following table sets out the Guarantor's capitalisation as at 31 December 2018 and 31 December 2017, as adjusted to give effect to the issuance of additional debt by the Guarantor since such dates.

Except as set out below (see item 5), there has been no material change in the Guarantor's capitalisation since 31 December 2018.

	31 December 2018	31 December 2017	31 December 2016
	(EUR millions)	(EUR millions)	(EUR millions)
Medium and long-term debt(2)(3)			
– denominated in Euros	0	0	0
– denominated in other currencies(4)	1,747	1,668	0
SUB TOTAL	**1,747**	**1,668**	**0**
Long-term subordinated debt and notes			
– denominated in Euros	6,268	6,770	6,975
– denominated in other currencies(4)(5)	7,460	7,343	7,487
SUB TOTAL	**13,728**	**14,110**	**14,461**
TOTAL	**15,475**	**15,778**	**14,461**
Shareholders' equity and undated subordinated loans and capital notes			
– Undated subordinated capital notes	9,702	8,984	11,159
– Common stock	1,010	1,010	1,010
– Additional paid-in capital and retained earnings	32,312	33,118	30,643
– Net income	1,725	800	4,223
TOTAL	**43,024**	**43,912**	**47,035**
TOTAL CAPITALISATION	**58,499**	**59,690**	**61,496**

(1) At 31 December 2018, the Guarantor's fully paid-up capital amounted to EUR 1,009,897,173.75 and comprised 807,917,739 shares with a nominal value of EUR 1.25.

(2) In accordance with French bank regulatory practice, the Bank debt is classified depending on its initial term to maturity as short-term (less than one year), medium-term (one to seven years) and long-term (more than seven years). Medium– and long-term debt of the bank, other than its long-term subordinated debt and undated subordinated capital notes, ranks equally with deposits.

(3) Includes only debt in the form of debt securities. In addition to debt securities, Sociéte Générale regularly sells to its customers term savings certificates, most of which mature in five years, and certificates of deposit in varying maturities. These instruments have maturities similar to medium- and long-term unsubordinated debt and rank equally with such debt and deposits.

(4) Principal amounts of debt denominated in foreign currencies have been translated to Euros at the indicatory exchange rates for such currencies released by the Banque de France on 31 December 2018 (first column) and on 31 December 2017 (second column).

Rate of conversion: (Exchange rates against EUR)	**31 December 2018**	**31 December 2017**
Exchange Rate USD:	1.1450	1.1993
Exchange Rate JPY:	125.85	135.01
Exchange Rate GBP:	0.8945	0.8872
Exchange Rate AUD:	1.6220	1.5346
Exchange Rate SGD:	1.5591	1.6024
Exchange Rate CNY:	7.8699	7.8151

(5) Since 31 December 2018, the Guarantor has, inter alia:

– redeemed EUR 115,766,000 Subordinated Tier 2 Notes due 2019.

Except as set forth in this section there has been no material change in the capitalisation of the Guarantor since 31 December 2018.

The issue of notes have no fixed maturity dates (although they may be redeemed at the Guarantor's option), and the Guarantor may defer payment of interest on either issue in any year during which it does not declare a dividend. The issue of notes become due and payable upon the Guarantor's liquidation, after all unsubordinated creditors have been paid in full.

Further Information

As a company whose shares are quoted on the Paris Stock Exchange, the Guarantor is required to make periodic and/or continuous disclosure obligations under the relevant listing rules of the Paris Stock Exchange.

Financial information and/or any major developments of the Guarantor including filings requested by the Paris Stock Exchange may be viewed from www.societegenerale.com/en/investors.

8. INFORMATION ABOUT THE LIQUIDITY PROVIDER

We and the Guarantor have appointed our affiliate, SG Securities (HK) Limited, as the liquidity provider (the "**Liquidity Provider**") for the Structured Products. The Liquidity Provider is a wholly owned subsidiary of the Guarantor. We are a 100 per cent. owned subsidiary of Société Générale Bank & Trust S.A. and is a fully consolidated company. Société Générale Bank & Trust S.A. is a wholly owned subsidiary of the Guarantor. The Liquidity Provider is a Stock Exchange participant and its conduct is therefore regulated by the Stock Exchange and the Securities and Futures Commission in Hong Kong.

Further information on the Liquidity Provider in relation to the Structured Products will be set out in the relevant launch announcement and supplemental listing document.

9. SALES RESTRICTIONS

General

We have not taken, and will not take, any action that would permit a public offering of the Structured Products or possession or distribution of any offering material in relation to the Structured Products in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on us. In the event that we contemplate a placing, placing fees may be payable in connection with any issue and we may at our discretion allow discounts to placees.

European Economic Area

Each dealer represents and agrees, and each further dealer appointed in respect of the Structured Products will be required to represent and agree that, it has not offered, sold or otherwise made available and will not offer, sell, or otherwise make available any Structured Products which are the subject of the offering as contemplated by this Base Listing Document to any retail investor in the European Economic Area. For the purposes of this provision:

a) the expression "**retail investor**" means a person who is one (or more) of the following:

   i. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

   ii. a customer within the meaning of Directive 2016/97/EU (as amended, the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   iii. not a qualified investor as defined in Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the Prospectus Directive); and

b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products.

United Kingdom

Each dealer has represented and agreed, and each further dealer appointed in respect of the Structured Products will be required to represent and agree, that:

(a) in respect to Structured Products having a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Structured Products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Structured Products would otherwise constitute a contravention of Section 19 of Financial Services and Markets Act, as amended (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Structured Products in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

United States

The Structured Products and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or any state securities law, and trading in Structured Products has not been approved by the United States Commodity Futures Trading Commission (the "**CFTC**") under the United States Commodity Exchange Act of 1936, as amended (the "**Commodity Exchange Act**") and the Issuer will not be registered as an investment company under the United States Investment Company Act of 1940, as amended, and the rules and regulations thereunder (the "**Investment Company Act**"). None of the Securities and Exchange Commission (the "**SEC**"), any state securities commission or regulatory authority or any other United States, French or other regulatory authority has approved or disapproved of the Structured Products or the Guarantee or passed upon the accuracy or adequacy of this document. Accordingly, Structured Products, or interests therein, may not at any time be offered, sold, resold, traded, pledged, exercised, redeemed, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, nor may any U.S. person at any time trade, own, hold or maintain a position in the Structured Products or any interests therein. In addition, in the absence of relief from the CFTC, offers, sales, re-sales, trades, pledges, exercises, redemptions, transfers or deliveries of Structured Products, or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, may constitute a violation of United States law governing commodities trading and commodity pools. Consequently, any offer, sale, resale, trade, pledge, exercise, redemption, transfer or delivery made, directly or indirectly, within the United States or to, or for the account or benefit of, a U.S. person will not be recognised.

Each dealer has represented and agreed, and each further dealer will be required to represent and agree, that it has not and will not at any time offer, sell, resell, trade, pledge, exercise, redeem, transfer or deliver, directly or indirectly, Structured Products in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale, trade, pledge, exercise, redeem, transfer or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any such U.S. person. Any person purchasing Structured Products of any tranches must agree with the relevant dealer or the seller of such Structured Products that (i) it will not at any time offer, sell, resell, trade, pledge, exercise, redeem, transfer or deliver, directly or indirectly, any Structured Products in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale, trade, pledge, exercise, redemption, transfer or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person, and (ii) it is not purchasing any Structured Products for the account or benefit of any U.S. person.

Exercise or otherwise redemption of Structured Products will be conditional upon certification that each person exercising or otherwise redeeming a Structured Products is not a U.S. person or in the United States and that the Structured Products is not being exercised or otherwise redeemed on behalf of a U.S. person. No payment will be made to accounts of holders of the Structured Products located in the United States.

As used in the preceding paragraphs, the term "**United States**" includes the territories, the possessions and all other areas subject to the jurisdiction of the United States of America, and the term "**U.S. person**" means any person who is (i) a U.S. person as defined under Regulation S under the Securities Act, (ii) a U.S. person as defined in paragraph 7701(a)(30) of the Internal Revenue Code of 1986, or (iii) a person who comes within any definition of U.S. person for the purposes of the United States Commodity Exchange Act of 1936, as amended (the "**CEA**") or any rules thereunder of the CFTC (the "**CFTC Rules**"), guidance or order proposed or issued under the CEA (for the avoidance of doubt, any person who is not a "Non-United States person" defined under CFTC Rule 4.7(a)(1)(iv), but excluding, for purposes of subsection (D) thereof, the exception for qualified eligible persons who are not "Non-United States persons", shall be considered a U.S. person).

10. OFFERING MECHANISM

The Structured Products will be offered by way of placing. Upon launch of each series of the Structured Products, the Guarantor will fully subscribe for the Structured Products in that series.

We, the Guarantor and SG Securities (HK) Limited (the "**Placing Agent**") have entered into a Master Placing Agreement dated 1 April 2016 (the "**Master Placing Agreement**") relating to the placing of the Structured Products for the issue of each series of Structured Products. We will execute a confirmation to the Placing Agent following the launch of each series of the Structured Products under the Master Placing Agreement. The Placing Agent undertakes to use its best efforts to procure placees for the Structured Products.

The Placing Agent may appoint brokers, both electronic brokers and traditional brokers (together, the "**Brokers**") to distribute the Structured Products between the launch date and the listing of the relevant Structured Products. The Brokers and the number thereof who the Placing Agent may appoint may vary with each Structured Products issue, however and in any event, the Brokers will be persons licensed by the Securities and Futures Commission under the Securities and Futures Ordinance (Cap 571, The Laws of Hong Kong).

Following the listing of the Structured Products on the Stock Exchange, the Structured Products will be traded in the secondary market. Investors wishing to buy or sell the Structured Products will be able to trade with other investors in the Structured Products or trade through our Liquidity Provider for the Structured Products.

11. TAXATION

The information below is of a general nature and only a summary of the law and practice currently applicable under the laws of Hong Kong and the United States of America. The comments relate to the position of persons who are the absolute beneficial owners of the Structured Products and may not apply equally to all persons. If you are in any doubt as to your tax position on purchase, ownership, transfer or exercise of any Structured Product, you should consult your own tax advisers as to the Hong Kong or the United States of America laws or other tax consequences of the acquisition, ownership and disposition of Structured Products, including, in particular, the effect of any foreign, state or local tax laws to which you are subject.

Taxation in Hong Kong

Profits Tax

No tax is payable in Hong Kong by withholding or otherwise in respect of:

(a) dividends of any company;

(b) distributions of any trust authorised as a collective investment scheme by the Securities and Futures Commission under section 104 of the Securities and Futures Ordinance (Cap 571, The Laws of Hong Kong) or otherwise approved by the SFC which has issued the underlying units; and

(c) any capital gains,

arising on the sale of the underlying securities or Structured Products, except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

Stamp Duty

You do not need to pay any stamp duty in respect of purely cash settled Structured Products.

Taxation in the United States of America

Foreign Account Tax Compliance Withholding

Pursuant to certain provisions of the Code, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The issuer is a foreign financial institution for these purposes. A number of jurisdictions (including France) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. A foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Structured Products, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Structured Products, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to foreign passthru payments on instruments such as the Structured Products, such withholding would not apply prior the date that is two years after the date on which the final U.S. Treasury Regulations defining "foreign passthru payments" are published in the Federal Register. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Structured Products. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Structured Products, no person will be required to pay additional amounts as a result of the withholding.

Section 871(m) of the U.S. Internal Revenue Code of 1986

U.S. Treasury regulations issued under Section 871(m) of the U.S. Internal Revenue Code of 1986 ("**Section 871(m) Regulations**") generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to a non-United States holder as defined pursuant to Section 871(m) Regulations (a "**Non-U.S. Holder**") with respect to certain financial instruments linked to U.S. equities (or other securities that can pay U.S.-source dividend income) or indices that include U.S. equities (or such securities) ("**U.S. Underlying Equities**"). The 30% withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders may be reduced by an applicable tax treaty, eligible for credit against other U.S. tax liabilities or refunded, provided that the beneficial owner claims a credit or refund from the United States Internal Revenue Service ("**IRS**") in a timely manner, but the Issuer makes no assessment as to whether any such tax credits will be available to Non-U.S. Holders.

Specifically, Section 871(m) Regulations will generally apply to Structured Products the pricing date of which occurs from 1 January 2017 and that substantially replicate the economic performance of one or more U.S. Underlying Equity(ies) as determined by the Issuer on the date for such Structured Products as of which the expected delta of the product is determined by the Issuer (such date being the "pricing date") based on tests in accordance with the applicable Section 871(m) Regulations (for the purposes of the relevant notices describing these rules, such Structured Products are deemed "delta-one" instruments) ("**Specified Securities**"). If one or more of the U.S. Underlying Equities are expected to pay dividends during the term of the Specified Securities, withholding generally will still be required even if the Specified Security does not provide for payments explicitly linked to dividends. Even where a Structured Product is a Specified Security, no tax should be imposed under Section 871(m) as long as either (1) no dividend is paid with respect to any U.S. Underlying Equity during the term of the Structured Product or (2) both (x) no additional amount is paid to the holder of a Structured Product in respect of any such dividend and (y) as estimated by the Issuer (with the meaning of Treas. Reg. § 1.871-15(i)(2)(iii)) at the time of issuance the amount of all such dividends will be zero (Zero Estimated Dividends Securities). In such case, we will estimate the amount of dividends to be paid with respect to U.S. Underlying Equities for all periods during the term of the Structured Product to be zero and will not make any adjustments for dividends, including extraordinary dividends, that are taxable as dividend for U.S. federal income tax purposes, and thus there should be no tax imposed under section 871(m) on the Structured Product even if one or more dividends are paid with respect to a U.S. Underlying Equity.

In withholding this tax, the Issuer will regularly apply the general tax rate of 30% to the payments subject to U.S. provisions (or amounts deemed payments) without regard to any applicable treaty rate. Therefore, in such cases, an investor's individual tax situation will not be taken into account. Structured Products linked to U.S. Underlying Equities which the Issuer has determined not to be a Specified Security will not be subject to withholding tax under Section 871(m) Regulations.

The Issuer has determined that generally Structured Products should not be linked to US Underlying Equities and should not be "delta-one" transactions within the meaning of the relevant notices and, therefore, should not be Specified Securities subject to withholding tax under Section 871(m) Regulations. Investors are advised that the Issuer's determination is binding on all Non-U.S. Holders of the Structured Products, but it is not binding on the IRS and the IRS may therefore disagree with the Issuer's determination.

The rules of Section 871(m) Regulations require complex calculations in respect of the instruments that include U.S. Underlying Equities and application of these rules to a specific issue of Structured Products may be uncertain. Consequently the IRS may determine they are to be applied even if the Issuer initially assumed the rules would not apply. There is a risk in such case that holders of the Structured Products are subject to withholding tax ex post.

As neither the Issuer nor the withholding agent will be required to gross up any amounts withheld in connection with a Specified Security, holders will receive smaller payments in such case than they would have received without withholding tax being imposed.

Investors should consult their tax adviser regarding the potential application of Section 871(m) Regulations to their investment in the Structured Products.

12. RISK FACTORS

Not all of the risk factors described below will be applicable to a particular series of the Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investment in the Structured Products. Please read the following section together with the risk factors set out in the relevant launch announcement and supplemental listing document.

General risks in relation to us and the Guarantor

Non-collateralised structured products

The Structured Products are not secured on any of our or the Guarantor's assets or any collateral. Each series of the Structured Products constitutes our general unsecured contractual obligations and of no other person, and the Guarantee constitutes general and unsecured contractual obligations of the Guarantor and of no other person. Each series of the Structured Products will rank equally with our other unsecured contractual obligations and the Guarantor's unsecured and unsubordinated debt. At any given time, the number of the Structured Products issued by us which are outstanding may be substantial since we issue a large number of financial instruments on a global basis.

Repurchase of our Structured Products

Our Group may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or at the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

Creditworthiness

If you purchase the Structured Products, you are relying upon our creditworthiness and the creditworthiness of the Guarantor and have no rights under the Structured Products against:

(a) the company which issues the underlying securities;

(b) the trustee or the manager of the underlying unit trust; or

(c) the index compiler of the underlying index.

We do not guarantee the repayment of your investment in any of the Structured Products. If we become insolvent or default on our obligations under the Structured Products or the Guarantor becomes insolvent or defaults on its obligations under the Guarantee, you can only claim as our or the Guarantor's unsecured creditor regardless of the performance of the underlying asset and you may not be able to recover all or even part of the amount due under the Structured Products (if any).

Any downgrading of our rating or the Guarantor's rating by rating agencies such as Moody's or S&P could result in a reduction in the value of the Structured Products.

No deposit liability or debt obligation

We are obliged to deliver to you the Cash Settlement Amount under the Conditions of each series of the Structured Products upon the termination or expiry thereof, as the case may be. We do not intend (expressly, implicitly or otherwise) to create a deposit liability or a debt obligation of any kind by the issue of Structured Product.

Conflicts of interest

We, the Guarantor or our affiliates (the "**SG Group**") may engage in trading or hedging transactions involving the Underlying Assets or other derivative products that may affect the value of the Underlying Assets. In addition, the SG Group may engage in other business activities such as the introduction of competing products, acting as underwriter and/or financial adviser of other securities offerings which may create conflicts of interest with the Underlying Assets thus affecting the value of the Underlying Assets. Such actions and conflicts may include, without limitation, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The SG Group:

(a) is not obliged to disclose such information about the Underlying Assets or such activities. The SG Group and/or our respective officers and directors may engage in any such activities without regard to the issue of the Structured Products by us or the effect that such activities may directly or indirectly have on any of the Structured Products;

(b) may from time to time engage in transactions involving the Underlying Assets for our proprietary accounts and/or for accounts under our management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the value of the Underlying Assets and consequently upon the value of the relevant series of the Structured Products;

(c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;

(d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of the Structured Products; and

(e) may also act as underwriter in connection with future offerings of shares, units or other securities or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such share or other security or in a commercial banking capacity for the issuer of any share or other security or the trustee or the manager of the unit trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

General risks relating to Structured Products

You may lose all your investment in the Structured Products

The Structured Products involve a high degree of risk, and are subject to a number of risks which may include, but are not limited to, interest rate, foreign exchange, time value, market and/or political risks. The Structured Products may expire worthless.

Options, warrants and asset linked instruments are priced primarily on the basis of the price or level of the Underlying Asset, the volatility of the Underlying Asset's price or level, the time remaining to expiry of the Structured Products and our creditworthiness and the creditworthiness of the Guarantor.

The price of the Structured Products may fall in value as rapidly as it may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the underlying share price, unit price or index level of a Structured Product moves in a direction against you and the shorter its remaining term to expiration, the greater the risk that you will lose all or part of your investment.

"European Style" Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the value of your investment.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price or level of the Underlying Asset as may be specified in the relevant launch announcement and supplemental listing document.

Changes in the price or level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price or level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price or level of the relevant Underlying Asset does not move in the anticipated direction.

The value of the Structured Products may be disproportionate or opposite to a movement in value of the Underlying Assets

An investment in the Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Assets. The market values of the Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. It is possible that while the Underlying Asset is increasing in value, the value of the Structured Product is falling.

If you intend to purchase any series of the Structured Products to hedge against the market risk associated with investing in the Underlying Asset specified in the relevant launch announcement and supplemental listing document, you should recognise the complexities of utilising the Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price or level of the Underlying Asset. Due to fluctuations in supply and demand for the Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset. The Structured Products may not be a perfect hedge to the Underlying Asset or portfolio of which the Underlying Asset forms a part.

It may not be possible to liquidate the Structured Products at a level which directly reflects the price or level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

Possible illiquidity of secondary market

It is not possible to predict if and to what extent a secondary market may develop in any series of the Structured Products and at what price such series of the Structured Products will trade in the secondary market and whether such market will be liquid or illiquid. The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

The liquidity of any series of the Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products.

While we have appointed, or will appoint, a liquidity provider for the purposes of making a market for each series of the Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of the Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances we will use our best endeavours to appoint an alternative liquidity provider.

Interest rates

Investments in the Structured Products may involve interest rate risk with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

Time decay

The settlement amount of certain series of the Structured Products at any time prior to expiration may be less than the trading price of such series of the Structured Products at that time. The difference between the trading price or level and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend upon, among others, the time remaining to expiry and expectations concerning the range of possible future price or level of the Underlying Assets. The value of a Structured Product is likely to decrease over time. Therefore, the Structured Products should not be viewed as products for long term investments.

Exchange rate risk

There may be an exchange rate risk in the case where the Cash Settlement Amount of the Structured Products will be converted from a foreign currency into the Settlement Currency. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation.

Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies. There can be no assurance that the rates of exchange between any relevant currencies which are current rates at the date of issue of any of the Structured Products will be representative of the relevant rates of exchange used in computing the value of the relevant Structured Products at any time thereafter.

Where Structured Products are described as being "quantoed", the value of the Underlying Assets will be converted from one currency (the "**Original Currency**") into a new currency (the "**New Currency**") on the date and in the manner specified in, or implied by, the Conditions using a fixed exchange rate. The cost to us of maintaining such a fixing between the Original Currency and the New Currency will have an implication on the value of the Structured Products, which will vary during the term of the Structured Products. No assurance can be given as to whether or not, taking into account relative exchange rate and interest rate fluctuations between the Original Currency and the New Currency, a quanto feature in a Structured Product would at any time enhance the return on the Structured Product over a level of a similar Structured Product issued without such a quanto feature.

Fixed notional exchange rate

In some series of the Structured Products the exchange rate may be fixed and the Cash Settlement Amount will be converted from the relevant foreign currency into the Settlement Currency based on a fixed notional exchange rate of one unit of the foreign currency to one unit of the Settlement Currency. You should note that the fixed exchange rate feature will affect the calculation of the market value of the Structured Products in the secondary market. Our cost of arranging such a fixed exchange rate may have an implication on the value of the Structured Products, and may vary during the terms of the Structured Products.

No assurance can be given as to whether or not, taking into account relative exchange rate and interest rate fluctuations between the relevant foreign currency and the Settlement Currency, a fixed exchange rate feature in the Structured Products would at any time enhance the return of the Structured Products over the same Structured Products issued without such a feature.

Taxes

You may be required to pay stamp duty, other taxes or other documentary charges. If you are in doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. See the section headed "Taxation" and the paragraph "Do you need to pay any tax?" in section 1 (Important Information) on page 5 of this document for further information.

*The Foreign Account Tax Compliance Act ("**FATCA**")*

FATCA generally imposes a 30 percent withholding tax on certain U.S.-source payments to certain non-US persons that do provide certification of their compliance with IRS rules to disclose the identity of their US owners and account holders (if any) or establish a basis for exemption for such disclosure. We are subject to FATCA and, as a result, is required to obtain certification from investors that they have complied with FATCA disclosure requirements or have established a basis for exemption from FATCA. If an investor does not provide us with such certification, we and our Guarantor could be required to withhold U.S. tax on U.S.-source income (if any) paid pursuant to the Structured Products. In certain cases, we could be required to close an account of an investor who does not comply with the FATCA certification procedures.

FATCA IS PARTICULARLY COMPLEX. EACH INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO DETERMINE HOW THIS LEGISLATION MIGHT AFFECT EACH INVESTOR IN ITS PARTICULAR CIRCUMSTANCES.

Modification to the Conditions

Under the Conditions, we may, without your consent, modify the terms and conditions of the Structured Products or the Master Instrument, which, in our opinion, is:

(a) not materially prejudicial to the interests of the holders of Structured Products generally (without considering your individual circumstances or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) made to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Possible early termination for illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, the performance of our obligations under the Structured Products has become illegal or impracticable (or in the case of CBBCs only, it is no longer desirable or practical for us to maintain our hedging arrangement with respect to the CBBCs), we may early terminate the Structured Products. If we early terminate the Structured Products, we will, if and to the extent permitted by applicable law, pay you an amount determined by us in good faith and in a commercially reasonable manner to be its fair market value notwithstanding the illegality or impracticability less the cost to us of unwinding any related hedging arrangements. Such amount may be substantially less than your initial investment and may be zero.

Risks relating to the BRRD

Regulatory action(s) by the relevant resolution authorities in the event that the Issuer and/or the Guarantor is failing or likely to fail could materially affect the value of the Structured Products, and you may not be able to recover all or even part of the amount due by the Issuer under the Structured Products (if any)

The Issuer is a financial institution incorporated in Luxembourg as a public limited liability company (*société anonyme*) and is subject to Luxembourg legislation implementing the BRRD. The Guarantor is a bank incorporated in France and is subject to French legislation implementing the BRRD. The BRRD provides for the establishment of an EU framework for the recovery and resolution of credit institutions and investment firms falling under the scope of the BRRD. The BRRD requires the governments of all EU Member States to provide their relevant resolution authorities with a set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of that institution's critical financial and economic functions, while minimising the impact of that institution's failure on the broader economy and financial system.

Under both Luxembourg and French legislation implementing the BRRD, substantial powers are granted to the CSSF (in Luxembourg), the ACPR (in France) and/or other relevant resolution authorities, to implement resolution measures in respect of a relevant entity (including, for example, the Issuer and Guarantor) to protect and enhance the stability of the financial system of Luxembourg and/or France if the relevant resolution authorities consider the failure of the relevant entity has become likely and certain other conditions are satisfied (in particular, that resolution measures would be necessary in the public interest).

These powers include share transfer powers, property transfer powers (including powers for the partial transfer of property, rights and liabilities), and resolution instrument powers (including powers to make special bail-in provisions) over the relevant affected financial institution(s). In connection with the exercise of these powers under the BRRD, the relevant resolution authorities may take various actions in relation to certain liabilities of the Issuer and/or the Guarantor due under the Structured Products and/or the Guarantee if such authorities consider amounts due under any such liabilities to fall within the scope of the Bail-In Power) without your consent, including (if applicable, among other things):

(a) transferring the Structured Products and/or the Guarantee to another person (such as parent undertaking or a bridge institution) notwithstanding any restrictions on transfer under the terms of the Structured Products and/or the Guarantee;

(b) the reduction of all, or a portion, of the amounts payable by the Issuer under the Conditions and/or by the Guarantor under the terms of the Guarantee (including a reduction to zero);

(c) the conversion of all, or a portion, of the amounts due under the Structured Products and/or the Guarantee into shares or other securities or other obligations of the Issuer and/or the Guarantor or of another person, including by means of an amendment, modification or variation of the Conditions and/or the terms of the Guarantee, in which case you agree to accept in lieu of your contractual rights under the terms of the Structured Products and/or the Guarantee any such shares, other securities or other obligations of the Issuer and/or the Guarantor or another person;

(d) the cancellation of the Structured Products and/or the Guarantee;

(e) the amendment or alteration of the maturity of the Structured Products and/or the Guarantee or amendment of the amount of interest payable on the Structured Products and/or the Guarantee, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and/or

(f) if applicable, the variation of the Conditions and/or the terms of the Guarantee, if necessary to give effect to the exercise of the Bail-In Power by the relevant resolution authority.

The exercise of any resolution power or any suggestion of such exercise under the BRRD over the Issuer and/or the Guarantor could adversely affect the value of the Structured Products, and you may not be able to recover all or even part of the amount due under the Structured Products (if any). You may therefore lose all or a substantial part of your investment in the Structured Products.

In addition, the resolution powers could be exercised (i) prior to the commencement of any insolvency proceedings in respect of the Issuer and/or the Guarantor, and (ii) by the relevant resolution authorities without your consent or any prior notice to you. It is also uncertain how the relevant resolution authorities would assess triggering conditions in different pre-insolvency scenarios affecting the Issuer and/or the Guarantor under the BRRD. Accordingly, you may not be able to anticipate a potential exercise of any such resolution powers over the Issuer and/or the Guarantor.

By investing in the Structured Products, you acknowledge, accept, consent and agree to be bound by the exercise of any Bail-In Power by the relevant resolution authorities

By investing in the Structured Products, you acknowledge, accept, consent and agree to be contractually bound by the exercise of any Bail-In Power by the relevant resolution authorities over the Issuer and/or the Guarantor. You further acknowledge, accept, consent and agree that (i) your rights under the Structured Products and/or the Guarantee are contractually subject to, and will be varied, if necessary, so as to give effect to, the exercise of any Bail-In Power by the relevant resolution authorities over the Issuer and/or the Guarantor and (ii) neither a cancellation of the Structured Products and/or the Guarantee, a reduction of all, or a portion of, the amounts due under the Conditions and/or the Guarantee, the conversion thereof into other securities or other obligations of the Issuer and/or the Guarantor or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the holders of the Structured Products to any remedies (including equitable remedies) which are expressly waived. Accordingly, if any Bail-In Power is exercised over the Issuer and if any Bail-In Power is exercised over the Guarantor (with respect to the Guarantee), you may not be able to recover all or even part of the amount due under the Structured Products (if any) from the Issuer and/or from the Guarantor (under the Guarantee), or you may receive a different security issued by the Issuer and/or by the Guarantor (or another person) in place of the amount (if any) due to you under the Structured Products from the Issuer, which may be worth significantly less than the amount due to you under the Structured Products (if any). Moreover, the relevant resolution authorities may exercise the Bail-In Power without providing any advance notice to, or requiring your further consent. Please see the Conditions as set out in Parts A to G of Appendix 1 and Parts A to C of Appendix 2 of this document for further details, in particular Condition 1(f) of the Conditions with respect to the Bail-In Power. Please also see section 5 (Description of the Guarantee relating to the Structured Products) of this document for further details, in particular clause 4 of the Guarantee with respect to the Bail-In Power.

Risks relating to the Financial Institutions (Resolution) Ordinance

The Financial Institutions (Resolution) Ordinance (Cap. 628, the Laws of Hong Kong) (the "**FIRO**") was enacted by the Legislative Council of Hong Kong in June 2016. The FIRO (except Part 8, section 192 and Division 10 of Part 15 thereof) came into operation on 7 July 2017.

The FIRO provides a regime for the orderly resolution of financial institutions with a view to avoiding or mitigating the risks otherwise posed by their non-viability to the stability and effective working of the financial system of Hong Kong, including the continued performance of critical financial functions. The FIRO seeks to provide the relevant resolution authorities with a range of powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution in Hong Kong. In particular, it is envisaged that subject to certain safeguards, the relevant resolution authority would be provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution, including but not limited to powers to write off, or convert into equity, all or a part of the liabilities of the failing financial institution.

The Issuer is not subject to and bound by the FIRO. However, the Guarantor, as an authorised institution regulated by the Hong Kong Monetary Authority, is subject to and bound by the FIRO. The exercise of any resolution power by the relevant resolution authority under the FIRO in respect of the Guarantor may have a material adverse effect on the value of the Structured Products, and as a result, you may not be able to recover all or any amount due under the Structured Products.

Risks relating to the Underlying Asset

You have no right to the Underlying Asset

Unless specifically indicated in the Conditions, you will not be entitled to:

(a) voting rights or rights to receive dividends, distributions or other distributions or any other rights that a holder of the shares or units of a unit trust would normally be entitled to; or

(b) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

Valuation risk

An investment in the Structured Products may involve valuation risk as regards the Underlying Assets to which the particular series of the Structured Products relate. The price or level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors, speculation and (where the Underlying Asset is an index) changes in the formula for or the method of calculating the index.

You must be experienced with dealing in these types of Structured Products and must understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any of the Structured Products in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

Adjustment related risk

Certain events relating to the Underlying Asset require or, as the case may be, permit us to make certain adjustments to the Conditions. You have limited anti-dilution protection under the Conditions of the Structured Products. We may, in our sole discretion, adjust, among other things, the Entitlement, the Exercise Price, the Strike Price or the Call Price (as the case may be) or any other terms in the events of a rights issue, an issue of shares out of capitalisation of profits or reserves or a consolidation or sub-division of the share capital of the company, a cash distribution, or in the corresponding/similar (as the case may be) events relating to the unit trust. However, we are not obliged to make an adjustment for every event that may affect an Underlying Asset, in which case the market price of the Structured Products and the return upon the exercise or expiry of the Structured Products may be affected.

In the case of a series of the Structured Products which relate to an index, the closing level of the index may be published by the index compiler at a time when one or more shares comprising the index is/are not trading. If this occurs on the Valuation Date and there is no Market Disruption Event under the applicable Conditions, then the value of such share(s) may not be included in the closing level of the index. This may have an unforeseen adverse impact on the value of your investment.

In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

Suspension of trading

Pursuant to the Listing Rules, if the Underlying Assets are suspended from trading for whatever reason on the market on which they are listed or dealt in (including the Stock Exchange), or if the relevant index for whatever reason is not calculated, trading in the relevant series of the Structured Product will be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the case of a prolonged suspension period, the market price of the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

In the case of Structured Products which relate to foreign equities, the trading hours of the underlying exchange may be different from the trading hours of the Stock Exchange. On one hand, trading in the underlying foreign equity on the underlying exchange may be suspended during non-trading hours of the Stock Exchange. On the other hand, such suspension may be lifted and trading may resume during non-trading hours of the Stock Exchange. If trading in the underlying foreign equity on the underlying exchange is suspended, trading in the Structured Products will be suspended as soon as practicable afterwards. If trading in the underlying foreign equity on the underlying exchange resumes following a suspension, trading in the Structured Products will resume as soon as practicable afterwards.

Delay in settlement

Unless otherwise specified in the relevant Conditions, in the case of any expiry of the Structured Products, there may be a time lag between the date on which the Structured Products expire, and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of expiry and the determination of the settlement amount will be specified in the relevant Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the expiry of such series of the Structured Products arising from our determination that a Market Disruption Event, Settlement Disruption Event or delisting of the underlying securities or units of an underlying unit trust has occurred at any relevant time or that adjustments are required in accordance with the Conditions.

That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

You should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, or delisting of the underlying securities or units of an underlying unit trust has occurred, payment of the Cash Settlement Amount may be delayed as more fully described in the Conditions of the Structured Products.

Time zone difference

In the case of Structured Products which relate to foreign equities or a foreign index, the trading price of the underlying foreign equity or the level of the underlying foreign index (as the case may be) is calculated and published during the trading hours of the underlying exchange or the index exchange (as the case may be). The trading hours of the underlying exchange or the index exchange (as the case may be) may be different from the trading hours of the Stock Exchange and the underlying exchange or the index exchange (as the case may be) may be located in a place outside Hong Kong which opens after the close of trading of the Stock Exchange. You should be aware of the time zone difference between Hong Kong and the place where the underlying exchange or the index exchange (as the case may be) is located in assessing the trading price of the underlying foreign equity or the level of the underlying foreign index (as the case may be). The trading price of the underlying foreign equity or the level of the underlying foreign index (as the case may be) may be volatile in response to the market movement on the underlying exchange or the index exchange (as the case may be) during which the Stock Exchange is not open for trading of the Structured Products.

Risks relating to the Structured Products over unit trusts

In the case of Structured Products which relate to the units of a unit trust:

(a) neither we, the Guarantor nor our affiliates have the ability to control or predict the actions of the trustee or the manager of the relevant unit trust. Neither the trustee nor the manager of the relevant unit trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any corporate actions that might affect the value of any Structured Product; and

(b) we have no role in the relevant unit trust. The manager of the relevant unit trust is responsible for making investment and other trading decisions with respect to the management of the relevant unit trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant unit trust. The manner in which the relevant unit trust is managed and the timing of such decisions may have a significant impact on the performance of the relevant units of the unit trust. Hence, the price of the units which is used to calculate the performance of the units is also subject to these risks.

Risks relating to Structured Products over exchange traded funds

In the case of Structured Products linked to units of an exchange traded fund ("**ETF**"), you should note that:

(a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;

(b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

(c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risks.

Risks relating to Structured Products over synthetic exchange traded funds

Additionally, where the underlying asset of Structured Products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that:

(a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. If the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and

(b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

ETF investing through RQFII and/or China Connect

Where the underlying asset of Structured Products comprises the units of an ETF ("**China ETF**") issued and traded outside Mainland China with direct investment in the Mainland China's securities markets through the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and/or the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, "**China Connect**"), you should note that, amongst others:

(a) the novelty and untested nature of China Connect make China ETFs riskier than traditional ETFs investing directly in more developed markets. The policy and rules for RQFII and China Connect prescribed by the Mainland China government are new and subject to change, and there may be uncertainty to their implementation. The uncertainty and change of the laws and regulations in Mainland China may adversely impact on the performance of China ETFs and the trading price of the relevant units;

(b) a China ETF primarily invests in securities traded in the Mainland China's securities markets and is subject to concentration risk. Investment in the Mainland China's securities markets (which are inherently stock markets with restricted access) involves certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks. The operation of a China ETF may also be affected by interventions by the applicable government(s) and regulators in the financial markets; and

(c) investment by a China ETF in the Mainland China's securities market under the RQFII regime will be subject to its manager's RQFII quota allocated to such China ETF. In addition, trading of securities invested by the China ETF under the China Connect will be subject to daily quota which does not belong to such China ETF and is utilised on a first-come-first-serve basis. In the event that the RQFII quota allocated to such China ETF and/or the daily quota under China Connect are reached, the manager may need to suspend creation of further units of such China ETF, and therefore may affect the liquidity in unit trading of such China ETF. In such event, the trading price of a unit of such China ETF is likely to be at a significant premium to its net asset value, and may be highly volatile.

The above risks may have a significant impact on the performance of the relevant units and the price of the Structured Products.

Please read the offering documents of the relevant China ETF to understand its key features and risks.

ETF traded through dual counters model

Where the underlying asset of Structured Products comprises the units of an ETF which adopts the dual counters model for trading its units on the Stock Exchange in Renminbi ("**RMB**") and Hong Kong dollars ("**HKD**") separately, the novelty and relatively untested nature of the Stock Exchange's dual counters model may bring the following additional risks:

(a) the Structured Products may be linked to the HKD-traded units or the RMB-traded units. If the underlying asset of Structured Products is the HKD-traded units, movements in the trading prices of the RMB-traded units should not directly affect the price of the Structured Products. Similarly, if the underlying asset of Structured Products is the RMB-traded units, movements in the trading prices of the HKD-traded units should not directly affect the price of the Structured Products;

(b) if there is a suspension of inter-counter transfer of such units between the HKD counter and the RMB counter for any reason, such units will only be able to be traded in the relevant currency counter on the Stock Exchange, which may affect the demand and supply of such units and have an adverse effect on the price of the Structured Products; and

(c) the trading price on the Stock Exchange of the HKD-traded units and RMB-traded units may deviate significantly due to different factors, such as market liquidity, RMB conversion risk, supply and demand in each counter and the exchange rate between RMB and HKD. Changes in the trading price of HKD-traded units or RMB-traded units (as the case may be) may adversely affect the price of the Structured Products.

*Real estate investment trust ("**REIT**")*

Where the underlying asset of Structured Products comprises the units of a REIT, you should note that the primary investment objective of a REIT is to invest in a real estate portfolio. Each REIT is exposed to risks relating to investments in real estate, including but not limited to (a) adverse changes in political or economic conditions; (b) changes in interest rates and the availability of debt or equity financing, which may result in an inability by the REIT to maintain or improve the real estate portfolio and finance future acquisitions; (c) changes in environmental, zoning and other governmental rules; (d) changes in market rents; (e) any required repair and maintenance of the portfolio properties; (f) breach of any property laws or regulations; (g) the relative illiquidity of real estate investment; (h) real estate taxes; (i) any hidden interests in the portfolio properties; (j) any increase in insurance premiums and (k) any uninsurable losses.

There may also be disparity between the market price of the units of a REIT and the net asset value per unit. This is because the market price of the units of a REIT also depends on many factors, including but not limited to (a) the market value and perceived prospects of the real estate portfolio; (b) changes in economic or market conditions; (c) changes in market valuations of similar companies; (d) changes in interest rates; (e) the perceived attractiveness of the units of the REIT against those of other equity securities; (f) the future size and liquidity of the market for the units and the REIT market generally; (g) any future changes to the regulatory system, including the tax system and (h) the ability of the REIT to implement its investment and growth strategies and to retain its key personnel.

The above risks may have a significant impact on the performance of the relevant units and the price of the Structured Products.

Risk relating to the CBBCs

Correlation between the price of a CBBC and the price or level of the Underlying Asset

When the Underlying Asset of a CBBC is trading at a price or level close to its Call Price or Call Level (as the case may be), the price of that CBBC tends to be more volatile and any change in the value of that CBBC at such time may be incomparable and disproportionate to the change in the price or level of the Underlying Asset.

Mandatory Call Event is irrevocable except in limited circumstances

The Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEX (such as the setting up of the wrong Call Price or Call Level (as the case may be) and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that the Mandatory Call Event is to be revoked; or

(b) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant Index Compiler), and such event is reported by us to the Stock Exchange, and we and the Stock Exchange mutually agree that the Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached between the Stock Exchange and us no later than such time as prescribed in the relevant launch announcement and supplemental listing document (if applicable) and the relevant Conditions. Upon revocation of the Mandatory Call Event, trading of the CBBCs will resume and any trade cancelled after such Mandatory Call Event will be reinstated.

Disclaimers relating to Mandatory Call Event

The Stock Exchange and its recognised exchange controller, HKEX, shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEX) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading (the "**Trading Suspension**") or the non-recognition of trades after the Mandatory Call Event (the "**Non-Recognition of Post MCE Trades**"), including without limitation, any delay, failure, mistake or error in the Trading Suspension or the Non-Recognition of Post MCE Trades.

We, the Guarantor and our respective affiliates shall not have any responsibility towards you for any losses suffered as a result of the Trading Suspension and/or the Non-Recognition of Post MCE Trades in connection with the occurrence of the Mandatory Call Event or the resumption of trading of the CBBCs or reinstatement of any Post MCE Trades cancelled in connection with the reversal of any Mandatory Call Event notwithstanding that such Trading Suspension and/or such Non-Recognition of Post MCE Trades occurs as a result of an error in the observation of the event.

The Residual Value will not include residual funding cost

For Category R CBBCs, the Residual Value (if any) payable by us following the occurrence of the Mandatory Call Event will not include any residual funding cost for the CBBCs. You will not receive any residual funding cost back from us upon early termination of the CBBCs after the occurrence of the Mandatory Call Event.

Delay in announcements of the Mandatory Call Event

The Stock Exchange will notify the market as soon as practicable after the CBBCs have been called. You must however be aware that there may be delay in the announcements of the occurrence of the Mandatory Call Event due to technical errors or system failures and other factors that are beyond our control or the control of the Stock Exchange.

Our hedging activities may adversely affect the price or level of the Underlying Asset

We, the Guarantor, any of our affiliates and/or our respective officers and directors may carry out activities that minimise our risks related to the CBBCs, including effecting transactions for our own account or for the account of our customers and hold long or short positions in the Underlying Asset whether for risk reduction purposes or otherwise. In addition, in connection with the issuance and trading of any CBBCs, we, the Guarantor and/or any of our affiliates may enter into one or more hedging transactions with respect to the Underlying Asset. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by us, the Guarantor and/or any of our affiliates, we, the Guarantor and/or any of our affiliates may enter into transactions in respect of the Underlying Asset which may affect the market price, liquidity or price or level of the Underlying Asset and/or the value of the CBBCs and which could be deemed to be adverse to your interests. We, the Guarantor and/or our affiliates are likely to modify our hedging positions throughout the life of the CBBCs whether by effecting transactions in the Underlying Asset or in derivatives linked to the Underlying Asset. Further, it is possible that the advisory services which we, the Guarantor, our respective affiliates and/or our respective officers and directors provide in the ordinary course of our business could lead to an adverse impact on the value of the Underlying Asset.

Unwinding of hedging arrangements

Our trading and/or hedging activities and those of the Guarantor or any of our related parties related to CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price or level of the Underlying Asset and may trigger the Mandatory Call Event. In particular, when the Underlying Asset is trading close to the Call Price or the Call Level (as the case may be), our unwinding activities may cause a fall in or a rise of (as the case may be) the trading price or index level which may lead to the occurrence of the Mandatory Call Event as a result of such unwinding activities.

In respect of Category N CBBCs, we, the Guarantor or any of our related party may unwind any hedging transactions entered into by us, the Guarantor or any of our related party in relation to our CBBCs at any time even if such unwinding activities may trigger the occurrence of the Mandatory Call Event.

In respect of Category R CBBCs, before the occurrence of the Mandatory Call Event, we, the Guarantor or any of our related party may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs they repurchase from the market from time to time. Upon the occurrence of the Mandatory Call Event, we, the Guarantor or any of our related party may unwind any hedging transactions in relation to the CBBCs. Such unwinding activities after the occurrence of the Mandatory Call Event may affect the trading price or index level of the Underlying Asset and consequently the Residual Value for the CBBCs.

Risks relating to the legal form of the Structured Products

Each series of the Structured Products will be represented by a permanent global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS).

The Structured Products issued in global registered form and held on your behalf within a clearing system effectively means that evidence of your title, as well as the efficiency of ultimate delivery of the Cash Settlement Amount, will be subject to the CCASS Rules. You should be aware of the following risks:

(a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

(b) any register that is maintained by us or on our behalf, while available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

(c) you will need to rely on any statements you received from your brokers/custodians as evidence of your interest in the Structured Products;

(d) notices/announcements will be simultaneously published on the website of HKEX and/or released by CCASS to their participants. You will need to check the website of HKEX regularly and/or rely on your brokers/custodians to obtain such notices/ announcements; and

(e) following the Expiry Date and the determination by us as to the Cash Settlement Amount, our obligations to you will be duly performed by payment of the Cash Settlement Amount in accordance with the Conditions to HKSCC Nominees Limited as the "**holder**" of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received Cash Settlement Amount to the respective CCASS participants in accordance with the CCASS Rules.

Fee arrangements with the Brokers and conflicts of interest of Brokers

We may enter into fee arrangements with the Brokers and/or any of its affiliates with respect to the placement of the Structured Products in the primary market. You should note that any Brokers with whom we have a fee arrangement does not, and cannot be expected to, deal exclusively in the Structured Products, therefore any Broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the Underlying Assets and/or the structured products of other issuers over the same Underlying Assets to which the particular series of Structured Products may relate, or other underlying assets as the case may be, for their proprietary accounts and/or for the accounts or their clients. The fact that the same Broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Structured Products and present certain conflicts of interests.

Effect of the combination of risk factors is unpredictable

Two or more risk factors may simultaneously have an effect on the value of a series of the Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of the Structured Products.

APPENDIX 1 – TERMS AND CONDITIONS OF WARRANTS

The following pages set out the Conditions in respect of different types of Warrants.

PART A – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL/PUT WARRANTS OVER SINGLE EQUITIES (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise. The Warrants do not entitle the Warrantholders to delivery of any Shares, are not secured by Shares and do not entitle Warrantholders to any interest in any Shares.

The Guarantor unconditionally and irrevocably guarantees to each Warrantholder the due and punctual performance of any and all obligations of the Issuer under the Warrants and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The Warrants have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the Warrants will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. Warrants will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of Warrants may be effected only in a Board Lot or integral multiples thereof.

(d) *Title*. Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(e) *Costs and Expenses*. Warrantholders should note that they shall be responsible for all costs and expenses in connection with any settlement of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(b) and to the extent necessary, be payable to the Issuer and collected from Warrantholders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in*. Each Warrantholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Warrants) acknowledges, accepts, consents and agrees by its acquisition of the Warrants:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the Warrants fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the Warrants;

(B) the conversion of all, or a portion, of the amounts due under the Warrants into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the Warrants, in which case each Warrantholder agrees to accept in lieu of its rights under the Warrants any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the Warrants;

(D) the amendment or alteration of the maturity of the Warrants or amendment of the amount of interest payable on the Warrants (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the Warrants are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the Warrants, a reduction of all, or a portion of, the amounts due under the Warrants, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Warrants will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Warrantholders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on

24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg *(la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement)*, (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Warrantholder.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Each Board Lot initially entitles each Warrantholder, upon due exercise, and upon compliance with Condition 5, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 5.

(b) *Exercise Expenses.* Warrantholders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

3. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

  (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

  (ii) the promulgation of, or any change, in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

  (each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

4. Expiry Date

Unless automatically exercised in accordance with Condition 5(b), the Warrants shall be deemed to expire on the Expiry Date.

5. Exercise of Warrants

(a) *Exercise.* Warrants may only be exercised on the Expiry Date in accordance with Condition 5(b) in a Board Lot or integral multiples thereof.

(b) *Automatic Exercise.* Warrantholders shall not be required to deliver an exercise notice. If the Cash Settlement Amount is a positive figure, all Warrants shall be deemed to have been exercised automatically on the Expiry Date. In the event the Cash Settlement Amount is less than or equal to zero, all Warrants shall be deemed to have expired on the Expiry Date and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 5(b), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Warrantholder the Cash Settlement Amount (if any).

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Warrantholders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Warrantholder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(d) For the purposes of these Conditions:

"**Average Price**" means the arithmetic mean of the closing prices of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount (if positive) payable in the Settlement Currency equal to:

(i) in respect of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) in respect of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Company**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of Warrants, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Number of Warrants per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Series**" means each series of Warrants;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Warrantholders;

"**Share**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6, and "**Shares**" shall be construed accordingly;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited or the principal stock exchange in Hong Kong for the time being on which the Shares are listed;

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event; and

"**Warrants**" means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

6. Adjustments

(a) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(c) *Subdivisions or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(d) *Restructuring Events.* If it is announced that the Company:

(i) is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation); or

(ii) is to or may sell or transfer all or substantially all of its assets;

then (except where the Company is the surviving corporation in a merger), the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer) so that the Entitlement may, after such Restructuring Event, be adjusted to reflect (i) the number of shares of the corporation(s) resulting from or surviving such Restructuring Event, or (ii) other securities or cash offered in substitution for Share(s) (as the case may be) to which a holder of the number of Shares comprising the Entitlement immediately prior to the Restructuring Event would have been entitled on such Restructuring Event.

The Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(e) *Cash Distribution.* No capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 percent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Share on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the date on which the Shares are traded on an ex-Ordinary Dividend basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(g) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 10.

7. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Certificates

No certificate other than the Global Certificate will be issued in respect of the Warrants.

9. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Master Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the Warrants or of the Master Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to Warrantholders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Warrantholders in any other manner.

11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator or receiver or administrator or analogous person under Hong Kong or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

13. Delisting

(a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 13(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment in accordance with this Condition 13 and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the Warrants has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

16. Governing Law

The Warrants, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

18. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen’s Road East
Hong Kong

PART B – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL/PUT WARRANTS OVER AN INDEX (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions).

The Guarantor unconditionally and irrevocably guarantees to each Warrantholder the due and punctual performance of any and all obligations of the Issuer under the Warrants and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The Warrants have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the Warrants will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. Warrants will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of Warrants may be effected only in a Board Lot or integral multiples thereof.

(d) *Title.* Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(e) *Costs and Expenses.* Warrantholders should note that they shall be responsible for all costs and expenses in connection with any settlement of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(b) and to the extent necessary, be payable to the Issuer and collected from Warrantholders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in.* Each Warrantholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Warrants) acknowledges, accepts, consents and agrees by its acquisition of the Warrants:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the Warrants fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the Warrants;

(B) the conversion of all, or a portion, of the amounts due under the Warrants into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the Warrants, in which case each Warrantholder agrees to accept in lieu of its rights under the Warrants any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the Warrants;

(D) the amendment or alteration of the maturity of the Warrants or amendment of the amount of interest payable on the Warrants (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the Warrants are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the Warrants, a reduction of all, or a portion of, the amounts due under the Warrants, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Warrants will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Warrantholders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on 24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg *(la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement)*, (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions

and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Warrantholder.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Each Board Lot initially entitles each Warrantholder, upon due exercise, and upon compliance with Condition 5, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 5.

(b) *Exercise Expenses.* Warrantholders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

3. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related

hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

4. Expiry Date

Unless automatically exercised in accordance with Condition 5(b), the Warrants shall be deemed to expire on the Expiry Date.

5. Exercise of Warrants

(a) *Exercise.* Warrants may only be exercised on the Expiry Date in accordance with Condition 5(b) in a Board Lot or integral multiples thereof.

(b) *Automatic Exercise.* Warrantholders shall not be required to deliver an exercise notice. If the Cash Settlement Amount is a positive figure, all Warrants shall be deemed to have been exercised automatically on the Expiry Date. In the event the Cash Settlement Amount is less than or equal to zero, all Warrants shall be deemed to have expired on the Expiry Date and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 5(b), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Warrantholder the Cash Settlement Amount (if any).

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Warrantholders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Warrantholder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(d) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) (if applicable) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) (if applicable) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) in respect of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) in respect of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Divisor**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**First Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Index**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Business Day**" means a day on which the Index is published by the Index Compiler or, as the case may be, the Successor Index Compiler;

"**Index Currency Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Futures Contracts**" means the relevant index futures contracts for the purpose of determining the Closing Level as more particularly provided in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Compiler**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Interim Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of Warrants, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Market Disruption Event**" means:

(1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

   (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

   (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

   (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

   For the purposes of paragraph (1), (A) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (B) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Second Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Series**" means each series of the Warrants;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with the Conditions;

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Warrantholders;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Valuation Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated; and

"**Warrants**" means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

6. Adjustments to the Index

(a) *Successor Sponsor Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler, but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index.* If:

(i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or

(ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities, currencies or other assets that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities, currencies or other assets that have since ceased to be listed on the relevant Exchange) or, as the case may be, the final settlement price for settling the relevant Index Futures Contracts on the relevant Futures Exchange on the Expiry Date as determined pursuant to the Rules, Specifications, Regulations and Procedures of such Exchange.

(c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholders or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(d) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 10.

7. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Certificates

No certificate other than the Global Certificate will be issued in respect of the Warrants.

9. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Master Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the Warrants or of the Master Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to Warrantholders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Warrantholders in any other manner.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

13. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the Warrants has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

14. Governing Law

The Warrants, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

16. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

PART C – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL/PUT WARRANTS OVER CURRENCY (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions).

The Guarantor unconditionally and irrevocably guarantees to each Warrantholder the due and punctual performance of any and all obligations of the Issuer under the Warrants and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The Warrants have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the Warrants will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. Warrants will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of Warrants may be effected only in a Board Lot or integral multiples thereof.

(d) *Title.* Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(e) *Costs and Expenses.* Warrantholders should note that they shall be responsible for all costs and expenses in connection with any settlement of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(b) and to the extent necessary, be payable to the Issuer and collected from Warrantholders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in.* Each Warrantholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Warrants) acknowledges, accepts, consents and agrees by its acquisition of the Warrants:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the Warrants fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the Warrants;

(B) the conversion of all, or a portion, of the amounts due under the Warrants into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the Warrants, in which case each Warrantholder agrees to accept in lieu of its rights under the Warrants any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the Warrants;

(D) the amendment or alteration of the maturity of the Warrants or amendment of the amount of interest payable on the Warrants (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the Warrants are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the Warrants, a reduction of all, or a portion of, the amounts due under the Warrants, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Warrants will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Warrantholders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on 24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg *(la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement)*, (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions

and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Warrantholder.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Each Board Lot initially entitles each Warrantholder, upon due exercise, and upon compliance with Condition 5, to payment by the Issuer of the Cash Settlement Amount (if any) converted into the Settlement Currency at the Exchange Rate. Payment of the Cash Settlement Amount shall be made in the manner set out in Condition 5.

(b) *Exercise Expenses.* Warrantholders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

3. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related

hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

4. Expiry Date

Unless automatically exercised in accordance with Condition 5(b), the Warrants shall be deemed to expire on the Expiry Date.

5. Exercise of Warrants

(a) *Exercise.* Warrants may only be exercised on the Expiry Date in accordance with Condition 5(b) in a Board Lot or integral multiples thereof.

(b) *Automatic Exercise.* Warrantholders shall not be required to deliver an exercise notice. If the Cash Settlement Amount is a positive figure, all Warrants shall be deemed to have been exercised automatically on the Expiry Date. In the event the Cash Settlement Amount is lessthan or equal to zero, all Warrants shall be deemed to have expired on the Expiry Date and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 5(b), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Warrantholder in the Settlement Currency the Cash Settlement Amount (if any), converted into the Settlement Currency at the Exchange Rate.

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Warrantholders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Warrantholder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(d) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open in Hong Kong for carrying on foreign exchange transactions and for business;

"**Cash Settlement Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document and for the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Final Settlement Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of Warrants, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Second Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Series**" means each series of the Warrants;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the Valuation Date;

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Warrantholders;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Valuation Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 10; and

"**Warrants**" means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

6. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Certificates

No certificate other than the Global Certificate will be issued in respect of the Warrants.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Master Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the Warrants or of the Master Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Warrantholders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Warrantholders in any other manner.

10. Disruption Event

If, in the opinion of the Issuer, a Disruption Event (as defined below) has occurred and is continuing on the Valuation Date, then the Issuer will determine the Final Settlement Level or the Exchange Rate (as the case may be) on the basis of its good faith estimate of the Final Settlement Level or the Exchange Rate (as the case may be), that would have prevailed on that day but for the occurrence of the Disruption Event.

For the purposes of these Conditions, a "**Disruption Event**" means any circumstances in which the Final Settlement Level or the Exchange Rate cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer may believe appropriate at such time after taking into account all the relevant circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Adjustments

(a) *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which (i) require the Issuer to obtain permission from such authority or regulatory body to purchase the Settlement Currency; (ii) otherwise restrict the Issuer's ability to obtain the Settlement Currency; or (iii) otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market applicable to the Settlement Currency, then, upon notice from the Issuer to Warrantholders in accordance with Condition 9 to such effect, Warrantholders deemed to have exercised their Warrants in accordance with Condition 5(b) shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in the Second Currency or such other currency as determined appropriate by the Issuer.

(b) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

   (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

   (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(c) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 9.

13. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

14. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the Warrants has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

15. Governing Law

The Warrants, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen’s Road East
Hong Kong

PART D – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL/PUT WARRANTS OVER COMMODITIES (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions).

The Guarantor unconditionally and irrevocably guarantees to each Warrantholder the due and punctual performance of any and all obligations of the Issuer under the Warrants and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The Warrants have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the Warrants will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. Warrants will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of Warrants may be effected only in a Board Lot or integral multiples thereof.

(d) *Title.* Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(e) *Costs and Expenses.* Warrantholders should note that they shall be responsible for all costs and expenses in connection with any settlement of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(b) and to the extent necessary, be payable to the Issuer and collected from Warrantholders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in.* Each Warrantholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Warrants) acknowledges, accepts, consents and agrees by its acquisition of the Warrants:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the Warrants fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the Warrants;

(B) the conversion of all, or a portion, of the amounts due under the Warrants into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the Warrants, in which case each Warrantholder agrees to accept in lieu of its rights under the Warrants any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the Warrants;

(D) the amendment or alteration of the maturity of the Warrants or amendment of the amount of interest payable on the Warrants (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the Warrants are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the Warrants, a reduction of all, or a portion of, the amounts due under the Warrants, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Warrants will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Warrantholders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on 24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg *(la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement)*, (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions

and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Warrantholder.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Each Board Lot initially entitles each Warrantholder, upon due exercise, and upon compliance with Condition 5, to payment by the Issuer of the Cash Settlement Amount (if any), converted into the Settlement Currency at the Exchange Rate. Payment of the Cash Settlement Amount shall be made in the manner set out in Condition 5.

(b) *Exercise Expenses.* Warrantholders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

3. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change, in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related

hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

4. Expiry Date

Unless automatically exercised in accordance with Condition 5(b), the Warrants shall be deemed to expire on the Expiry Date.

5. Exercise of Warrants

(a) *Exercise.* Warrants may only be exercised on the Expiry Date in accordance with Condition 5(b) in a Board Lot or integral multiples thereof.

(b) *Automatic Exercise.* Warrantholders shall not be required to deliver an exercise notice. If the Cash Settlement Amount is a positive figure, all Warrants shall be deemed to have been exercised automatically on the Expiry Date. In the event the Cash Settlement Amount is lessthan or equal to zero, all Warrants shall be deemed to have expired on the Expiry Date and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 5(b), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Warrantholder the Cash Settlement Amount (if any), converted into the Settlement Currency at the Exchange Rate.

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Warrantholders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Warrantholder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(d) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open in Hong Kong for carrying on foreign exchange transactions and for business;

"**Cash Settlement Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document and for the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Commodities**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of Warrants, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Price Source**" means the publication (or such other origin of price source reference) (if any) specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Related Exchange**" means any exchange or quotation system in a major international market (including but not limited to New York, Chicago, London, Australia and Frankfurt) on which options contracts or futures contracts or other derivatives contracts relating to the Commodities are traded, as determined by the Issuer;

"**Second Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Series**" means each series of the Warrants;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the Valuation Date;

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Warrantholders;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Valuation Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 10; and

"**Warrants**" means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

6. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Certificates

No certificate other than the Global Certificate will be issued in respect of the Warrants.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Master Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the Warrants or of the Master Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the applicable laws or regulations of Hong Kong and/or any other relevant jurisdiction(s).

Any such modification shall be binding on the Warrantholders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Warrantholders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Warrantholders in any other manner.

10. Disruption Event

If, in the opinion of the Issuer, a Disruption Event (as defined below) has occurred and is continuing on the Valuation Date, then the Issuer will determine the Closing Price or the Exchange Rate (as the case may be) on the basis of its good faith estimate of the Closing Price or the Exchange Rate (as the case may be), that would have prevailed on that day but for the occurrence of the Disruption Event.

For the purposes of these Conditions, a "**Disruption Event**" means:

(1) any circumstances in which the Closing Price or the Exchange Rate cannot be determined on the Valuation Date by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

(2) the occurrence or existence, on a Valuation Date during the one-half hour period that ends at the close of trading, of any the suspension of or, limitation imposed on, the trading in the Commodities or any options or futures contracts relating to the Commodities (a) on a Related Exchange; or (b) generally; or

(3) a limitation or closure of any Related Exchange or the Stock Exchange due to any unforeseen circumstances.

For the purposes of this definition, (i) the limitation on the number of hours or days of trading will not constitute a Disruption Event if it results from an announced change in the regular business hours of any exchange, and (ii) a limitation imposed on trading, including but not limited to unforeseen circumstances such as by reason of the movements in price exceeding the levels permitted by any relevant exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise, occurring and/or existing during the one-half hour period that ends at the regular time for the close of trading, will constitute a Disruption Event.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Adjustments

(a) *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which (i) require the Issuer to obtain permission from such authority or regulatory body to purchase the Settlement Currency; (ii) otherwise restrict the Issuer's ability to obtain the Settlement Currency; or (iii) otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market, then, upon notice from the Issuer to Warrantholders in accordance with Condition 9 to such effect, Warrantholders deemed to have exercised their Warrants in accordance with Condition 5(b) shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in the Second Currency or such other currency as determined appropriate by the Issuer.

(b) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(c) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 9.

13. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

14. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the Warrants has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

15. Governing Law

The Warrants, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

PART E – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL/PUT WARRANTS OVER COMMODITY FUTURES (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions).

The Guarantor unconditionally and irrevocably guarantees to each Warrantholder the due and punctual performance of any and all obligations of the Issuer under the Warrants and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The Warrants have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the Warrants will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. Warrants will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of Warrants may be effected only in a Board Lot or integral multiples thereof.

(d) *Title.* Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(e) *Costs and Expenses.* Warrantholders should note that they shall be responsible for all costs and expenses in connection with any settlement of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(b) and to the extent necessary, be payable to the Issuer and collected from Warrantholders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in.* Each Warrantholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Warrants) acknowledges, accepts, consents and agrees by its acquisition of the Warrants:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the Warrants fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the Warrants;

(B) the conversion of all, or a portion, of the amounts due under the Warrants into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the Warrants, in which case each Warrantholder agrees to accept in lieu of its rights under the Warrants any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the Warrants;

(D) the amendment or alteration of the maturity of the Warrants or amendment of the amount of interest payable on the Warrants (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the Warrants are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the Warrants, a reduction of all, or a portion of, the amounts due under the Warrants, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Warrants will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Warrantholders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on 24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg *(la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement)*, (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions

and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Warrantholder.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Each Board Lot initially entitles each Warrantholder, upon due exercise, and upon compliance with Condition 5, to payment by the Issuer of the Cash Settlement Amount (if any), converted into the Settlement Currency at the Exchange Rate. Payment of the Cash Settlement Amount shall be made in the manner set out in Condition 5.

(b) *Exercise Expenses.* Warrantholders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

3. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related

hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

4. Expiry Date

Unless automatically exercised in accordance with Condition 5(b), the Warrants shall be deemed to expire on the Expiry Date.

5. Exercise of Warrants

(a) *Exercise.* Warrants may only be exercised on the Expiry Date in accordance with Condition 5(b) in a Board Lot or integral multiples thereof.

(b) *Automatic Exercise.* Warrantholders shall not be required to deliver an exercise notice. If the Cash Settlement Amount is a positive figure, all Warrants shall be deemed to have been exercised automatically on the Expiry Date. In the event the Cash Settlement Amount is lessthan or equal to zero, all Warrants shall be deemed to have expired on the Expiry Date and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 5(b), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Warrantholder in the Settlement Currency the Cash Settlement Amount (if any), converted into the Settlement Currency at the Exchange Rate.

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Warrantholders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Warrantholder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(d) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open in Hong Kong for carrying on foreign exchange transactions and for business;

"**Cash Settlement Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document and for the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Commodity**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Commodity Business Day**" means a day that is (or, but for the occurrence of a Disruption Event, would have been) a trading day on the Futures Contract Exchange;

"**Commodity Futures**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Final Settlement Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Futures Contract**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Futures Contract Exchange**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of Warrants, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Second Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Series**" means each series of the Warrants;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the Valuation Date;

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Warrantholders;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Valuation Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 10; and

"**Warrants**" means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

6. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Certificates

No certificate other than the Global Certificate will be issued in respect of the Warrants.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Master Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the Warrants or of the Master Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong and/or any other relevant jurisdiction(s).

Any such modification shall be binding on the Warrantholders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Warrantholders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Warrantholders in any other manner.

10. Disruption Event

If, in the opinion of the Issuer, a Disruption Event (as defined below) has occurred and is continuing on the Valuation Date, then the Issuer will determine the Final Settlement Price or the Exchange Rate (as the case may be) on the basis of its good faith estimate of the Final Settlement Price or the Exchange Rate (as the case may be), that would have prevailed on that day but for the occurrence of the Disruption Event.

For the purposes of these Conditions, a "**Disruption Event**" means (1) any circumstances in which the Final Settlement Price or the Exchange Rate cannot be determined by the Issuer on the Valuation Date in the manner set out in these Conditions or (2) the occurrence since the Issue Date of a material change in the formula for or the method of calculating the price of the Commodity and/or the Futures Contract or (3) the occurrence since the Issue Date of a material change in the content, composition or constitution of the Commodity or the Futures Contract or (4) the replacement of the Futures Contract by a new commodity futures contract as announced by the Futures Contract Exchange or any or competent market authority or (5) the occurrence or existence, on a Valuation Date during the one-half hour period that ends at the close of trading, of any of:

(i) the suspension or limitation of the trading of the Futures Contract; or

(ii) the suspension or limitation of the trading of options or futures relating to the Futures Contract on any options or futures exchanges or generally.

For the purposes of this definition, (i) the limitation on the number of hours or days of trading will not constitute a Disruption Event if it results from an announced change in the regular business hours of any exchange, and (ii) a limitation imposed on trading including but not limited to unforeseen circumstances such as by reason of the movements in price exceeding the levels permitted by any relevant exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise, occurring and/or existing during the one-half hour period that ends at the regular time for the close of trading, will constitute a Disruption Event.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Adjustments

(a) *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which (i) require the Issuer to obtain permission from such authority or regulatory body to purchase the Settlement Currency; (ii) otherwise restrict the Issuer's ability to obtain the Settlement Currency; or (iii) otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market applicable to the Settlement Currency, then, upon notice from the Issuer to Warrantholders in accordance with Condition 9 to such effect, Warrantholders deemed to have exercised their Warrants in accordance with Condition 5(b) shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in the Second Currency or such other currency as determined appropriate by the Issuer.

(b) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(c) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 9.

13. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

14. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the Warrants has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

15. Governing Law

The Warrants, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

PART F – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL/PUT WARRANTS OVER SINGLE UNIT TRUST (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise. The Warrants do not entitle the Warrantholders to delivery of any Units, are not secured by Units and do not entitle Warrantholders to any interest in any Units.

The Guarantor unconditionally and irrevocably guarantees to each Warrantholder the due and punctual performance of any and all obligations of the Issuer under the Warrants and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The Warrants have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the Warrants will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. Warrants will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of Warrants may be effected only in a Board Lot or integral multiples thereof.

(d) *Title*. Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(e) *Costs and Expenses*. Warrantholders should note that they shall be responsible for all costs and expenses in connection with any settlement of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(b) and to the extent necessary, be payable to the Issuer and collected from Warrantholders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in*. Each Warrantholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Warrants) acknowledges, accepts, consents and agrees by its acquisition of the Warrants:

   (i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the Warrants fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

      (A) the reduction of all, or a portion, of the amounts due under the Warrants;

      (B) the conversion of all, or a portion, of the amounts due under the Warrants into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the Warrants, in which case each Warrantholder agrees to accept in lieu of its rights under the Warrants any such shares, other securities or other obligations of the Issuer or another person;

      (C) the cancellation of the Warrants;

      (D) the amendment or alteration of the maturity of the Warrants or amendment of the amount of interest payable on the Warrants (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

   (ii) if applicable, that the terms of the Warrants are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

   (iii) that neither a cancellation of the Warrants, a reduction of all, or a portion of, the amounts due under the Warrants, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Warrants will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Warrantholders to any remedies (including equitable remedies) which are hereby expressly waived.

   For the purposes of this Condition:

   "**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on

24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg (*la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement*), (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Warrantholder.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Each Board Lot initially entitles each Warrantholder, upon due exercise, and upon compliance with Condition 5, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 5.

(b) *Exercise Expenses.* Warrantholders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

3. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

4. Expiry Date

Unless automatically exercised in accordance with Condition 5(b), the Warrants shall be deemed to expire on the Expiry Date.

5. Exercise of Warrants

(a) *Exercise*. Warrants may only be exercised on the Expiry Date in accordance with Condition 5(b) in a Board Lot or integral multiples thereof.

(b) *Automatic Exercise*. Warrantholders shall not be required to deliver an exercise notice. If the Cash Settlement Amount is a positive figure, all Warrants shall be deemed to have been exercised automatically on the Expiry Date. In the event the Cash Settlement Amount is less than or equal to zero, all Warrants shall be deemed to have expired on the Expiry Date and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement*. In respect of Warrants which are exercised automatically in accordance with Condition 5(b), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Warrantholder the Cash Settlement Amount (if any).

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Warrantholders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Warrantholder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(d) For the purposes of these Conditions:

"**Average Price**" means the arithmetic mean of the closing prices of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount (if positive) payable in the Settlement Currency equal to:

(i) in respect of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) in respect of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of Warrants, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange (i) in the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on an day which either (i) results in the Stock Exchange being closed for trading for the entire day or (ii) results in the Stock

Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Number of Warrants per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Series**" means each series of the Warrants;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Warrantholders;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited or the principal stock exchange in Hong Kong for the time being on which the Units are listed;

"**Trust**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Unit**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6, and "**Units**" shall be construed accordingly;

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event; and

"**Warrants**" means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

6. Adjustments

(a) Rights Issues. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price determined by the closing price on the Stock Exchange on the last Business Day on which Units are traded on a cum-Rights basis

R: Subscription price per Unit as specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues.* If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(c) *Subdivisions or Consolidations.* If and whenever the Trust shall subdivide its Units or any class of its outstanding units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding unit into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(d) *Restructuring Events.* If it is announced that the Trust:

(i) is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation); or

(ii) is to or may sell or transfer all or substantially all of its assets;

then (except where the Trust is the surviving trust in a merger), the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer) so that the Entitlement may, after such Restructuring Event, be adjusted to reflect (i) the number of Units of the corporation(s) resulting from or surviving such Restructuring Event, or (ii) other securities or cash offered in substitution for Unit(s) (as the case may be) to which a holder of the number of Units comprising the Entitlement immediately prior to the Restructuring Event would have been entitled on such Restructuring Event.

The Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(e) *Cash Distribution.* No capital adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 percent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Unit on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the date on which the Units are traded on an ex-Ordinary Distribution basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(g) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 10.

7. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Certificates

No certificate other than the Global Certificate will be issued in respect of the Warrants.

9. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Master Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the Warrants or of the Master Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to Warrantholders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Warrantholders in any other manner.

11. Termination or Liquidation

(a) In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator or receiver or administrator or analogous person under Hong Kong or other applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid for any purpose on the effective date of the Termination, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

(b) For the purpose of this Condition 11, "**Termination**" means (a) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (b) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (c) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (d) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571, The Laws of Hong Kong).

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

13. Delisting

(a) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 13(a), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment in accordance with this Condition 13 and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the Warrants has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

16. Governing Law

The Warrants, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

18. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

PART G – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL/PUT WARRANTS OVER SINGLE FOREIGN EQUITIES (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise. The Warrants do not entitle the Warrantholders to delivery of any Shares, are not secured by Shares and do not entitle Warrantholders to any interest in any Shares.

The Guarantor unconditionally and irrevocably guarantees to each Warrantholder the due and punctual performance of any and all obligations of the Issuer under the Warrants and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The Warrants have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the Warrants will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. Warrants will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of Warrants may be effected only in a Board Lot or integral multiples thereof.

(d) *Title*. Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(e) *Costs and Expenses.* Warrantholders should note that they shall be responsible for all costs and expenses in connection with any settlement of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(b) and to the extent necessary, be payable to the Issuer and collected from Warrantholders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in.* Each Warrantholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Warrants) acknowledges, accepts, consents and agrees by its acquisition of the Warrants:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the Warrants fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the Warrants;

(B) the conversion of all, or a portion, of the amounts due under the Warrants into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the Warrants, in which case each Warrantholder agrees to accept in lieu of its rights under the Warrants any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the Warrants;

(D) the amendment or alteration of the maturity of the Warrants or amendment of the amount of interest payable on the Warrants (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the Warrants are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the Warrants, a reduction of all, or a portion of, the amounts due under the Warrants, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the Warrants will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Warrantholders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on

24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg (*la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement*), (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Warrantholder.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Each Board Lot initially entitles each Warrantholder, upon due exercise, and upon compliance with Condition 5, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 5.

(b) *Exercise Expenses.* Warrantholders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

3. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

4. Expiry Date

Unless automatically exercised in accordance with Condition 5(b), the Warrants shall be deemed to expire on the Expiry Date.

5. Exercise of Warrants

(a) *Exercise*. Warrants may only be exercised on the Expiry Date in accordance with Condition 5(b) in a Board Lot or integral multiples thereof.

(b) *Automatic Exercise*. Warrantholders shall not be required to deliver an exercise notice. If the Cash Settlement Amount is a positive figure, all Warrants shall be deemed to have been exercised automatically on the Expiry Date. In the event the Cash Settlement Amount is less than or equal to zero, all Warrants shall be deemed to have expired on the Expiry Date and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement*. In respect of Warrants which are exercised automatically in accordance with Condition 5(b), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Warrantholder the Cash Settlement Amount (if any).

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Warrantholders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Warrantholder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(d) For the purposes of these Conditions:

"**Average Price**" means the arithmetic mean of the official closing prices of one Share (subject to any adjustment to such official closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount (if positive) payable in the Settlement Currency equal to:

(i) in respect of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) in respect of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

in each case, converted (if applicable) from the Underlying Currency into the Settlement Currency at the Exchange Rate.

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Company**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Exercise Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of Warrants, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Underlying Exchange or otherwise) on the Underlying Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; or

(2) the closing of the Underlying Exchange or a disruption or limitation to trading on the Underlying Exchange due to any unforeseen circumstances;

"**Number of Warrants per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Series**" means each series of Warrants;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Warrantholders;

"**Share**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6, and "**Shares**" shall be construed accordingly;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Underlying Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Underlying Exchange**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Underlying Exchange Business Day**" means a day (excluding Saturdays, Sundays or public holidays) on which the Underlying Exchange is scheduled to open for dealings during its regular trading sessions;

"**Valuation Date**" means each of the five Underlying Exchange Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Underlying Exchange Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on an Underlying Exchange Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the official closing price of the Shares on the first succeeding Underlying Exchange Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five official closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date then:

(i) the Underlying Exchange Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the official closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event; and

"**Warrants**" means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

6. Adjustments

(a) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Underlying Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price determined by the official closing price on the Underlying Exchange on the last Underlying Exchange Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Underlying Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(c) *Subdivisions or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(d) *Restructuring Events.* If it is announced that the Company:

(i) is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation); or

(ii) is to or may sell or transfer all or substantially all of its assets;

then (except where the Company is the surviving corporation in a merger), the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Underlying Exchange Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer) so that the Entitlement may, after such Restructuring Event, be adjusted to reflect (i) the number of shares of the corporation(s) resulting from or surviving such Restructuring Event, or (ii) other securities or cash offered in substitution for Share(s) (as the case may be) to which a holder of the number of Shares comprising the Entitlement immediately prior to the Restructuring Event would have been entitled on such Restructuring Event.

The Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(e) *Cash Distribution.* No capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 percent. or more of the Share's official closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Underlying Exchange Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor x E}$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The official closing price of the Share on the Underlying Exchange on the Underlying Exchange Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the date on which the Shares are traded on an ex-Ordinary Dividend basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(g) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 10.

7. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Certificates

No certificate other than the Global Certificate will be issued in respect of the Warrants.

9. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Master Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the Warrants or of the Master Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong and/or other relevant jurisdiction(s).

Any such modification shall be binding on the Warrantholders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to Warrantholders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Warrantholders in any other manner.

11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

13. Delisting

(a) If at any time the Shares cease to be listed on the Underlying Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 13(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Underlying Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment in accordance with this Condition 13 and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the Warrants has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

16. Governing Law

The Warrants, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

18. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen’s Road East
Hong Kong

APPENDIX 2 – TERMS AND CONDITIONS OF CALLABLE BULL/BEAR CONTRACTS

The following pages set out the Conditions in respect of different types of CBBCs.

PART A – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The CBBCs (as defined below and which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 11) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of, a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The CBBCs constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The CBBCs provide for cash settlement on exercise or, if applicable, upon termination as provided in Condition 4(b). The CBBCs do not entitle the Holders to delivery of any Shares, are not secured by Shares and do not entitle Holders to any interest in any Shares.

The Guarantor unconditionally and irrevocably guarantees to each Holder the due and punctual performance of any and all obligations of the Issuer under the CBBCs and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The CBBCs have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the CBBCs will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. CBBCs will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof.

(d) *Title*. Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of CBBCs. The expression "**Holder**" and "**Holders**" shall be construed accordingly.

(e) *Costs and Expenses*. Holders should note that they shall be responsible for all costs and expenses in connection with any settlement of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(c) and to the extent necessary, be payable to the Issuer and collected from Holders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in*. Each Holder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the CBBCs) acknowledges, accepts, consents and agrees by its acquisition of the CBBCs:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the CBBCs fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the CBBCs;

(B) the conversion of all, or a portion, of the amounts due under the CBBCs into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the CBBCs, in which case each Holder agrees to accept in lieu of its rights under the CBBCs any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the CBBCs;

(D) the amendment or alteration of the maturity of the CBBCs or amendment of the amount of interest payable on the CBBCs (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the CBBCs are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the CBBCs, a reduction of all, or a portion of, the amounts due under the CBBCs, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the CBBCs will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Holders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on

24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg (*la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement*), (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Holder.

2. Definitions

In these Conditions, unless the context requires otherwise or unless otherwise defined:

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount (if positive) payable in the Settlement Currency equal to either:

(a) following the occurrence of the Mandatory Call Event:

   (i) in respect of a Series of Category R CBBCs, the Residual Value determined by the Issuer; or

   (ii) in respect of a Series of Category N CBBCs, zero; or

(b) otherwise:

   (i) in respect of a Series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(ii) in respect of a Series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a Series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a Series of CBBCs where the Call Price is not equal to the Strike Price;

"**CBBCs**" means the callable bull/bear contracts specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustment to such closing price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Company**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Day of Notification**" means the Trading Day immediately following the day on which the Mandatory Call Event occurs;

"**Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of CBBCs, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Listing Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Mandatory Call Event**" means the event where the Spot Price of the Shares is, at any time on any Trading Day during the Observation Period:

(a) in respect of a Series of bull CBBCs, at or below the Call Price; or

(b) in respect of a Series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means, in respect of a Series of bear CBBCs, the highest Spot Price of the Shares (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution the like) during the MCE Valuation Period;

"**MCE Termination Date**" means the first Trading Day during the Observation Period on which the Mandatory Call Event occurs;

"**MCE Valuation Date**" means the last Trading Day of the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(B) the afternoon session and the closing auction session (if any) of the same day, shall each be considered as one trading session only;

"**Minimum Trade Price**" means, in respect of a Series of bull CBBCs, the lowest Spot Price of the Shares (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**Number of CBBCs per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Commencement Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading on the Stock Exchange on the Trading Day immediately preceding the Expiry Date. For the avoidance of doubt, the Observation Period shall not be extended notwithstanding that the Valuation Date shall not fall on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Residual Value**" only applies to a Series of Category R CBBCs and means:

(a) in respect of a Series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(b) in respect of a Series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

For the avoidance of doubt, if the Residual Value is a negative figure, it shall be deemed to be zero;

"**Series**" means each series of CBBCs;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Holders;

"**Share**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5, and "**Shares**" shall be construed accordingly;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable) (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited or the principal stock exchange in Hong Kong for the time being on which the Shares are listed;

"**Strike Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Shares on the Stock Exchange and such other factors as the Issuer determines to be relevant.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

3. Illegality and Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 9.

4. Rights, Exercise Expenses and Procedures

(a) *CBBC Rights.* Each Board Lot initially entitles each Holder, upon compliance with this Condition 4, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Conditions 4(d) to (i).

(b) *Mandatory Call Event.*

(i) Subject to Condition 4(b)(ii) below, following the occurrence of the Mandatory Call Event, the CBBCs will terminate automatically on the MCE Termination Date, and the Issuer will give notice to the Holders in accordance with Condition 9. Trading in the CBBCs will be ceased immediately upon the occurrence of the Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

(ii) The Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(x) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEX**"); or

(y) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (x) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked, and

(B) in the case of an error by the relevant price source prescribed in paragraph (y) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification,

in which case, (aa) the Mandatory Call Event so triggered will be reversed; and (bb) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

(c) *Exercise Expenses.* In respect of (i) Category R CBBCs, upon the occurrence of the Mandatory Call Event or (ii) CBBCs which are exercised automatically in accordance with Condition 4(e), Holders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the settlement (if applicable) or the exercise (if applicable) (as the case may be) of the CBBCs (collectively, the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

(d) *Exercise.* Provided no Mandatory Call Event has occurred during the Observation Period, CBBCs may only be exercised on the Expiry Date in accordance with Condition 4(e) in a Board Lot or integral multiples thereof.

(e) *Automatic Exercise.* Holders shall not be required to deliver an exercise notice. Provided no Mandatory Call Event has occurred during the Observation Period, if the Cash Settlement Amount on the Expiry Date is a positive figure, all CBBCs shall be deemed to have been exercised automatically on the Expiry Date and, in the event the Cash Settlement Amount is zero, all CBBCs shall be deemed to have expired on the Expiry Date and Holders shall not be entitled to receive any payment from the Issuer in respect of the CBBCs.

(f) *Settlement.* In respect of (i) Category R CBBCs, upon occurrence of the Mandatory Call Event or (ii) CBBCs which are exercised automatically in accordance with Condition 4(e), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Holder the Cash Settlement Amount (if any).

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Holder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Holders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Holders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Holder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

(g) *Payment day.* If the date for payment of any amount in respect of the CBBCs is not a Business Day, the Holder shall not be entitled to payment until the next following Business Day and shall not be entitled to any interest or other payment in respect of such delay.

(h) *General.* None of the Issuer, the Guarantor or the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) attached to the Shares.

(i) *Exercise and Settlement Risk.* Exercise (if applicable) and/or settlement (if applicable) of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(j) Trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of the Mandatory Call Event; and (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date, whichever is the earlier.

5. Adjustments

(a) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(c) *Subdivisions or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(d) *Restructuring Events.* If it is announced that the Company:

(i) is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation); or

(ii) is to or may sell or transfer all or substantially all of its assets;

then (except where the Company is the surviving corporation in a merger), the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer) so that the Entitlement may, after such Restructuring Event, be adjusted to reflect (i) the number of shares of the corporation(s) resulting from or surviving such Restructuring Event, or (ii) other securities or cash offered in substitution for Share(s) (as the case may be) to which a holder of the number of Shares comprising the Entitlement immediately prior to the Restructuring Event would have been entitled on such Restructuring Event.

The Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(e) *Cash Distribution.* No capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 percent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Share on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the date on which the Shares are traded on an ex-Ordinary Dividend basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(g) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 9.

6. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

7. Certificates

No certificate other than the Global Certificate will be issued in respect of the CBBCs.

8. Meetings of Holders; Modification

(a) *Meetings of Holders.* The Master Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the CBBCs or of the Master Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (i) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Holders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Holders in any other manner.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator or receiver or administrator or analogous person under Hong Kong or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts so as to form a single series with the CBBCs.

12. Delisting

(a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 12(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment in accordance with this Condition 12 and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

13. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

14. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the CBBCs has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

15. Governing Law

The CBBCs, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years of the MCE Termination Date or the Expiry Date (as the case may be) and, thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen’s Road East
Hong Kong

PART B – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The CBBCs (as defined below and which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 10) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of, a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The CBBCs constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The CBBCs provide for cash settlement on exercise or, if applicable, upon termination as provided in Condition 4(b).

The Guarantor unconditionally and irrevocably guarantees to each Holder the due and punctual performance of any and all obligations of the Issuer under the CBBCs and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The CBBCs have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the CBBCs will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. CBBCs will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof.

(d) *Title.* Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of CBBCs. The expression "**Holder**" and "**Holders**" shall be construed accordingly.

(e) *Costs and Expenses.* Holders should note that they shall be responsible for all costs and expenses in connection with any settlement of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(c) and to the extent necessary, be payable to the Issuer and collected from Holders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in.* Each Holder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the CBBCs) acknowledges, accepts, consents and agrees by its acquisition of the CBBCs:

(i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the CBBCs fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the amounts due under the CBBCs;

(B) the conversion of all, or a portion, of the amounts due under the CBBCs into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the CBBCs, in which case each Holder agrees to accept in lieu of its rights under the CBBCs any such shares, other securities or other obligations of the Issuer or another person;

(C) the cancellation of the CBBCs;

(D) the amendment or alteration of the maturity of the CBBCs or amendment of the amount of interest payable on the CBBCs (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

(ii) if applicable, that the terms of the CBBCs are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

(iii) that neither a cancellation of the CBBCs, a reduction of all, or a portion of, the amounts due under the CBBCs, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the CBBCs will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Holders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on

24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg (*la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement*), (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Holder.

2. Definitions

In these Conditions, unless the context requires otherwise or unless otherwise defined:

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) (if applicable) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) (if applicable) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(a) following the occurrence of the Mandatory Call Event:

(i) in respect of a Series of Category R CBBCs, the Residual Value determined by the Issuer; or

(ii) in respect of a Series of Category N CBBCs, zero; or

(b) otherwise:

(i) in respect of a Series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) in respect of a Series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a Series of CBBCs where the Call Level is equal to the Strike Level;

"**Category R CBBCs**" means a series of CBBCs where the Call Level is not equal to the Strike Level;

"**CBBC**" means the callable bull/bear contracts specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Day of Notification**" means the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs;

"**Divisor**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**First Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Index**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Currency Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Futures Contracts**" means the relevant index futures contracts for the purpose of determining the Closing Level as more particularly provided in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Compiler**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Interim Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of CBBCs, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Listing Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Mandatory Call Event**" means the event where the Spot Level of the Index is, at any time on any Index Business Day during the Observation Period:

(a) in respect of a Series of bull CBBCs, at or below the Call Level; or

(b) in respect of a Series of bear CBBCs, at or above the Call Level;

"**Market Disruption Event**" means:

(1) the occurrence or existence, on any Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

    (a) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

    (b) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

    (c) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

    For the purposes of paragraph (1), (A) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (B) a limitation on trading by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means, in respect of a Series of bear CBBCs, the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Termination Date**" means the first Trading Day during the Observation Period on which the Mandatory Call Event occurs;

"**MCE Valuation Date**" means the last Trading Day of the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

(a) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(b) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(B) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only.

"**Minimum Index Level**" means, in respect of a Series of bull CBBCs, the lowest Spot Level of the Index during the MCE Valuation Period;

"**Observation Commencement Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of the trading on the Stock Exchange on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Price Source**", if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Residual Value**" only applies to a Series of Category R CBBCs and means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) (if applicable) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) (if applicable) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(a) in respect of a Series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(b) in respect of a Series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Residual Value is a negative figure, it shall be deemed to be zero;

"**Second Exchange Rate**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Series**" means each series of CBBCs;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with the Conditions (as the case may be);

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Holders;

"**Spot Level**" means, subject to Condition 5(a), the spot level of the Index as compiled and published by the Index Compiler;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Valuation Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level of the Index on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

3. Illegality and Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 9.

4. Rights, Exercise Expenses and Procedures

(a) CBBC Rights. Each Board Lot initially entitles each Holder, upon compliance with this Condition 4, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Conditions 4(d) to (i).

(b) Mandatory Call Event.

(i) Subject to Condition 4(b)(ii) below, following the occurrence of the Mandatory Call Event, the CBBCs will terminate automatically on the MCE Termination Date, and the Issuer will give notice to the Holders in accordance with Condition 9. Trading in the CBBCs will be ceased immediately upon the occurrence of the Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

(ii) The Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(x) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEX**") (such as the setting up of the wrong Call Level and other parameters); or

(y) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the Index level by the relevant index compiler);

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (x) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (y) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked, in each case:

(aa) in respect of an Index Exchange located in Hong Kong, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification; or

(bb) in respect of an Index Exchange located outside Hong Kong:

(1) the revocation of the Mandatory Call Event is communicated to the other party by 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Day of Notification; and

(2) the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked on the Day of Notification.

In both cases:

(cc) the Mandatory Call Event so triggered will be reversed; and

(dd) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

(c) *Exercise Expenses.* In respect of (i) Category R CBBCs, upon the occurrence of the Mandatory Call Event or (ii) CBBCs which are exercised automatically in accordance with Condition 4(e), Holders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the settlement (if applicable) or the exercise (if applicable) (as the case may be) of the CBBCs (collectively, the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

(d) *Exercise.* Provided no Mandatory Call Event has occurred during the Observation Period, CBBCs may only be exercised on the Expiry Date in accordance with Condition 4(e) in a Board Lot or integral multiples thereof.

(e) *Automatic Exercise.* Holders shall not be required to deliver an exercise notice. Provided no Mandatory Call Event has occurred during the Observation Period, if the Cash Settlement Amount on the Expiry Date is a positive figure, all CBBCs shall be deemed to have been exercised automatically on the Expiry Date and, in the event the Cash Settlement Amount is zero, all CBBCs shall be deemed to have expired on the Expiry Date and Holders shall not be entitled to receive any payment from the Issuer in respect of the CBBCs.

(f) *Settlement.* In respect of (i) Category R CBBCs, upon occurrence of the Mandatory Call Event or (ii) CBBCs which are exercised automatically in accordance with Condition 4(e), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Holder the Cash Settlement Amount (if any).

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Holder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Holders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Holders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Holder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

(g) *Payment day.* If the date for payment of any amount in respect of the CBBCs is not a Business Day, the Holder shall not be entitled to payment until the next following Business Day and shall not be entitled to any interest or other payment in respect of such delay.

(h) *General.* None of the Issuer, the Guarantor or the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities, contracts, commodities, currencies or other assets comprising the Index.

(i) *Exercise and Settlement Risk.* Exercise (if applicable) and/or settlement (if applicable) of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations and guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(j) Trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of the Mandatory Call Event; and (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date, whichever is the earlier.

5. Adjustments to the Index

(a) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler, but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index.* If:

(i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or

(ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event);

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Day as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities, currencies or other assets that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities, currencies or other assets that have since ceased to be listed on the Index Exchange) or, as the case may be, the final settlement price for settling the relevant Index Futures Contracts on the Index Exchange on the Expiry Date as determined pursuant to the rules, specifications, regulations and/or procedures of the Index Exchange.

(c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(d) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 9.

6. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

7. Certificates

No certificate other than the Global Certificate will be issued in respect of the CBBCs.

8. Meetings of Holders; Modification

(a) *Meetings of Holders.* The Master Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the CBBCs or of the Master Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (i) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Holders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Holders in any other manner.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts so as to form a single series with the CBBCs.

11. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

12. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the CBBCs has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

13. Governing Law

The CBBCs, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

14. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

15. Prescription

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years of the MCE Termination Date or the Expiry Date (as the case may be) and, thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

PART C – TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUST (GLOBAL FORM OF CERTIFICATE)

These Conditions will, together with the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Conditions and not otherwise defined herein shall have the meanings given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Form, Status and Guarantee, Transfer, Title and Costs and Expenses

(a) *Form.* The CBBCs (as defined below and which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 11) are issued by SG Issuer (the "**Issuer**") on the Issue Date in permanent global form represented by a permanent global certificate (the "**Global Certificate**") and subject to, and with the benefit of, a master instrument by way of deed poll (the "**Master Instrument**"), both executed by the Issuer and Société Générale (the "**Guarantor**").

A copy of the Master Instrument is available for inspection at the specified office of SG Securities (HK) Limited.

The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument.

(b) *Status and Guarantee.* The CBBCs constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The CBBCs provide for cash settlement on exercise or, if applicable, upon termination as provided in Condition 4(b). The CBBCs do not entitle the Holders to delivery of any Units, are not secured by Units and do not entitle Holders to any interest in any Units.

The Guarantor unconditionally and irrevocably guarantees to each Holder the due and punctual performance of any and all obligations of the Issuer under the CBBCs and the Master Instrument, as and to the extent provided in the Guarantee executed by the Guarantor whose Guarantee constitutes a direct unsecured and general obligation of the Guarantor and ranks equally with all other existing and future unsecured and unsubordinated obligations of the Guarantor, including those in respect of deposits, but excluding any debts for the time being preferred by law.

(c) *Transfer.* The CBBCs have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("**HKSCC**") for deposit, clearance and settlement in the Central Clearing and Settlement System ("**CCASS**") operated and maintained by HKSCC. The Global Certificate in respect of the CBBCs will be issued in the name of HKSCC Nominees Limited, or such person, firm or company for the time being appointed by HKSCC as a nominee, and deposited directly into CCASS. CBBCs will only be transferable within CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**"). Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof.

(d) *Title*. Each person who is for the time being shown in the register kept by or on behalf of the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Guarantor as the holder of such number of CBBCs. The expression "**Holder**" and "**Holders**" shall be construed accordingly.

(e) *Costs and Expenses.* Holders should note that they shall be responsible for all costs and expenses in connection with any settlement of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(c) and to the extent necessary, be payable to the Issuer and collected from Holders and settled through CCASS in accordance with the CCASS Rules.

(f) *Bail-in.* Each Holder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the CBBCs) acknowledges, accepts, consents and agrees by its acquisition of the CBBCs:

  (i) to be bound by the effect of the exercise of the Bail-In Power by the relevant resolution authority if the latter were to consider that the amounts due under the CBBCs fall within the scope of the Bail-In Power. This Bail-In Power may include and result in any of the following, or some combination thereof:

    (A) the reduction of all, or a portion, of the amounts due under the CBBCs;

    (B) the conversion of all, or a portion, of the amounts due under the CBBCs into shares, other securities or other obligations of the Issuer or another person, including by means of an amendment, modification or variation of the Conditions of the CBBCs, in which case each Holder agrees to accept in lieu of its rights under the CBBCs any such shares, other securities or other obligations of the Issuer or another person;

    (C) the cancellation of the CBBCs;

    (D) the amendment or alteration of the maturity of the CBBCs or amendment of the amount of interest payable on the CBBCs (if any), or the date on which the interest (if any) becomes payable, including by suspending payment for a temporary period;

  (ii) if applicable, that the terms of the CBBCs are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the relevant resolution authority; and

  (iii) that neither a cancellation of the CBBCs, a reduction of all, or a portion of, the amounts due under the CBBCs, the conversion thereof into other securities or other obligations of the Issuer or another person, as a result of the exercise of the Bail-In Power by the relevant resolution authority with respect to the CBBCs will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Holders to any remedies (including equitable remedies) which are hereby expressly waived.

For the purposes of this Condition:

"**Bail-In Power**" means any resolution power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Luxembourg, whether relating to (i) the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time and as implemented under Luxembourg law by, among others, the Luxembourg act of 18 December 2015 which was officially published on

24 December 2015 in the Luxembourg Memorial A (No. 246), the official gazette of the Grand-Duchy of Luxembourg *(la Loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement)*, (ii) the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 ("**SRM**"), or (iii) otherwise arising under Luxembourg law, and the instruments, rules and standards created thereunder, pursuant to which, in particular, the obligations of the Issuer can be reduced (in part or in whole), cancelled, modified or converted into shares, other securities, or other obligations of such regulated entity or any other person.

"**relevant resolution authority**" means the *Commission de surveillance du secteur financier* (the CSSF) and/or any other authority entitled to exercise or participate in the exercise of any Bail-In Power with the authority to exercise any of the Luxembourg Bail-In Powers against the Issuer from time to time including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the SRM.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer and each Holder.

2. Definitions

In these Conditions, unless the context requires otherwise or unless otherwise defined:

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount (if positive) payable in the Settlement Currency equal to either:

(a) following the occurrence of the Mandatory Call Event:

  (i) in respect of a Series of Category R CBBCs, the Residual Value determined by the Issuer; or

  (ii) in respect of a Series of Category N CBBCs, zero; or

(b) otherwise:

  (i) in respect of a Series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(ii) in respect of a Series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a Series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a Series of CBBCs where the Call Price is not equal to the Strike Price;

"**CBBCs**" means the callable bull/bear contracts specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**CCASS Settlement Day**" has the meaning ascribed to the term "**Settlement Day**" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustment to such closing price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Day of Notification**" means the Trading Day immediately following the day on which the Mandatory Call Event occurs;

"**Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document setting out the relevant information relating to each Series of CBBCs, which will be supplemental to the Base Listing Document (as defined in the relevant Launch Announcement and Supplemental Listing Document);

"**Listing Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Mandatory Call Event**" means the event where the Spot Price of the Units is, at any time on any Trading Day during the Observation Period:

(a) in respect of a Series of bull CBBCs, at or below the Call Price; or

(b) in respect of a Series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the

Stock Exchange in (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material,

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued, or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means, in respect of a Series of bear CBBCs, the highest Spot Price of the Units (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**MCE Termination Date**" means the first Trading Day during the Observation Period on which the Mandatory Call Event occurs;

"**MCE Valuation Date**" means the last Trading Day of the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

(a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(B) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means, in respect of a Series of bull CBBCs, the lowest Spot Price of the Units (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**Number of CBBCs per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Commencement Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading on the Stock Exchange on the Trading Day immediately preceding the Expiry Date. For the avoidance of doubt, the Observation Period shall not be extended notwithstanding that the Valuation Date shall not fall on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Residual Value**" only applies to a Series of Category R CBBCs and means:

(a) in respect of a Series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(b) in respect of a Series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

For the avoidance of doubt, if the Residual Value is a negative figure, it shall be deemed to be zero;

"**Series**" means each series of CBBCs;

"**Settlement Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Settlement Disruption Event**" means the occurrence or existence on the Settlement Date of an event beyond the control of the Issuer as a result of which the Issuer is unable to pay the Cash Settlement Amount by crediting the Cash Settlement Amount electronically through CCASS to the Designated Bank Account of the relevant Holders;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable) (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited or the principal stock exchange in Hong Kong for the time being on which the Units are listed;

"**Strike Price**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trust**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Unit**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5, and "**Units**" shall be construed accordingly; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Units on the Stock Exchange and such other factors as the Issuer determines to be relevant.

Other capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

3 Illegality and Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 9.

4 Rights, Exercise Expenses and Procedures

(a) *CBBC Rights.* Each Board Lot initially entitles each Holder, upon compliance with this Condition 4, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Conditions 4(d) to (i).

(b) *Mandatory Call Event.*

(i) Subject to Condition 4(b)(ii) below, following the occurrence of the Mandatory Call Event, the CBBCs will terminate automatically on the MCE Termination Date, and the Issuer will give notice to the Holders in accordance with Condition 9. Trading in the CBBCs will be ceased immediately upon the occurrence of the Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

(ii) The Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(x) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEX**"); or

(y) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (x) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked, and

(B) in the case of an error by the relevant price source prescribed in paragraph (y) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification,

in which case, (aa) the Mandatory Call Event so triggered will be reversed; and (bb) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

(c) *Exercise Expenses.* In respect of (i) Category R CBBCs, upon the occurrence of the Mandatory Call Event or (ii) CBBCs which are exercised automatically in accordance with Condition 4(e), Holders will be required to pay all charges or expenses including, without limitation, any taxes or duties, which are incurred in respect of the settlement (if applicable) or the exercise (if applicable) (as the case may be) of the CBBCs (collectively, the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount to the extent available or otherwise paid to the Issuer in accordance with Condition 1(e).

(d) *Exercise.* Provided no Mandatory Call Event has occurred during the Observation Period, CBBCs may only be exercised on the Expiry Date in accordance with Condition 4(e) in a Board Lot or integral multiples thereof.

(e) *Automatic Exercise.* Holders shall not be required to deliver an exercise notice. Provided no Mandatory Call Event has occurred during the Observation Period, if the Cash Settlement Amount on the Expiry Date is a positive figure, all CBBCs shall be deemed to have been exercised automatically on the Expiry Date and, in the event the Cash Settlement Amount is zero, all CBBCs shall be deemed to have expired on the Expiry Date and Holders shall not be entitled to receive any payment from the Issuer in respect of the CBBCs.

(f) *Settlement.* In respect of (i) Category R CBBCs, upon occurrence of the Mandatory Call Event or (ii) CBBCs which are exercised automatically in accordance with Condition 4(e), the Issuer shall, subject as provided below in the case of a Settlement Disruption Event, pay to the relevant Holder the Cash Settlement Amount (if any).

The aggregate Cash Settlement Amount (less the Exercise Expenses (if any)) shall be credited, in accordance with the CCASS Rules, to the relevant bank account designated by the Holder (the "**Designated Bank Account**") on the Settlement Date.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Holders on the original Settlement Date, the Issuer shall use its reasonable endeavours, to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of Holders as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to any Holder for any interest in respect of the Cash Settlement Amount or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

(g) *Payment day.* If the date for payment of any amount in respect of the CBBCs is not a Business Day, the Holder shall not be entitled to payment until the next following Business Day and shall not be entitled to any interest or other payment in respect of such delay.

(h) *General.* None of the Issuer, the Guarantor or the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) attached to the Units.

(i) *Exercise and Settlement Risk.* Exercise (if applicable) and/or settlement (if applicable) of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations and guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(j) Trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of the Mandatory Call Event; and (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date, whichever is the earlier.

5. Adjustments

(a) *Rights Issues.* If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price determined by the closing price on the Stock Exchange on the last Business Day on which Units are traded on a cum-Rights basis

R: Subscription price per Unit as specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues.* If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(c) *Subdivisions or Consolidations.* If and whenever the Trust shall subdivide its Units or any class of its outstanding units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(d) *Merger or Consolidation. If it is announced that the Trust:*

(i) is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation); or

(ii) is to or may sell or transfer all or substantially all of its assets;

then (except where the Trust is the surviving trust in a merger), the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer) so that the Entitlement may, after such Restructuring Event, be adjusted to reflect (i) the number of Units of the corporation(s) resulting from or surviving such Restructuring Event, or (ii) other securities or cash offered in substitution for Unit(s) (as the case may be) to which a holder of the number of Units comprising the Entitlement immediately prior to the Restructuring Event would have been entitled on such Restructuring Event.

The Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(e) *Cash Distribution.* No capital adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 percent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Unit on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the date on which the Units are traded on an ex-Ordinary Distribution basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(g) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with Condition 9.

6. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

7. Certificates

No certificate other than the Global Certificate will be issued in respect of the CBBCs.

8. Meetings of Holders; Modification

(a) *Meetings of Holders.* The Master Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Instrument) of a modification of the provisions of the CBBCs or of the Master Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Master Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws and regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Holders will be validly given if disseminated through the facilities of the Stock Exchange including publication on the website of Hong Kong Exchanges and Clearing Limited and such notice shall be deemed to have been given on the date of publication on such website. In such circumstances, the Issuer shall not be required to give notice to the Holders in any other manner.

10. Termination or Liquidation

(a) In the event of a Termination or liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator or receiver or administrator or analogous person under Hong Kong or other applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised CBBCs will lapse and shall cease to be valid for any purpose on the effective date of the Termination, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

(b) For the purpose of this Condition 10, "**Termination**" means (a) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (b) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (c) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (d) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571, The Laws of Hong Kong).

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts so as to form a single series with the CBBCs.

12. Delisting

(a) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 12(a), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment in accordance with this Condition 12 and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

13. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

14. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the terms and conditions of the CBBCs has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

15. Governing Law

The CBBCs, the Master Instrument, the Guarantee and these Conditions will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Master Instrument, the Guarantee and these Conditions to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of SG Securities (HK) Limited as set out below. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version of these Conditions shall prevail and be governing.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years of the MCE Termination Date or the Expiry Date (as the case may be) and, thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

SG Securities (HK) Limited:

Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

Extract of our financial information for the 6-month period 30 June 2018

SG Issuer
Société Anonyme

Condensed interim financial information and Report of the Réviseur d'entreprises agréé on review of condensed interim financial information

As at and for the six-month period ended 30 June 2018

33, boulevard Prince Henri

L-1724 Luxembourg

R.C.S. Luxembourg: B121.363

Index

Functional and presentation currency:

Except otherwise indicated, the amounts presented in the condensed interim financial information are expressed in thousands of euros (KEUR). The value “0” indicates the presence of a number, which is rounded to zero, while “-” represents the value nil.

Executive Board Members
For the interim period ended 30 June 2018

Chairman:

Mr Yves CACCLIN

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Directors:

Mrs Sophie ROBATCHE-CLAIVE

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Amaury de BELER

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Alexandre GALLICHE

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Thierry BODSON

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Arnaud SERRES (until 25/06/2018)

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Noël ALISON

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mrs Estelle STEPHEN JASPARD (since 25/06/2018)

Employee of Société Générale

189, rue d'Aubervilliers, F-75886 Paris Cedex 18, France

Supervisory Board Members
For the interim period ended 30 June 2018

<u>**Chairman:**</u>

Mrs Véronique DE LA BACHELERIE (until 25/06/2018)

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Arnaud JACQUEMIN (since 25/06/2018)

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

<u>**Members:**</u>

Mr Didier LALLEMAND

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Vincent ROBILLARD

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Olivier FREITAS

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Alban ROMANET (until 25/06/2018)

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Mr Gregory CLAUDY (since 25/06/2018)

External Administrator

225A, rue du Burgknapp, B-6717 Heinstert, Belgium

Audit Committee Members

Chairman:

Mr Gregory CLAUDY

External Administrator

225A, rue du Burgknapp, B-6717 Heinstert, Belgium

Members:

Mr Didier LALLEMAND

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Mr Olivier FREITAS

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg

Management and administration

For the interim period ended 30 June 2018

Issuer
SG Issuer
33, boulevard Prince Henri, L-1724 Luxembourg

Guarantor (if applicable, as specified in the Final Terms)
Société Générale
29, boulevard Haussmann, F-75009 Paris, France

Arranger and Dealer
Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris - La Défense 7, France

Security Trustee and Security Agent Trustee
Bank of New York MELLON Corporate Trustee Services Limited
One Canada Square, London E14 5AL

Collateral Custodian
The Bank of New York MELLON (Luxembourg) S.A.
2-4, rue Eugène Ruppert, L-2453 Luxembourg

Collateral Monitoring Agent
The Bank of New York MELLON London Branch
One Canada Square London E14 5AL

Custodian Agent, Issuing and Paying Agent, Registrar, Exchange Agent and Transfer Agent
Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

Paying Agents
Société Générale
29, boulevard Haussmann, F-75009 Paris, France

Société Générale, New York Branch
1221, avenue of the Americas, New York NY 10020, United States of America

Warrant Agent
Société Générale Bank & Trust
11, avenue Emile Reuter, L-2420 Luxembourg

Legal advisers
To the Arranger as to English, French and U.S. law
Allen & Overy LLP
Edouard VII
26, boulevard des Capucines, F-75009 Paris, France

To the Trustee as to English Law
Allen & Overy LLP
1 Bishops Square, London E1 6AD, United Kingdom

To the Arranger as to Luxembourg Law
Allen & Overy Luxembourg
33, avenue John F. Kennedy, L-1855 Luxembourg

Independent Auditor (Réviseur d'entreprises agréé)
Ernst & Young S.A.
35E, Avenue John F. Kennedy, L-1855 Luxembourg

Report of the Executive Board and Corporate Governance Statement

The Directors of the Company (each a « Director », collectively the « Executive Board ») present the condensed interim financial information and the Report of the Executive Board of the Company for the period from 1 January 2018 to 30 June 2018.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

The corporate objects of SG Issuer are to issue Notes and Warrants with all types of underlyings including, without restriction, shares, index, interest rate, dividend, credit risk, foreign exchange, commodities, funds, warrants, etc... allowing investors to access to the full pricing capabilities of Société Générale, which proposes an extensive range of investment strategies linked to these various asset classes.

Notes and Warrants issued by the Company can be sold in either Private Placements or Public Offerings.

Notes are mainly debt securities, bonds, certificates. Issuing proceeds raised by the sale of the Notes will be transferred to SG Paris through a fully funded swap, which will perfectly hedge SGIS for the full issue Size.

Warrants are financial products like turbos, inline warrants, daily leverage certificates, etc…, which aim to replicate the same financial exposure as buying (call) or selling (put) an asset such as a share or an index, at a predetermined price (strike price) on a predetermined date (expiry) and to offer different pay-off or exposures to investors.
Warrants are sold by SG Issuer mainly to clients in France, Belgium, Luxembourg, UK, Sweden, Finland, Norway, Spain, Hong-Kong, the Netherlands, Italy and Singapore.

Payments in respect of the Notes and Warrants issued by the Company are unconditionally and irrevocably guaranteed by Société Générale.

On request of investors, the Company can issue collateralised Notes or Warrants (“Secured Notes” or “Secured Warrants”) in order to propose an additional layer of protection to investors in case of default of Société Générale.

Notes and Warrants issuances are governed by the Base Prospectus prepared by Société Générale as arranger. The main programmes for Notes are the two Debt Instruments Issuance Programmes, for which the last updates have been approved by the CSSF on 20 June 2018 or the “Programme d'Emission de Titres de Créance” approved by the CSSF on 27 June 2018. Similarly, the main programmes for Warrants are the Issuance Programme approved by the CSSF on 4 July 2018 and the Warrants and Turbo Warrants Issuance Programme approved by the CSSF on 16 July 2018. Two programmes are hosted by SG Frankfurt, Dual Language DIIP dated 24 August 2018 and Dual Language Daily Leveraged Products dated 27 October 2017. The Hong Kong warrants programme was last updated on 3 April 2018 and the Singapore warrants programme was last updated on 21 June 2018

The state of business of the Company at the closing of the six-month period ended 30 June 2018 is adequately presented in the Statement of financial position and Statement of comprehensive income.

The increase in total assets and liabilities (before impact of offsetting – see Note 3.2.3) is mainly due to the development of the activity of issuing financial instruments.

The net profit for the period from 1 January 2018 to 30 June 2018 amounts to KEUR 126.

The Company has no branch.

The Company did not exercise any research and development activity, does not have a branch, and did not acquire any own shares.

2. RISKS AND UNCERTAINTIES

The risks associated with the investment in the Notes or Warrants depend on several factors. Such factors will vary depending on the characteristics of the Notes or Warrants issued, in particular depending on the underlying type, the maturity, the secured / unsecured status of the Notes or Warrants, the interest rates incurred, the volatility of the underlying.

For each Note, the Company systematically hedges its position by contracting a swap with Société Générale, with strictly identical characteristics. Also, for each Warrant, the Company systematically hedges its position by contracting an option with Société Générale, with strictly identical characteristics.
The legal documentation and the derivatives instruments have been put in place in order to make sure that the assets match the liabilities at any time. Therefore, no market risk is supported by the Company. The risk management in relation to the Notes and Warrants is also described in Note 9 hereafter.

3. FUTURE DEVELOPMENTS

The Executive Board does not anticipate any major changes during the second semester 2018 but expects a further increase in the Notes and Warrants issued.

4. SUBSEQUENT EVENTS

There was no subsequent event which could have a significant impact on the condensed interim financial information of the Company as at and for the six-month period ended 30 June 2018.

5. CORPORATE GOVERNANCE STATEMENT

The Executive Board of the Company is committed to maintaining the standards of corporate governance enforced at the level of the European Union and at level of the Société Générale Group. This statement describes the Company's governance principles and practices.

In compliance with its status, the Company is governed by an Executive Board and supervised by a dedicated Supervisory Board.

5.1 Executive Board

The Executive Board supervises and controls the management and operations of the Company and is responsible for the Company system of risk management and internal control.
The Executive Board meetings are held several times during the year when necessary.

The Board has quorum when more than half of its members are present. An opinion supported by more than half of the members present becomes a decision.

Key tasks of the Executive Board:
- Ensures that the supervision of accounting is organized and monitored appropriately
- Reviews and approves the Company's financial statements and condensed interim financial information
- Supervises and controls operative management

5.2 Supervisory Board

The Supervisory Board ensures permanently and by all means suited the control of the management of the Company carried out by the Executive Board. However, this supervision has to be translated in no way by an intervention in the management of the Company. The Supervisory Board can mandate advisory committees comprised of members of the Supervisory Board and/or of other non-members to lead different missions. The Supervisory Board can confer these advisory committees of the power or mandates permanently or temporary. These advisory committees cannot have the effect of restricting the powers of the Executive Board.

5.3 Audit Committee

The mission of the Audit Committee is to monitor the issues related to the preparation and control of accounting and financial information, to monitor the independence of the statutory auditors, as well as to monitor the efficiency of the internal control, measurement, supervision and risk control systems related to the accounting and financial processes. If needed, it gives recommendations and its opinion to the Supervisory Board.
The first Audit Committee of the Company took place on 25 September 2018, announced its composition and revised the Condensed interim financial information as of 30 June 2018. At least one member of the committee must be independent, which is the case of the Chairman of the Company's Audit Committee.

5.4 Internal Audit

The Internal Audit of both SGBT (Luxembourg) and Société Générale Group support the Company's Executive Board in overseeing the Company's activities and securing its operations by carrying out internal audits and providing consultative assistance. The objective of Internal Audit is to add value by making recommendations designed to improve the Company's functioning. Internal Audit is an independent function and its activities are based on international professional internal audit standards and rules of ethics.
The central task of Internal Audit is to audit the functioning of SG Issuer on a regular basis and evaluate its internal controls, risk management, and administrative function. The areas to be audited are determined by the projected financial and operational risks concerned. Internal Audit can also carry out special assignments at the request of management.
Internal Audit does not have any direct authority over the activities it reviews.

5.5 Controls of conformity/compliance

First level of controls is related to the execution of the procedures, guidelines and instructions established to ensure the proper and efficient functioning of the Company. They are executed by the involved teams in charge of the production.
The Chief Financial Officer of the Company ensures the coordination of the periodic accounting closing with all the teams involved while performing a second level control of conformity.

5.6 New Products Committee

All the new activities and business of the Company are analyzed and authorized by a dedicated New Products Committee (NPC). All involved departments within Société Générale are represented (operations, finance, risk, accounting standards, etc…) to assess the impact for the Company.

5.7 Service level agreements

The Company and several of its service providers are subsidiaries of the Société Générale Group and therefore benefit from the Group's internal control systems.

Service Level Agreements ("SLAs") were signed by the Company with SGBT and with Société Générale. The SLAs govern the relations between the entities as well as their respective obligations. The services supplied by SGBT and Société Générale are listed in the appendices of the agreements (mainly General services, legal services, business continuity management services and financial services from SGBT and operational services – Middle Office and Back Office – from Société Générale).

Luxembourg, 27 September 2018

For the Executive Board

Amaury de BELER

Member of the Executive Board

Alexandre GALLICHE

Member of the Executive Board

Thierry BODSON

Member of the Executive Board

SG Issuer
Société Anonyme

Global Statement

for the condensed interim financial information as at 30 June 2018

To the best of our knowledge, the condensed interim financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and gives a true and fair view of the financial position and performance of SG Issuer as at and for the six-month period ended 30 June 2018. The condensed interim financial information comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

To the best of our knowledge, the management report includes a fair review of the development and performance of the Company, and a description of the principal risks and uncertainties that the Company faces.

Luxembourg, 27 September 2018

Amaury de BELER

Member of the Executive Board

Alexandre GALLICHE

Member of the Executive Board

Thierry BODSON

Member of the Executive Board

Ernst & Young
Société anonyme

35E, Avenue John F. Kennedy
L-1855 Luxembourg

Tel: +352 42 124 1

www.ey.com/luxembourg

B.P. 780
L-2017 Luxembourg

R.C.S. Luxembourg B 47 771
TVA LU 16063074

To the sole Shareholder of
SG Issuer Société Anonyme
33, boulevard Prince Henri
L-1724 Luxembourg

Report on review of condensed interim financial information

Introduction

We have reviewed the accompanying condensed interim financial information of SG Issuer S.A. as of 30 June 2018, which comprise the interim statement of financial position as at 30 June 2018 and the related interim statement of comprehensive income, the interim statement of changes in equity, the interim statement of cash flows for the six-month period then ended and explanatory notes. The Executive Board is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union ("IAS 34"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Charles Dequaire

Luxembourg, 28 September 2018

Statement of comprehensive income

For the six-month period ended 30 June 2018

(Expressed in thousands of EUR)

	Note	30.06.2018	31.12.2017	30.06.2017
Interest income		609	1 059	658
Net gains from financial instruments at fair value through profit or loss		29 151	91 294	53 983
Total revenues		**29 760**	**92 353**	**54 641**
Interest expenses	6	(11 521)	(64 279)	(41 028)
Personnel expenses		(104)	(344)	(121)
Other operating charges		(17 987)	(27 625)	(13 471)
Total expenses		**(29 612)**	**(92 248)**	**(54 620)**
Profit before tax		**148**	**105**	**21**
Income tax	13	(22)	(27)	(4)
Profit for the financial period/year		**126**	**78**	**17**
Total comprehensive income for the period/year		**126**	**78**	**17**

The accompanying notes are an integral part of this condensed interim financial information.

Statement of financial position
As at 30 June 2018
(Expressed in thousands of EUR)

	Note	30.06.2018	31.12.2017
Cash and cash equivalents	4	69 221	114 889
Financial assets at fair value through profit or loss			
- *Mandatorily measured at fair value through profit or loss (Fully Funded Swaps)*	5	45 300 532	44 051 537
- *Held for Trading (Options)*	5	3 726 108	3 806 822
Loans and receivables at amortised cost	6	53 999	53 661
Total assets		**49 149 860**	**48 026 909**
Financial liabilities at amortised cost	7	59 048	110 734
Financial liabilities at fair value through profit or loss			
- *Designated at fair value through profit or loss (Notes)*	8	45 275 231	44 048 143
- *Held for Trading (Warrants)*	8	3 728 893	3 818 679
Other liabilities		19 953	43 668
Tax liabilities	13	22	27
Total liabilities		**49 083 147**	**48 021 251**
Share capital	11	2 000	2 000
Share premium	11	62 725	-
Legal reserve	12	200	200
Other reserves	12	1 662	3 380
Retained earnings		0	0
Profit for the financial period/year		126	78
Total equity		**66 713**	**5 658**
Total equity and liabilities		**49 149 860**	**48 026 909**

The accompanying notes are an integral part of this condensed interim financial information.

Statement of changes in equity

For the six-month period ended 30 June 2018

(Expressed in thousands of EUR)

	Share capital	Share premium	Legal reserve	Other reserves (unavailable)	Other reserves (available)	Total reserves	Retained earnings	Profit for the financial year/period	Total equity
As at 31 December 2016	**2 000**	**-**	200	3 382	2 240	**5 822**	**35**	**373**	**8 230**
Transfer from reserves to retained earnings	-	-	-	(2)	(2 240)	(2 242)	2 242	-	-
Allocation of the result of the previous year before dividend distribution	-	-	-	-	-	-	373	(373)	-
Dividend to the sole shareholder	-	-	-	-	-	-	(2 649)	-	(2 649)
Capital increase / Allocation to the capital surplus account	0	67 533	-	-	-	-	-	-	67 533
Reimbursement of the capital surplus	-	(67 533)	-	-	-	-	-	-	(67 533)
Profit for the period from 1 January 2017 to 30 June 2017	-	-	-	-	-	-	-	17	17
As at 30 June 2017	**2 000**	**-**	200	3 380	-	**3 580**	**0***	**17**	**5 597***
Transfer from unavailable reserves to available reserves	-	-	-	(1 716)	1 716	-	-	-	-
Allocation of the result of the previous year before dividend distribution	-	-	-	-	-	-	-	-	-
Dividend to the sole shareholder	-	-	-	-	-	-	-	-	-
Capital increase / Allocation to the capital surplus account	-	-	-	-	-	-	-	-	-
Reimbursement of the capital surplus	-	-	-	-	-	-	-	-	-
Profit for the period from 1 July 2017 to 31 December 2017	-	-	-	-	-	-	-	61	61
As at 31 December 2017	**2 000**	**-**	200	1 664	1 716	**3 580**	**0**	**78**	**5 658**
Impact of First Time Application of IFRS 9	-	-	-	-	(2)	(2)	-	-	(2)
Transfer from reserves to retained earnings	-	-	-	(2)	(1 714)	(1 716)	1 716	-	-
Allocation of the result of the previous year before dividend distribution	-	-	0	-	-	-	78	(78)	-
Dividend to the sole shareholder	-	-	-	-	-	-	(1 794)	-	(1 794)
Capital increase / Allocation to the capital surplus account	0	62 725	-	-	-	-	-	-	62 725
Profit for the period from 1 January 2018 to 30 June 2018	-	-	-	-	-	-	-	126	126
As at 30 June 2018	**2 000**	**62 725**	200	1 662	0	**1 862**	**0**	**126**	**66 713**

** Differences due to roundings.*

The accompanying notes are an integral part of this condensed interim financial information.

Statement of cash flows
For the six-month period ended 30 June 2018
(Expressed in thousands of EUR)

	Note	30.06.2018	30.06.2017
OPERATING ACTIVITIES			
Profit for the financial period		126	17
Adjustment for:			
IFRS 9 impact		(2)	-
Net (Increase)/decrease in financial assets		(1 168 619)	408 490
Net Increase/(decrease) in financial liabilities		1 148 341*	(362 407)
(Increase)/decrease in other assets		-	(15 892)
Increase/(decrease) in other liabilities		(23 720)	(12 895)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(43 874)**	**17 313**
FINANCING ACTIVITIES			
Payment of capital surplus**		-	(67 533)
Dividend paid		(1 794)	(2 649)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(1 794)**	**(70 182)**
Cash and cash equivalents at the beginning of the year	4	114 889	89 144
Net increase/(decrease) in cash and cash equivalents		(45 668)	(52 869)
Cash and cash equivalents at the end of the period		**69 221**	**36 275**
Cash flows from interest and dividends			
Interest paid		415	68 489
Interest received		609	787
Dividend received		-	-

** The amount of KEUR 1 148 340 includes the 2017 activity related interests amounting to KEUR 62 725, which are payable to SGBT and which have been allocated to the Share premium (see Note 6 and Note 11).*

*** KEUR 67 533 represent the 2016 activity related interests paid by the Company to SGBT (see Note 6).*

Notes to the condensed interim financial information
For the six-month period ended 30 June 2018

1. Corporate information

SG Issuer (hereafter the "Company" or “SGIS”) is a Luxembourg company incorporated on 16 November 2006 as a public limited liability company (S.A.) for an unlimited period.

The Company’s corporate objects are to issue debt securities, bonds, certificates, warrants (option coupons) and any other debt securities or acknowledgements of debts or financial securities, whether or not accompanied by guarantees, with any type of underlying security, including, without limitation, company stock, any other capital security or security other than capital, index, currency, exchange rate, interest rate, dividend, credit risk, fund unit, investment company stock, term deposit, life assurance contract, loan, merchandise, term contract, option, warrant or option coupons, allocated or unallocated precious metals, unit of account, basket or any other factor or any other type of underlying securities and any combination of the latter.

To that effect, the Company may purchase, hold, dispose of, lend, loan or resell, by any means, including in particular the use of trusts, in trust or repurchase, any type of assets whatever their names and forms and whether or not accompanied by guarantees, in particular financial instruments (financial securities - stocks, fund units, bonds, certificates, warrants or option coupons - or financial contracts - swaps, options or other) or any other debt securities, acknowledgements of debts or capital securities, receive or issue monetary loans (including loans convertible into shares of the Company) - within the group of companies to which the Company belongs - and to supply guarantees in any form (actual guarantees such as pledges, securities, mortgages or other - personal guarantees or any other form of guarantee) for their own account, for the account of the group of companies to which the Company belongs or on behalf of third parties.

The Company’s financial year begins on 1 January and ends on 31 December each year.

The Company’s capital is fully owned by Société Générale Bank & Trust S.A. (hereafter “SGBT”), a bank incorporated under Luxembourg law.

The accounts of the Company are included in the consolidated accounts of SGBT, which is the smallest body of undertakings of which the Company forms a part as a subsidiary undertaking, and whose head-office is located at 11, avenue Emile Reuter, L-2420 Luxembourg.
The accounts of the Company are included in the consolidated accounts of Société Générale (hereafter “SG” or the “ultimate parent company”), which is the largest body of undertakings of which the Company forms a part as a subsidiary undertaking, and whose head-office is located at 29, boulevard Haussmann, 75009 Paris, France.

2. Basis of preparation

2.1. Statement of compliance

The financial statements of the Company as at 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB").
The condensed interim financial information as at and for the six-month period ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB").

2. Basis of preparation (continued)

2.1. Statement of compliance (continued)

The condensed interim financial information as at and for the six-month period ended 30 June 2018 has been approved by the Executive Board on 27 September 2018.

2.2. Basis of measurement of financial assets and financial liabilities

Financial assets and financial liabilities linked to the activity of the Company are measured at fair value through profit or loss. All other financial assets and financial liabilities are measured at amortised cost (see Note 3.2).

2.3. Functional and presentation currency

This condensed interim financial information is prepared in Euro ("EUR"), which is the Company's functional currency and the currency of its share capital. Unless stated otherwise, the amounts in the condensed interim financial information are expressed in thousands of EUR (KEUR).

2.4. Use of estimates and judgements

The preparation of condensed interim financial information in conformity with IFRSs requires to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
The information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the condensed interim financial information is included in Note 3.

2.5. Segment information

The financing activities of the Company are managed as one single business. Thus there is no segmental information in the condensed interim financial information.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the years presented in this condensed interim financial information.

3.1. Foreign currency transactions

Transactions in foreign currencies are initially recorded in EUR at the exchange rate ruling at the date of the transaction.
Assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rates ruling at the reporting date. Foreign exchange differences arising on translation and realized exchange gains and losses are recognised in the statement of comprehensive income.

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities

First application of IFRS 9

IFRS 9 replaces IAS 39, defining a new set of rules for measuring and classifying financial assets and liabilities, establishing a new methodology for the credit impairment of financial assets and for determining loss allowances for loan and guarantee commitments, and introducing changes in the treatment of hedging transactions, with the exception of macro-hedging transactions which will be covered by a separate standard currently under review by the IASB.
As from 1 January 2018, the Company applies IFRS 9 as adopted by the European Union. The Company did not early apply the provisions of IFRS 9 to previous reporting periods. Consequently, the accounting principles applicable to financial instruments have been amended and the disclosures presented in the notes to the condensed interim financial information have been supplemented, in accordance with the amendments to IFRS 7 at the time IFRS 9 was adopted.

Classification and measurement of financial assets and financial liabilities

Under IFRS 9, financial assets are classified in one of three categories (amortised cost, fair value through profit or loss, and fair value through other comprehensive income), based on their contractual cash flow characteristics and the Company's business model for managing these assets.

The classification is based on both Company's business model for managing the financial assets and contractual cash flow characteristics of the financial asset. Thus, a debt instrument shall be measured:

- at amortized cost if all the following conditions are met:
  - The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows,
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- at Fair Value through Other Comprehensive Income (FVTOCI) if all the following conditions are met:
  - The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets,
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument that does not meet the conditions to be measured at amortized cost or at Fair Value through OCI must be measured at Fair Value through Profit or Loss (FVTPL).

Financial assets that contain embedded derivatives that modify the cash flows of the host contract will not pass the SPPI test, so that such instruments will mandatorily (not an option anymore) fall into the category of financial assets that are measured at FVTPL.

IFRS 9 also precludes the separation of embedded derivatives that are embedded in financial assets (separation remains possible for non-financial assets). Bifurcation remains applicable for financial liabilities.

IFRS 9 reiterates the rules for classifying and measuring financial liabilities as they appear in IAS 39, without modification. The only exception applies to financial liabilities that the Company elects to measure using the fair value option through profit or loss, in which case the portion of the fair value changes attributable to changes in own credit risk is recorded under "Unrealised or deferred gains and losses" without subsequent reclassification to profit or loss (other changes continue to be taken to profit or loss), unless an accounting mismatch would arise.

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities (continued)

The application of the fair value option will therefore remain applicable only when it will contribute to eliminate or significantly reduce an accounting mismatch.

IFRS 9 also lays down the principles for recognising renegotiations of financial liabilities that do not result in derecognition. The application of IFRS 9 does not change the scope of financial liabilities that the Company elects to measure using the fair value option.

Credit risk / Expected Credit Loss model

IFRS 9 has replaced the incurred loss model provided for in IAS 39 with an expected credit loss (ECL) model. Under this model, impairments/loss allowances are recorded at initial recognition of the financial assets rather than on the basis of objective evidence of impairment (trigger event).
The scope of application and principles governing the impairment for credit risk are further detailed below.

Application to the Company

- Classification and Measurement of financial assets

The portfolios of financial assets were reviewed to determine, based on the characteristics of their contractual cash flows and on how they are managed (business models), their accounting treatment under IFRS 9. Another objective of this review was to identify the most significant impacts on the information systems.

For the debt instruments held, SGIS has defined its business model as "held to collect" for the Fully Funded Swaps, for Cash and cash equivalents and for Loans and receivables. These assets are acquired in order to collect the contractual cash-flows attached to the assets. No sale has been made in the past years and no sale is anticipated in the future.

The Fully Funded Swaps are economically assimilated to loans with embedded derivatives (the swap embedded in the FFS). This type of financial assets comply with the IFRS definition of debt instruments (fixed maturity, coupon calculated as a rate, no right nor interest/control in an entity). As these financial assets of SGIS contain embedded derivatives that modify the cash flows of the entire contract, the contract does not pass the SPPI test and these financial assets are mandatorily measured at FVTPL.

Cash and cash equivalents and Loans and receivables are SPPI compliant and are thus measured at amortised cost. Cash and cash equivalents and Loans and receivables are subject to impairment under IFRS 9 and are presented net of impairment.

The Options held, covering the Warrants issued, are Held for Trading and thus measured at FVTPL.

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities (continued)

- Impairment of financial assets (IFRS 9 Phase 2)

IFRS 9 Phase 2 requires that expected credit losses should be calculated and accounted for on all financial assets measured at amortized cost. Expected credit losses should be calculated according to the following methodology:

- In the absence of significant increase in credit risk compared to origination, credit risk is calculated according to the expected losses over one year.
- In case of significant increase in credit risk compared to origination without default, credit risk is calculated according to the expected losses over the lifetime of the contract, interests are calculated on the gross accounting value before depreciation.
- On defaulting assets, credit risk is calculated according to the expected losses over the lifetime of the contact, interests are calculated on the gross accounting value after depreciation.

SGIS decided to capitalize on SG Group tools to define a calculation methodology regarding impairment. The Group has set up a framework methodology defining the rules for assessing the deterioration of credit risk and for determining 12-month and lifetime expected credit losses, factoring in macroeconomic projections reflecting the credit cycle.

All assets are out of scope for Phase 2, except Cash and cash equivalents and Loans and receivables.
The impairment as of 1 January 2018 (First Time Application) amounts to KEUR 2 and has been recorded directly in Equity (deduction of reserves).

- Classification and Measurement of financial liabilities

IFRS 9 has no impact regarding the Classification and Measurement of financial liabilities.

The Company classifies its financial liabilities into the following categories, as appropriate:

- Financial liabilities at fair value through profit or loss
  - Designated at fair value through profit or loss
  - Held for Trading
- Financial liabilities at amortised cost

- Other principles of IFRS 9:

Financial assets and liabilities are initially recognised at fair value plus directly attributable transaction costs. However, when a financial asset at fair value through profit or loss is recognised, the transaction costs are expensed immediately.

The Company initially recognises receivables at the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

3. Significant accounting policies (continued)

3.2. Financial assets and liabilities (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position, when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously (see Note 3.2.3).

Retrospective application

The first-time application of IFRS 9 at 1 January 2018 is retrospective in terms of “Classification and Measurement” and “Credit risk”; however, the transitional provisions of IFRS 9 provide the option, taken by the Company, of not restating comparative data for previous financial years.
Consequently, for financial instruments, the data as of 31 December 2017, which are presented in comparison with the data as of 30 June 2018, comply with the provisions of IAS 39 as adopted by the European Union. Differences in the measurement of financial assets and liabilities resulting from the first-time application of IFRS 9 at 1 January 2018 are taken directly to Equity at that date.

3.2.1. Financial assets mandatorily at fair value through profit or loss and Financial liabilities designated at fair value through profit or loss

According to IFRS 9, these financial assets and liabilities respectively include:
- Fully Funded Swaps (“FFS”) used to hedge Notes issued (Financial assets mandatorily measured at fair value through profit and loss);
- Notes issued by the Company (Financial liabilities designated at fair value through profit and loss).

The Company issues both secured and unsecured Notes. The Notes are subscribed by the investors through Société Générale Group as a lead manager during the issuance period and as a market maker for a secondary market.

Fully Funded Swaps are financial instruments contracted with Société Générale Group to hedge the Company’s exposure to market risk arising from its activities, by replicating each of the Notes issued.

The Company provides the funds received from Note holders to the swap counterparty (Société Générale Group). The swap counterparty agrees to exchange the reimbursement amount, including the return, of the issued Notes.

These financial assets and liabilities are measured at fair value through profit or loss and are recognised in the statement of financial position under “Financial assets/Financial liabilities at fair value through profit or loss”.

The impact of the application of IFRS 13 on the Company’s condensed interim financial information (Credit Value Adjustment (CVA) / Debt Value Adjustment (DVA) recognition) have been recorded on a net basis in the statement of financial position, i.e. there is no impact in terms of cash or income (except the margin – Bid/Ask – between the sale of the Note and the purchase of the Fully Funded Swap).

Revenues and expenses, including changes in fair value, are recorded in the statement of comprehensive income for the period under "Net gains from financial instruments at fair value through profit or loss".

3. Significant accounting policies (continued)

3.2.2. Financial assets and liabilities Held for Trading

These assets and liabilities respectively include:

- Options purchased in order to hedge the issued warrants;
- Warrants issued by the Company.

The notional amounts of the Warrants together with the hedging options are reported Off Balance-Sheet.
The Company reports the premium paid on the derivatives bought and the premium received on the derivatives sold in the statement of financial position under "Financial assets or liabilities at fair value through profit or loss - Held for Trading".
Subsequent to initial measurement, the Options and the Warrants are measured at fair value through profit or loss. Revenues and expenses including changes in fair values are recorded in the statement of comprehensive income for the period under "Net gains from financial instruments at fair value through profit or loss".

3.2.3. Offsetting a financial asset and a financial liability

The financial instruments issued by the Company are subscribed by the investors through Société Générale as a lead manager during the issuance period and as a market maker for a secondary market. The instruments which are unsold are held by Société Générale.

In December 2014, the Company added a new cash netting clause in the legal framework with Société Générale and acquired a legally enforceable right to offset the recognized amount with the same counterparty. The assets (the Fully Funded Swaps) and the liabilities (the Notes) are settled (and intended to be settled) simultaneously.

In application of IAS 32, *Offsetting a financial asset and a financial liability*, the Company proceeds to the accounting netting of the non-sold amounts.

The treatment is applied based on IAS 32 paragraph 42: "A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity:

(a) currently has a legally enforceable right to set off the recognized amounts; and
(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously."

As at 30 June 2018, the impact of the offsetting (decrease in the balance sheet) is KEUR 37 300 082 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 6 989 084 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467) (see Note 5 and Note 8).

3. Significant accounting policies (continued)

3.2.4. Loans and receivables at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial measurement, Loans and receivables are measured at amortised cost using the effective interest rate method and are presented net of impairments determined in accordance with IFRS 9.

3.2.5. Financial liabilities at amortised cost

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial measurement, these financial liabilities are measured at amortised cost using the effective interest rate method.

The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method.

3.3. Fair Value of the financial instruments

IFRS 13 "Fair value measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair market value for the financial instruments measured at fair value through profit or loss is primarily determined based on quoted prices in an active market. These prices may be adjusted if they are not available at the closing date. If the market for a financial instrument is not active, its fair value is determined by valuation techniques (internal models recovery) using valuation parameters based on existing market conditions at the balance sheet date and that are influenced by assumptions used, such as the amount and timing of estimated future cash flows, the discount rate and the volatility of the underlying assets.

IFRS 13 does not change when the fair value is required to be used but specifies how to measure fair value of financial and non-financial assets and liabilities when required or permitted by IFRS and adds information to be disclosed in the Notes to condensed interim financial information.

Different calculation methods can exist regarding the CVA-DVA / OCA (Own Credit Adjustment) impact calculation: derived from the yield discounting methodology, other from the Monte-Carlo EPE/ENE (Expected Positive / Negative Exposure).
The methodology applied to SGIS (the same as the SG Group) is the yield discounting methodology.

- For unsecured Notes

The fair value for both the Unsecured Notes (liabilities) and the Fully Funded Swap (FFS) (assets) are calculated by discounting the expected future cash flows with the risk free curve. To take the credit adjustment into account, the risk free curve is adjusted with Société Générale (SG) Group's credit spread curve. A dedicated process has been implemented using SG Group and SGIS operational teams' input. This process is fully functional and constantly monitored.

3. Significant accounting policies (continued)

3.3. Fair Value of the financial instruments (continued)

- For Secured and Repack Notes

Secured Notes are Notes which are collateralized with assets deposited on segregated or pooled accounts with external custodian (BNY Mellon) and pledged in favour of the Noteholders.
Repack Notes are Notes which allow investors to calibrate the funding yield of their structure by selecting a bond (the "Reference Bond") issued by a third-party issuer (the "Reference Bond Issuer").
The collateral assets are composed of eligible securities.
Should SG defaults, the pledge on the assets is to be enforced; the Notes holders are exposed to credit risk of the collateral (external securities). Therefore, as SG and SGIS are mere risk pass-through, the credit risk premium (external bonds issuers) shall not be adjusted with SG credit spread. Thus, no additional credit adjustment is needed for the Secured Notes.
The fair value of the Secured Notes and the Repack Notes and the associated FFS is computed, for each accounting period by discounting the expected future cash flows by a composite Repo rate curve.

- For Warrants

For financial instruments recognised at fair value on the statement of financial position, the fair value is determined primarily on the basis of the prices quoted on an active market. These prices can be adjusted if none are available on the balance sheet date or if the clearing value does not reflect transaction prices.
However, due especially to the varied characteristics of financial instruments traded over-the-counter (OTC), a large number of financial products traded by the Group do not have quoted prices on regular place of quotation through financial markets.

A financial instrument is considered as quoted on a deep market if prices are easily and regularly available through a stock exchange, through a broker, a trader, a business sector, a department of evaluation of the prices or with a regulatory agency and if these prices represent real transactions occurring regularly on the market in conditions of normal competition.

The assessment of the inactive aspect of a market leans on indicators such as the significant decrease of the volume of transactions and the level of activity on the market, strong dispersal of the available prices within time and among the various market participants mentioned above or the age of the last transactions observed on the market in conditions of normal competition.

However, mainly because of the many features of financial instruments traded on the OTC financial markets, a large number of financial products processed by the Group are not subject to a direct quotation on the markets.

For these products, the fair value is determined using valuation techniques commonly used by market participants to assess financial instruments such as discounted future cash flows for swaps or the Black & Scholes model for some options and using valuation parameters for which the estimate value is based on market conditions existing at the end of the period. Prior to their use, these valuation models are validated by independent experts of the Market Risk Department among the Group Risk Management who complete this a priori validation by a posteriori checks. Also, the parameters used in valuation models, whether they come from observable markets or not, are carefully monitored on a monthly basis by experts from the Market Risk Department among the Group Risk Management and supplemented if needed by the necessary reserves (including liquidity and bid-ask).

3. Significant accounting policies (continued)

3.3. Fair Value of the financial instruments (continued)

For purposes of information, the financial instruments at fair value on the statement of financial position are presented regarding a hierarchy of fair value that reflects the importance of data used for valuations.

The fair value hierarchy consists in the following levels:

- Level 1 (L1): instruments valued by price (unadjusted) quoted on active markets for identical assets or liabilities;
- Level 2 (L2): instruments valued using data other than quoted prices listed on the Level 1 and that are observable for the asset or liability in question, either directly (i.e. prices) or indirectly (i.e. data derived from price);
- Level 3 (L3): instruments for which the data used for the valuation are not based on observable market data (unobservable inputs). Indeed, Instruments quoted in an insufficiently liquid market and those traded on the OTC market belong to this level. Prices published by an external source and derived from the valuation of similar instruments are considered as data derived from prices.

The observed data must meet the following characteristics: non-owners (independent data), available, publicly broadcast, based on consensus of the market participants and supported by close of day transaction prices.

For instance consensus data (eg. Markit,...) provided by external counterparties are considered observable if the underlying market is liquid and prices provided are confirmed by actual transactions. For long maturities, the consensus data are considered non observable. This is the case for the implied volatility used for the valuation of options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable parameters.

In case of specific market power leading to the absence of reference data for normal value of a financial instrument, the Risk Management may be required to implement a new model based on the available relevant data, such as methods used by other market participants.
These instruments are mainly those for which the sales margin is not immediately recognised in profit or loss (derivatives with higher maturities than the ones usually traded) when their valuation is not based on observable data. Unobservable parameters are carefully assessed, particularly in a depressed economic environment and market. By their very nature, unobservable parameters imply a degree of uncertainty in their valuation. However, given the structure of the Company (perfect match between assets and liabilities in terms of market and credit risk), a variation in the assessment of a financial instrument classified in level 3 would have no impact on the result of the Company.

3. Significant accounting policies (continued)

3.4. Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commission paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.5. Current taxes / Deferred taxes

The Company is subject to Luxembourg tax laws and regulations and is liable for all taxes applicable to Luxembourg commercial companies (see Note 13).
Deferred tax, if any, is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the condensed interim financial information. It also arises on temporary differences stemming from tax losses carried forward. Considering the structure of the Company and the mirroring of the assets and liabilities at FVTPL, no deferred taxes are accounted for by the Company.

3.6. Other commitments linked to secured notes

In relation to each Series of Secured Notes, in order to secure its obligations in respect of such Notes, the Company enters into a pledge agreement which will be governed by the Luxembourg act dated 5 August 2005 on financial collateral arrangements, as amended. Under each Pledge Agreement, the Company will grant first ranking security over the Collateral Assets contained in one or more accounts held by the Company with The Bank of New York Mellon (Luxembourg) S.A. (or such other custodian or account bank as is specified in the applicable Final Terms, pursuant to the terms of a custodian agreement between, inter alia, the Company and the collateral custodian).

The security granted under each Pledge Agreement will be granted either in favour of:

- *(i) in the case of English Law Notes, BNY Mellon Corporate Trustee Services Limited or such other security trustee as is specified in the applicable Final Terms as security trustee on behalf of itself and the relevant Noteholders and the other relevant Secured Parties (as defined in the Additional Terms and Conditions for Secured Notes) or,*
- *(ii) in the case of French Law Notes, directly in favour of the relevant Noteholders and the other relevant Secured Parties as represented by BNY Mellon Corporate Trustee Services Limited or such other security agent as is specified in the applicable Final Terms as security agent.*

3. Significant accounting policies (continued)

3.6. Other commitments linked to secured notes (continued)

Following the occurrence of a Secured Note Acceleration Event (as defined in the Additional Terms and Conditions for Secured Notes), all Noteholders whose Notes have become immediately due and payable will first be entitled to claim for any outstanding amounts due to them under the terms of the Guarantee. If neither the Issuer nor the Guarantor (pursuant to the terms of the Guarantee) has paid all amounts due to Noteholders within a period of 3 Collateral Business Days following the occurrence of a Secured Note Acceleration Event, Noteholders may send a notice in writing to the Security Trustee (in the case of English Law Notes) or the Security Agent (in the case of French Law Notes) requesting that the relevant Pledge Agreement be enforced in accordance with the terms of the Base Prospectus.

The Company borrows the securities to be pledged from Société Générale Group. In accordance with IFRS, the securities borrowed are not recognized in the statement of financial position.

The pledged securities are accounted in the Company condensed interim financial information as an off balance-sheet commitment “Securities pledged”. The committed amount is re-measured at each closing to reflect the value of the securities pledged.

3.7. IFRS 15 – Revenue from contracts with customers

This standard supersedes IAS 18 and sets out the new requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees.

The recognition of revenues in the income statement shall depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has performed a review of the accounting treatments applied for the recognition of revenues and has assessed that they comply with the treatments provided by IFRS 15.

3.8. Standards issued but not yet effective

IASB publishes accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 30 June 2018. They are required to be applied from annual periods beginning on 1 January 2019 at the earliest or on the date of their adoption by the European Union. They were therefore not applied by the Company as at 30 June 2018.

3. Significant accounting policies (continued)

3.8 Standards issued but not yet effective (continued)

These standards are expected to be applied according to the following schedule:

2019

- IFRS 16 « Leases»
- IFRIC 23 « Uncertainty over Income Tax Treatments»
- Amendements to IAS 28 « Long-term Interests in Associates and Joint Ventures»
- Annual improvements to IFRSs 2015-2017 Cycle
- Amendements to IAS 19 « Plan Amendments, Curtailment or Settlement »

2021

- IFRS 17 « Insurance contracts »

The Company intends to adopt these standards, if applicable, when they become effective. The company does not plan to adopt those standards and interpretations early.

4. Cash and cash equivalents

Cash and cash equivalents amount to KEUR 69 221 as at 30 June 2018 (31 December 2017: KEUR 114 889) and are mainly composed of cash held with Société Générale Bank & Trust and Société Générale.
Bank overdrafts, which form an integral part of the Company's cash management, are deducted from Cash and cash equivalents.

5. Financial assets at fair value through profit or loss

	30.06.2018 EUR' 000	**31.12.2017** EUR' 000
Financial assets at fair value through profit or loss		
- Mandatorily at fair value through profit or loss (Fully Funded Swaps)	45 300 532	44 051 537
- Held for Trading (Options)	3 726 108	3 806 822
Total	**49 026 640**	**47 858 359**

As at 30 June 2018, financial assets mandatorily at fair value through profit or loss (Fully Funded Swaps) amount to KEUR 45 300 532 (31 December 2017: KEUR 44 051 537) and replicate all the Notes issued by the Company (see Note 3.2 and Note 9).

As at 30 June 2018, financial assets Held for Trading (Options) amount to KEUR 3 726 108 (31 December 2017: KEUR 3 806 822) and replicate all the Warrants issued by the Company (see Note 3.2 and Note 9).

As indicated in Note 3.2.3, as at 30 June 2018, the impact of the offsetting of financial assets and financial liabilities (decrease in the balance sheet) is KEUR 37 300 082 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 6 989 084 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467).

Notes to the condensed interim financial information
For the six-month period ended 30 June 2018
- continued -

5. Financial assets at fair value through profit or loss (continued)

The movements in Financial assets at fair value through profit or loss were as follows:

	Mandatorily at fair value through profit or loss	Held for Trading	Total
As at 31 December 2016	**44 030 973**	**9 133 362**	**53 164 335**
Acquisition	37 145 549	32 574 172	69 719 721
Maturity/Disposal/Liquidation/Cancellation	(27 460 147)	(32 857 905)	(60 318 052)
Change in fair value	1 245 524	6 723 620	7 969 144
Exchange difference	(1 946 620)	(292 323)	(2 238 943)
Offsetting of Assets and Liabilities (Change)	(6 842 711)	(8 697 382)	(15 540 093)
As at 30 June 2017	**46 172 568**	**6 583 544**	**52 756 112**
Acquisition	30 819 676	29 009 057	59 828 733
Maturity/Disposal/Liquidation/Cancellation	(35 340 723)	(28 608 346)	(63 949 069)
Change in fair value	(677 967)	(4 721 915)	(5 399 882)
Exchange difference	(1 534 746)	(207 433)	(1 742 179)
Offsetting of Assets and Liabilities (Change)	4 612 729	1 751 915	6 364 644
As at 31 December 2017	**44 051 537**	**3 806 822**	**47 858 359**
Acquisition	31 615 388	34 831 815	66 447 203
Maturity/Disposal/Liquidation/Cancellation	(15 594 453)	(32 877 694)	(48 472 147)
Change in fair value	(2 247 871)	(2 054 287)	(4 302 158)
Exchange difference	1 144 519	63 069	1 207 588
Offsetting of Assets and Liabilities (Change)	(13 668 588)	(43 617)	(13 712 205)
As at 30 June 2018	**45 300 532**	**3 726 108**	**49 026 640**

6. Loans and receivables at amortised cost

As at 30 June 2018 and 31 December 2017, loans and receivables only consist in deposits with SGBT, which represent the replacement of the Company's share capital, reserves and other available funds.

7. Financial liabilities at amortised cost

As at 30 June 2018 and 31 December 2017, financial liabilities at amortised cost are mainly composed of a convertible bond of KEUR 48 000, issued by the Company and fully subscribed by SGBT, with maturity in 2022. The convertible bond has been issued following the reimbursement of a previously existing loan. Similar conditions have been maintained in the bond issued, to strictly achieve this change of format. Conversion may occur each year.

On this convertible bond, the Company pays to SGBT both variable interests calculated on Euribor 3M plus a margin (1.726% as at 30 June 2018) and activity related interests. Activity related interests mean an amount equal to 100% of the activity related profit generated by the Company.

The convertible bond maturity shall be automatically extended by successive periods of one year, unless either the Issuer or the Holder has exercised its right to terminate the bond on the scheduled maturity date. The conversion option belongs to the Holder.

As at 30 June 2018 and 31 December 2017, the value of the equity component is estimated to be nil.

8. Financial liabilities at fair value through profit or loss

		30.06.2018 EUR' 000	31.12.2017 EUR' 000
Financial liabilities at fair value through profit or loss			
-	Designated at fair value through profit or loss (Notes)	45 275 231	44 048 143
-	Held for Trading (Warrants)	3 728 893	3 818 679
Total		**49 004 124**	**47 866 822**

As at 30 June 2018, the Company issued secured and unsecured Notes for a total amount of KEUR 45 275 231 (31 December 2017: KEUR 44 048 143):

- 916 secured Notes were issued (stock) for a total amount of KEUR 5 053 211 (31 December 2017: 861 secured Notes were issued (stock) for a total amount of KEUR 6 074 564);
- 26 837 unsecured Notes were issued (stock) for a total amount of KEUR 40 222 020 (31 December 2017: 23 135 unsecured Notes were issued (stock) for a total amount of KEUR 37 973 579).

Secured Notes are collateralized with collateral assets borrowed by the Company from Société Générale for KEUR 3 732 574 (31 December 2017: KEUR 5 369 022).

As at 30 June 2018, the Company also issued Warrants for a total amount of KEUR 3 728 893 (31 December 2017: KEUR 3 818 679). Refer to Note 10 for further details on Off-balance sheet items related to the Warrants activity.

As indicated in Note 3.2.3, as at 30 June 2018, the impact of the offsetting (decrease in the balance sheet) is KEUR 37 300 082 for the non-sold Notes and the corresponding fully funded swaps (31 December 2017: KEUR 23 631 494) and KEUR 6 989 084 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467).

Liquidity analysis is included in Note 9.

9. Risk Management

The Company and several of its service providers are subsidiaries of the Société Générale Group and therefore benefit from Société Générale's internal control systems.

For any further information on the risks relating to the Group, investors and/or Noteholders should refer to the "Risk and Capital Adequacy" section of the Registration Document (https://www.societegenerale.com).

Market risk

Market risk is the risk that changes in market prices, such as interest rates, securities prices, and foreign exchange rates will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Company issues Notes and Warrants. The Notes are systematically hedged with Fully Funded Swaps concluded with Société Générale, with strictly identical characteristics. In the same way, the Warrants issued are hedged with Options concluded with Société Générale, with strictly identical characteristics.

The risks associated with the investment in the Notes and Warrants depend on several factors. Such factors will vary depending on the characteristics of the Notes and Warrants issued, in particular depending on the underlying, the maturity of the Notes, the secured / unsecured status of the Notes, the interest rates incurred, the volatility of the underlying, etc.

The main risks in relation to investments in Notes and Warrants issued by the Company are described in the Base Prospectus under the section "Risk Factor".

Because of its structure (perfect match between the assets and the liabilities), the impact of an immediate change of a market parameter would have no consequence on the net profit of the Company.

The Company is also exposed to structural interest rate risk, namely through the following transactions: replacement of available equity by participating interests or loans to the Company's treasury (SGBT) with hedged interest rate risk. The structural interest rate risk is monitored via the sensitivity of the economic value of the positions measured through modified duration.

Modified duration is calculated based on the change in the net present value of positions subsequent to a 1% change in the rate curve. Exposure monitoring is based on the determination of modified duration over the short (up to one year), medium (one to five years) and long (more than five years) term.

Credit risk

Credit risk is the risk that a third party will not be able to meet its contractual obligation.

The Company only contracts financial instruments with its parent companies, SGBT and Société Générale. Therefore, the credit risk of the Company is limited to the credit risk on SGBT and Société Générale. Should this situation evolve, specific limits would be proposed to limit the credit risk incurred.
As at 30 June 2018 and 31 December 2017, no financial assets were past due or impaired.

9. Risk Management (continued)

All the Notes and Warrants issued by the Company benefit from a guarantee provided by Société Générale, meaning that payments in respect of the instruments issued by the Company are unconditionally and irrevocably guaranteed by Société Générale (the Guarantor).

As at 30 June 2018, the rating of Société Générale is A from Standard & Poor's and A2 from Moody's.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may adversely affect the value of the assets and liabilities of the Company. Due to the financial instruments contracted by the Company with Société Générale to hedge the financial instruments issued, the Company is not significantly exposed to interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due.
The Company does not face any liquidity risk thanks to the perfect replication between the contractual obligations of i) the financial instruments issued by the Company and ii) the financial assets held for hedging by the Company.

Sensitivity of the Fair Value measurement to changes in unobservable parameters for Level 3 instruments

According to the fair value hierarchy established by IFRS 13, Level 3 (L3) comprises products valued using inputs that are not based on observable market data (referred to as unobservable inputs).
For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for Notes or the Black & Scholes formula for certain options, and using valuation parameters that reflect current market conditions as at the statement of financial position date. These valuation models are validated independently by the experts from the Market Risk Department of the Group's Risk Division.
Furthermore, the parameters used in the valuation models, whether derived from observable market data or not, are checked by the Finance Division of GBIS (Global Banking and Investor Solutions), in accordance with the methodologies defined by the Market Risk Department.

The Notes and the related Fully Funded Swaps are classified as Level 3 when the valuation of the associated embedded derivatives (underlyings of the Notes) is also based on unobservable market data.

9. Risk Management (continued)

The main L3 underlyings of the Notes issued by the Company are:

- equity derivatives: options with long maturities and/or incorporating bespoke pay offs mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc). In the absence of market depth and of an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (e g extrapolation from observable data, historical analysis),
- interest rate derivatives: exotic options, products sensitive to correlation between different interest rates, different exchange rates, between interest rates and exchange rates or, for quanto products for example (in which the instrument is settled in a currency different from the one of the underlying); they are liable to be classified as L3 because the valuation parameters are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (eg. exchange rate correlations are deemed unobservable for the USD/JPY),
- credit derivatives: L3 credit derivatives mainly include single name or baskets of instruments exposed to time to default correlation.

On each element of an identified list of unobservable parameters, it comes to determining the uncertainty of marking, and cross sensitivities with this uncertainty for a confidence interval of the value of the positions.

In parallel, marking the levels of each of these parameters is collected and reported in the note.

The methods for determining the level of uncertainty, as well as calculating the confidence interval from sensibilities depend on each parameter.

9. Risk Management (continued)

a. **The following table (source: Société Générale Group) provides the valuation of L3 instruments and the most significant unobservable inputs by main types of underlying:**

Cash instrument and derivatives	Main products	Valuation techniques used	Significant unobservable inputs	Range of inputs min & max
Equity / funds	Simple and complex instruments or derivatives on funds, equities or baskets on stocks	Various option models on funds, equities or baskets on stocks	Equity volatilities	[4.4% ; 76.3%]
			Equity dividends	[0.0% ; 19.8%]
			Unobservable correlations	[-100% ;100%]
			Hedge funds volatilities	[8.3% ; 20.0%]
			Mutual funds volatilities	[1.5% ; 53.3%]
Rates and Forex	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	[-10.89% ; 90%]
	Forex derivatives	Forex option pricing models	Forex volatilities	[1.0% ; 29%]
	Interest rate derivatives whose notional is indexed on the prepayment behaviour on European collateral pools	Prepayment modelling	Constant prepayment rates	[0.0% ; 45%]
	Inflation instruments and derivatives	Inflation pricing models	Inflation / inflation correlations	[64.4% ; 88.9%]
Credit	Collateralized Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations	[0% ; 100%]
			Recovery rate variance for single name underlyings	[0% ; 100%]
	Other credit derivatives	Credit default models	Time to default correlations	[0% ; 100%]
			Quanto correlations	[-50% ; 40%]
			Unobservable credit spreads	[0 bps ; 1 000 bps]
Commodity	Derivatives on commodities baskets	Option models on commodities	Commodities correlations	[5.7% ; 97.64%]

9. Risk Management (continued)

Unobservable inputs add a degree of uncertainty in the valuation of Level 3 instruments.

However, by its very nature, the Company has no market risk exposure; all market risks are indeed perfectly hedged. The impact of an immediate change in an unobservable parameter would have no consequence on the net profit of the Company.

b. Analysis per remaining maturities

As at 30 June 2018, analysis per remaining maturities is as follows:

30.06.2018 - EUR' 000	**< 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**> 5 years**	**Without fixed maturity**	**Total**
Cash and cash equivalents	69 221	-	-	-	-	**69 221**
Financial assets at fair value through profit or loss						
- *Mandatorily at fair value through profit or loss*	2 046 210	7 075 070	19 217 400	16 961 852	-	**45 300 532**
- *Held for Trading*	618 003	968 055	783 082	1 356 968	-	**3 726 108**
Loans and receivables	-	828	52 171	1 000	-	**53 999**
Total assets	**2 733 434**	**8 043 953**	**20 052 653**	**18 319 820**	**-**	**49 149 860**
Financial liabilities at amortised cost	-	11 048	48 000	-	-	**59 048**
Financial liabilities at fair value through profit or loss						
- *Designated at fair value through profit or loss*	2 046 210	7 075 070	19 217 400	16 936 551	-	**45 275 231**
- *Held for Trading*	618 003	968 055	783 082	1 359 753	-	**3 728 893**
Other liabilities	19 929	-	-	-	-	**19 929**
Tax liabilities	22	-	-	-	-	**22**
Total liabilities	**2 684 164**	**8 054 173**	**20 048 482**	**18 296 304**	**-**	**49 083 123**

9. Risk Management (continued)

As at 31 December 2017, analysis per remaining maturities is as follows:

31.12.2017 - EUR' 000	**< 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**> 5 years**	**Without fixed maturity**	**Total**
Cash and cash equivalents	114 889	-	-	-	-	**114 889**
Financial assets at fair value through profit or loss						
- *Mandatorily at fair value through profit or loss*	1 608 901	5 921 371	19 240 396	17 280 869	-	**44 051 537**
- *Held for Trading*	561 449	1 137 999	856 423	1 250 951	-	**3 806 822**
Loans and receivables	-	884	51 182	1 595	-	**53 661**
Total assets	**2 285 239**	**7 060 254**	**20 148 001**	**18 533 415**	**-**	**48 026 909**
Financial liabilities at amortised cost	-	62 734	-	48 000	-	**110 734**
Financial liabilities at fair value through profit or loss						
- *Designated at fair value through profit or loss*	1 608 901	5 921 377	19 240 396	17 277 469	-	**44 048 143**
- *Held for Trading*	561 449	1 137 999	856 423	1 262 808	-	**3 818 679**
Other liabilities	43 668	-	-	-	-	**43 668**
Tax liabilities	27	-	-	-	-	**27**
Total liabilities	**2 214 045**	**7 122 110**	**20 096 819**	**18 588 277**	**-**	**48 021 251**

9. Risk Management (continued)

c. **The fair values together with the carrying amounts shown in the statement of financial position are as follows:**

30.06.2018 - EUR' 000	Carrying amount	Fair value
Cash and cash equivalents	69 221	69 221
Financial assets at fair value through profit or loss		
- *Mandatorily at fair value through profit or loss*	45 300 532	45 300 532
- *Held for Trading*	3 726 108	3 726 108
Loans and receivables *	53 999	55 595
Total	**49 149 860**	**49 151 456**
Financial liabilities at amortised cost *	59 048	61 790
Financial liabilities at fair value through profit or loss		
- *Designated at fair value through profit or loss*	45 275 231	45 275 231
- *Held for Trading*	3 728 893	3 728 893
Other liabilities	19 929	19 929
Tax liabilities	22	22
Total	**49 083 123**	**49 085 865**

31.12.2017 - EUR' 000	Carrying amount	Fair value
Cash and cash equivalents	114 889	114 889
Financial assets at fair value through profit or loss		
- *Mandatorily at fair value through profit or loss*	44 051 537	44 051 537
- *Held for Trading*	3 806 822	3 806 822
Loans and receivables *	53 661	57 087
Total	**48 026 909**	**48 030 335**
Financial liabilities at amortised cost *	110 734	114 318
Financial liabilities at fair value through profit or loss		
- *Designated at fair value through profit or loss*	44 048 143	44 048 143
- *Held for Trading*	3 818 679	3 818 679
Other liabilities	43 668	43 668
Tax liabilities	27	27
Total	**48 021 251**	**48 024 835**

* For Loans and receivables and Financial liabilities at amortised cost, the fair values are calculated by discounting the expected future cash flows under a EUR risk free curve adjusted with SG Group credit spread curve (EUR swap curve from Bloomberg and SG credit spread curve provided by Risk department Paris).
Determining fair value is dependent on many factors and can be an estimate of what value may be obtained in the open market at any point in time.

9. Risk Management (continued)

d. The fair value hierarchy of IFRS 13

As at 30 June 2018, the Company determined the fair values of its financial instruments on the basis of the following hierarchy:

30.06.2018 - EUR' 000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- *Mandatorily at fair value through profit or loss*	-	20 813 397	24 487 135	**45 300 532**
- *Held for Trading*	-	3 639 659	86 449	**3 726 108**
Financial liabilities at fair value through profit or loss				
- *Designated at fair value through profit or loss*	-	20 788 096	24 487 135	**45 275 231**
- *Held for Trading*	-	3 642 444	86 449	**3 728 893**

31.12.2017 - EUR' 000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- *Mandatorily at fair value through profit or loss*	-	19 358 047	24 693 490	**44 051 537**
- *Held for Trading*	-	3 739 487	67 335	**3 806 822**
Financial liabilities at fair value through profit or loss				
- *Designated at fair value through profit or loss*	-	19 354 653	24 693 490	**44 048 143**
- *Held for Trading*	-	3 751 344	67 335	**3 818 679**

The following table describes the transfers between Level 2 and Level 3 of the fair value hierarchy

	Level 3 (30.06.2018)		**Level 3 (30.06.2017)**	
	Financial liabilities at fair value through profit or loss		**Financial liabilities at fair value through profit or loss**	
EUR' 000	***Designated at fair value through P&L***	***Held for Trading***	***Designated at fair value through P&L***	***Held for Trading***
Balance as at 1 January	**24 693 490**	**67 335**	**22 531 600**	**93 125**
Acquisitions*	15 458 244	35 467	13 773 957	143 292
Change in fair value	(2 005 843)	(12 088)	(18 752)	(86 624)
Reimbursements/Other	(4 464 912)	(7 380)	(7 303 792)	(52 671)
Transfers from L2 to L3	178 588	2 154	943 707	33 608
Transfers from L3 to L2	(1 920 181)	(28 815)	(120 741)	-
Offsetting of the assets and liabilities	(7 452 251)	29 776	(5 072 033)	(21 616)
Balance as at 30 June	**24 487 135**	**86 449**	**24 733 946**	**109 116**

* Acquisitions include new tranches of existing notes issued.

9. Risk Management (continued)

The following table describes the variation in Level 3 by financial instruments:

Financial liabilities at fair value through profit or loss	**Balance at 01.01.2018**	Acquisitions	Change in fair value	Reimbursements/ Other	Transfers from L2 to L3	Transfers from L3 to L2	Offsetting of the assets and liabilities	**Balance 30.06.2018**
Designated at fair value through P&L	**24 693 490**	**15 458 244**	**(2 005 843)**	**(4 464 912)**	**178 588**	**(1 920 181)**	**(7 452 251)**	**24 487 135**
Equity and index instrument	17 069 248	12 409 903	(1 566 364)	(4 785 914)	162 668	(1 596 403)	(5 503 829)	16 189 309
Commodity instruments	147 457	6 823	66 588	(130 202)	-	-	10 565	101 231
Credit derivatives	3 747 361	1 097 463	(252 934)	44 450	7 787	(288 815)	(374 176)	3 981 136
Foreign exchange instruments	976 913	60 419	(138 740)	254 167	8 133	(24 531)	(505 858)	630 503
Interest rate instruments	1 497 472	971 182	(74 591)	(42 243)	-	(8 067)	(360 792)	1 982 961
Other financial instruments	1 255 039	912 454	(39 802)	194 830	-	(2 365)	(718 161)	1 601 995
Held for Trading	**67 335**	**35 467**	**(12 088)**	**(7 380)**	**2 154**	**(28 815)**	**29 776**	**86 449**
Equity and index instruments	56 290	33 497	(3 661)	(7 337)	2 154	(28 815)	28 699	80 827
Other financial instruments	11 045	1 970	(8 427)	(43)	-	-	1 077	5 622

Financial liabilities at fair value through profit or loss	**Balance at 01.01.2017**	Acquisitions	Change in fair value	Reimbursements/ Other	Transfers from L2 to L3	Transfers from L3 to L2	Offsetting of the assets and liabilities	**Balance 31.12.2017**
Designated at fair value through P&L	**22 531 600**	**19 985 859**	**(946 823)**	**(9 770 252)**	**129 107**	**(537 441)**	**(6 698 560)**	**24 693 490**
Equity and index instrument	16 135 481	158 144	(565 978)	1 511 072	1 938	(823)	(170 586)	17 069 248
Commodity instruments	190 969	1 377 604	(80 979)	(638 802)	29 655	3 730	(734 720)	147 457
Credit derivatives	3 446 076	15 949 899	6 911	(11 286 063)	94 846	(499 662)	(3 964 646)	3 747 361
Foreign exchange instruments	564 059	751 558	(191 663)	24 731	2 668	(2 153)	(172 287)	976 913
Interest rate instruments	1 618 573	794 291	(69 428)	(328 751)	-	(1 063)	(516 150)	1 497 472
Other financial instruments	576 442	954 363	(45 686)	947 561	-	(37 470)	(1 140 171)	1 255 039
Held for Trading	**93 125**	**41 973**	**12 275**	**(76 204)**	**2 314**	**-**	**(6 148)**	**67 335**
Equity and index instruments	73 101	25 672	17 559	(56 208)	2 314	-	(6 148)	56 290
Other financial instruments	20 024	16 301	(5 284)	(19 996)	-	-	-	11 045

9. Risk Management (continued)

Transfers from Level 3 to Level 2 and from Level 2 to Level 3

As described in Note 3.3 "Fair Value of the financial instruments", the consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For high maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable parameters.
Transfers from Level 2 to Level 3 can occur in case of a modification within a parameter (no longer linked to the deal, modification of the observability rule of the parameter, etc…).

Operational risk

Operational risk is the risk of loss or fraud caused by defects or failures in internal procedures or systems, human error or external events, including IT risk and management risk. Particular attention is paid to compliance risk, which receives enhanced monitoring.

The Company participates in the effort to strengthen the management and monitoring of operational risk led by the Société Générale Group. This effort is guided by the Operational Risk Department, which reports to the Société Générale Group Risk Department, and is relayed by different Group operational risk monitoring units responsible for implementing the policies and directives issued by the Société Générale Group and monitoring and controlling operational risks.

The monitoring arrangement mainly relies on four processes supervised by the operational risk departments: periodic risk and control self-assessment (RCSA), collecting internal data on losses due to operational risk with exhaustive real-time reporting of incidents, pattern analyses, and permanent control system.
These procedures are supplemented by a crisis management unit and a business continuity plan.

10. Off-balance sheet

As at 30 June 2018, financial instruments to be issued (engagement taken before 30 June 2018 with value date after 30 June 2018) amount to KEUR 3 156 211 (31 December 2017: KEUR 1 967 092).

All the financial instruments issued by the Company benefit from a guarantee provided by Société Générale, meaning that payments in respect of the financial instruments are unconditionally and irrevocably guaranteed by Société Générale (the Guarantor).

In addition to the guarantee on first demand granted by Société Générale on unsecured and secured Notes, subscribers of the secured Notes issued by the Company benefit from additional collateral assets securing the payment due under the Notes terms, structured in form of a pledge governed by Luxembourg Law. This pledge may only be enforced following a default of the Company or Société Générale in its role of Guarantor.
Pledged collateral assets are deposited on an account held in the name of the Company with an authorised custodian not belonging to the Société Générale Group and are pledged in favour of the Notes holders.
As at 30 June 2018, securities deposited at BNY Mellon as collateral for secured issuances amount to KEUR 3 732 574 (31 December 2017: KEUR 5 369 022).

10. Off-balance sheet (continued)

All the warrants issued are fully hedged by concluding identically equipped OTC options with Société Générale.

The warrants issued as at 30 June 2018 and 31 December 2017 break down as follows:

				30/06/2018		31/12/2017	
Warrant Type	**Category of Underlying**	**Type of Underlying**	**Option Type**	**Quantity**	**Volume (000 EUR)**	**Quantity**	**Volume (000 EUR)**
Commodity Future Warrant	Future	Commodity Future	Call	151	995 579	124	3 929 490
			Put	83	255 487	49	116 224
Commodity Warrant	Commodity	Mutual Fund	Call	49	122 584	68	152 538
			Put	56	149 140	57	116 801
Currency Warrant	Currency		Call	214	259 223	176	5 749 702
			Put	220	231 628	125	2 326 562
Equity Warrant	Equity	American Depositary Receipt	Call	21	39 872	7	14 641
			Put	20	33 914	5	8 547
		Ordinary Share	Call	4 732	34 095 949	5 348	35 182 893
			Put	3 027	10 373 645	3 055	10 967 356
		Other Receipt	Call	12	11 688	13	31 697
			Put	9	5 493	8	9 082
		Own Share	Call	100	198 754	75	168 342
			Put	102	161 394	68	139 146
		Preference	Call	20	35 072	18	65 500
			Put	33	44 846	18	60 975
		REIT	Call	33	97 369	67	180 994
			Put	20	28 773	41	87 367
Index Warrant	Index	Index	Call	1 657	42 734 744	1 616	38 031 494
			Put	1 252	26 812 535	774	16 914 221
Fund Warrant	Fund	Mutual Fund	Call	48	1 088 517	179	1 282 982
			Put	5	50 181	4	35 083
Total Call			**Call**	**7 037**	**79 679 351**	**7 691**	**84 790 273**
Total Put			**Put**	**4 827**	**38 147 036**	**4 204**	**30 781 364**
Total				**11 864**	**117 826 387**	**11 895**	**115.571.637**

11. Share capital and Share premium

As at 31 December 2017, the subscribed and fully paid share capital, 100% held by Société Générale Bank and Trust S.A., was EUR 2 000 160, divided into 50 004 shares with nominal value of EUR 40 each.

By resolution adopted on 12 January 2018, the Executive Board decided to increase the capital of the Company, effective 15 January 2018, from EUR 2 000 160 to EUR 2 000 200 by the issue of a new share with a nominal value of EUR 40, subscribed by the sole shareholder. In the context of the capital increase, the 2017 activity related interests amounting to KEUR 62 725 have been allocated to the Share premium.

As at 30 June 2018, the subscribed and fully paid share capital, 100% held by Société Générale Bank & Trust S.A., is EUR 2 000 200, divided into 50 005 shares with nominal value of EUR 40 each.

The Company manages its capital to ensure it will be able to continue as a going concern. The capital structure consists in issued capital, reserves and retained earnings.

The capital amount may be increased, subject to the approval or the Sole Shareholder, if the Company's activity evolves, incurring specific additional risks.

12. Reserves

Legal reserve

In accordance with the Luxembourg law, the Company is required to allocate a minimum of 5% of its annual net profit to a Legal reserve until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.
As at 30 June 2018, the legal reserve amounts to KEUR 200 (31 December 2017: KEUR 200).

Other reserves

As at 30 June 2018, other reserves include temporarily unavailable reserves amounting to KEUR 1 662 (Net Wealth Tax reserve), which correspond to five times the reduction in the Net Wealth Tax for the respective years for which the Net Wealth Tax has been reduced (31 December 2017: KEUR 1 664).
If the amount of the NWT reserve is not maintained for a five year period (for a reason other than a change in capital), the Company's NWT liability will be increased by the amount of the NWT reduction for the years concerned. The Company decided to keep this reserve in accordance with the above.

13. Taxation

The Company is liable for all taxes applicable to Luxembourg commercial companies.

Since 2007, the Company is part of a tax integration group led by SGBT, as authorised by the article 164 bis LIR and has concluded a Tax Sharing Agreement (the "Agreement") with SGBT. Under the Agreement, the Company pays to SGBT, with respect to each financial year, an amount equal to the tax which would be levied on the profits of the Company in the absence of any tax consolidation with the Parent.

For the period ended 30 June 2018, the theoretical tax rate is 26.01% (2017: 27.08%) while the actual tax rate of the Company is the one from the tax integration Group to which it belongs, as explained above.

Refer to Note 12 for further information on Net Wealth Tax.

14. Subsequent events

There was no subsequent event which could have a significant impact on the condensed interim financial information as at 30 June 2018.

APPENDIX 4 – FINANCIAL INFORMATION OF THE GUARANTOR FOR THE YEAR ENDED 31 DECEMBER 2018

Reproduction of Extracts of the "2019 REGISTRATION DOCUMENT" of the Guarantor for the year ended 31 December 2018 and the Statutory Auditors' Report on the Consolidated Financial Statements

TABLE OF CONTENTS

This Appendix has been extracted from the "2019 Registration Document" of the Guarantor. References to page numbers referred to above are to page numbers appearing in the said Registration Document which is a translation of the original French text. This is a free translation into English of a report issued in French and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance, with French law and professional standards applicable in France.

2

GROUP MANAGEMENT REPORT

2.1 SOCIETE GENERALE GROUP MAIN ACTIVITIES

Societe Generale Group

Corporate Centre	International Retail Banking and Financial Services (IBFS)

FRANCE

Corporate Centre:

- Société Générale*
- Généfinance 100%
- SG Financial SH 100%
- Sogéparticipations 100%
- Société Générale SFH 100%
- Société Générale SCF 100%
- Sogefim Holding 100%
- Galybet 100%
- Genevalmy 100%
- Valminvest 100%
- Sogemarché 100%
- Sogecampus 100%

International Retail Banking and Financial Services (IBFS):

- Sogessur 100%
- Sogecap 100%
- CGL 99.9%
- Banque Française Ocean Indien 50%
- SGEF SA 100%
- ALD 80%

EUROPE

International Retail Banking and Financial Services (IBFS):

- Hanseatic Bank *Germany* 75%
- Komercni Banka A.S *Czech Republic* 60.7%
- SG Express Bank *Bulgaria* 99.7%
- SKB Banka *Slovenia* 99.7%
- SG Banka SRBIJA *Serbia* 100%
- BRD-Groupe SG *Romania* 60.2%
- PJSC Rosbank *Russia* 100%
- Fiditalia S.P.A. *Italy* 100%

AFRICA - MEDITERRANEAN

International Retail Banking and Financial Services (IBFS):

- SG Marocaine de Banques. *Morocco* 57.5%
- SG Algérie 100%
- Société Générale de Banques Côte d'Ivoire 73.2%

AMERICAS

ASIA - AUSTRALIA

* Parent Company
Notes:
- the percentages given indicate the percentage of capital held by the Group in the subidiary
- the groups are listed under the geographic region where they carry out their principal activities

Societe Generale Group

French Retail Banking (RBDF)		Global Banking and Investor Solutions (GBIS)	
FRANCE			
Société Générale*		Société Générale*	
Crédit du Nord	100%	Inter Europe Conseil (IEC)	100%
Boursorama	100%	Lyxor Asset Management	100%
Franfinance	100%	CALIF	100%
Sogefinancement	100%	Descartes Trading	100%
Sogelease France	100%	Société Générale Capital Partenaires	100%
Sogeprom	100%		
EUROPE			
		Société Générale Bank&Trust *Luxembourg*	100%
		SG Kleinwort Hambros Bank Limited *United Kingdom*	100%
		SG Investments (U.K.) Ltd *United Kingdom*	100%
		Société Générale International Ltd Londres *United Kingdom*	100%
		Société Générale Effekten. *Germany*	100%
		SG Issuer. *Luxembourg*	100%
		SGKBB Limited *United Kingdom*	100%
		SGSS Spa *Italy*	100%
		SG Private Banking *Switzerland*	100%
		SG Private Banking *Monaco*	100%
		Société Générale* branches in: Londres *United Kingdom*, Milan *Italy*, Francfort *Germany*, Madrid *Spain*	
AFRICA - MEDITERRANEAN			
AMERICAS			
		Banco SG Brazil SA. *Brazil*	100%
		SG Americas. Inc. *United States*	100%
		SG Americas Securities Holdings. LLC *United States*	100%
		Société Générale* branches in:	
		New York *United States*	
		Montréal *Canada*	
ASIA - AUSTRALIA			
		Société Générale (China) Ltd *China*	100%
		SG Securities Asia International Holdings Ltd *Hong Kong*	100%
		SG Securities Korea Co. Ltd *South Korea*	100%
		SG Securities Japan Limited *Japan*	100%
		Société Générale* branches in: Séoul *South Korea*, Taipei *Taiwan*, Singapour, Munbaï	

2.2 GROUP ACTIVITY AND RESULTS

Definitions and details of methods used are provided on pages 40 and following.

Information followed by an asterisk is indicated as adjusted for changes in Group structure and at constant exchange rates.

The reconciliation of reported and underlying data is provided on page 41.

2.2.1 ANALYSIS OF THE CONSOLIDATED INCOME STATEMENT

(In EUR m)	2018	2017		Change
Net banking income	**25,205**	**23,954**	**+5.2%**	**+6.4%***
Operating expenses	(17,931)	(17,838)	+0.5%	+1.6%*
Gross operating income	**7,274**	**6,116**	**+18,9%**	**+20.8%***
Net cost of risk	(1,005)	(1,349)	-25.5%	-23.4%*
Operating income	6,269	4,767	+31.5%	+33.2%*
Net income from companies accounted for by the equity method	56	92	n/s	
Net profits or losses from other assets	(208)	278	n/s	
Impairment losses on goodwill	0	1	n/s	
Income tax	(1,561)	(1,708)	-8.6%	-8.0%
Net income	4,556	3,430		
o.w. noncontrolling interests	692	624		
Group net income	**3,864**	**2,806**	**+37.7%**	**+42.7%**
Cost-to-income ratio	71.1%	74.5%		
Average allocated capital	48,138	48,087		
ROTE	**8.8%**	**5.7%**		

** When adjusted for changes in Group structure and at constant exchange rates*

Net banking income

Book net banking income totalled EUR 25,205 million in 2018, up 5.2% compared to 2017 (EUR 23,954 million).

In 2017, net banking income included several exceptional items, i.e. the impact of the settlement agreement with the LIA (EUR -963 million) and the adjustment of hedging costs in French Retail Banking (EUR -88 million). When restated for these items and noneconomic items, underlying net banking income came to EUR 25,062 million in 2017.

Underlying net banking income grew by 0.6% in 2018.

- In 2018, French Retail Banking's net banking income, excluding PEL/CEL provision, declined -1.8% vs. 2017, in line with the Group's expectations. French Retail Banking continued with its transformation and developed its growth drivers in an environment still characterised by low interest rates.
- International Retail Banking & Financial Services' revenues were significantly higher (+5.1%, +6.6%*), impacted by the robust commercial dynamism across all businesses and geographical regions. Accordingly, International Retail Banking revenues increased by +6.3% (+9.1%*), Insurance revenues by +6.6% (+4.9%*) and Financial Services to Corporates' revenues by +1% (+0.2%*).
- Global Banking & Investor Solutions' net banking income fell -3.6%. Financing & Advisory revenues were +7.1% (+8.6%*) higher due to the healthy commercial momentum. In contrast, the revenues of Global Markets and Investor Services were -8.3% (-6.6%*) lower than in 2017 in a challenging market environment.

In accordance with IFRS 9, the variation in the revaluation of the Group's own financial liabilities is no longer recognised in profit or loss for the period. Consequently, in 2018, the Group no longer restates its earnings for noneconomic items.

Operating expenses

Underlying operating expenses amounted to EUR -17,595 million in 2018, representing a contained increase of 2% compared to 2017 (EUR -17,243 million). In Q2 18 and Q3 18, the provision for disputes was the subject of a total additional allocation of EUR -336 million. Note that 2017 underlying operating expenses included a EUR 60 million restructuring provision write-back. In 2017, three exceptional expenses were recognised in operating expenses: an exceptional expense related to the acceleration in the adaptation of French Retail Banking networks amounting to EUR -390 million, an expense related to the receipt of a tax rectification proposal following a tax control by the French authorities regarding various operating taxes amounting to EUR -145 million and a charge related to the consequences of the judgement of the Paris Court of Appeal of 21st December 2017 confirming the fine regarding the dematerialisation of cheque processing amounting to EUR -60 million.

The increase in operating expenses is in line with the full-year target in French Retail Banking and reflects cost control in Global Banking & Investor Solutions. Efforts to support growth in International Retail Banking & Financial Services resulted in a positive jaws effect between revenue growth and the increase in costs.

In 2018, the Group reached agreements on the litigation issues with the US authorities relating to the Libor and to economic sanctions and anti-money laundering, and with the US and French authorities on Libya. These agreements provided for commitments by the Group with respect to these authorities and the payment of fines, which correspond to the provisions booked for this purpose.

The balance of the provision for disputes was EUR 0.3 billion at 31st December 2018.

Gross operating income

Book gross operating income totalled EUR 7,274 million in 2018 (vs. EUR 6,116 million in 2017) and underlying gross operating income EUR 7,610 million (vs. EUR 7,819 million in 2017).

Cost of risk[1]

The net cost of risk amounted to EUR -1,005 million in 2018, 25.5% lower than in 2017 (EUR -1,349 million). The underlying net cost of risk was 5.9% higher.

The Group's commercial cost of risk amounted to 21 basis points in 2018, very slightly higher than in 2017 (19 basis points), at the bottom end of the expected range (between 20 and 25 basis points).

In French Retail Banking, the commercial cost of risk amounted to 26 basis points (30 basis points in 2017) due to a selective origination policy.

International Retail Banking & Financial Services' cost of risk stood at a still low level of 30 basis points (vs. 29 basis points in 2017) due to further provision write-backs in the Czech Republic and Romania.

Global Banking & Investor Solutions' cost of risk amounted to 6 basis points, an increase compared to the historically low level of -1 basis point in 2017.

The Group expects a cost of risk of between 25 and 30 basis points in 2019.

The gros doubtful outstanding ratio stood at 3.6% at end-December 2018 (vs. 4.4% at end-December 2017). The Group's gross coverage ratio for doubtful outstanding stood at 54%[2] at end-December 2018 (stable vs. 30th September 2018).

Operating income

Book operating income totalled EUR 6,269 million in 2018, 31.5% higher than in 2017. Underlying operating income came to EUR 6,605 million (vs. EUR 6,870 million in 2017).

Net profits or losses from other assets

Net profits or losses from other assets include primarily the capital loss recognised under IFRS 5 in respect of disposals currently being finalised by the Group amounting to EUR -268 million in 2018 (EUR -241 million in Q4 18), with EUR -202 million corresponding to the disposals already announced (Societe Generale Albania, Societe Generale Serbia, Mobiasbanca Societe Generale in Moldavia) and Societe Generale's stake in La Banque Postale Financement.

Net income

(In EUR m)	2018	2017
Reported Group net income	3,864	2,806
Underlying Group net income[1]	4,468	4,491

(In %)	2018	2017
ROTE (reported)	8.8%	5.7%
Underlying ROTE[1]	9.7%	9.6%

(1) Adjusted for noneconomic items (in 2017) and exceptional items.

Earnings per share amounts to EUR 4.24 in 2018 (EUR 2.98 in 2017)[3].

(1) 2018 figures are based on IFRS 9, 2017 figures are based on IAS 39, figures restated for the transfer of Global Transaction and Payment Services from French Retail Banking to Global Banking & Investor Solutions.
(2) Ratio between the amount of provisions on doubtful outstandings and the amount of these same outstandings.
(3) Excluding noneconomic and exceptional items (gross EPS of EUR 2.92 in 2017).

2.3 ACTIVITY AND RESULTS OF THE CORE BUSINESSES

2.3.1 RESULTS BY CORE BUSINESS

	French Retail Banking		International Retail Banking and Financial Services		Global Banking and Investor Solutions		Corporate Centre		Group	
(In EUR m)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net banking income	**7,860**	**8,014**	**8,317**	**7,914**	**8,846**	**9,173**	**182**	**(1,147)**	**25,205**	**23,954**
Operating expenses	(5,629)	(5,939)	(4,526)	(4,404)	(7,241)	(7,121)	(535)	(374)	(17,931)	(17,836)
Gross operating income	**2,231**	**2,075**	**3,791**	**3,510**	**1,605**	**2,052**	**(353)**	**(1,521)**	**7,274**	**6,116**
Net cost of risk	(489)	(547)	(404)	(400)	(93)	(2)	(19)	(400)	(1,005)	(1,349)
Operating income	**1,742**	**1,528**	**3,387**	**3,110**	**1,512**	**2,050**	**(372)**	**(1,921)**	**6,269**	**4,767**
Net income from companies accounted for by the equity method	28	33	15	41	6	1	7	17	56	92
Net profits or losses from other assets	74	9	8	36	(16)	(4)	(274)	237	(208)	278
Impairment losses on goodwill	-	-	-	1	-	-	-	-	-	1
Income tax	(607)	(511)	(841)	(820)	(281)	(429)	168	52	(1,561)	(1,708)
Net income	1,237	1,570	2,569	2,368	1,221	1,618	(471)	(1,615)	4,556	3,430
o.w. noncontrolling interests	-	-	504	429	24	25	164	170	692	624
Group net income	**1,237**	**1,059**	**2,065**	**1,939**	**1,197**	**1,593**	**(635)**	**(1,785)**	**3,864**	**2,806**
Cost-to-income ratio	71.6%	74.1%	54.4%	55.6%	81.9%	77.6%			71.1%	74.5%
Average allocated capital	**11,201**	**11,027**	**11,390**	**11,137**	**15,425**	**14,996**	**10,097**	**10,927**	**48,138**	**48,087**
RONE (businesses)/ROTE (Group)	**11.0%**	**9.6%**	**18.1%**	**17.4%**	**7.8%**	**10.6%**			**8.8%**	**5.7%**

The figures given for 2017 correspond to the new quarterly series published on 6th April 2018

2.3.2 FRENCH RETAIL BANKING

(In EUR m)	2018	2017	Change
Net banking income	**7,860**	**8,014**	**-1.9%**
Operating expenses	(5,629)	(5,939)	-5.2%
Gross operating income	**2,231**	**2,075**	**+7.5%**
Net cost of risk	(489)	(547)	-10.6%
Operating income	**1,742**	**1,528**	**+14.0%**
Net income from companies accounted for by the equity method	28	33	-15.2%
Net profits or losses from other assets	74	9	x8.2
Impairment losses on goodwill	0	0	n/s
Income tax	(607)	(511)	+18.8%
Net income	1,237	1,059	+16.8%
o.w. noncontrolling interests	0	0	n/s
Group net income	**1,237**	**1,059**	**+16.8%**
Cost-to-income ratio	71.6%	74.1%	
Average allocated capital	11,201	11,027	

French Retail Banking enjoyed a solid commercial momentum and delivered a resilient financial performance in 2018, against the backdrop of persistently low interest rates and the transformation of the French networks.

Activity and net banking income

French Retail Banking's three brands, Societe Generale, Crédit du Nord and Boursorama, pursued their commercial expansion, particularly for their growth drivers.

With nearly 460,000 new clients in 2018, Boursorama set a new client on boarding record (+45% vs. 2017) and consolidated its position as the leading online bank in France with nearly 1.7 million clients at end-December 2018.

At the same time, the Societe Generale and Crédit du Nord networks strengthened their franchises on the Group's target customers.

Supported by a solid private banking platform, French Retail Banking continued to expand its mass affluent and wealthy client base (up +3% at end-December 2018 vs. end-December 2017) and recorded net inflow of EUR 3.3 billion in 2018. This robust performance was masked by a challenging market environment, resulting in assets under management declining -1.2% vs. end-December 2017, to EUR 61 billion (including Crédit du Nord) at end-December 2018.

Bancassurance enjoyed buoyant activity, with net inflow of EUR 1,730 million. In 2018, outstanding amounted to EUR 92.3 billion, up +1.3% vs. 2017, with the unit-linked share accounting for 24%.

In the Business customer segment, French Retail Banking continued with the roll out of its regional business centres, with five units at end-December, thereby strengthening its expertise in this segment where the number of customers increased 1% in 2018.

In the case of Professional customers, Societe Generale now has eight new "Pro Corners" (spaces pro) with 103 "corners" dedicated to professionals rolled out in branches, as at end-December 2018. The number of professional customers in French Retail Banking grew by nearly 1% in 2018.

In a low interest rate environment, the Group confirmed its selective origination strategy.

Housing loan production totalled EUR 18.7 billion in 2018. Consumer loan production remained dynamic with an increase of +12.7% in 2018. Outstanding loans to individuals totalled EUR 109.9 billion and rose +3.0% vs. 2017.

Corporate investment loan production was very robust, up +12.4% in 2018 to EUR 14.2 billion). Accordingly, average investment loan outstanding rose +3.9% vs. 2017.

Overall, average loan outstanding rose +3.3% vs. 2017 to EUR 185.7 billion. Average outstanding balance sheet deposits came to EUR 199.4 billion in 2018, up +2.9% vs. 2017, underpinned by sight deposits (+8.4%). As a result, the average loan/deposit ratio stood at 93.2% in 2018 (vs. 92.8% in 2017).

French Retail Banking posted net banking income (after neutralising the impact of PEL/CEL provisions) of EUR 7,838 million, down -1.8% over 12 months, in line with Group expectations (decline of between -1% and -2% in 2018).

The healthy fee momentum (+1.4% in 2018), particularly for service commissions (+2.6% in 2018) was more than masked by the fall in net interest income adversely affected by the low interest rate environment (decline of -5.4% in 2018).

Operating expenses

French Retail Banking's underlying operating expenses totalled EUR 5,629 million, up +2.6% vs. 2017 (restated for exceptionals recognised in Q4 17), in line with the expected increase in underlying operating expenses of less than 3% for the year. This increase reflects the acceleration of investments in the digital transformation process and the development of growth drivers.

As part of its transformation plan, the Group notably closed more than 100 branches over twelve months, thereby achieving between 2016 and 2018 nearly 60% of its 2020 target (-500 branches).

At the same time, the Group continued to digitalise the banking networks, with the ongoing dematerialisation of the offering.

The cost to income ratio stood at 71.6% in 2018.

Operating income

In 2018, the net cost of risk declined by -10.6% vs. 2017. Operating income came to EUR 1,742 million in 2018 (EUR 1,528 million in 2017).

Contribution to Group net income

French Retail Banking's contribution to Group net income amounted to EUR 1,237 million (vs. EUR 1,059 million in 2017) with resilient profitability of 10.9% restated for the PEL/CEL provision (13.0%[1] in 2017).

(1) Adjusted for noneconomic items, exceptional items and effect of the linearisation of IFRIC 21.

2.3.3 INTERNATIONAL RETAIL BANKING & FINANCIAL SERVICES

(In EUR m)	2018	2017		Change
Net banking income	**8,317**	**7,914**	**+5.1%**	**+6.6%***
Operating expenses	(4,526)	(4,404)	+2.8%	+4.7%*
Gross operating income	**3,791**	**3,510**	**+8.0%**	**+8.9%***
Net cost of risk	(404)	(400)	+1.0%	+10.3%*
Operating income	**3,387**	**3,110**	**+8.9%**	**+8.7%***
Net income from companies accounted for by the equity method	15	41	-63.4%	-45.1%*
Net profits or losses from other assets	8	36	-77.8%	-78.4%*
Impairment losses on goodwill	0	1	n/s	n/s
Income tax	(841)	(820)	+2.6%	+2.3%*
Net income	2,569	2,368	+8.5%	+8.9%*
o.w. noncontrolling interests	504	429	+17.5%	+7.4%*
Group net income	**2,065**	**1,939**	**+6.5%**	**+9.3%***
Cost-to-income ration	54.4%	55.6%		
Average allocated capital	11,390	11,137		

** When adjusted for changes in Group structure and at constant exchange rates*

The division's net banking income totalled EUR 8,317 million in 2018, up +5.1% vs. 2017, driven by an excellent commercial momentum in all regions and businesses. Operating expenses remained under control, amounting over the same period to EUR -4,526 million (+2.8%), resulting in a positive jaws effect despite a EUR 60 million restructuring provision write-back in 2017. Gross operating income totalled EUR 3,791 million in 2018 (+8.0%).

The net cost of risk remained at a low level of EUR 404 million in 2018. It included provision write-backs in the Czech Republic and Romania as well as the receipt of an insurance payout in Romania in 2017 and Q1 18. The virtual stability of the net cost of risk (+1%) reflects rigorous risk management. The contribution to Group net income totalled EUR 2,065 million in 2018, a record level (up +6.5% vs. 2017).

Underlying RONE stood at 18.1% in 2018 (17.4% in 2017) and 19.0% in Q4 18 (vs. 15.6% in Q4 17).

International Retail Banking

(In EUR m)	2018	2017		Change
Net banking income	**5,608**	**5,278**	**+6.3%**	**+9.1%***
Operating expenses	(3,238)	(3,171)	+2.1%	+5.0%*
Gross operating income	**2,370**	**2,107**	**+12.5%**	**+15.2%***
Net cost of risk	(335)	(349)	-4.0%	+5.9%*
Operating income	**2,035**	**1,758**	**+15.8%**	**+16.9%***
Net income from companies accounted for by the equity method	14	26	-46.2%	
Net profits or losses from other assets	7	36	-80.6%	
Impairment losses on goodwill	0	1	n/s	
Income tax	(474)	(418)	+13.4%	
Net income	1,582	1,403	+12.8%	
o.w. noncontrolling interests	395	361	+9.4%	
Group net income	**1,187**	**1,042**	**+13.9%**	**+15.2%***
Cost-to-income ration	57.7%	60.1%		
Average allocated capital	6,926	6,734	+2.8%	

** When adjusted for changes in Group structure and at constant exchange rates*

International Retail Banking's outstanding loans rose +5.0% (+6.4%*) vs. Q4 17 to EUR 93 billion at end-December 2018, with uniform growth across the three regions. Deposit inflow also remained dynamic. Outstanding deposits totalled EUR 83.3 billion at end-December 2018, up +4.4% (+5.8%*) year-on-year.

International Retail Banking revenues were +6.3% (+9.1%*) higher than in 2017 at EUR 5,608 million, while operating expenses were up +2.1% (+5.0%*) at EUR -3,238 million. Gross operating income came to EUR 2,370 million, up +12.5% (+15.2%*) vs. 2017. International Retail Banking's contribution to Group net income amounted to a record level of EUR 1,187 million in 2018 (+13.9% vs. 2017).

In Western Europe, outstanding loans were up +10.4% vs. Q4 17, at EUR 20.1 billion. Car financing remained particularly buoyant over the period. Revenues totalled EUR 836 million in 2018, up +9.7% vs. 2017, while operating expenses were 3.5% higher. Consequently, gross operating income was 15.6% higher in 2018. The contribution to Group net income came to EUR 242 million, up +16.3% vs. 2017.

In the Czech Republic, the Group delivered a solid commercial performance in 2018: outstanding loans rose +3.9% (+4.6%*) and outstanding deposits increased +4.2% (+5.0%*). Revenues were higher (+7.2%, +4.4%*) and amounted to EUR 1,119 million in 2018, driven by a positive volume effect, combined with a rise in rates. Over the same period, operating expenses were +4.2% (+1.8%*) higher at EUR -594 million, including in particular a EUR 11.5 million restructuring provision in Q2 18. There was a net write-back in the net cost of risk of EUR 23 million compared with a net write-back of EUR 11 million in 2017. Against this backdrop, the contribution to Group net income came to EUR 266 million, up +4.7% compared to 2017 when the first quarter benefited from a capital gain on a property disposal following the sale of the historic headquarters.

In Romania, outstanding loans totalled EUR 6.8 billion at end-December 2018, up +3.9% (+4.0%*) vs. end-December 2017. Over the same period, deposits amounted to EUR 9.7 billion, up +2.2% (+2.3%*). Against a backdrop of rising interest rates, net banking income climbed +9.5% (+11.6%*) in 2018. Operating expenses were down -1.2% (+0.5%*) with, in particular, a reduction in the contribution to deposit guarantee and resolution funds and after a 2017 impacted by investments in the network's transformation. There was a net write-back in the net cost of risk of EUR 56 million in 2018 compared with a net write-back of EUR 86 million in 2017. The contribution to Group net income was EUR 149 million, up 9.6% vs. 2017.

In other European countries, outstanding loans were up +6.0% (+6.5%*) and outstanding deposits were up +6.6% (+6.5%*) in 2018. Revenues increased +5.9% (+10.5%*) in 2018, while operating expenses were +11.1% (+17.1%*) higher than in 2017 given the EUR 60 million restructuring provision write-back in 2017. The net cost of risk remained under control, resulting in a significant decline of -57.1% (-43.1%*) compared to 2017. The contribution to Group net income totalled EUR 181 million (vs. EUR 147 million in 2017).

In Russia, there was further confirmation of commerciale expansion in the individual customer segment. Outstanding loans were up +6.2%* at constant exchange rates (-3.8% at current exchange rates) in 2018. Outstanding deposits increased +8.5%* at constant exchange rates (-0.5% at current exchange rates) benefiting from the surplus liquidity in the market. Net banking income for SG Russia[(1)] came to EUR 815 million in 2018, up +9.1%* (-3.2% at current exchange rates). Operating expenses were up +5.5%* (-5.4% at current exchange rates). The net cost of risk increased by EUR 19 million at constant exchange rates and remained at a generally low level. SG Russia made a positive contribution to Group net income of EUR 144 million vs. EUR 147 million in 2017.

In Africa and the other regions where the Group operates, commercial activity was generally healthy in both Sub-Saharan Africa and the Mediterranean Basin. Outstanding loans rose +5.6% (+5.8%*) in 2018 to EUR 21.2 billion. Outstanding deposits were also up +7.3% (+7.4%*) at EUR 20.9 billion. Net banking income totalled EUR 1,641 million in 2018, an increase of +7.1% (+10.3%*) compared to 2017. Over the same period, operating expenses rose +2.4% (+4.6%*). The contribution to Group net income came to EUR 237 million in 2018, up +27.4% vs. 2017.

(1) SG Russia encompasses the entities Rosbank, Delta Credit Bank, Rusfinance Bank, Societe Generale Insurance, ALD Automotive and their consolidated subsidiaries.

Insurance

(In EUR m)	2018	2017	Change	
Net banking income	**887**	**832**	**+6.6%**	**+4.9%***
Operating expenses	(333)	(308)	+8.1%	+7.1%*
Gross operating income	**554**	**524**	**+5.7%**	**+3.6%***
Net cost of risk	0	0	n/s	n/s
Operating income	**554**	**524**	**+5.7%**	**+3.6%***
Net income from companies accounted for by the equity method	0	(1)	n/s	
Net profits or losses from other assets	0	0	n/s	
Impairment losses on goodwill	0	0	n/s	
Income tax	(183)	(178)	+2.8%	
Net income	371	345	+7.5%	
o.w. noncontrolling interests	3	2	+50.0%	
Group net income	**368**	**343**	**+7.3%**	**+5.1%***
Cost-to-income ration	37.5%	37.0%		
Average allocated capital	1,825	1,809	+0.9%	

** When adjusted for changes in Group structure and at constant exchange rates*

The life insurance savings business saw outstanding increase +1.1%* in 2018 in a challenging market environment. The share of unit-linked products in outstanding was stable at end-December 2018 compared to 2017, at 26%.

There was further growth in Personal Protection insurance (premiums up +7.5%* vs. 2017). Likewise, Property/Casualty insurance continued to enjoy strong growth (premiums up +9.8%* vs. 2017). International activity was particularly dynamic.

The Insurance business posted a good financial performance in 2018, with net banking income increasing +6.6% to EUR 887 million (+4.9%*) and the cost to income ratio remaining at a low level (37.5%). The contribution to Group net income was 7.3% higher at EUR 368 million in 2018.

Financial Services to Corporates

(In EUR m)	2018	2017		Change
Net banking income	**1,822**	**1,804**	**+1.0%**	**+0.2%***
Operating expenses	(955)	(925)	+3.2%	+2.9%*
Gross operating income	**867**	**879**	**-1.4%**	**-2.7%***
Net cost of risk	(69)	(51)	+35.3%	+38.1%*
Operating income	**798**	**828**	**-3.6%**	**-5.2%***
Net income from companies accounted for by the equity method	1	16	-93.8%	
Net profits or losses from other assets	1	0	n/s	
Impairment losses on goodwill	0	0	n/s	
Income tax	(184)	(224)	-17.9%	
Net income	616	620	-0,6%	
o.w. noncontrolling interests	106	66	+60.6%	
Group net income	**510**	**554**	**-7.9%**	**+0.6%***
Cost-to-income ration	52.4%	51.3%		
Average allocated capital	2,639	2,595	+1.7%	

** When adjusted for changes in Group structure and at constant exchange rates*

Financial Services to Corporates maintained a good commercial momentum in 2018.

Operational Vehicle Leasing and Fleet Management experienced a substantial increase in its vehicle fleet (+10.1% vs. 2017) to 1.663 million vehicles at end-December 2018, driven by the strategy of ramping up distribution channels.

Equipment Finance's outstanding loans were up +4.5% (+4.7%*) in 2018 vs. 2017 at EUR 17.9 billion (excluding factoring).

Financial Services to Corporates' net banking income rose +1.0% in 2018 to EUR 1,822 million (+0.2%*), with ALD's revenues impacted by a reduction in the average residual value of used vehicles sold. Operating expenses increased +3.2% (+2.9%*) compared to 2017 and amounted to EUR -955 million. The net cost of risk amounted to EUR 69 million, an increase of EUR 18 million compared to 2017. The contribution to Group net income was EUR 510 million in 2018, down -7.9% compared to 2017, reflecting primarily the consolidation of ALD for around 80% since its stock market flotation.

2.3.4 GLOBAL BANKING & INVESTOR SOLUTIONS

(In EUR m)	2018	2017	Change	
Net banking income	**8,846**	**9,173**	**-3.6%**	**-2.1%***
Operating expenses	(7,241)	(7,121)	+1.7%	+3.2%*
Gross operating income	**1,605**	**2,052**	**-21.8%**	**-20.3%***
Net cost of risk	(93)	(2)	n/s	n/s
Operating income	**1,512**	**2,050**	**-26.2%**	**-25.0%***
Net income from companies accounted for by the equity method	6	1	n/s	
Net profits or losses from other assets	(16)	(4)	n/s	
Impairment losses on goodwill	0	0	n/s	
Income tax	(281)	(429)	-34.5%	
Net income	1,221	1,618	-24.5%	
o.w. noncontrolling interests	24	25	-4.0%	
Group net income	**1,197**	**1,593**	**-24.9%**	**-23.6%***
Cost-to-income ration	81.9%	77.6%		
Average allocated capital	15,425	14,996	+2.9%	

** When adjusted for changes in Group structure and at constant exchange rates*

Global Banking & Investor Solutions posted net banking income of EUR 8,846 million in 2018, down -3.6% compared to 2017, in an unfavourable market environment and despite the healthy momentum in Financing & Advisory.

Global Banking & Investor Solutions' operating expenses were up +1.7% compared to 2017 and amounted to EUR 7,241 million, reflecting cost control and investment in the growth of Financing activities and Global Transaction Banking.

Gross operating income came to EUR 1,605 million in 2018, down -21.8% compared to 2017.

The net cost of risk amounted to EUR -93 million in 2018 (compared to a very low net cost of risk in 2017 of EUR -2 million due to provision write-backs).

Global Banking & Investor Solutions' operating income totalled EUR 1,512 million in 2018, -26.2% lower than in 2017.

The pillar's contribution to Group net income came to EUR 1,197 million in 2018, a decrease of -24.9%.

The pillar's RONE stood at 7.8% in 2018.

Global Markets & Investor Services

(In EUR m)	2018	2017		
Net banking income	**5,207**	**5,678**	**-8.3%**	**-6.6%***
Operating expenses	(4,521)	(4,434)	+2.0%	+3.3%*
Gross operating income	**686**	**1,244**	**-44.9%**	**-42.9%***
Net cost of risk	(21)	(34)	-38.2%	-35.2%*
Operating income	**665**	**1,210**	**-45.0%**	**-43.1%***
Net income from companies accounted for by the equity method	8	5	+60.0%	
Net profits or losses from other assets	(1)	0	n/s	
Impairment losses on goodwill	0	0	n/s	
Income tax	(172)	(322)	-46.6%	
Net income	500	893	-44.0%	
o.w. noncontrolling interests	19	21	-9.5%	
Group net income	**481**	**872**	**-44.8%**	**-42.9%***
Cost-to-income ration	86.8%	78.1%		
Average allocated capital	8,259	8,317	-0.7%	

** When adjusted for changes in Group structure and at constant exchange rates*

Global Markets & Investor Services' revenues were down -8.3% in 2018, in an unfavourable market environment, impacted by political tensions in Europe and the trade war between the United States and China. However, performances remained resilient in the United States and Asia.

At EUR 1,975 million, the revenues of **Fixed Income, Currencies & Commodities** were down -16.8% in 2018 compared to 2017. Despite resilient commercial activity, Rate activities were hit by an unfavourable environment. Credit was impacted by widening spreads in line with previous quarters. At the same time, commodities put in a good performance.

Equities and Prime Services posted net banking income of EUR 2,498 million in 2018, down -4.4% vs. 2017, impacted by a declining equity market. Management of structured product portfolios was affected by sharp market movements in the first and fourth quarters. Prime Services continued to turn in a good performance while cash equities remained resilient, with an increase in trading volumes.

The Equity Derivatives franchise was once again voted "Structured Products House of the Year" by Risk Awards.

Securities Services' assets under custody amounted to EUR 4,011 billion at end-December 2018, up +2.8% vs. end-December 2017. Over the same period, assets under administration were down -6.5% at EUR 609 billion. Revenues rose +6.2% in 2018 compared to 2017, to EUR 734 million. This sharp rise reflects the continued healthy commercial momentum.

Financing & Advisory

(In EUR m)	2018	2017		Change
Net banking income	**2,673**	**2,495**	**+7.1%**	**+8.6%***
Operating expenses	(1,815)	(1,767)	+2.7%	+5.0%*
Gross operating income	**858**	**728**	**+17.9%**	**+17.1%***
Net cost of risk	(53)	30	n/s	n/s
Operating income	**805**	**758**	**+6.2%**	**+5.4%***
Net income from companies accounted for by the equity method	(1)	(4)	+75.0%	
Net profits or losses from other assets	(1)	(4)	+75.0%	
Impairment losses on goodwill	(101)	(84)	+20.2%	
Income tax	-	-		
Net income	702	666	+5.4%	
o.w. noncontrolling interests	2	2	+0.0%	
Group net income	**700**	**664**	**+5.4%**	**+4.8%***
Cost-to-income ration	67.9%	70.8%		
Average allocated capital	6,007	5,581	+7.6%	

** When adjusted for changes in Group structure and at constant exchange rates*

FInancing & Advisory's revenues totalled EUR 2,673 million in 2018, +7.1% higher than in 2017. 2018 was a record year, driven by the successful implementation of the businesses' different initiatives.

Asset Financing (especially aircraft, shipping and real estate) continued to benefit from a good level of origination activity and commissions. The Natural Resources Division enjoyed a healthy momentum in energy project financing. The Asset Backed Products platform saw further expansion.

Global Transaction Banking and Payment Service earnings were significantly higher over the year, with good commercial activity in Cash Management and Correspondent Banking despite the low interest rate environment.

Asset and Wealth Management

(In EUR m)	2018	2017		Change
Net banking income	**966**	**1,000**	**-3.4%**	**-2.8%***
Operating expenses	(905)	(920)	-1.6%	-0.9%*
Gross operating income	**61**	**80**	**-23.8%**	**-24.9%***
Net cost of risk	(19)	2	n/s	n/s
Operating income	**42**	**82**	**-48.8%**	**-49.5%***
Net income from companies accounted for by the equity method	(1)	0	n/s	
Net profits or losses from other assets	(14)	0	n/s	
Impairment losses on goodwill	0	0	n/s	
Income tax	(8)	(23)	-65.2%	
Net income	19	59	-67.8%	
o.w. noncontrolling interests	3	2	+50.0%	
Group net income	**16**	**57**	**-71.9%**	**-72.3%***
Cost-to-income ratio	93.7%	92.0%		
Average allocated capital	1,158	1,098	+5.5%	

** When adjusted for changes in Group structure and at constant exchange rates*

The net banking income of the **Asset and Wealth Management** business line totalled EUR 966 million in 2018, down -3.4% compared to 2017, with revenues remaining resilient in a low interest rate environment.

Private Banking's assets under management totalled EUR 113 billion at end-December 2018, -4% lower than in December 2017, impacted by the decline in the markets. 2018 net banking income was -4.2% lower than in 2017 at EUR 756 million, impacted by the decline in international activities in 2018.

Lyxor's assets under management came to EUR 118 billion at end-December 2018, +5.4% higher than in December 2017. Revenues totalled EUR 191 million in 2018, the same level as 2017 revenues. Good inflow offset margin pressure in ETF activity. Lyxor's ETF market share in Europe stood at 9.7% in 2018.

2.3.5 CORPORATE CENTRE

(In EUR m)	2018	2017	Change
Net banking income	**182**	**(1,147)**	**-115.9%**
Operating expenses	(535)	(374)	+43.0%
Gross operating income	**(353)**	**(1,521)**	**n/s**
Net cost of risk	(19)	(400)	-95.3%
Operating income	**(372)**	**(1,921)**	**-80.6%**
Net income from companies accounted for by the equity method	7	17	-58.8%
Net profits or losses from other assets	(274)	237	n/s
Impairment losses on goodwill	0	0	n/s
Income tax	168	52	n/s
Net income	(471)	(1,615)	+70.9%
o.w. noncontrolling interests	164	170	-3.5%
Group net income	**(635)**	**(1,785)**	**+64.4%**

The Corporate Centre includes:

- the property management of the Group's head office;
- the Group's equity portfolio;
- the Treasury function for the Group;
- certain costs related to cross-functional projects and certain costs incurred by the Group and not re-invoiced to the businesses.

The revaluation of the Group's own financial liabilities is no longer recognised in profit or loss for the period due to the implementation of IFRS 9 as from 1st January 2018. Consequently, earnings are no longer restated for this noneconomic item.

The Corporate Centre's net banking income totalled EUR 182 million in 2018 vs. EUR -1,094[(1)] million in 2017.

Operating expenses totalled EUR -535 million in 2018 vs. EUR -374 million in 2017. They included an allocation to the provision for disputes of EUR -336 million in 2018.

In 2018, the Group reached agreements on the litigation issues with the US and European authorities putting an end to their enquiries relating to Libor and to some transactions with Libyan counterparties, and with some US authorities putting an end to their enquiries regarding economic sanctions and anti-money laundering. As part of these agreements, the Group agreed to pay these different authorities penalties in an amount totalling approximately USD 2.7 billion. Concomitantly, the provision recorded in the Group accounts for public law litigation was subject to write-backs and its balance therefore came to EUR 0.3 billion at 31st December 2018.

In 2018, gross operating income totalled EUR -353 million vs. EUR -1,468[(1)] million in 2017. Gross operating income came to EUR -288 million in 2018 excluding the impact of exceptional items and after restatement of the Euroclear capital gain.

The net cost of risk amounted to EUR -19 million in 2018 vs. EUR -400 million in 2017, which included a net additional allocation of EUR -400 million to the provision for disputes.

Net profits or losses from other assets include primarily the capital loss recognised under IFRS 5 in respect of disposals currently being finalised by the Group amounting to EUR -268 million in 2018, with EUR -202 million corresponding to disposals already announced (Societe Generale Albania, Societe Generale Serbia, Mobiasbanca Societe Generale in Moldavia) and Societe Generale's stake in La Banque Postale Financement.

The Corporate Centre's contribution to Group net income was EUR -635 million in 2018 vs. EUR -1,746[(1)] million in 2017.

(1) Excluding non-economic items.

2.3.6 DEFINITIONS AND METHODOLOGY, ALTERNATIVE PERFORMANCE MEASURES

Framework

The financial information presented in respect of the financial year ending 31st December 2018 has been prepared in accordance with IFRS as adopted in the European Union and applicable at that date.

Capital allocation

In 2018, the allocation of normative capital to the businesses on the basis of their capital consumption was determined in accordance with CRR rules (11% of their risk-weighted assets, supplemented by the consumption of Common Equity Tier 1 capital chargeable to each business, after taking into account noncontrolling interests and the adjustment of capital consumption related to the insurance activities). This capital allocation rule therefore applies to the Group's three pillars (French Retail Banking, International Retail Banking and Financial Services, and Global Banking and Investor Solutions) and allows an evaluation of capital consumption by activity as well as their level of profitability on an autonomous and uniform basis, taking into account the Group's regulatory constraints.

Net banking income

Net banking income (NBI) for each Business Division includes:

- revenues generated by its activity;
- the yield on normative capital allocated to the Business Division, which is calculated on the basis of a long-term rate by currency. In return, in order to facilitate the comparability of performances between the Group's different business lines, book capital is reassigned to the Corporate Centre at the same rate.

Moreover, capital losses and gains generated by the Business Divisions on the disposal of shares in non-consolidated entities, and income from management of the Group's industrial and bank equity portfolios, are booked under NBI, as these securities are classified as available-for-sale financial assets.

Operating expenses

Operating expenses for the Business Divisions correspond to the information reported in Note 8.1 to the Group's consolidated financial statements as at 31st December 2018 (see p. 416) and include their direct expenses, their management overheads, and a share of the head-office expenses, which are in principle almost fully redistributed between the Business Divisions. The Corporate Centre only books costs relating to its own activity, along with certain technical adjustments.

Cost-to-income ratio

The cost-to-income ratio indicates the operating expenses of a business in relation to its net banking income. This indicator provides a measure of the effectiveness of a system (see glossary).

IFRIC 21 Adjustment

The IFRIC 21 adjustment corrects the result of the charges recognised in the accounts in their entirety when they are due (generating event) so as to recognise only the portion relating to the current quarter, *i.e.* a quarter of the total. It consists in smoothing the charge recognised accordingly over the financial year in order to provide a more economic idea of the costs actually attributable to the activity over the period analysed. By applying the IFRIC 21 adjustment, the expense – previously recognised progressively if the obligating event occurs over a period of time – is now recognised once in its entirety.

Underlying indicators

The Group may be required to provide underlying indicators for a clearer understanding of its actual performance. Underlying data is obtained from reported data by restating the latter to take into account noneconomic items (for years prior to 2018), exceptional items and the IFRIC 21 adjustment. Several indicators may be provided in this respect: all income statement amounts (for example, net banking income, operating expenses, net cost of risk, net profits or losses from other assets, Group net income), profitability indicators (ROE, RONE, ROTE), earnings per share, cost-to-income ratio, etc.

Noneconomic items correspond to the revaluation of the Group's own financial liabilities and the debt value adjustment on derivative instruments (DVA). Due to the application of IFRS 9 on 1st January 2018, the revaluation of debt relating to own credit risk is no longer accounted for in the income for the period. Consequently, the income is therefore no longer restated for this noneconomic element.

The Group may need to adjust the components of its results (the exceptional elements) for an easier understanding of its actual performance.

In particular, for French Retail Banking, the Group reports net banking income excluding PEL/CEL (cost-to-income ratio, gross operating income and operating income), *i.e.* adjusted for the provisions covering the risk associated with commitments specific to regulated savings.

These items, together with the underlyings derived from reported data, are indicated in the table below.

(In EUR m)	2018	2017	Change	
Net banking income	**25,205**	**23,954**	**+5.2%**	
(-)Revaluation of own financial liabilities*		(53)		Corporate Centre
(-)DVA*		(4)		Corporate Centre
(-)Adjustment of hedging costs**		(88)		French Retail Banking
(-)LIA settlement**		(963)		Corporate Centre
Underlying net banking income	**25,205**	**25,062**	**+0.6%**	
Operating expenses(1)	**(17,931)**	**(17,838)**	**+0.5%**	
(+)IFRIC 21 linearisation				
(-)Adaptation of French retail network**		(390)		French Retail Banking
(-)French tax audit/EIC**		(205)		Corporate Centre/French Retail Banking
(-)Provision for disputes**	(336)			Corporate Centre
Underlying Operating expenses	**(17,595)**	**(17,243)**	**+2.0%**	
Net cost of risk	**(1,005)**	**(1,349)**	**-25.5%**	
(-)Provision for disputes**		(800)		Corporate Centre
(-)LIA settlement**		400		Corporate Centre
Underlying Net Cost of Risk	**(1,005)**	**(949)**	**+5.9%**	
Net profit or losses from other assets	**(208)**	**278**	**n/s**	
(-)IFRS 5 effect on Group refocussing plan	(268)			Corporate Centre
(-)Change in consolidation method of Antarius**		203		Corporate Centre
(-)SG Fortune disposal**		73		Corporate Centre
Underlying Net profits or losses from other assets	**60**	**2**	**n/s**	
Group net income	**3,864**	**2,806**	**+37.7%**	
Effect in Group net income of above restatements***	(604)	(1,685)		
Underlying Group net income	**4,468**	**4,491**	**-0.5%**	

* *Noneconomic items.*
** *Exceptional items.*
*** *Including the effect of changes in tax laws in France and the United States in 2017.*
(1) *Reflects the sum total of the following items in the financial statements: Personnel expenses + Other operating expenses + Amortisation, depreciation and impairment of tangible and intangible fixed assets.*

Cost of risk

Net cost of risk is charged to each Business Division so as to reflect the cost of risk inherent in their activity during each financial year. Impairment losses concerning the whole Group are booked by the Corporate Centre.

Societe Generale's commercial net cost of risk is expressed in basis points. It is calculated by dividing the net annual allocation to provisions for commercial risks by average outstanding loans as at the end of the four quarters preceding the closing date. This indicator makes it possible to assess the level of risk of each of the pillars as a percentage of balance sheet loan commitments, including operating leases. The key items used in this calculation are indicated in the table below.

		2018	2017
French Retail Banking	Net Cost of Risk	489	546
	Gross loan Outstanding	186,782	182,058
	Cost of risk in bp	**26**	**30**
International Retail Banking and Financial Services	Net Cost of Risk	404	366
	Gross loan Outstanding	134,306	125,948
	Cost of risk in bp	**30**	**29**
Global Banking and Investor Solutions	Net Cost of Risk	93	5
	Gross loan Outstanding	152,923	155,130
	Cost of risk in bp	**6**	**0**
Societe Generale Group	Net Cost of Risk	1,005	918
	Gross loan Outstanding	481,608	470,968
	Cost of risk in bp	**21**	**19**

The gross coverage ratio for doubtful outstanding

"Doubtful outstanding" are outstanding that are in default within the meaning of the regulations.

The gross doubtful outstanding ratio calculates the doubtful outstanding recognised in the balance sheet with respect to gross loan outstanding.

The gross coverage ratio for doubtful outstanding is calculated as the ratio of provisions recognised in respect of the credit risk to gross outstanding identified as in default within the meaning of the regulations, without taking account of any guarantees provided. This coverage ratio measures the maximum residual risk associated with outstanding in default ("doubtful").

Net income/expense from other assets

Net income or expense from other assets essentially comprises capital losses and gains on operating fixed assets, or when the Group ceases to control a consolidated subsidiary, as well as goodwill immediately written down when the Group takes control of an entity and revaluation of potential stakes previously held by the Group in entities fully consolidated during the year.

Impairment losses on goodwill

Impairment losses on goodwill are booked by the Business Division to which the corresponding activity is attached.

Income tax

The Group's tax position is managed centrally.

Income tax is charged to each Business Division on the basis of a normative tax rate which takes into account the local tax rate of the countries in which it conducts its activities and the nature of its revenues. The difference between the income tax charged to the Group's consolidated companies and the sum of normative taxes of the strategic pillars is assigned to the Corporate Centre.

ROE, ROTE

Group ROE and ROTE is calculated on the basis of average Group shareholders' equity under IFRS.

It excludes:

- unrealised or deferred capital gains or losses booked directly under shareholders' equity excluding conversion reserves;
- deeply subordinated notes;
- undated subordinated notes restated as shareholders' equity.

It deducts:

- interest payable to holders of deeply subordinated notes and of the restated, undated subordinated notes;
- a provision in respect of the dividends to be paid to shareholders.

For the ROTE, the following are also excluded:

- average net goodwill in the assets, and underlying average goodwill relating to shareholdings in companies accounted for by the equity method;
- intangible assets.

The net income used to calculate ROE is based on Group net income excluding interest, net of tax impact, to be paid to holders of deeply subordinated notes for the period and, since 2006, holders of deeply subordinated notes and restated, undated subordinated notes.

The net income used to calculate ROTE is based on Group net income excluding the goodwill impairment loss but reinstating interest net of tax on deeply subordinated notes for the period (including issuance fees paid, for the period, to external parties and the discount charge related to the issue premium for deeply subordinated notes) and interest net of tax on undated subordinated notes (including issuance fees paid, for the period, to external parties and the discount charge related to the issue premium for undated subordinated notes).

RONE

RONE (Return on Normative Equity) determines the return on average normative equity allocated to the Group's businesses (see "capital allocation" above). The allocation principle in force since 1st January 2016 consists in allocating to each business normative equity corresponding to 11% of its risk-weighted assets.

The key items used in this calculation are indicated in the tables below:

(In EUR m) **End of period**	**2018**	**2017**
Shareholders' equity Group share	**61,026**	**59,373**
Deeply subordinated notes	(9,330)	(8,520)
Undated subordinated notes	(278)	(269)
Interest net of tax payable to holders of deeply subordinated notes & undated subordinated notes, interest paid to holders of deeply subordinated notes & undated subordinated notes, issue premium amortisations	(14)	(165)
OCI excluding conversion reserves	(312)	(1,031)
Dividend provision	(1,764)	(1,762)
ROE equity end-of-period	49,328	47,626
Average ROE equity	48,138	48,087
Average Goodwill	(5,019)	(4,924)
Average Intangible Assets	(2,065)	(1,831)
Average ROTE equity	41,054	41,332
Group net Income (a)	**3,864**	**2,806**
Underlying Group net income (b)	**4,468**	**4,491**
Interest, net of tax on deeply subordinated notes and undated subordinated notes (c)	*(462)*	*(466)*
Cancellation of goodwill impairment (d)	*198*	*0*
Corrected Group net Income (e) = (a)+(c)+(d)	**3,600**	**2,340**
Corrected Underlying Group net Income (f)=(b)+(c)	**4,006**	**4,025**
Average ROTE equity (g)	**41,054**	**41,332**
ROTE [quarter: (4*e/g), 12M: (e/g)]	8.8%	5.7%
Average ROTE equity (underlying) (h)	**41,345**	**41,803**
Underlying ROTE [quarter: (4*f/h), 12M: (f/h)]	9.7%	9.6%

RONE CALCULATION: AVERAGE CAPITAL ALLOCATED TO CORE BUSINESSES (IN EUR M)

	2018	**2017**
French Retail Banking	11,201	11,027
International Retail Banking and Financial Services	11,390	11,137
Global Banking and Investor Solutions	15,424	14,996

Earnings per share

For the calculation of earnings per share, in accordance with IAS 33, "Group net income" for the period is adjusted by the amount, net of tax impact, of capital gains/losses on partial buybacks of securities issued and classified as equity, of the costs pertaining to these equity instruments and of the interest paid on them.

Earnings per share is therefore calculated as the ratio of corrected Group net income for the period to the average number of ordinary shares outstanding, excluding own shares and treasury shares, but including:

a) trading shares held by the Group; and

b) shares held under the liquidity contract.

The Group also reports its adjusted earnings per share, *i.e.* corrected for the impact of noneconomic items (revaluation of own financial liabilities) and DVA (Debit Valuation Adjustment), as well as its underlying earnings per share, *i.e.* also corrected for exceptional items and the IFRIC 21 adjustment.

Average number of shares (thousands)	2018	2017
Existing shares	**807,918**	**807,754**
Deductions		
Shares allocated to cover stock option plans and free shares awarded to staff	5,335	4,961
Other own shares and treasury shares	842	2,198
Number of shares used to calculate EPS**	**801,741**	**800,596**
Group net Income	**3,864**	**2,806**
Interest, net of tax on deeply subordinated notes and undated subordinated notes	(462)	(466)
Capital gain net of tax on partial buybacks	-	0
Adjusted Group net income	**3,402**	**2,340**
EPS (in EUR)	**4.24**	**2.92**
Underlying EPS* (in EUR)	**5.00**	**5.03**

* *Adjusted for non-economic items (for 2017) and exceptional items.*

** *The number of shares considered is the number of ordinary shares outstanding at 31st December 2018, excluding treasury shares and buybacks, but including the trading shares held by the Group.*

Net Asset, Net Tangible Asset Value

Net assets comprise Group shareholders' equity, excluding:

- deeply subordinated notes, undated subordinated notes previously recognised as debt; and
- interest payable to holders of deeply subordinated notes and undated subordinated notes, but reinstating the book value of trading shares held by the Group and shares held under the liquidity contract.P

Tangible net assets are corrected for net goodwill in the assets, goodwill under the equity method and intangible assets.

In order to calculate Net Asset Value Per Share or Net Tangible Asset Value Per Share, the number of shares used to calculate book value per share is the number of shares issued, excluding own shares and treasury shares, but including:

- trading shares held by the Group; and
- shares held under the liquidity contract.

End of period	2018	2017
Shareholders' equity Group share	**61,026**	**59,373**
Deeply subordinated notes	(9,330)	(8,520)
Undated subordinated notes	(278)	(269)
Interest net of tax payable to holders of deeply subordinated notes & undated subordinated notes, interest paid to holders of deeply subordinated notes & undated subordinated notes, issue premium amortisations	(14)	(165)
Book value of own shares in trading portfolio	423	223
Net Asset Value	**51,827**	**50,642**
Goodwill	(4,860)	(5,154)
Intangible Asset	(2,224)	(1,940)
Net Tangible Asset Value	**44,743**	**43,548**
Number of shares used to calculate NAPS*	**801,942**	**801,067**
Net Asset Value per Share	**64.6**	**63.2**
Net Tangible Asset Value per Share	**55.8**	**54.4**

* *The number of shares considered is the number of ordinary shares outstanding at 31st December 2018, excluding treasury shares and buybacks, but including the trading shares held by the Group. In accordance with IAS33, historical data per share prior to the date of detachment of a preferential subscription right are restated by the adjustment coefficient for the transactions.*

Prudential capital and solvency ratios

The Societe Generale Group's Common Equity Tier 1 capital is calculated in accordance with applicable CRR/CRD4 rules.

The fully-loaded solvency ratios are presented *pro forma* for current earnings, net of dividends, for the current financial year, unless specified otherwise.

When there is reference to phased-in ratios, these include the earnings for the current financial year, unless specified otherwise.

The leverage ratio is calculated according to applicable CRR/CRD4 rules including the provisions of the Delegated Act of October 2014.

2.4 SIGNIFICANT NEW PRODUCTS OR SERVICES

Business Division		New product or service
French Retail Banking	**Apple Pay** (Societe Generale/Credit du Nord/Boursorama)	Provision of the Apple Pay free mobile payment solution for contactless in-store purchases using an iPhone or an Apple Watch. This service is available for debit card holders.
	iPad cash till solution for restaurateurs (March 2018, Societe Generale)	iPad cash till solution for restaurateurs: In partnership with Verifone (electronic payment terminal manufacturer), Societe Generale provides restaurateurs with an iPad cash till solution that automatically links to EPTs. The solution was developed with the aim of digitising their business (booking, inventory and order management) and complying with the anti-fraud Finance Act in force since January 2018.
	Enryption option for Company Cards (April 2018, Societe Generale)	Dynamic encryption for company cards (Gold and Classic) based on a cryptogram that changes every hour, thereby securing online purchases.
	NEW GSM/ALLIAGE GESTION PAGE (April 2018, Societe Generale)	NEW GSM/ALLIAGE GESTION PAGE on the website, mobile site and app, reserved for clients with a delegated portfolio management mandate, a service under which clients call on industry professionals to manage the assets comprising their securities portfolios or life insurance contract portfolios. Clients can go online to consult performances, asset allocation, portfolio management reports and investment strategy.
	Sobrio (April 2018, Societe Generale)	Bundled services including a payment card, “Mon Assurance au Quotidien” insurance, a monthly statement, overdraft/card limit warning notifications and exemption from account management fees. Sobrio also offers access to exclusive services (account and document agregation) and discounts.
	"Mon Compte en Bref" (Account highlights) (April 2018, Societe Generale)	Service including a weekly statement delivered by text, containing the account balance and current account activity as well as overdraft/card limit warning notifications.
	SG FORMULE EVOLUTION No. 6 and No. 7 (April and July 2018, Societe Generale)	SG FORMULE EVOLUTION No. 6 and No. 7 allow Societe Generale customers to invest in the European stock markets and help finance the real economy. Net invested capital is protected at maturity against a market decline of up to a 40%, and customers receive an annual coupon of 3% in the event of a market decline of up to -15%. Societe Generale has undertaken to match the amount of SG FORMULE EVOLUTION No. 6 and No. 7 subscriptions, during the entire holding period, with Positive Impact financial assets for SMEs on its balance sheet.
	SCI SOGEPIERRE (June 2018, Societe Generale)	SCI SOGEPIERRE. New real estate vehicle available under Sogecap life insurance and endowment contracts. Allows Societe Generale customers to diversify their savings by investing in a unit-linked vehicle invested in commercial and residential real estate, while tapping into real estate market upside potential.
	"Paylib entre amis" (Secure mobile payments among friends) (July 2018, Societe Generale)	A new service added to the Paylib package, allowing individuals to transfer funds to other individuals, within a limit of €500 and without exchanging IBANs between the sender and beneficiary. Only the beneficiary’s mobile number is required. This service is exclusively available via the SG app ("Appli").
	Remote medical consultation and hearing care network (September 2018, Societe Generale)	Customers can consult a GP or specialist online or by phone under the Supplementary Health Insurance package, in partership with MédecinDirect. Development of hearing care networks: partnership with Carte Blanche aimed at optimising costs and improving purchase prices for customers, providing customers with personalised assistance, and facilitating access to hearing aids and financial coverage.

Business Division		New product or service
French Retail Banking	**Selfcare cards** (July 2018, Societe Generale)	Selfcare service available allowing a client to independtly declare a trip abroad from the customer site, the App or the Mobile site, thereby limiting the risk the card being blocked during withdrawal and payment transactions.
	Savings diagnostic tool (September 2018, Societe Generale)	A new tool offering a structured "advisory" service designed to assist and guide customers over the long term, build a personalised savings strategy, and help establish then diversify their savings in accordance with their objectives.
	Insurance (October 2018, Societe Generale)	New insurance offer for corporates and non-profits, protecting the assets of CEOs and directors in the event that their personal liability is incurred.
	Forex simulator (Sogecash Net) (November 2018, Societe Generale)	New service: "Forex simulator". This service is available for all Sogecash Net customers. In just a few clicks, customers obtain the applicable exchange rate and an estimate of the EURequivalent amount of their international credit transfer orders.
	CGA AVENIR + (Launched January 2018, Societe Generale)	CGA AVENIR +: replacing CGA Avenir, CGA AVENIR + is a factoring solution, (cash disbursement of up to €200k), €25k CEO security deposit. Faster and easier interactive PDF.
	CEO liability insurance (November 2018, Societe Generale)	CEO liability insurance is a new policy designed to protect a CEO's personal assets in the event of an individual claim (mismanagement, failure to observe laws and regulations, failure to observe by-laws).
	Etoile Euro Actions 03/2024 (Marketing from 16 January to 2 March, Crédit du Nord)	Structured fund eligible for investment and diversification of PEAs (personal equity plans): performance indexed to the performance of the euro zone equity markets, offering capital protection against market declines, up to a certain level. Maximum investment period: six years.
	Etoile France Top 80 03/2028 (Marketing from 16 January to 16 March, Crédit du Nord)	Structured EMTN aimed at generating yield and diversifying life insurance vehicles: performance indexed to the performance of the French equity markets, offering capital protection against market declines, up to a certain leel. Maximum minvestment period: 10 years.
	Dynamic encryption card (April 2018, Crédit du Nord)	Dynamic encryption card: the cryptogram on the back of the card is a screen. The 3-digit code changes every hour to enhance the security of online purchases and combat fraud.
	Etoile Euro Actions 06/2024 (Marketing from 3rd April to 1st June, Crédit du Nord)	Structured fund eligible for investment and diversification of PEAs (personal equity plans): performance indexed to the performance of the euro zone equity markets, offering capital protection against market declines, up to a certain level. Maximum investment period: 6 years.
	FCPR 123Corporate (Marketing from 24th May to 13th September, Crédit du Nord)	Diversification vehicle for informed investors. 123Corporate is invested in French unlisted SMEs operating commercial properties in the accommodation industry (hotels, long-term healthcare facilities (*EHPAD*), retirement homes, pharmacies, etc.)
	"Notre offre de gestion financière" (CdN fund management range) (June 2018, Crédit du Nord)	"Notre offre de gestion financière" website: a new website showcasing Crédit du Nord Group's fund management offer, replacing the old SICAV/FCP website – New user interface and Responsive Web Design.
	FCPI InnovAlto and FIP ExtendAM Objectif France (Marketing from 25 September to 14 December, Crédit du Nord)	Diverification vehicles for informed investors. The funds are invested in European or French unlisted SMEs, and entitle their investors to an income tax reduction. Investment period: around 10 years.
	(Marketing 25 September 2018, Crédit du Nord)	Consumer loans taken out online via electronic signature, simplifying the credit approval process. Crédit du Nord customers can now sign their consumer loan agreement online in just a few minutes. A quick and easy solution that can be used remotely or face-to-face on the customer's personal device, and is available on the websites, mobile sites and apps of Crédit du Nord Group banks.

Business Division		New product or service
French Retail Banking	**SIMPLEBO partnership** (Announced in November 2018, Crédit du Nord)	Website without a payment platform established for professional customers.
	Espace Flux - Exalog white-label software (Marketing since end-2018, Crédit du Nord)	Espace Flux – Exalog white-label software: ■ customers can centralise all their bank accounts from our website; ■ they can receive, view and download bank statements for all accounts; ■ transactions and documents: transactions entered online (SEPA credit transfers, international credit transfers and SEPA direct debits), documents imported (SEPA, CFONB and ISO 20022 formats).
	Carapass (January 2018, Boursorama)	Carapass: customised auto insurance for occasionnal drivers (pay-as-you-drive, with mileage tracked using an installed device or telematics), developed in partnership with SG insurance
	Wicount (February 2018, Boursorama)	Wicount: budget coach offering a "Savings Diagnostic Analysis" ("Diagnostic épargne"): the coash analyses the breakdown of the customer's financial assets (including savings with other banks) and gives tailored advice – based on the customer's financial position and income – on how to optimise these savings.
	Google Home (June 2018, Boursorama)	Boursorama is the first bank in France to offer its customers the option of using Google Assistant for daily bank account management purposes. Boursorama customers can use voice commands to have Google Assistant check their account balance and recent transactions and make secure payments to third-party accounts.
	Electronic delivery of debit card pin codes (September 2018, Boursorama)	Debit card pin codes are no longer delivered to Boursorama Banque customers by mail. Instead, the codes are posted to their online account, making the process faster and more secure for the customer.
	Auto leasing (October 2018, Boursorama)	Boursorama launched the first full-online operational leasing offer for its customers (via Boursoshop), in partnership with ALD Automotive.
	Samsung Pay (November 2018, Boursorama)	Boursorama Banque is the first online bank in France to offer Samsung Pay to its customers, a fast, easy-to-use and secure way to pay for in-store purchases without having to use a physical debit card.
	Google Pay (December 2018, Boursorama)	Boursorama Banque expanded its range to include Google Pay in December 2018, becoming the first French bank to offer all three top global mobile payment solutions.
	Eco-responsible loans (December 2018, Boursorama)	Boursorama Banque now has a range of full-online eco-responsible loans, automatically eligible for a 5% reduction in the applicable lending rate (eco-responsible loans receive a 5% reduction in the APR in force), for the completion of projects with a positive impact on the environment (amounts ranging from €5,000 to €50,000, terms from 12 to 72 months).

Business Unit		New product or service
International Retail Banking and Financial Services	**AUKAPAY** (July 2018, KB – Czech Rep) (International Retail Banking)	In cooperation with AUKA, the Norwegian number one in mobile payments, a team of Komerční Banka experts from Payment Services, Marketing, and Information Technology is testing AUKAPAY. It is a pilot version of AUKA's payment application custom tailored for the Czech subsidiary's clientele. The application enables its users to pay each other simply based on contact, without knowing the number of the beneficiary's account. Payments to merchants for goods are equally convenient; you can even order your goods in advance, pay for them, and then collect them without waiting. The full version of the application from AUKA is capable of doing much more, including invoice payments, the up of standing orders, etc.
	VISA transactions control (June 2018, Hanseatic Bank – Germany) (International Retail Banking)	Visa and Hanseatic Bank have partnered up to give consumers better control over their spending. The updated version of the Hanseatic Bank app has integrated Visa Transaction Controls APIs for credit card transactions. With this innovative feature, customers can block or unblock their card themselves, as long as there is no suspected fraud or outstanding payment.
	Moja Banka (June 2018; OBSG – Macedonia) (International Retail Banking)	OBSG now presents its newest application, called Moja Banka – the "mobile bank", open to all clients of the bank who already use its e-bank services.
	Account aggregation (October 2018, BRD – Romania) (International Retail Banking)	BRD clients can now have access to their various banks accounts on one application (the BRD one).
	KAYAMB by BFC (July 2018, BFCOI – La Réunion) (International Retail Banking)	Multi-channel package dedicated to over 25-year-old people who need minimum banking services, want a low-cost offer, without overdraft or credit, and already use multi-channel or are willing to think about it.
	La Maison des PME (SME House) (November 2018, SGBS – Senegal) (International Retail Banking)	A multi-dimensional approach to support the needs of SME managers: Societe Generale brings together in a single space local and international players (ADPME, Réseau Entreprendre, AFD-Proparco, Investors & Partners, Bpifrance, the Bureau de Mise à Niveau (Upgrading Office) and APIX) to cooperate and remove the main obstacles to the creation and development of companies - by providing accounting, technical or legal expertise, advice, training, monitoring or awareness on environmental and social issues, and by studying financing solutions at all stages of the company's life cycle.
	Synoé (November 2018, Sogecap – France) (Financial Services to Corporates and Insurance)	Launch of a digital offer of investment advices, allowing a dynamic and reactive management of investments realized within life insurance contracts, from any devices (smartphone, tablet and computer).
	Offer for executives liabilities (November 2018, Sogessur – France) (Financial Services to Corporates and Insurance)	A complete coverage to help SME's executives to protect their own assets in case of any personal liabilities concurrent with a fault in the exercise of their responsibilities.
	Estate facility for beneficiary (July 2018, Sogecap – France) (Financial Services to Corporates and Insurance)	Beneficiaries, clients or not of Societe Generale, have access to a dedicated web site in order to follow the latest situation of their files, upload needed documents and to consult guides for the constitution of their file.
	Online subscription of credit life Insurance (September 2018, Societe Generale Insurance – Russia) (Financial Services to Corporates and Insurance)	Clients of Delta Credit can realized a subscription demand for a credit life insurance and filled an online medical questionnaire 24/7.
	ALD Switch (February 2018, ALD Automotive France) (Financial Services to Corporates and Insurance)	Combining flexibility and sustainability, ALD Switch is a modular leasing solution that lets clients benefit from an electric vehicle, but allows switching to a petrol/hybrid vehicle whenever necessary (up to 60 days per year).

Business Unit		New product or service
International Retail Banking and Financial Services	**Leasing Auto** (October 2018, ALD Automotive France) (Financial Services to Corporates and Insurance)	Boursorama launched a fully digital full service leasing offering for its clients in partnership with ALD Automotive. Available in the Boursoshop, via the “Leasing Auto avec Boursorama Banque” platform developed by ALD Automotive, Boursorama provides clients with a fully digital offering to subscribe and manage their contract for full services leasing.
	Update of MOI ALD web-portal of ALD (September 2018, ALD Automotive Russia) (Financial Services to Corporates and Insurance)	ALD Automotive updated design and functionality of MOI ALD web-portal: more convenient format of the reports, new sections with useful information.
	Apple PAY for Visa cardholders (December 2018, Rosbank) (International Retail Banking)	Rosbank Visa cardholders got the opportunity to use Apple Pay, an easy, secure and personal payment tool that makes complete changes in the sphere of mobile payments by offering speed and convenience.
	Automated investment service SmartInvest (October 2018, Rosbank) (Financial Services to Corporates and Insurance)	Rosbank and FinEx developed a joint automated investment service called SmartInvest. It will help to choose investment assets, to forecast the expected profitability and it will manage the whole investment portfolio. The service is available not only for Rosbank clients, but also for the private investors that are interested in smart investments of their savings.
	New digital service of POS-loans approval (October 2018, Rusfinance Bank) (International Retail Banking)	Rusfinance Bank presented new online lending opportunities: approval of POS loans based on a short online application posted on store websites. A new digital service reduces the time for processing a loan to buy goods to a few minutes.
Global Banking and Investor Solutions	**SGI Credit Compression Indices Europe/Global/North America** (January 2018, Global Markets)	SGI launched on January 2018 three Credit Compression Indices: a European, a Global and a North American version following the same methodology. These indices aim to capture the risk premium between High Yield and Investment Grade credit markets by taking long credit position in High Yield and short position in Investment Grade CDS replicated by indices.
	Lyxor ESG Trend Leader ETFs (February 2018, Lyxor)	The world’s first broad ESG based ETFs that consider not only the current ESG scores, but whether the scores are improving or falling. Lyxor’s range of 4 new ESG ETFs provide investors with access to the ESG leaders striving to stay ahead in their sector. Investors can choose from World, EMU, US or Emerging exposures.
	NAV Validation 2.0 One Click Anywhere Anytime (February 2018, Societe Generale Securities Services)	Digitalization of the relationship process with Asset managers to make their daily life easier. The new application allows Asset Managers to validate their fund’s Net Asset Value (NAV) on a daily basis using their smartphone, tablet or PC, with three basic principles: in a single click + anywhere + anytime. The main benefits are the greater mobility & responsiveness for Asset Managers: the possibility to validate all SGSS clients’ funds before cut off with a single click, without necessarily need to be at the office and the additional functionalities as performance graphics.
	Lyxor Core ETF range (March 2018, Lyxor)	Lyxor’s new Core ETF range covers all the main equity and fixed income building blocks. With TERs from as little as 0.04%, Lyxor now provides Europe’s lowest cost Core range. And to keep it simple for investors, we have used physical replication and do not use Securities Lending.

Business Unit		New product or service
Global Banking and Investor Solutions	**Charitable Structured Product** (April 2018, Private Banking)	In April 2018, Societe Generale Private Banking ("SGPB") launched the first structured product with a charitable component, Cristal Solidarité. Designed to meet clients' philanthropic appetite, the product subscription commits Societe Generale to donate to 3 associations. This donation relies on two mechanisms: (i) An initial gift at launching proportional on the nominal subscribed and (ii) A conditional gift at maturity depending on Equity Market performance. In Q2, Cristal Solidarité was subscribed over EUR 170m and SGPB launched in Q3 a new charitable autocall: Solidarys (in offer at the moment).
	SGI VRR US Index – Vol Roll on Rates Ticker: SGBVVRRU (April 2018, Global Markets)	SG launched the VRR US Index on April 2018 offering investors a positive systematic carry, a long position on USD rates volatility but rates neutral. The Index offers a combination of diversification features vs traditional and Risk Premia portfolios: a positive carry, a low correlation to traditional asset classes and Risk Premia in a normal regime, and a risk-off profile in stressed scenario. Such profile is achieved through a long 1y forward USD rates volatility trade position by buying 3 ATMf Straddles every week, unwound to cash in the convergence of forward volatility to spot volatility.
	New Cash Management Fund Lyxor Euro 6M (July 2018, Lyxor)	In an environment of low interest rates and normalisation of the ECB monetary policy, Lyxor has launched in July 2018 the Lyxor Euro 6M Fund (the "Fund"), a new cash management solution for treasurers and institutional investors. The Fund is an alternative to money market funds and relies on a short term, liquid fixed income strategy which predominantly invests in Euro-denominated sovereign debt and corporate bonds rated at least BBB-. It combines quantitative and qualitative strategies, incorporating both data crunching and fundamental analysis for decision making. Above all, Lyxor has developed a scientific approach to liquidity analysis that we believe give us better insights. Developed in partnership with Euroclear, our 'E-data liquidity' tool monitors the liquidity of more than 40,000 European bonds. We combine this liquidity information advantage with active management of credit and interest rate risk.
	EMTN immo CTO & EMTN immo ASV (July 2018, Private Banking)	Distribution of an EMTN Immobilier whose management company is a partner of Societe Generale Private Banking with BP1 and BP2 clients (natural and legal persons) for CTO subscriptions and for subscriptions via life insurance and capitalization contracts of all Private Banking partner insurers who referenced the product. The objective of EMTN Real Estate is a leverage effect (x2) on the real estate sector. This structured product with unsecured capital is a real innovation on the market and makes it possible to propose a real estate offer with a debt obligation.
	SGI Commodity Dynamic Alpha Index (September 2018, Global Markets)	The Index aims to replicate a long position using a smart roll methodology rebalancing daily via the SGI Commodity Dynamic Curve Carry Index (<SGCOCOC2>), and a short position in the Benchmark (Bloomberg Commodities Index). Each day, for each commodity, the Index observes the universe of available contracts (from the 1st nearby to the contract that expires less than 9 months from current day). The Index selects the contract with the highest potential carry: the highest roll-up & the lowest roll-down.

Business Unit	New product or service	
Global Banking and Investor Solutions	**Automated drafting of portfolio management commentaries – Analytics & Reporting** (October 2018, Societe Generale Securities Services)	Addventa Fintech exclusive partnership for automated drafting of portfolio management commentaries based on artificial intelligence solutions. SGSS and the Fintech Addventa have signed an exclusive partnership to launch a service for automated drafting of portfolio management commentaries based on artificial intelligence solutions. Management companies, who are SGSS clients, will benefit from an automated and instant drafting of performance commentaries for their financial investment portfolios which cover a given time period, selected by the client, in different languages, in a clear and consistent style. This service relies on the performance and risk analysis reporting tool of SGSS, and also on Addventa's artificial intelligence solutions.
	SGI – Vol on Rates (October 2018, Global Markets)	Following the success of our VRR strategy, SG announced on October 2018 the extension of our Rates Long Vol range with new strategies based on Spot volatility: the SGI Vol on Rates (VR) Suite. The SGI VR strategies are a range of market access indices aiming to track the spot vol for a specific point of the vol surface. The first indices launched focus on the EUR 10y20y and USD 10y20y Spot Vol. They provide an efficient tool to express the view that rates volatility will pick up from its current historical lows, as can be expected from the end of the QE and the shift in the supply and demand dynamics (Formosa issuance collapse, return of MBS hedgers).
	SGI ESF Eurozone Selection ex Controversial Activities & Practices Index (October 2018, Global Markets)	SGI launched on October 2018 a new ESG index aiming to selects a basket of eurozone stocks excluding those with controversial activities or don't respect the UN SDG. An additional ESF filter is done according to the rating from Vigeo-Eiris based on 38 criteria.
	SGI Bond Carry G6 Index (November 2018, Global Markets)	The SGI Bond Carry G6 is aiming to provide exposure to a cross sectional duration neutral carry strategy. The strategy takes a long position on the 10-year bond futures with the highest carry (adjusted by their duration), and a short position on the ones with the lowest carry. The Strategy offers a unique combination of diversification features vs traditional and Risk Premia portfolios: ■ a persistent positive carry; ■ a minimal duration risk; ■ a low correlation to equity and Risk Premia.

2.5 ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

ASSETS

(in EUR bn)	31.12.2018	01.01.2018
Cash, due from central banks	96.6	114.4
Financial assets at fair value through profit or loss	365.6	369.1
Hedging derivatives	11.9	12.7
Financial assets at fair value through other comprehensive income	50.0	50.5
Securities at amortised cost	12.0	11.6
Due from banks at amortised cost	60.6	53.7
Customer loans at amortised cost	447.2	417.4
Revaluation differences on portfolios hedged against interest rate risk	0.3	0.7
Investments of insurance companies	146.8	147.6
Tax assets	5.8	6.3
Other assets	67.4	60.4
Non-current assets held for sale	13.5	-
Investments accounted for using the equity method	0.2	0.7
Tangible and intangible fixed assets	26.8	24.2
Goodwill	4.7	5.0
TOTAL	**1,309.4**	**1,274.2**

LIABILITIES

(in EUR bn)	31.12.2018	01.01.2018
Due to central banks	5.7	5.6
Financial liabilities at fair value through profit or loss*	363.1	368.6
Hedging derivatives	6.0	6.1
Due to banks	94.7	88.6
Customer deposits	416.8	410.6
Debt securities issued	116.3	103.2
Revaluation differences on portfolios hedged against interest rate risk	5.3	6.0
Tax liabilities	1.2	1.6
Other liabilities	76.6	69.1
Non-current liabilities held for sale	10.5	-
Insurance contract related liabilities	129.5	131.7
Provisions	4.6	6.3
Subordinated debt	13.3	13.6
Shareholder's equity	61.0	58.4
Non-controlling interests	4.8	4.5
TOTAL	**1,309.4**	**1,274.2**

The impacts of the first-time application of IFRS9 are presented in Note 1 of the notes to the consolidated financial statements in paragraph 4, “First-time application of IFRS9”.

2.5.1 MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

There are no major changes in the scope of consolidation at 31st December 2018, compared with the scope applicable at 31st December 2017.

2.5.2 CHANGES IN MAJOR CONSOLIDATED BALANCE SHEET ITEMS

Cash, due from central banks (EUR 96.6 billion at 31st December 2018) decreased by EUR 17.8 billion (-15.6%) compared to 1st January 2018.

Financial assets and liabilities at fair value through profit or loss, decreased by EUR 3.5 billion (-0.9%) and EUR 5.5 billion (-1.5%) respectively, compared to 1st January 2018.

The decrease in financial assets and liabilities at fair value through profit or loss is mainly attributable to the decline in market value of interest rate instruments, partially offset by the rise in our trading portfolio activities mainly related to securities purchased/sold under resale agreements and to shares and other equity instruments sold short.

Debt securities issued increased by EUR 13.1 billion (+12.7%) compared to 1st January 2018 mainly due to the growth of interbank certificates and negotiable debt instruments.

Customer loans, including securities purchased under resale agreements recognised at amortised cost, increased by EUR 29.8 billion (+7.1%) compared to 1st January 2018, mainly attributable to a rise in other customer loans (short-term, equipment, housing and export loans).

Customer deposits, including securities sold under repurchase agreements recognised at amortised cost, increased by EUR 6.2 billion (+1.5%) compared to 1st January 2018 mainly due to the increase in demand, deposits and current accounts partially offset by a decrease of term deposits.

Due from banks, including securities purchased under resale agreements recognised at amortised cost, increased by EUR 7.0 billion (+13.1%) relative to 1st January 2018, explained by the growth of deposits, loans and current accounts.

Due to banks, including securities sold under repurchase agreements recognised at amortised cost, increased by EUR 6.1 billion (+6.9%) compared to 1st January 2018 mainly due to the increase of term deposits and borrowings.

Other assets and liabilities, are increased by EUR 7.0 billion (+11.6%) and EUR 7.5 billion (+10.9%) respectively compared to 1st January 2018 due to a rise in guarantee deposits.

Non-current assets and liabilities held for sale, are increased by EUR 13.5 billion (+100.0%) and EUR 10.5 billion (+100.0%) respectively compared to 1st January 2018.

Group shareholders' equity amounted to EUR 61.0 billion at 31st December 2018 versus EUR 58.4 billion at 1st January 2018. This variation was attributable primarily to the following items:

- Net income group share for the financial year at 31st December 2018: EUR +3.9 billion;
- Dividend payment: EUR -2.1 billion;
- Issue of two deeply subordinated notes in USD: EUR +2.1 billion;
- Refund of two deeply subordinated notes in GBP and in USD: EUR -1.6 billion;

After taking into account non-controlling interests (EUR 4.8 billion), Group shareholders' equity came to EUR 65.8 billion at 31st December 2018.

2.6 FINANCIAL POLICY

The objective of the Group's financial policy is to optimise the use of shareholders' equity in order to maximise short- and long-term return for shareholders, while maintaining a level of capital ratios (Common Equity Tier 1, Tier 1 and Total Capital ratios) consistent with the market status of Societe Generale and the Group's target rating.

Since 2010, the Group has launched a major realignment programme, strengthening capital and focusing on the rigorous management of scarce resources (capital and liquidity) and proactive risk management in order to apply the regulatory changes related to the implementation of new "Basel 3" Regulations.

2.6.1 GROUP SHAREHOLDERS' EQUITY

Group shareholders' equity totalled EUR 61.0 billion at 31st December 2018. Net asset value per share was EUR 64.63 and net tangible asset value per share was EUR 55.79 using the new methodology disclosed in Chapter 2 of this Registration Document, on page 45. Book capital includes EUR 9.3 billion in deeply subordinated notes and EUR 0.3 billion in perpetual subordinated notes.

At 31st December 2018, Societe Generale possessed, directly or indirectly, 6.1 million Societe Generale shares, representing 0.76% of the capital (excluding shares held for trading purposes). In 2018, the Group acquired 3.2 million Societe Generale shares under the liquidity contract concluded on 22nd August 2011 with an external investment services provider. Over this period, Societe Generale also transferred 3.1 million Societe Generale shares *via* the liquidity contract.

The information concerning the Group's capital and shareholding structure is available in Chapter 7 of this Registration Document, page 535 and following.

2.6.2 SOLVENCY RATIOS

As part of managing its capital, the Group ensures that its solvency level is always compatible with its strategic targets and regulatory obligations.

Moreover, the Group ensures that its Total Capital Ratio (Common Equity Tier 1 + hybrid securities recognised in additional Tier 1 and Tier 2) offers a sufficient safety buffer for unsecured senior lenders, in particular with a view to implementing resolution rules.

The Common Equity Tier 1 ratio stood at 10.9%[1] at 31st December 2018, versus 11.4% at 31st December 2017. At 31st December 2018, the Group's phased-in Common Equity Tier 1 ratio amounted to 11.0% compared to 11.6% at end-December 2017.

The leverage ratio, calculated according to the CRR/CRD4 rules integrating the Delegated Act of October 2014, reached 4.2% as at 31st December 2018. It was thus in line with the projected progression, under which a target ratio level of 4-4.5% had been set.

The Tier 1 ratio is 13.4% and the Total Capital Ratio amounted to 16.5% at end-2018, above the regulatory requirements.

The projected TLAC (Total Loss-Absorbing Capacity) RWA was 22.6% and the TLAC leverage ratio was 7% at end-2018. The Group plans to comply with the future TLAC regulatory requirements (TLAC RWA of 19.5% and TLAC leverage ratio of 6% from 1st January 2019), thanks in particular to the issuance of non-preferred senior instruments.

French Act No. 2016-1691 of 9th December 2016, published in the French Official Journal (Journal Officiel) issue 0287 of 10th December 2016, modified the creditor hierarchy that applies in cases of compulsory liquidation of French credit institutions, by introducing a new category of debt securities intended to cover liquidation losses, positioned after subordinated instruments and before preferred debt instruments. Contracts for issues falling into this new category will have to include a specific indication of this ranking in the creditors' hierarchy. The new category allows for the issuance of TLAC and MREL eligible securities.

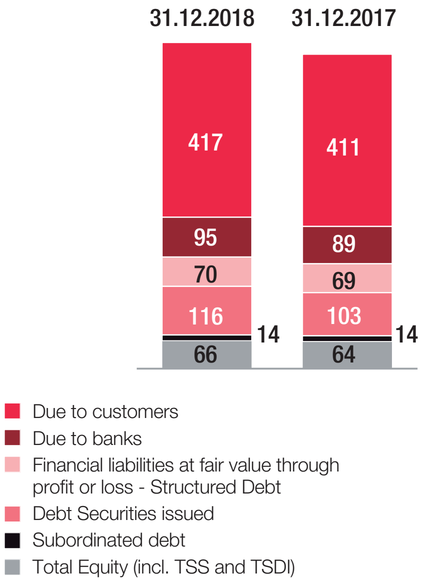
Further details on the regulatory framework governing TLAC and MREL are provided in Chapter 4.1, "Risk factors".

Detailed information on capital management, together with the regulatory framework, is provided in Chapter 4 of this Registration Document, pages 178 and following.

(1) *11.2% with the effect of the option of a dividend payment in shares subject to approval by the Combined General Meeting on May 21st, 2019, taking into account the assumption of a 50% subscription rate for the dividend in shares.*

2.6.3 GROUP DEBT POLICY[1]

FUNDING STRUCTURE



The Group's funding structure is broken down as follows:

- total equity including undated subordinated notes (representing EUR 9.7 billion as of 31st December 2018 and EUR 8.9 billion as of 31st December 2017);
- debt securities issued by the Group, of which:
  - dated subordinated debt (EUR 13.7 billion at end-2018 and EUR 14.1 billion at end-2017),
  - long-term vanilla senior non-preferred debt (EUR 13.4 billion at end-2018 and EUR 6.6 billion at end-2017),
  - long-term vanilla senior preferred debt (EUR 27.9 billion at end-2018 and EUR 26.1 billion at end-2017),
  - covered bonds issued through the following vehicles: SGSCF (EUR 5.7 billion at end-2018 and EUR 7.1 billion at end-2017); SGSFH (EUR 13.3 billion at end-2018 and EUR 10.3 billion at end-2017); and CRH (EUR 5.9 billion at end-2018 and EUR 6.0 billion at end-2017),
  - securitisations and other secured debt issues (EUR 3.1 billion at end-2018 and EUR 3.5 billion at end-2017),
  - conduits (EUR 10.6 billion at end-2018 and EUR 9.5 billion at end-2017),
  - financial liabilities reported at fair value through P&L, including debt securities issued reported in the trading book, and debt securities issued measured using the fair value option through P&L;
- amounts due to customers, in particular deposits.

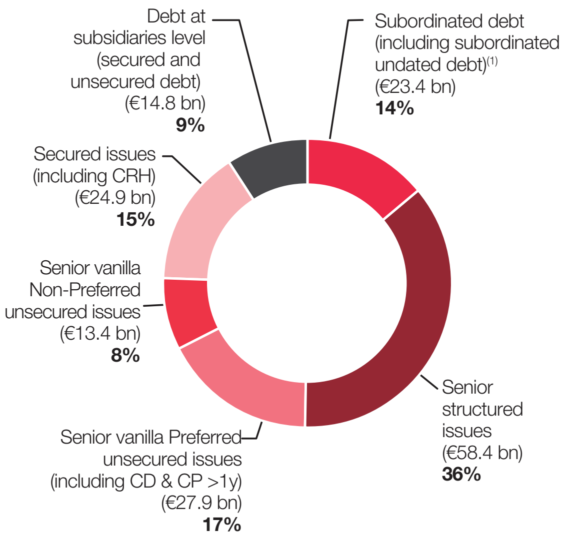
(1) *Additional information about the Group liquidity risk management is available in Chapter 4 of this Registration Document, on pages 232 and following, and in Note 7.4 to the consolidated financial statements on page 510.*

These resources also include funding via securities lending/borrowing transactions and securities sold under repurchase agreements measured at fair value through P&L totalling EUR 150.2 billion at 31st December 2018, versus EUR 140.6 billion at 31st December 2017 (see Note 3.1 of the consolidated financial statements), which are not included in this graph. **The Societe Generale Group's debt policy** is designed not only to ensure financing for the growth of the businesses' commercial activities and debt renewal, but also to maintain repayment schedules that are compatible with the Group's ability to access the market and its future growth.

The Group's debt policy is based on two principles:

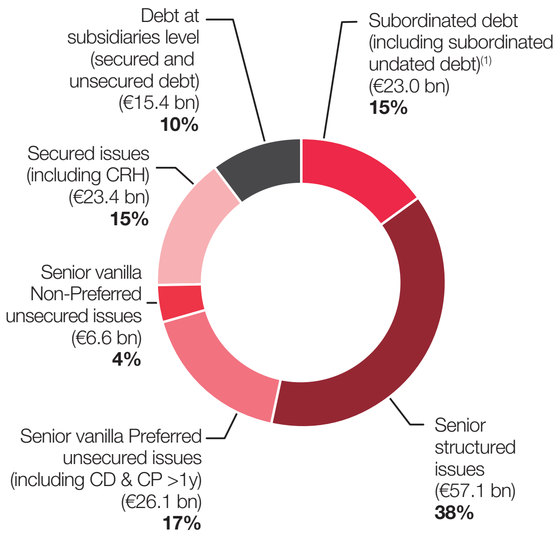
- firstly, maintaining an active policy of diversifying the Societe Generale Group's sources of refinancing in order to guarantee its stability;
- secondly, adopting a Group refinancing structure that consistently matches the maturities of its assets and liabilities.

GROUP LONG-TERM DEBT AT 31ST DECEMBER 2018: EUR 162.9 BN*



* *Group short-term debt totalled EUR 46.4 billion as of 31st December 2018, of which EUR 10.6 billion issued by conduits.*
(1) Of which EUR 9.7 billion accounted as "other equity instruments" (see consolidated financial statements, changes in shareholders' equity).

GROUP LONG-TERM DEBT AT 31ST DECEMBER 2017: EUR 151.5 BN*



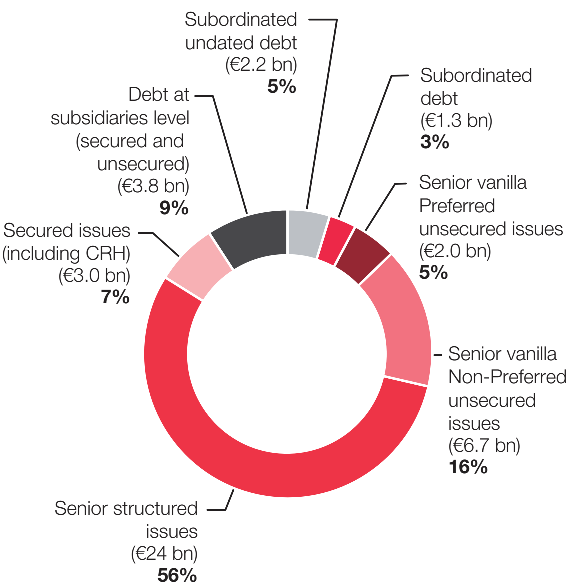
* *Group short-term debt totalled EUR 43.6 billion as of 31st December 2017, of which EUR 9.5 billion issued by conduits.*
(1) Of which EUR 8.9 billion accounted as "other equity instruments" (see consolidated financial statements, changes in shareholders' equity)

Accordingly, **the Group's long-term financing plan,** implemented gradually and in a coordinated manner during the year based on a non-opportunistic issuance policy, is designed to maintain a surplus liquidity position over the medium and long term.

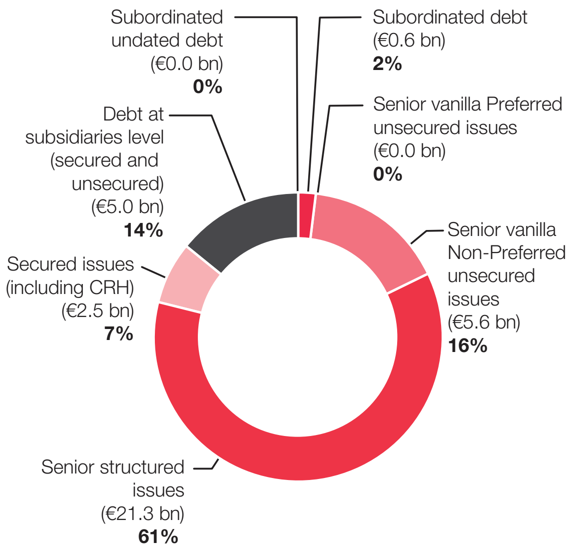
At end-2018, the liquidity raised under the 2018 financing programme amounted to EUR 43.0 billion in senior and subordinated debt. The liquidity raised at the parent company level amounted to EUR 39.2 billion at 31st December 2018.

Refinancing sources broke down as EUR 6.7 billion in senior vanilla non-preferred unsecured issues, EUR 2.0 billion in senior vanilla preferred unsecured issues, EUR 24.0 billion in senior structured issues, EUR 3.0 billion in secured issues (SG SFH), EUR 1.3 billion in subordinated Tier 2 debt and EUR 2.2 billion in subordinated undated debt. At the subsidiary level, EUR 3.8 billion had been raised at 31st December 2018.

2018 FINANCING PROGRAMME: EUR 43.0 BN



2017 FINANCING PROGRAMME: EUR 35.0 BN



2.6.4 LONG-TERM RATINGS, SHORT-TERM RATINGS, COUNTERPARTY RATINGS AND CHANGES OVER THE FINANCIAL YEAR

The table below summarises Societe Generale's counterparty ratings and senior long-term and short-term ratings as at 31st December 2017:

	DBRS	FitchRatings	Moody's	R&I	Standard & Poor's
Long-term/short-term counterparty assessment	AA/R-1(high)	A+(dcr)/F1	A1(CR)/P-1(CR)	n/a	A/A-1
Long-term senior preferred rating	A (high) (Positive)	A+ (Stable)	A1 (Stable)	A (Stable)	A (Positive)
Short-term senior rating	R-1 (middle)	F1	P-1	n/a	A-1

Over the course of financial year 2018, Moody's upgraded the long-term senior preferred rating (to A1), in light of the improved protection of seniorpreferred debt within the capital structure. S&P changed to "Positive" the outlook on the long-term rating, reflecting higher loss-absorbing capacity.DBRS changed to "Positive" the outlook on the long-term rating in light of the reinforced Societe Generale's risk profile.

2.7 MAJOR INVESTMENTS AND DISPOSALS

The Group maintained a targeted acquisition and disposal policy in 2018, in line with its strategy focused on its core businesses and the management of scarce resources.

Business division	Description of investments
2018	
International Retail Banking and Financial Services	Acquisition of a stake by CGI in Reezocar, a French start-up specialising in the sale of used cars to private individuals.
International Retail Banking and Financial Services	Acquisition of Reflex (flexible rental of vehicles in Spain).
Global Banking and Investor Solutions	Acquisition of Lumo (pioneering renewable energy crowdfunding platform).
2017	
International Retail Banking and Financial Services	Acquisition of BBVA Autorenting (long-term vehicle rental in Spain) and Merrion Fleet (long-term vehicle rental in Ireland).
International Retail Banking and Financial Services	Acquisition of 50% and exclusive control of Antarius (Insurance).
2016	
International Retail Banking and Financial Services	Acquisition of the Parcours Group (long-term vehicle rental in France).
Global Banking and Investor Solutions	Acquisition of the Kleinwort Benson Group (private banking in the United Kingdom and Channel Islands).

Business division	Description of disposals
2018	
Corporate Centre	Disposal of the 2.05% stake in Euroclear.
2017	
International Retail Banking and Financial Services	Disposal of 20% of ALD at the time of the company's stock market listing.
International Retail Banking and Financial Services	Disposal of Splitska Banka in Croatia.
Global Banking and Investor Solutions	Disposal of the entire stake in Fortune (49%) in China.
French Retail Banking	Disposal of Onvista in Germany.
2016	
International Retail Banking and Financial Services	Disposal of 93.6% of Bank Republic in Georgia.
Corporate Centre	Disposal of the Group's stake in Visa Europe.
Corporate Centre	Disposal of the 8.6% stake in Axway.

2.8 PENDING ACQUISITIONS AND MAJOR CONTRACTS

2.8.1 FINANCING OF THE MAIN ONGOING INVESTMENTS

The investments currently underway will be financed using the Group's usual sources of funding.

2.8.2 PENDING ACQUISITIONS

On 3rd July 2018 the Group announced that it had entered into an agreement with Commerzbank with a view to acquiring its "Equity Capital Markets and Commodities" business. This agreement became final on 8th November 2018. The integration of the teams and the transfer of the trading books and associated balance sheet has begun and will take place over the course of 2019.

The Group announced on 1st March 2019 that an agreement has been signed with the Stern Group for the acquisition of Stern Lease by ALD in the Netherlands. The transaction will be finalised in the coming months.

2.8.3 ONGOING DISPOSALS

On 2nd August 2018 the Group announced that it had signed an agreement concerning the sale of its entire stake in SG Albania, in Albania, to the OTP Bank Group. This transaction is expected to be finalised after the waiver by the minority shareholders of SG Albania of their pre-emptive right and subject to completion of the necessary antitrust and regulatory authorisations.

On 5th November 2018 the Group announced that it had reached an agreement on the sale of its Polish retail banking subsidiary Euro Bank to Bank Millennium. The transaction is expected to be finalised during the first half of 2019, subject to authorisation from the competent banking and competition authorities.

On the same date, the Group announced that it had signed an agreement to sell Societe Generale Serbia to OTP Bank. The finalisation of the transaction is subject to authorisation from the National Bank of Serbia and competent competition authorities. It is expected in the coming months.

On 18th January 2019 the Group announced that it had signed an agreement for the sale to Absa of custody, depository and clearing activities carried out by Societe Generale in South Africa. The transaction is subject to the approval of the competent authorities and should be finalised in 2019.

On 6th February 2019 the Group also announced that it had reached an agreement for the sale of its majority stake in Mobiasbanka Societe Generale in Moldova to the OTP Bank Group. The transaction is expected to be finalized in the coming months, after authorisation from local banking, competition and market authorities.

The Group also reached an agreement on 27th February 2019 for the sale of its majority stake in Societe Generale Montenegro to the OTP Bank Group. This transaction is expected to be finalised in the coming months, following approval from the competent authorities.

Finally, on 28th February 2019 the Group signed an agreement for the disposal of its majority stake in Ohridska Banka Societe Generale in Macedonia to the Erste Group. The transaction is expected to be finalised in the coming months, following approval from the competent authorities.

2.9 PROPERTY AND EQUIPMENT

The gross book value of Societe Generale Group's tangible operating fixed assets amounted to EUR 37.8 billion at 31st December 2018. This figure comprises land and buildings (EUR 5.5 billion), assets leased by specialised financing companies (EUR 26.8 billion) and other tangible assets (EUR 5.5 billion). The gross book value of the Group's investment property amounted to EUR 0.04 billion at 31st December 2018.

The net book value of tangible operating assets and investment property amounted to EUR 24.5 billion, representing 1.9% of the consolidated balance sheet at 31st December 2018. Due to the nature of Societe Generale's activities, property and equipment are not material at Group level.

2.10 POST-CLOSING EVENTS

On 15th January 2019, the Group finalised the sale of the entire stake in SG Express Bank, in Bulgaria, to OTP.

On 14th February 2019, the Group finalised, via Boursorama, the sale of the Boursorama stake in Self Trade Bank S.AU., its Spanish subsidiary, to Warburg Pincus.

On 28th February 2019, the Group finalised the sale of its stake in SG Private Banking Belgique to ABN-AMRO.

Finally, on 1st March 2019, finalised the sale of its 35% stake in La Banque Postale Financement to La Banque Postale.

On 31st January 2019, the Group finalised the acquisition of Treezor, the pioneer platform of Bank-as-a Service in France.

2.11 INFORMATION ABOUT GEOGRAPHIC LOCATIONS AND ACTIVITIES AS AT DECEMBER 31, 2018

The article L.511-45 of the Monetary and Financial Code modified by Order No. 2014-158 of 20th February, 2014, require credit institutions to communicate information about the locations and activities of their entitites included in their consolidation scope, in each State or territory.

Societe Generale publishes below the information relative to staff and the financial information by countries or territories.

The list of locations is published in the Note 8.6 of the notes to the consolidated financial statements.

Country	Staff*	NBI*	Earnings before corporate tax*	Corporate tax*	Deferred corporate tax*	Other taxes*	Subventions*
South Africa	94	15	5	(2)	0	(1)	-
Albania	420	28	8	(1)	(0)	(0)	-
Algeria	1,555	179	104	(26)	0	(13)	-
Germany	3,142	809	234	(58)	(17)	(23)	-
Australia	24	14	1	(2)	0	(0)	-
Austria	71	13	3	(1)	(0)	(1)	-
Belgium	470	116	37	(4)	(2)	(15)	-
Benin	258	20	(13)	(0)	1	(1)	-
Bermuda(1)	-	11	11	-	-	-	-
Brazil	349	72	21	(10)	7	(4)	-
Bulgaria	1,506	143	68	(5)	(2)	(12)	-
Burkina Faso	306	43	11	(2)	(1)	(1)	-
Cameroon	646	104	47	(17)	(1)	(2)	-
Canada	82	35	11	(4)	(0)	(1)	-
China	396	60	18	-	(2)	(7)	-
South Korea	114	145	85	(25)	(0)	(4)	-
Cote d'Ivoire	1,292	188	82	(15)	(3)	(7)	-
Croatia	42	7	4	(1)	0	(0)	-
Curacao(2)	-	0	0	(0)	-	-	-
Denmark	179	71	39	(9)	0	(5)	-
United Arab Emirates	39	5	(5)	-	-	(0)	-
Spain	799	279	144	(32)	(9)	(1)	-
Estonia	14	2	1	(0)	-	(0)	-
United States	2,627	1,356	288	4	43	(10)	-
Finland	104	49	33	(5)	(2)	-	-
France	57,639	11,678	694	(227)	(292)	(1,104)	-

Country	Staff*	NBI*	Earnings before corporate tax*	Corporate tax*	Deferred corporate tax*	Other taxes*	Subventions*
Ghana	579	77	18	(9)	2	(2)	-
Gibraltar	42	13	0	-	0	(0)	-
Greece	42	6	3	(1)	(0)	(0)	-
Guernsey	163	50	2	-	-	-	-
Guinea	315	45	21	(8)	0	(1)	-
Equatorial Guinea	294	40	(8)	(5)	7	(0)	-
Hong Kong	1,140	760	410	(60)	0	(0)	-
Hungary	113	13	6	(2)	0	(0)	-
Isle of Man	-	-	-	-	-	-	-
Cayman Islands[(3)]	-	-	-	-	-	-	-
British Virgin Islands	-	-	-	-	-	-	-
India[(4)]	7,199	92	94	(40)	2	(14)	-
Ireland	179	70	49	(5)	(1)	(0)	-
Italy	2,127	730	256	(10)	(7)	(21)	-
Japan	277	195	56	(16)	6	(14)	-
Jersey	234	52	2	(1)	1	(5)	-
Latvia	16	3	1	0	(0)	(0)	-
Lebanon	-	-	18	-	-	-	-
Lithuania	14	3	2	(0)	0	(0)	-
Luxembourg	1,455	714	405	(45)	(7)	(29)	-
Macedonia	389	28	12	(1)	0	(1)	-
Madagascar	906	56	29	(6)	0	(1)	-
Malta	-	-	-	-	-	-	-
Morocco	3,982	470	178	(53)	(12)	(30)	-
Mauritius	-	(0)	(0)	-	-	-	-
Mexico	132	14	5	(2)	(0)	(1)	-
Moldova	734	38	22	(1)	0	(1)	-
Monaco	386	119	32	(13)	-	(0)	-
Montenegro	290	28	12	(1)	0	(3)	-
Norway	334	119	63	(17)	1	-	-
New Caledonia	305	78	36	(17)	1	(2)	-
Netherlands	213	95	56	(23)	0	(2)	-
Poland	2,950	241	41	(16)	(0)	(13)	-
French Polynesia	273	45	26	(14)	(1)	(1)	-
Portugal	109	18	9	(2)	0	-	-
Czech Republic	8,470	1,287	734	(119)	(17)	(67)	-
Romania	9,223	673	407	(61)	(5)	(12)	-
United Kingdom	3,646	1,660	494	(77)	(12)	(19)	-
Russian Federation	15,436	867	280	(46)	(16)	(30)	-
Senegal	970	99	29	(8)	2	(8)	-

Country	Staff*	NBI*	Earnings before corporate tax*	Corporate tax*	Deferred corporate tax*	Other taxes*	Subventions*
Serbia	1,330	135	73	(11)	(1)	(6)	-
Singapore	240	156	38	(3)	0	(0)	-
Slovakia	94	26	18	(4)	1	(0)	-
Slovenia	871	124	73	(14)	0	(8)	-
Sweden	190	77	42	(15)	6	(1)	-
Switzerland	588	239	58	(16)	(3)	(2)	-
Taiwan	47	27	8	(2)	(0)	(2)	-
Chad	218	25	9	(1)	(3)	(1)	-
Thailand	4	2	0	(0)	-	-	-
Togo	39	6	(2)	(0)	(0)	(0)	-
Tunisia	1,352	117	54	(21)	(2)	(8)	-
Turkey	118	18	9	3	(19)	(1)	-
Ukraine	56	11	9	(4)	1	(0)	-
TOTAL	**140,250**	**25,205**	**6,117**	**(1,204)**	**(357)**	**(1,518)**	**-**

* ***Staff**: Full-time equivalent (FTE) as at closing date. Staff members of entities accounted for by the equity method and removed during the year are excluded.*
***NBI**: Net banking income by territorial contribution to the consolidated statement, in millions of euros, before elimination of intragroup reciprocal transactions. Net income from companies accounted for by the equity method is directly recorded in the earnings before tax, there is no contribution from them.*
***Earning before tax**: Earning before tax by territorial contribution to the consolidation statement before elimination of intragroup reciprocal transactions.*
Corporate taxes: Such as presented in the consolidated statement in accordance with the IFRS standards and by distinguishing the current taxes of the deferred taxes.
***Corporate taxes**: Such as presented in the consolidated statement in accordance with the IFRS standards and by distinguishing the current taxes of the deferred taxes.*
***Other taxes** : Other taxes include among others payroll taxes, the C3S and CET taxes and local taxes. The data arise from the consolidated reporting and from management report.*
***Public subsidies received:** Non-matching or non-refundable subsidies granted by a public entity on a one-off or renewable basis to complete a clearly defined project.*

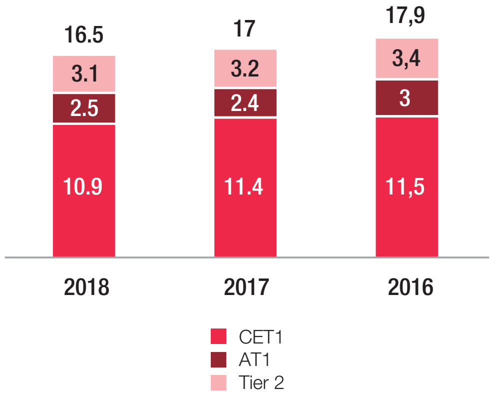
(1) *Income from the entity located in Bermuda is taxed in France.*
(2) *Income from the entity located in Curacao is taxed in France*
(3) *Income from entities located in Cayman Islands is taxed in the United States, United Kingdom and Japan.*
(4) *Most of the staff located in India is assigned to a shared services center, the re-invoicing income of which is recorded in general and administrative expenses and not in NBI.*

4

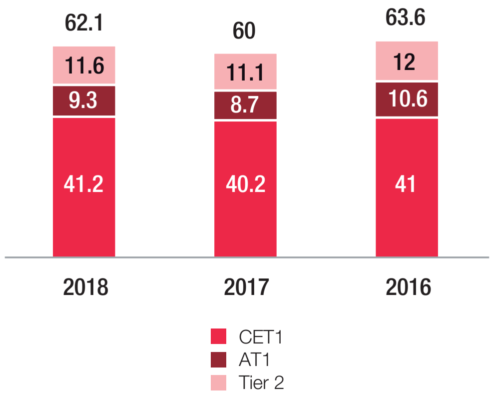
RISK FACTORS AND CAPITAL ADEQUACY

KEY FIGURES

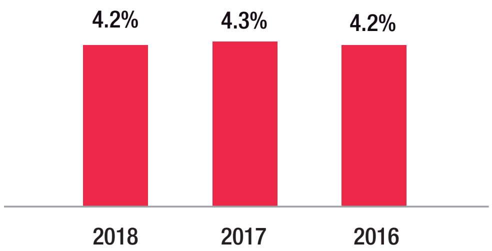
Fully loaded leverage ratios[1]
(In %)



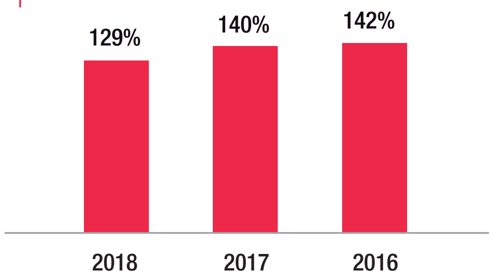
Regulatory capital[1]
(In EUR BN)



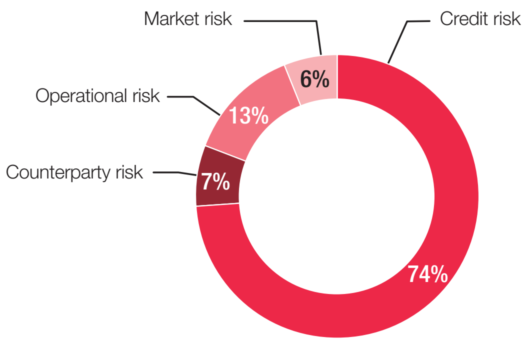
Leverage ratio[1][2]



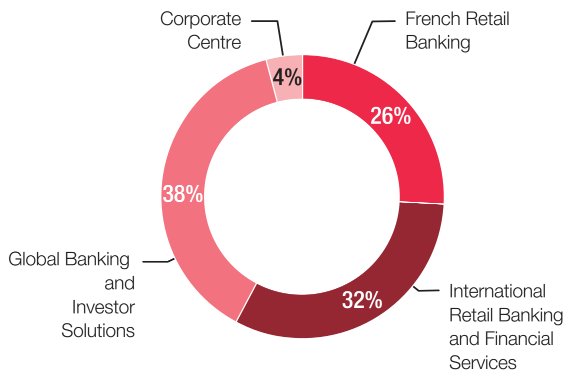
LCR ratio[1]



Distribution of RWA by risk type
(RWA at end 2018: EUR 376 bn
RWA at end 2017: EUR 353 bn)



Distribution of RWA by Pillar
(RWA at end 2018: EUR 376 bn
RWA at end 2017: EUR 353 bn)



(1) Disclosed ratios are fully loaded, calculated according to CRR/CRD4 rules published on 26th June 2013, including the Danish compromise for insurance.
(2) Fully loaded ratio calculated according to CRR rules published in October 2014 (Delegated Act)

This section includes information on the risk management linked to financial instruments, and information on capital management and compliance with regulatory ratios, required by IFRS as adopted by the European Union.

Some of this information forms an integral part of the notes to the consolidated financial statements and is covered by the opinion of the Statutory Auditors on the consolidated financial statements. This information is indicated with the note "Audited I", (the symbol ▲ indicates the end of the audited part).

The Societe Generale Group is subject to oversight by supervisory authorities and to regulations on capital requirements applicable to credit institutions and investment firms (Regulation (EU) No. 575/2013 of 26th June 2013).

Within the framework of the Third Pillar of the Basel Accord, a detailed and standardised statement is included in the "Risk Report for the purposes of improving published financial disclosures" (Pillar 3 Report and cross-reference table).

All the information regarding the Pillar 3 Report and the prudential disclosures is available on the *www.societegenerale.com* website, under Investors, Registration Document and Pillar 3.

TYPES OF RISKS

Audited I The Group's risk management framework involves the following main categories:

- **Credit and counterparty 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 and securitisation activities. In addition, credit risk may be further amplified by individual, country and sector concentration risk.
- **Market risk:** risk of a loss of value on 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, the price of securities (equity, bonds), commodities, derivatives and other assets.
- **Operational risk:** risk of losses resulting from inadequacies or failures in processes, personnel or information systems, or from external events. They include:
  - **Non-compliance risk (including legal and tax risks):** risk of court-ordered, administrative or disciplinary sanctions, material financial loss or reputational harm, due to failure to comply with the provisions governing the banking and financial activities, whether these are of a legislative or regulatory nature, national or European, directly applicable, or are professional and ethical standards, or instructions of the effective leaders, in particular pursuant to the guidelines of the supervisory organ,
  - **Reputational risk:** risk arising from a negative perception on the part of customers, counterparties, shareholders, investors or regulators that could negatively impact the Group's ability to maintain or engage in business relationships and to sustain access to sources of financing;
  - **Misconduct risk:** risk resulting from actions (or inactions), or behaviour of the Bank or its employees, which is inconsistent with the Group's Code of Conduct, which may lead to adverse consequences for our stakeholders, or place the Bank's sustainability or reputation at risk;
  - **IT and Information Systems Security risk** (cybercrime, service failure, etc.)
- **Model risk:** the risk of losses due to decisions reached based on results of internal modelling due to errors in development, implementation or use of these models.
- **Structural risk:** risk of losses in interest margin or banking book value if interest rates, exchange rates. This risk is related to the commercial and own activities of the bank, it includes the distortion of the structural difference between assets and liabilities related to pension obligations, as well as the risk related to longer terms of future payments.
- **Liquidity and funding risk:** liquidity risk is defined as the inability of the Group to meet its financial obligations at a reasonable cost. Funding risk is defined as the risk of the Group being unable to finance the development of its activities in line with its commercial objectives and at a competitive cost.
- **Strategic/business risk:** risk resulting from the Group's inability to execute its strategy and to implement its business plan for reasons that are not attributable to the other risks in this list; for instance, the non-occurrence of the macroeconomic scenarios that were used to construct the business plan, or a sales performance below expectations.
- **Risk of reduction in the value of equity holdings in certain companies:** reduction in the value of our equity investments.
- **Risk related to insurance activities:** through its insurance subsidiaries, the Group is also exposed to a variety of risks linked to this business. In addition to balance sheet management risks (interest rate, valuation, counterparty and exchange rate risk), these risks include premium pricing risk, mortality risk and the risk of an increase in claims.
- **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).

In addition, **risks associated with climate change**, both physical (increased frequency of extreme weather events) and transition-related (new carbon regulations), have been identified as factors that could aggravate the Group's existing risks. ▲

4.1 RISK FACTORS

4.1.1 RISK RELATED TO THE MACROECONOMIC, MARKET AND REGULATORY ENVIRONMENTS

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 position and results of operations.**

   As part of a global financial institution, the Group's businesses are sensitive to changes in financial markets and economic conditions generally in Europe, the United States and elsewhere around the world. The Group could face a significant deterioration in 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 (notably oil), currency exchange rates or interest rates, inflation or deflation, sovereign or private debt rating downgrades, restructuring or defaults, or adverse geopolitical events (including acts of terrorism and military conflicts). Such events, which may develop quickly and thus potentially may not be anticipated and 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 position, cost of risk and results of operations.

   Consequently, financial markets have in recent years experienced significant disruptions as a result of concerns regarding the sovereign debt of various Eurozone countries and uncertainty relating to the pace of US monetary policy tightening, as well as fears related to a slowdown of the economy in China. The level of interest rates observed in recent years, particularly in the Eurozone, has affected and could continue to affect the net interest margin and therefore the results of operations of the Group's retail banking activities.

   A long period of low interest rates in the Eurozone and the United States, driven by accommodating monetary policies, has led to an increased risk appetite of some participants in the banking and financial system. This could result in excessive risk-taking, with a loosening of credit approval requirements, lower risk premiums compared to their historical average and high valuation levels of certain assets. This situation increases the risk of financial disruption related to the conduct of monetary policy, in the event that an unexpected rise in inflation and the tightening of monetary policy in the United States and the Eurozone lead to a poorly-controlled rise in interest rates. Furthermore, the environment of abundant liquidity that has been at the origin of the upturn in credit growth in the Eurozone and particularly in France could lead to additional regulatory measures from the supervisory authorities in order to limit the granting of credit or to further protect banks against a financial cycle downturn. In this scenario, the Group could be affected by a sudden revaluation of risks on the capital and credit markets and the decline in value and liquidity in certain asset markets. In addition, in a context of sharply rising public and private indebtedness in recent years in certain developed and emerging countries, a rapid rise in interest rates could affect exchange rates, the ability of some borrowers to meet their financial obligations and, more generally, adversely impact the prospects for economic growth.

   Furthermore, the increase or accumulation of geopolitical or political risks is another source of uncertainty which could impact economic activity and credit demand, while increasing the volatility of financial markets. The implementation of strong protectionist measures (or threats thereof), notably under the influence of US policy, could affect the strength of international trade in goods and services and have repercussions on the economic environment in which the Group operates, which could have a material adverse effect on the Group's businesses, financial position and results of operations.

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

   The Group's results are significantly exposed to economic, financial and political conditions in the principal markets in which it operates (namely France, Europe and the United States). In France, the Group's principal market, recovery in growth and low interest rates have fostered an upturn in the housing market, but a relapse of activity in this area could have a material adverse impact on the Group's business, resulting in decreased demand for loans, higher rates of non-performing loans and decreased asset values.

   Given its geographical diversification, the Group operates in emerging markets, in particular in Russia and other Central and Eastern European countries, as well as in Africa. A significant adverse change in the political, macroeconomic or financial environment of these countries could have a material adverse effect on the Group's results and financial position. It is likely that uncertainties, and thus the related risks, will persist in relation to these markets. These uncertainties may arise from the evolution of oil prices, which may affect the financial health of producing countries, the evolution of the sanctions regime towards Russia, and the twin deficits in Romania whose correction could be imposed by the markets with an impact on growth and on the exchange rate. Capital markets and securities trading activities in emerging markets may be more volatile than those in developed markets and may also be vulnerable to certain specific risks, such as political instability and currency volatility.

   As a result of geopolitical and political tensions, the United States, the European Union and other countries and international organisations imposed several rounds of sanctions on Russian individuals and corporates in March 2014, and which were strengthened in 2018. The sanctions have adversely impacted the value of the rouble, as well as financing conditions and economic activity in Russia. There is a risk of further adverse developments in the event of increased geopolitical tensions and/or additional sanctions from Western countries and/or Russia, as well as in the event of a further drop in oil prices.

In the Eurozone, the economic and financial situation could be affected by adverse economic developments in one or more Member States. In particular, in Italy, the combination of a high level of public debt, low growth and a banking sector still affected by a significant proportion of outstanding non-performing loans, increases the risk of tightening of financing conditions. Excessive tensions could then cause contagion in the peripheral countries of the Eurozone and adversely impact the regional economy and, ultimately, the stability of the monetary zone. This could lead the ECB to further loosen monetary conditions through unconventional policies in order to avoid a systemic crisis, which could have an adverse effect on the results of some of the Group's activities.

3. **Brexit and its impact on financial markets and the economic environment could have an adverse impact on the Group's activities and results of operations.**

The terms of the United Kingdom's withdrawal agreement from the European Union have yet to be approved by the British Parliament and negotiations are ongoing, increasing the probability of a “no-deal” Brexit. This in turn will have an impact on the possibility of a transition period up to 31 December 2020, and the nature of future relations between the United Kingdom and the European Union remains unclear.

In anticipation of Brexit, the Group has established a central scenario of a hard Brexit and has taken steps to adapt its activities, governance and operating structure in the United Kingdom in order to reduce as much as possible the negative impact on its activities and customers. Nevertheless, according to the scenarios that have been considered, the withdrawal of the United Kingdom from the European Union is likely to cause considerable disruption to the economy and the European and global financial markets. These disruptions could have repercussions on the Group's business and results, as well as on the regulatory framework governing some of its activities.

4. **Increased competition, by both banking and non-banking actors, is likely to have an adverse effect on the Group’s businesses and results, both in its domestic French market and internationally.**

All of the Group’s activities are subject to intense competition on the global and local markets in which it operates, whether from banking or non-banking actors. As such, the Group is exposed to the risk of not being able to maintain or develop its market share in its various activities. This competition may also lead to pressure on margins, which is detrimental to the profitability of the Group’s activities.

In France and in the other main markets in which the Group operates, the presence of major domestic banking and financial actors, as well as new market participants (such as online banking and financial services providers), has increased competition for virtually all products and services proposed by the Group. Driven by new market participants such as "fintechs", new services that are automated, scalable and based on new technologies are developing rapidly and are fundamentally changing the relationship between consumers and financial service providers, as well as the function of traditional retail bank networks. The Group's strategy for addressing these challenges, particularly in terms of developing digital technologies, could, if it proves ineffective or poorly executed, lead to a weakened competitive position.

Consolidation in the financial services industry could result in the Group’s remaining competitors benefiting from greater capital, resources and the ability to offer a broader range of products and services. In addition, competition is increasing with the emergence of non-banking actors that, in some cases, may benefit from a regulatory framework that is more flexible and, in particular, less demanding in terms of equity capital requirements.

5. **The Group is subject to an extensive supervisory and regulatory framework in each of the countries in which it operates. Changes in this regulatory framework could have a significant effect on the Group’s businesses, position and costs, as well as on the financial and economic environment in which it operates.**

General regulatory framework

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 clients, depositors, creditors and investors. Compliance with these regulations requires significant resources. Non-compliance could lead to fines, damage to the Group’s reputation, forced suspension of its operations or the withdrawal of operating licences.

This regulatory framework is characterised by its evolving nature and increasing complexity, which increases uncertainty about the future impacts on the Group's business and profitability. 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. Some of these measures have already been implemented, while others are still under discussion. It therefore remains difficult to accurately estimate the future effects or, in some cases, the likely consequences of these measures for the Group.

The Basel 3 regulations adopted by the Basel Committee in 2010 constitute the international regulatory framework for strengthening capital and liquidity requirements with the goal of promoting a more resilient banking sector. In 2017, the Group of Central Bank Governors and Heads of Supervision (GHOS), which monitors the Basel Committee on Banking Supervision, adopted the current Basel 3 regulatory reforms undertaken in 2009. These new regulations increase the regulatory capital requirements to which banks in general, and the Group in particular, are subject, including constraints on internal models for Internal Ratings-Based (IRB) credit risk, the redesign of the Fundamental Review of the Trading Book (FRTB) models and the disappearance of the internal model for operational risk, replaced by a Standard approach. These new regulations should apply from 2022 together with a global output floor: the banking Risk-Weighted Assets (RWA) will be subject to a floor corresponding to a percentage of the Standardised Approach method (credit, market and operational). The output floor level will increase progressively from 50% in 2022 to 72.5% in 2027. Nonetheless, these regulations will not apply to the Group before their implementation into European Union law (CRR3/CRD6).

The timetable for effective applicability of these regulations to the Group is likely to change depending on the final transposition of the Basel Committee's regulations into European law. Despite the measures taken by the Group to adapt its activities to new regulations and thus reduce their adverse impact, the completion of the Basel 3 regulatory framework is likely to increase the capital requirements applicable to some of the Group’s activities and thus reduce return on equity.

Furthermore, the European Union adopted a rule requiring banks to make a prudential deduction on Non-Performing Loans (NPLs) after a certain period of time on the balance sheet, once these loans have been provisioned at a level below the level set by the legislator.

French and European laws and regulations

The Group applies the Basel 3 regulations implemented in the European Union through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). These European regulations are and will continue to be amended to reflect the changes in the Basel 3 regulatory framework.

The MREL ratio (“Minimum Requirement for own funds and Eligible Liabilities”) is defined in the European Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive “BRDD”) and has been transposed into French law (ordinance No. 2015-1024 dated 20 August 2015, ratified by Act No. 2016-1691 dated 9 December 2017 (the “Ordinance”)) and entered into force in January 2016. The MREL ratio is a minimum requirement for own funds and eligible liabilities that are available to absorb losses and recapitalise the bank according to the conditions stated in the BRRD. This requirement is calculated as the minimal amount of own funds and eligible liabilities expressed as a percentage of the institution’s total liabilities and own funds.

The Ordinance amended the provisions of the French Monetary and Financial Code (Code monétaire et financier) and requires credit institutions that are subject to direct supervision by the ECB (which is the case of Societe Generale) to prepare and communicate a preventive recovery plan to the ECB describing the recovery measures to address a material deterioration in their financial situation.

These reforms on recovery and resolution could have a significant impact on the way in which the Group operates its activities.

The TLAC (“Total Loss Absorbing Capacity”) ratio was developed by the FSB at the request of the G20 and finalised in November 2015. The new international standard applies to G-SIB systemic institutions. TLAC-eligible instruments must notably be subordinated (structurally, contractually or statutorily) to senior non-preferred debt. However, EU banks will be allowed to include a limited amount of senior preferred debt (2.5% of RWA in 2019, 3.5% of RWA in 2022), subject to regulatory approval. In order to reduce the risk of contagion, G-SIBs will be required to deduct exposures to eligible TLAC instruments and liabilities issued by other G-SIBs from the numerator of their own TLAC position. The rules introduce two types of denominator (risk-weighted assets (RWA) or leverage exposure) and impose a minimum ratio in both scenarios. The BRRD, which defines the MREL, is being revised in order to converge this ratio with the TLAC.

The MREL and TLAC requirements involve similar risks. They constrain the structure of liabilities and require the use of subordinated debt markets, which have an impact on cost and potentially on financing capacity.

Furthermore, negotiations within the European Union on the CRR2/CRD5 regulatory package are progressing, with a political agreement signed on 4 December 2018 and an expected publication of the regulations in the first half of 2019.

The new proposals address the following:

- Net Stable Funding Ratio (NSFR): new Basel provisions;
- Leverage ratio: the minimal requirement of 3% will be inserted in the CRR;
- Standardised Approach Counterparty Credit Risk (SA-CCR): SA-CCR is the Basel method that replaces the current “CEM” method to determine the prudential exposure on derivatives under a Standardised Approach;
- Large exposures: the main change pertains to the calculation of the regulatory limit (25%) on the Tier 1 (instead of the total of own funds), as well as the introduction of a specific limit for exposures between systemic institutions (15%);
- TLAC/MREL;
- market risks – Fundamental Review of the Trading Book (FRTB): the Basel Committee published in January 2019 its final BCBS 457 text on FRTB, which confirms in particular its implementation timetable and recommends application as of 1 January 2022. The CRR2 regulation draft introduces a publication requirement (2021 for the Standard Approach and 2023 for the Internal Model Approach (IMA)), which will only become a capital requirement in the context of the future CRR3 regulation, which is expected around 2023.

This new regulatory framework will potentially have an impact on capital requirements, cost of funding and other activities that will have to adapt to these new constraints. Nevertheless, the extent of this impact remains uncertain at this stage.

The EMIR (European Market Infrastructure Regulation) and the Dodd Frank Act aim, among other things, to promote the widespread use of clearing through clearing houses for so-called "standard" market transactions, and for non-standard transactions, to subject them to obligatory bilateral variation margin exchange in order to cover current exposure, and beyond certain OTC derivative position thresholds, to obligatory bilateral initial margin exchange in order to cover future exposure.

In 2017, the European Commission published two regulation proposals amending EMIR, which, once implemented, could have an impact on the Group's activities and results of operations:

- the first proposed change (commonly known as “EMIR 2.2”) concerns the strengthening of the European Union authorities’ supervisory power over central counterparties of a third country. Negotiations at the European Union level are currently in the tripartite phase between the Commission, Parliament and the Council. In the event of significant risks to the financial stability of European Union Member States posed by a central counterparty of a third country, European Union authorities could ultimately require such central counterparties to become established and authorised in the European Union within a maximum period of two years (“Localisation Policy”). While the complete ramifications of the Localisation Policy remain uncertain, particularly in the Brexit context, it could, if implemented, generate operational risks and result in additional costs, negatively impacting the results of the Group;
- the second proposal, commonly known as “EMIR Refit”, aims in particular to reduce the clearing obligation for certain categories of counterparties and to reduce reporting requirements. The final version was adopted at the end of February 2019, and should be published in the Official Journal by June 2019. In particular, it includes an exemption from the clearing obligation for small financial counterparties and from the variable margin obligation for physically settled forward foreign exchange contracts and foreign exchange swaps.

The implementation of transparency and accountability regulations is still ongoing, notably within the framework of the Dodd Frank Act in the United States (described in further detail below) and EMIR in Europe.

In addition to changes in regulatory provisions, the ECB has undertaken important initiatives to strengthen internal models for calculating capital requirements and their comparability. This concerns the strategy for deploying internal models on entities currently using a standard approach, harmonizing the internal definition of default, the launch in 2017 of a three-year program to review internal models (TRIM or Targeted Review of Internal Models), and the valuation of illiquid assets on the balance sheet. The impact of these measures is still uncertain. In particular, the TRIM program launched in 2017, to which the Group is subject along with other banks under the ECB's supervision, has not yet been completed and could result in increases in capital requirements as well as in the costs associated with adapting internal systems and processes.

The entry into force in 2018 of the European General Data Protection Regulation (GDPR) increases non-compliance risk due to the large volume of personal data that the Group processes in the normal course of its businesses, particularly in retail banking.

In addition, the Group is subject to complex tax rules in the countries in which it operates. Changes in applicable tax rules, uncertainty regarding the interpretation of such changes or their impact on the Group may have a material adverse effect on the Group's business, results and financial position.

US laws and regulations

The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") provides a general framework of important financial regulation reforms in order to enhance banking supervision and regulation and contribute to financial stability. The Dodd-Frank Act contains new measures enhancing systemic risk oversight, prudential norms for banks, provisions regarding the orderly resolution of systemically-important financial institutions, regulation of over-the-counter derivatives and consumer and investor protection, as well as regulating the ability of banking organisations and their affiliates in relation to proprietary trading activities and certain transactions involving hedge funds and private equity funds.

The Dodd-Frank Act and other similar post-financial-crisis regulations implemented in the US have increased compliance costs, restricted activities and resulted in greater prudential supervision as well as an increased risk of the introduction of additional measures that may negatively affect banks. The Dodd-Frank Act has also provided the US market regulators, mainly the CFTC and the SEC, with enhanced regulatory and jurisdictional authority over Societe Generale, and subjected the Group to additional control and monitoring measures.

The new US Presidential administration has expressed different policy goals, which could alter these provisions but without substantially amending the Dodd-Frank Act.

Although certain rules and regulations are still in draft form, or yet to be proposed, the majority of the rules relevant to the Group have already been finalised and have resulted or will result in additional costs as well as the imposition of restrictions on certain activities of the Group. The new policies and any proposed new regulations or legislation, once adopted, could affect the activities of the Group and the value and liquidity of securities issued by Societe Generale.

As an international bank, handling transactions with "US persons", denominated in US dollars, or involving US financial institutions, the Group is subject to US laws and regulations relating in particular to compliance with economic sanctions, the fight against corruption, and market abuses. In 2018, the Group entered into several agreements with US authorities notably in order to suspend for three years the criminal proceedings initiated for violating the above-mentioned US laws and regulations. Under these agreements, the Group has undertaken to implement, through a dedicated programme and organisation, corrective actions to address identified deficiencies, the cost of which may be significant. In the event of a new failure to comply with relevant US laws and regulations, or a breach of the Group's commitments under these agreements, the Group could be exposed to the risk of (i) administrative sanctions, including fines, suspension of access to US markets, or even withdrawals of banking licences, (ii) reactivation of the criminal proceedings risk, and (iii) damage to its reputation.

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

During the market downturn since 2018, the Group experienced a decline in the volume of transactions 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 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 the portfolios in question, a market downturn reducing the value of its clients' portfolios or increasing the amount of withdrawals could reduce the revenues the Group generates from its Asset Management, custodial and Private Banking businesses, which would have a material adverse effect on the Group's financial position and results of operations.

4.1.2 CREDIT RISKS

7. **The Group is exposed to counterparty and concentration risks, which may have a material adverse effect on the Group's business, results of operations and financial position.**

   The Group is exposed to credit risk with respect to numerous counterparties in the ordinary course of its trading, lending, issuing and deposit-taking, clearing, settlement and other activities. These counterparties include, among others, institutional clients, brokers and dealers, commercial and investment banks, corporates, clearing houses, hedge funds, and sovereign states. The Group may realise losses if a counterparty defaults on its obligations, if the Group encounters legal or other difficulties in enforcing its collateral or/and if the value of the collateral is not sufficient to fully recover the exposure.

   Many of the Group's hedging and other risk management strategies also involve transactions with financial services counterparties. Any default or insolvency on the part of these counterparties may impair the effectiveness of the Group's hedging and other risk management strategies.

   Following the financial crisis, regulators have encouraged or imposed the mandatory netting of certain financial instruments formerly traded over-the-counter, which has increased the exposure of the Group and other financial market participants to the clearing houses: the default of any one of them or of one of their members could affect the financial markets and could have negative consequences for the Group.

   Consequently, the default of one or more significant counterparties of the Group could have a material adverse effect on the Group's cost of risk, results of operations and financial position.

   This risk is increased if exposures are concentrated on a particular counterparty, borrower or issuer (including sovereign issuers), or on a particular country or industry. The devices and methods the Group uses to ensure the diversification of its credit and counterparty risks may prove insufficient or defective in preventing the concentration of credit risk. Such a concentration of risk could result in losses for the Group, even when economic and market conditions are generally favourable for its competitors, and may have a material adverse impact on the Group's business, results of operations and financial position.

8. **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 a loss of confidence in the financial services industry generally, may result in 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. It should be noted that the number of cleared transactions is increasing and will continue to do so, thereby increasing our exposure to clearing houses while reducing our bilateral positions. Many of these transactions expose the Group to credit risk in the event of default by counterparties or clients and may have a material adverse impact on the Group's business, results of operations and financial position.

9. **The Group's results of operations and financial position could be adversely affected by a late or insufficient provisioning of credit exposures.**

   The Group regularly records provisions for loan losses in connection with its lending activities in order to anticipate the occurrence of losses and moderate the volatility of its results. The amount of loan loss provisions is based on the most accurate assessment to date of the recoverability of the debts in question. This assessment relies on an analysis of the current and prospective situation of the borrower as well as an analysis of the value and recoverability of the debt, taking into account any security interests. In some cases (loans to individual customers), the provisioning method may call for the use of statistical models based on the analysis of loss and recovery historical data.

   The Group could be required to substantially increase its provisions for loan losses, following an increase in defaults or a re-evaluation of recovery prospects. A significant increase in loan loss provisions, or the occurrence of loan losses in excess of its provisions, could have a material adverse effect on Group's cost of risk, results of operations and financial position.

   Since 1st January 2018, the Group has been recording provisions on performing loans under the IFRS9 accounting standard. This assessment is based on statistical models for assessing probabilities of default and potential losses in the event of default, which take into account a prospective analysis based on macroeconomic scenarios. The Group's cost of risk could be negatively impacted by a proven or anticipated deterioration in the quality of the outstanding loan portfolios or macroeconomic prospects. In addition, IFRS 9 accounting standard principles and provisioning models could be pro-cyclical in the event of a sharp and sudden deterioration in the environment or result in enhanced volatility in the event of fluctuations in the economic prospects. This could lead to a significant and/or not fully anticipated change in the cost of risk and therefore in the Group's results.

4.1.3 MARKET AND STRUCTURAL RISKS

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

    The volatility of the financial markets could adversely affect the Group's trading and investment positions in the debt, currency, commodity and equity markets, as well as its positions in private equity, property and other investments. In particular:

    - significant volatility over a long period of time could lead to corrections on risky assets and generate losses for the Group;
    - a sudden change in the volatility regime could make it difficult or more costly to hedge certain structured products and thus increase the risk of loss for the Group.

    Severe market disruptions and high 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.

    In the event that a low-volatility environment emerges, reflecting a generally optimistic sentiment in the markets and/or the presence of systematic volatility sellers, increased risks of correction may also develop, particularly if the main market participants have similar positions on certain products. Such corrections could result in significant losses for the Group's market activities.

    The volatility of the financial markets makes it difficult to predict trends and implement effective trading strategies; it also increases risk of losses from net long positions when prices decline and, conversely, from net short positions when prices rise. Such losses could have a material adverse effect on the Group's results of operations and financial position.

11. **Changes in interest rates may adversely affect the Group's Banking and Asset Management businesses.**

    The Group generates a significant part of its income through net interest margin and as such remains highly exposed to interest rate fluctuations as well as to changes in the yield curve, particularly in retail banking activities. The Group's results are influenced by changes in interest rates in Europe and in the other markets in which it operates. In Europe in particular, a protracted environment of low or even negative interest rates has affected and could continue to significantly affect retail banking income, notably in France.

12. **Fluctuations in exchange rates could adversely affect the Group's results.**

    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 Japanese yen, the Czech koruna, the Romanian leu and the Russian rouble. The Group is exposed to exchange rate movements to the extent that its revenues and expenses, as well as its assets and liabilities, are recorded in different currencies. Because the Group publishes its consolidated financial statements in euros, which is the currency of most of its liabilities, it is also subject to conversion risk in the preparation of its financial statements. Exchange rate fluctuations of these currencies against the euro may also adversely affect the Group's consolidated results, financial position and cash flows. Exchange rate fluctuations may also affect the value (denominated in euros) of the Group's investments in its subsidiaries outside the Eurozone.

13. **The protracted decline of financial markets or reduced liquidity in such markets may make it harder to sell assets or manoeuvre trade positions and could lead to material losses for certain activities of the Group.**

    In many of the Group's businesses, and in particular market activities, refinancing and asset management, a protracted financial market decline (due to tightened financing conditions, a global economic slowdown, a trade war, etc.), particularly in asset prices, could reduce the level of activity in the markets involved or reduce their liquidity. These developments could 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, particularly those where a majority of participants have market positions in the same direction. Assets that are not traded on regulated markets or other public trading platforms, such as derivatives contracts between banks, are valued based on the Group's internal models rather than on their market value. Monitoring or anticipating the deterioration of prices of assets like these is difficult, and could lead to losses that the Group did not anticipate which could have a material adverse effect on the Group's results of operations and financial position.

    Furthermore, a long-term environment of low interest rates and accommodative monetary policy could change the behaviour of certain participants in the financial markets and lead them to take on additional risk, resulting in lengthened maturities, greater product complexity, the emergence of new market practices, etc. Such a context could reduce the liquidity of the financial markets in stress periods and increase the risk of dislocation or a flash crash, which could lead to losses or the impairment of assets owned by the Group.

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

    The Group is exposed to a risk of loss in the event of the ineffectiveness of a hedging strategy used, particularly on market activities. These hedging strategies use models that include assumptions about the evolution of market parameters and their correlation, partly inferred from historical data.

    These models could be inappropriate in certain market environments, leading to an ineffective hedging strategy and causing potential loss.

4.1.4 OPERATIONAL RISK

15. **Operational failure, termination or capacity constraints affecting institutions the Group does business with, or failure or breach of the Group’s information technology systems, could result in losses and damages to the reputation of the Group.**

    The Group relies heavily on communication and information systems to conduct its business. Any failure, dysfunction, interruption or breach in security of these systems, even if only brief and temporary, could result in significant disruptions to the Group's business. Despite the Group's backup solutions, such incidents could result in significant costs related to information retrieval and verification, loss of revenue, loss of customers, litigations with counterparties or customers and ultimately damage to the Group's reputation. This could also have a material adverse effect on the Group’s businesses, results of operations and financial position, and could result in litigation.

    An increasing number of companies, including financial institutions, has experienced intrusion attempts or even breaches of their information technology security, some of which have involved sophisticated and targeted attacks on their computer networks and resulted in loss, theft or disclosure of 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 effective countermeasures in a timely manner. Similarly, technical internal and external fraud is fluid and protean, and closely follows the technological evolution of financial activities and customer behaviour, leading fraudsters to regularly develop new attack techniques. Such actions could result in operational losses and could have a material adverse effect on the Group’s business, results of operations and financial position.

    Furthermore, the Group is exposed to the risk of operational failure, termination or capacity constraints of third parties, including clients, financial intermediaries that it uses to facilitate cash settlement or securities transactions (such as clearing agents and houses and exchanges), and other market participants. An increasing number of derivative transactions are now required to be cleared on exchanges, or will be in the near future, which has increased the Group’s exposure to these risks, and could affect its ability to find adequate and cost-effective alternatives.

    The interconnectivity of multiple financial institutions with clearing agents and houses and exchanges, and the increased concentration 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 the Group’s ability to conduct business and could therefore result in losses. Industry concentration, whether among market participants or financial intermediaries, can exacerbate these risks, as disparate complex systems need to be integrated, often on an accelerated basis.

    As the Group becomes more interconnected with its clients, it also faces the risk of operational failure with respect to its clients’ information technology and communication systems. Any failure, termination or operating incident could adversely affect its ability to effect transactions, provide customer service, manage its exposure to risk or expand its businesses, or could result in financial losses, liability towards its clients, impairment of its liquidity, disruption of its businesses, regulatory intervention or reputational damage.

16. **The Group may incur losses as a result of unforeseen or catastrophic events, including terrorist attacks or natural disasters.**

    The occurrence of unforeseen or catastrophic events, including terrorist attacks, natural disasters or a widespread health crisis (or concerns over the possibility of such crisis) or major social movements, could create economic and financial disruptions or lead to operational difficulties (including travel limitations or relocation of affected employees) that could impair the Group’s ability to manage its businesses and also expose its insurance activities to significant losses and increased costs (such as re-insurance premiums), which could have a material adverse effect on the Group’s business, results of operations and financial position.

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

    The Group and some of its former and current representatives may be involved in various types of litigation, including civil, administrative, fiscal, criminal and arbitration proceedings. The large majority of such proceedings arise from transactions or events that occur in the Group’s ordinary course of business. There has been an increase in client, depositor, creditor and investor litigation and regulatory proceedings 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, of losses or reputational harm deriving from litigation and other proceedings. Such proceedings or regulatory enforcement actions could also lead to civil, administrative, tax or criminal penalties that could adversely affect the Group’s business, financial position and results of operations.

    In preparing the Group’s financial statements, the Group makes estimates regarding the outcome of civil, administrative, fiscal, criminal and arbitration proceedings in which it is involved, and records a provision when losses with respect to such matters are probable and can be reasonably estimated. It is inherently difficult to predict the outcome of litigation and 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 unprecedented legal claims. Should such estimates prove inaccurate or should the provisions set aside by the Group to cover such risks prove inadequate, the Group’s financial position or results of operations could be adversely affected.

    For a description of the most significant ongoing proceedings, see section “Compliance risk, litigation”.

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

The Group's reputation for financial strength and integrity is critical to its ability to foster loyalty and develop its relationships with customers and other counterparties. Its reputation could be harmed by events attributable to it, flaws in its control measures, non-compliance with its commitments (notably environmental or social) or strategic decisions (business activities, risk appetite, etc.), as well as by events and actions of others outside its control. Negative comments concerning the Group, whether legitimate or not, could have adverse effects on its business, its competitive position, the value of its issued securities or its access to financing.

In particular, the Group's reputation could be adversely affected by a weakness in its internal control measures (operational risk, regulatory risk, credit risk, market risk, etc.) or following misconduct by employees such as with respect to clients (non-compliance with consumer protection rules) or by issues affecting market integrity (market abuse and conflicts of interest). The Group's reputation could also be affected by external fraud or information leaks, by the financing of an industry that is subject to media exposure, or by an transaction that is considered not to comply with an environmental or social commitment. Similarly, reputational issues could also result from a lack of transparency, communication errors or a restatement of, or corrections to, its financial results. The impact of such events, which could potentially result in litigation, can vary depending on the context and whether they become the focus of extensive media reports. Reputational damage could translate into a loss of business or investor confidence or a loss of the Group's clients (and prospects) which could have a material adverse effect on the Group's results of operations and financial position or on its ability to attract and retain employees.

4.1.5 MODEL RISKS

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

The Group deploys significant resources to identify, measure and control its risks and implements various techniques to manage its risk profile.

Nevertheless, these risk management techniques, which are often based on models, may not be appropriate for certain risks that would not be properly integrated into the historical data and hypothetical scenarios used to set up these models.

4.1.6 FUNDING RISKS

20. **A number of exceptional measures taken by governments, central banks and regulators could have a material adverse effect on the Group's business, results of operations and financial position.**

For several years now, central banks have taken measures to facilitate financial institutions' access to liquidity, in particular by lowering interest rates to historic lows. Various central banks have substantially increased the amount and duration of liquidity provided to banks. They have relaxed collateral requirements and, in some cases, have implemented "non-conventional" measures to inject substantial liquidity into the financial system, including direct market purchases of government bonds, corporate bonds, and mortgage-backed securities.

In the United States, the Fed has been raising its key interest rate since December 2015, along with implementing a policy of reducing its balance sheet (quantitative tightening). The market is now focusing on the pace of these rate increases and the potential monetary policy in response to the chosen budgetary policy of the US Presidential administration of Donald Trump that could lead the economy to stagflation. New tariffs and/or sanctions remain the main risks today.

Such changes in monetary policy, and concerns about their potential impact, could increase volatility in the financial markets and push US interest rates significantly higher. Given the uncertainty of the strength of global and US economic growth, such changes could have a significant adverse effect on the Group's business, financial position and results of operations.

In the Eurozone, the ECB ended its net asset-buying programme in December 2018 but has made it clear that it plans to maintain its balance sheet at constant size "for a prolonged period" after completion of the net asset purchases (by reinvesting the amounts received as the securities it holds reach maturity). The ECB now appears to have less leeway in the event of a resurgence of financial tension in certain Eurozone member states. In the extreme case of a restructuring of a Eurozone Member State's sovereign debt, cross-border capital flows restrictions could be implemented.

The fragmentation of the European financial markets is now partly "hidden" by the ECB's policy. The lack of significant progress on the Banking Union and the Capital Markets Union leaves the Eurozone in a situation of potential vulnerability.

A more politically fragmented world and the risks of exceptional counterproductive measures could have a material adverse effect on the Group's business, financial position and results of operations.

21. **The Group's dependence on its access to financing and its liquidity constraints may have a material adverse effect on the Group's business, financial position and results of operations.**

For the proper conduct of its activities, the Group depends on access to financing and other sources of liquidity. 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 material decreases in customer deposits, its liquidity could be impaired. In addition, if the Group is unable to maintain a satisfactory level of customer deposits collection, it may be forced to turn to more expensive funding sources, which would reduce the Group's net interest margin and results.

The Group is exposed to the risk of an increase in credit spreads. The Group's medium- and long-term financing cost is directly linked to the level of credit spreads which can fluctuate depending on the general market conditions. These spreads can also be affected by an adverse change in France's sovereign debt rating or the Group's external ratings by rating agencies.

The Group's ratings by rating agencies are based in particular on their review of factors such as the Group's governance, strategy, quality and diversity of earnings sources, capital adequacy, quality of the balance sheet structure, risk management and risk appetite. Therefore, a deterioration in any of the above factors may lead to a ratings downgrade for the Group. The Group's credit ratings can have a significant impact on the Group's access to funding, increase its financing costs and reduce its ability to carry out certain types of transactions or activities with customers. This could also require the Group to provide additional collateral to certain counterparties, which would have a negative impact on liquidity.

Lenders have the right to accelerate debt repayment for some of the Group's debts upon the occurrence of certain events, including the Group's failure to obtain 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 as a result of a default, the Group may be unable to find sufficient alternative financing on acceptable terms, and the Group's assets might not be sufficient to repay its outstanding indebtedness in full.

Consequently, access to financing and liquidity constraints may have a material adverse effect on the Group's business, financial position, results of operations and ability to meet its obligations to its counterparties.

4.1.7 STRATEGIC AND BUSINESS RISKS

22. **Risks related to the implementation of the Group's strategic plan.**

The Group's new strategic and financial plan for 2017-2020 includes a number of strategic objectives, in particular a plan to accelerate the digital transformation of its model,the streamlining of its French Retail Banking network, the strengthening of its internal control function and the embedding of a culture of corporate responsibility. It also includes a certain number of financial objectives related to net income, costs, return on equity and regulatory ratios.

This strategic plan is based on a number of assumptions, in particular relating to the macroeconomic environment and the development of activities. Failure to achieve these objectives or the occurrence of unexpected events could compromise the achievement of the strategic plan and have a material adverse effect on the Group's business, results of operations and financial position.

23. **To prepare its consolidated financial statements in accordance with IFRS as adopted by the European Union, the Group relies on assumptions and estimates which, if incorrect, could have a significant adverse impact on its financial statements.**

When applying the IFRS accounting principles disclosed in the Financial Information (Chapter 6 of this Registration Document) and for the purpose of preparing the Group's consolidated financial statements, Group Management makes assumptions and estimates that may have an impact on figures recorded in the income statement or within the profits and losses recorded directly in equity, 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, Group Management exercises its judgement and uses information available at the date of preparation of the consolidated financial statements. By nature, valuations based on estimates involve risks and uncertainties relating to their occurrence in the future. Actual future results may therefore differ from these estimates, which could have a material adverse effect on the Group's financial statements.

The use of estimates concerns mainly the following valuations:

- fair value on the balance sheet of financial instruments that are not listed on an active market, as well as fair value of financial instruments as presented in the notes to the financial statements;
- the amount of impairment of financial assets, tangible or intangible fixed assets and goodwill;
- evaluation of the accounting treatment of derivative hedging instruments and measuring the efficiency of the related hedging relationships;
- provisions recognised under liabilities (including provisions for litigation in a complex legal context and provisions for employee benefits), technical provisions of insurance companies, and deferred profit-sharing;
- the amount of deferred tax assets recognised in the balance sheet;
- the evaluation of control for determining the scope of consolidated entities, in particular for structured entities;
- initial value of goodwill determined for each business combination;
- in the event of the loss of control over a consolidated subsidiary, the fair value of the stake potentially retained by the Group in such entity, where applicable.

24. **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 Group conducts in-depth analyses of the companies or activities it plans to acquire, but the due diligence procedures prior to the acquisition may not be fully exhaustive. As a result, certain acquired businesses may include undesirable assets or expose the Group to increased or unanticipated risks.

The analysis of acquisition value is based on a series of assumptions related to the earnings prospects of the acquired companies or activities, the economic environment in which they operate or the expected revenue or costs synergies to be achieved with the rest of the Group. These assumptions may not be realised. In some cases, integration initiatives in matters of commercial activities, IT or human resources may prove more difficult to implement than anticipated or require more management time and resources than expected. Similarly, 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 and could have a material adverse effect on the Group's business, results of operations and financial position.

As part of its business portfolio strategy, the Group may sell activities or subsidiaries to deploy its resources in the Group's other activities that have a better prospect of profitability or synergy. When concluded, these sales may result in the recording of capital losses or other losses and may therefore have an adverse impact on the Group's results of operations.

25. **The Group's inability to attract and retain qualified employees, as well as significant changes in the regulatory framework related to human resources management processes and compensation, may adversely affect its performance.**

The inability to attract and retain highly-qualified employees, a high rate of turnover or the departure of strategic employees could expose the Group to a loss in its know-how as well as a deterioration in the quality of services provided (particularly in regions where labour markets are highly competitive for qualified personnel). In order to attract and retain highly-qualified employees, endowed with the skills - sometimes new - necessary for the successful development of its activities, the Group must therefore offer career paths, training and development opportunities, and compensation levels in line with market practices. The Group's inability to achieve its human resources objectives, including due to external factors, could negatively affect its commercial and operational performance and therefore its results of operations.

Furthermore, the European financial industry is subject to stringent regulation of employee compensation, including rules for certain types of compensation (fixed, variable, incentive-based, deferred payments, etc.), which may constrain the Group in its ability to attract and retain qualified employees. In particular, this is the case with the CRD4 Directive, which has applied since 2014 to banks in the European Economic Area and establishes a ceiling on the variable component of compensation in relation to the fixed component for the regulated population.

Other regulatory changes, particularly the General Data Protection Regulation and regulations related to customer protection (European Directives (i) on Markets in Financial Instruments and (ii) on Insurance Distribution and their associated texts, known as "MIF II" and "IDD" respectively), which entered into force in 2018, include requirements on operational processes for human resources management and on employee compensation, imposing compliance obligations on the Group and costs related to the adaptation of its operational model.

4.2 RISK MANAGEMENT ORGANISATION

4.2.1 RISK APPETITE

Risk appetite is defined as the level of risk that the Group is prepared to accept to achieve its strategic goals.

Principles governing risk appetite

Societe Generale seeks sustainable development based on a diversified and balanced banking model with a strong European anchor and a targeted global presence in selected areas of strong business expertise; the Group also strives to maintain long-term relationships with its clients built on the confidence it has earned and to meet the expectations of all of its stakeholders.

This results in:

- an organisation with 17 Business Units offering various products and services to clients in different locations;
- a balanced capital allocation between activities;
- a geographically balanced model: about 75% of revenues are generated in developed countries and 25% in developing countries. In Retail Banking, the Group focuses its development on Europe and Africa, where it enjoys a historic presence, extensive knowledge of the markets and prominent positions. As regards Global Banking and Investor Solutions, outside the Europe and Africa zones, the Group targets those activities in which it can rely on international expertise;
- a targeted growth policy, promoting areas of existing expertise, high-quality client franchise, and the search for synergy gains within the Group's diversified banking model;
- the incorporation of social responsibility issues and environmental concerns at the heart of its strategy and its relationships with stakeholders, specifically with a non-financial target rating;
- vigilance as regards its reputation, which it considers a high-value asset which must be protected.

A strong financial profile

Societe Generale seeks to achieve sustainable profitability, relying on a robust financial profile consistent with its diversified banking model, by:

- targeting profitable and resilient business development;
- maintaining a target rating allowing access to financial resources at a cost consistent with the development of the Group's businesses and its competitive positioning;
- calibrating its capital and hybrid debt targets to ensure:
  - satisfaction of minimum regulatory requirements on CET1 ratio in the baseline scenario, with a security buffer;
  - coverage of one year of "internal capital requirement" using available CET capital;
  - a sufficient level of creditor protection consistent with the Group's goals with respect to rating and regulatory ratios such as TLAC ("Total Loss Absorbing Capacity"), MREL ("Minimum Required Eligible Liabilities"), and the leverage ratio.
- ensuring resilience in its liabilities, calibrated by taking into account a survival horizon in a liquidity stress ratio, compliance with LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) regulatory ratios and the level of dependence on short-term fundings;
- controlling financial leverage.

The Group's goal with respect to its shareholders is to generate adequate profitability relative to the risks incurred. Therefore, the risk/reward ratio is taken into consideration in measuring and managing profitability, as well as in product and service pricing.

Credit and counterparty risks (including concentration effects)

When it assumes credit risk, the Group focuses on medium- and long-term client relationships, targeting both clients with which the bank has an established relationship of trust and prospects representing profitable business development potential over the mid-term.

In a credit transaction, risk acceptability is based, first and foremost, on the borrower's ability to meet its commitments. Security interests are sought to reduce the risk of loss in the event of a counterparty defaulting on its obligations, but may not, except in exceptional cases, constitute the sole justification for taking the risk.

The Group seeks to diversify risk by controlling concentration risk and maintaining a policy of spreading risk by sharing it with other financial partners.

Counterparty ratings are a key criterion of the credit policy and serve as the basis for the credit approval authority grid used in both the commercial and risk functions. The rating framework relies on internal models. Special attention is paid to timely updating of ratings (which, in any event, are subject to annual review).

To closely monitor portfolio quality, the Group has established thresholds using a series of credit portfolio quality indicators which are monitored quarterly by the CORISQ (Risk Committee) and by the Risk Committee of the Board of Directors.

The Group seeks to maintain exposure to country risks which reflect its strategic selections in terms of its foreign operations and limit the most risky country concentrations.

The Group sets up specific credit policies for sectors or types of credit transactions which have a specific or intrinsically higher concentration risk or risk profile. This system is complemented by a framework through portfolio limits.

Market risks

The Group's market activities are carried out in the context of a business development strategy primarily focused on meeting client requirements with a full range of products and solutions.

The market risk is strictly managed through a set of limits for several indicators (such as stress tests, Value at Risk (VaR) and stressed Value at Risk (SVaR), "sensitivity" and "nominal" indicators).

Regular reviewing of these limits ensures that they closely reflect any changes in market conditions.

Within these limits, the Global Stress Test of market activities and the Market Stress Test limits play a pivotal role in determining the Group's market risk appetite ; in fact, these indicators cover all operations and the main market risk factors as well as risks associated with a severe market crisis which helps limit the total amount of risk and takes account of any diversification effects.

Proprietary trading transactions are segregated within a dedicated subsidiary (Descartes Trading) and are subject to a limited risk appetite.

Operational risks (including reputation and compliance risk)

The Group has no appetite for operational risk but is prepared to assume a potential loss of approximately 1% of recurring revenue.

The Group is required to strictly comply with all laws and regulations which govern its activities in all countries in which it operates, and has a policy of implementing international best practices in order to achieve this. The Group entities must also comply with local regulatory requirements when imposing obligations that are additional to those set out in Group policies. In the event that these requirements are contradictory, these entities must comply with the most restrictive obligations, unless this is contradictory to local legal or regulatory requirements. The Group strives, in particular, to:

- gather intelligence about its customers by implementing appropriate KYC measures;
- work with clients and partners whose practices comply with international rules and standards on anti-money laundering and terrorism financing;
- work with clients and complete transactions in accordance with rules related to international embargos and financial penalties;
- offer products and advisory services and work with partners in accordance with regulations governing, in particular, client protection;
- implement the necessary measures and conduct transactions showing respect for the integrity of the markets;
- implement an anti-corruption policy and deploy an anti-corruption mechanism, prevent and manage conflicts of interest, and ensure its employees behave responsibly in compliance with the Code of Conduct;
- uphold its commitments regarding fiscal transparency;
- protect the data of its clients and employees;
- foster compliance values among its employees. It guarantees their right to whistleblow.

The Group has defined values and principles of conduct which apply to all of its employees:

- it emphasises employee loyalty towards clients and the integrity of their practices;
- it develops a strong culture that guides employee behaviour in such a manner as to conduct business ethically and responsibly. This culture is spread through values (team spirit, innovation, responsibility, commitment), a Code of Conduct and a leadership model which defines the conduct and skills expected of employees in respect of each Group value;
- it ensures that they are implemented and complied with through, in particular, alignment of the HR processes (recruitment, performance evaluations, promotion, compensation, disciplinary procedures, etc.) with these values and principles of conduct.

Controlling reputation risk is based first on prevention. With respect to its reputation, Société Générale is extremely careful. The prevention and detection of reputation risk are integrated into all of the Group's operational practices. This vigilance is part of the Group's sustainable and responsible development strategy.

Misconduct risk results from actions (or inactions) of the bank or its employees inconsistent with the Group's Code of Conduct, which may lead to adverse consequences for our stakeholders, or place the bank's sustainability or reputation at risk.

In addition to the risks cited above, the Group is exposed to other operational risks inherent in its business: execution errors, internal and external fraud, IT system failures, malicious acts against IT systems, loss of operational resources, commercial disputes, failure to comply with tax obligations, etc. The Group has established a goal to control these risks using:

- environmental analysis of operational risk and a "weak signals" detection system;
- the deployment of secure procedures for processing data, special prevention mechanisms and an internal control system. In addition, a framework has been designed to ensure business continuity in crisis situations;
- implementation of key risk monitoring and control indicators (KRI);
- promotion of a solid "risk culture" with respect to operational risks throughout the Group;
- the expectation that its critical service providers will provide a level of resiliency and information security equivalent to its own.

Structural interest rate and exchange Risks, Risks on Pension/Long-Service Obligations

The Group measures and strictly controls structural risks. The mechanism to control interest rate risk, foreign exchange risk and the risk on pension/long-service obligations is based on sensitivity or stress limits which are broken down within the various businesses (entities and business lines).

Liquidity Risk and Funding Risk

The Group assesses the solidity of its liquidity profile based on three complementary elements:

- controlling liquidity risk. The Group assesses the liquidity risk over various time horizons, including intraday, taking into account market access restriction risk;
- controlling funding risk. The capacity to raise funding is assessed over a three-year horizon;
- complying with regulatory obligations (LCR and NSFR).

The solidity of the liquidity profile is assessed within the Group's prudential scope, taking into account the liquidity situation in major foreign currencies.

The Group's larger entities, in particular those which are subject to local regulatory obligations governing liquidity, also assess and specifically monitor their liquidity profile in conjunction with the Group.

The liquidity and funding risks framework is determined within the Group's ILAAP (Internal Liquidity Adequacy Assessment Process).

4.2.2 RISK APPETITE – GENERAL FRAMEWORK

The risk appetite is determined at Group level and is allocated operationally to the businesses and subsidiaries; it is monitored as described in the "Risk Appetite Framework", which is summarised below.

Governance

The Board of Directors approves, every year, the Group Risk Appetite proposed by General Management (the Group Risk Appetite Statement) and the Group Risk Appetite Framework. The Risk Division and the Finance and Development Division define the Group's risk appetite and provide monitoring and second-level control of its implementation, together with the Group Compliance Division. The Internal Audit Division annually reviews the effectiveness of the Risk Appetite Framework.

Determination and allocation of the risk appetite

Risk appetite is developed and allocated based on:

- regular identification and assessment of all material risks to which the Group is exposed; this exercise relies on prospective measurement tools (stress tests);
- a previsional assessment of the Group's profitability and solvency under a baseline scenario and a stressed scenario, over a horizon of at least three years, selected to construct the strategic and financial plan;
- an allocation of the risk appetite within the Group, down to the appropriate level, taking into account the risk/profitability profile of the business lines and their growth prospects.

The Group's risk appetite is formalised in a document ("Risk Appetite Statement") that determines the general guidelines, policies, targets, limits and thresholds governing the Group's risk appetite. This document is reviewed annually.

Every year, upstream from the budget process, the Finance Division, together with the Risk Division, submits Group-level targets to General Management. Such targets are subsequently submitted for the approval of the Board of Directors.

These targets are designed to ensure:

- compliance, with a sufficient safety margin, with the regulatory obligations to which the Group is subject (in particular, minimum regulatory solvency, leverage and liquidity ratios), pre-empting the implementation of new regulations where possible;
- sufficient resistance to stress scenarios by means of a safety margin (stress normalised by regulators or defined through an internal Group process).

Risk appetite in relation to the major risks to which the Group is exposed is regulated by limits and thresholds. These metrics support the Group in achieving its financial targets and guide the Group's profitability profile.

Allocation of risk appetite within the organisation

The allocation of risk appetite within the organisation is based on the strategic and financial plan and risk management frameworks.

Based on the Finance Division's proposal, the financial targets defined at the Group level are broken down into budget allocation targets at the business level as part of the budget and the strategic and financial plan.

Once the budget process has been completed and after validation by General Management, the Group submits the budgetary trajectories in the baseline scenario and in the stressed scenario to the Board of Directors, verifying that the financial targets initially proposed have been met; if not, the Board of Directors may either approve new targets or request that the trajectories be changed.

Likewise, over and above the financial targets, and based on the proposal from the Finance and Risk Divisions, the limits and thresholds defined at Group level are allocated operationally between the business units and businesses, which are then responsible for allocating them downstream and monitoring within their scope.

The Group's main subsidiaries define their risk appetite, allocate metrics within their organisation and implement an appropriate risk appetite framework. The Corporate Divisions and their functions ensure consistency with the Group risk appetite. Subsidiaries' risk appetites are validated by their Board of Directors.

4.2.3 RISK MANAGEMENT

Audited I 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 is maintaining a balance between strong awareness of risks and promoting innovation. The Group's risk management, supervised at the highest level, is compliant with the regulations in force, in particular the Order of 3rd November 2014 relating to the internal control of companies in the banking sector, payment services and investment services subject to the control of the French Prudential Supervisory and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR) and European regulations CRR/CRD4. ▲ (See Board's Expertise, p. 82.)

BOARDS OF DIRECTORS

AUDIT AND INTERNAL CONTROL COMITTEE

RISK COMITTEE

COMPENSATION COMITTEE

NOMINATION AND CORPORATE GOVERNANCE COMITTEE

GENERAL MANAGEMENT

STRATEGIC SUPERVISION COMITTEES

GROUP STRATEGY COMITTEE
Implements the Group's strategy

SUPERVISION COMITTEE

STRATEGY OVERSIGHT COMITTEE
Reviews markets and clients activities, transformation and innovation projects, **HR and mid-term financial projections and targets**

OPERATIONAL SUPERVISION COMITTEES

GROUP RISKS COMITTEE (CORISQ)
Supervises guidelines governing risks, in particular the management of different risks credit, country, market and operational risks

FINANCE COMITTEE (COFI)
Defines the Group's financial strategy and ensures the monitoring of scare resources, their allocation and the review of structural risks at Group level **and for significant** entities

GROUP INTERNAL CONTROL COORDINATION COMITTEE (CCCIG)
Responsible for the design, consistancy and effectiveness of the Group's overal internal control

COMPLIANCE COMITTEE (COM-CO)
Defines compliance principles at Group level

CORPORATE STRATEGIC ARCHITECTURE COMITTEE (CSAE)
Defines the company's architecture in term of data and reference data bases, operational processes and IT systems. Ensures the consistency of Group projectswith the target architecture

Audited I The main objectives of the Group's risk management strategy are:

- to contribute to the development of the Group's businesses and profitability by defining the Group's risk appetite in conjunction with the Finance Division and the business divisions;
- to contribute to the Group's sustainability by establishing a risk management and monitoring system;
- to reconcile the independence of the risk management system (with respect to the businesses) with close collaboration with the core businesses, which have primary responsibility for the transactions they initiate. ▲

Governance of risk management

Audited I Two main high-level bodies govern Group risk management: the Board of Directors and General Management.

General Management presents the main aspects of, and notable changes to, the Group's risk management strategy to the Board of Directors at least once a year (more often if circumstances so require).

Within the Board of Directors, the Risk Committee (see Art. 11 of the Internal rules of the Board of Directors, p. 551) advises the Board of Directors on overall strategy and the appetite regarding all kinds of risks, both current and future, and assists the Board when it verifies the implementation of this strategy.

The Board of Directors' Audit and Internal Control Committee (see Art. 10 of the Internal Rules of the Board of Directors, p. 550) ensures that the risk control systems operate effectively.

Chaired by General Management, the specialised committees responsible for central oversight of internal control and risk management are as follows:

- **the Risk Committee** (CORISQ), which met 19 times in 2018, defines the Group's key priorities in terms of risk, within the framework of the risk appetite and financial targets set by the Group Strategy Committee, and monitors compliance in this respect. Subject to the powers attributed to the Board of Directors, the CORISQ, based on proposals from the Risk Division, takes the main decisions relating to the management of various risks (credit risks, country risks, market and operational risks). The Group also has a Large Exposures Committee, which is responsible for approving the sales and marketing strategy and risk-taking with regard to major client groups;
- **the Finance Committee** (COFI) is responsible for setting out the Group's financial strategy and for managing scarce resources (capital, liquidity, balance sheet, tax capacity) in the context of the Group's risk appetite. It validates the Group's management and structural risk monitoring mechanism and reviews changes in those risks and in significant entities (limits and consumption). It periodically assesses the consumption of scarce resources. It examines ILAAP and ICAAP documents, the budget, the Preventive Recovery Plan, and the Corporate Centre and re-invoicing budget. Lastly, it covers issues of the Group's taxation (managed jointly by the Group Finance Division and the Corporate Secretary);
- the **Compliance Committee** (COMCO) meets quarterly in order to define the Group's main guidelines and principles in terms of compliance. The Head of Compliance presents the main events having occurred over the period, an update on the compliance system, the main regulatory developments and the state of progress on projects;
- the **Corporate Strategic Architecture Committee** (CSAE) defines the Company's architecture from the standpoint of data and reference systems, operational processes and information systems, and ensures the consistency of the Group's projects with the architecture set out;
- the **Group Internal Control Coordination Committee** (CCCIG) is responsible for the overall architecture of the Group's internal control system: for evaluating its efficiency, consistency and coprehensiveness, for taking corrective actions and for monitoring their implementation.

Divisions in charge of risk monitoring

The Group's Corporate Divisions, which are independent from the core businesses, contribute to the management and internal control of risks.

The Corporate Divisions provide the Group's General Management with all the information needed to assume its role of managing Group strategy under the authority of the Chief Executive Officer. The Corporate Divisions report directly to General Management.

- The main responsibilities of **the Risk Division** are to contribute to the development of the Group's businesses and profitability by defining the Group's risk appetite (broken down by business) under the aegis of General Management and in collaboration with the Finance Division and the business divisions, and to establish a risk management and monitoring system as a second line of defence.

  In performing its work, the Risk Division reconciles independence from the businesses with a close working relationship with the core businesses, which are responsible in the first instance for the transactions they initiate.

Accordingly, the Risk Division:

  - provides hierarchical and functional supervision for the Group's Risk function;
  - is jointly responsible, with the Finance Division, for setting the Group's risk appetite as recommended to General Management;
  - identifies all Group risks;
  - implements a governance and monitoring system for these risks, including cross-business risks, and regularly reports on their nature and extent to General Management, the Board of Directors and the banking supervisory authorities;
  - contributes to the definition of risk policies, taking into account the aims of the businesses and the relevant risk issues;
  - defines or validates the methods and procedures used to analyse, measure, approve and monitor risks;
  - implements a second-level control to ensure the correct application of these methods and procedures;
  - conducts and validates transactions and limits proposed by business managers;
  - defines or validates the architecture of the risk information system and ensures its suitability to business requirements.
- **The Finance Division** is aligned across the new organisation of the Group, divided into 17 Business Units (BU) and 10 Service Units (SU). It is organised according to three levels of supervision, each attached to a Chief Financial Officer:
  - French Retail Banking, and International Retail Banking and Financial Services,
  - Global Banking and Investor Solutions,
  - Cross-business functions, bringing together all the areas of expertise that are key to the operations of the Finance Division.

  It also carries out extensive accounting and finance controls. As such:

  - The **Group Accounting Department** is responsible for coordinating the mechanism used to draw up the Group's consolidated financial statements,
  - The **Experts on Metrics and Reporting Department** is responsible for producing the regulatory reports of the Group,

- The **Mutualised Accounting and Regulatory Activities Department** within the **Pooled Operations Division** is responsible for accounting, regulatory and tax production and coordinating the continuous improvement and management of processes for entities within its scope (o.w. Societe Generale SA),
- The **Finance Control Department** is responsible for the second-level permanent control system over all of the Finance Processes
- The missions of the **Group Asset and Liability Management Department**, the **Balance Sheet and Global Treasury Department**, and the **Group Strategic Financial Management Department** are detailed in the "Structural and liquidity risks" section on page 153 of this report.

The other cross-business functions provide various tasks for the Finance Division, in particular with the Finance Division of the Group Service Units, Group Investor Relations and Financial Communication , Human Resources and the Corporate Secretary.

- The **Finance Departments of the Business Units and Service Units**, which report hierarchically to the Group Finance Division, ensure that the financial statements are prepared correctly at the local level and control the quality of the information in the financial reports (accounting, management control, regulations, etc.).
- The **Group Compliance Division**, which has been reporting to General Management since 1st June 2017, ensures that the Group's banking and investment activities are compliant with all laws, regulations and ethical principles applicable to them. It also ensures the prevention of reputational risk.
- The **Corporate Secretary** includes the **Group Legal Department**, which notably monitors the security and legal compliance of the Group's activities, relying where applicable on the legal departments of subsidiaries and branches, the **Group Tax Department**, which ensures compliance with tax laws in France and abroad, the **Group Corporate Social Responsibility Department**, which is responsible for defining and proposing a CSR (Corporate Social Responsibility) policy for the Group and the **Group Security Department**, which manages the security of the Group in cooperation with the Corporate Resources and Digital Transformation Service Unit with regard to information systems security, and the **Group's central administration services**, and, when necessary, supports the Secretary of the Board of Directors.
- The **Human Resources and Communication Division** monitors the implementation of compensation policies, amongst other things.
- The **Corporate Resources and Innovation Division** is specifically responsible for defining information system security policies.
- The **Group Internal Audit Division** is in charge of internal audits, under the authority of the Head of Group Internal Audit. ▲

In performing their missions, the Risk Division, Compliance Division and Information System Security Department rely on functions in the core businesses and Corporate Divisions, formed by representatives who report to them directly or functionally.

According to the latest voluntary census (31st December 2018) with respect to full-time equivalent (FTE) employees:

- the Group Risk function had 6,089 FTE employees (including 1,773 FTE employees within the Group Risk Division);
- the Compliance function had approximately 3,164 FTE employees;
- the Information System Security function had approximately 474 FTE employees.

Characteristics by risk

STRUCTURAL INTEREST RATE, EXCHANGE RATE AND LIQUIDITY RISKS

Structural interest rate and exchange rate risk are managed by the Asset and Liability Management Department of the Group Finance Division. This department defines the normative principles and modelling methods (validated by an ad hoc committee chaired by the Risk Division) applicable to all entities. It also develops monitoring indicators and global stress test scenarios for the different types of structural risk. Lastly, the ALM Department checks that the Group's business lines and entities comply with the framework applicable to them.

The second line of defence tasks, focused on the validation of the Group's ALM models and the resulting risk monitoring, are carried out by the Market Risk Department of the Group Risk Division, within a dedicated ALM Risk Monitoring Department. This Department validates ALM modelling principles as well as model calibrations and backtesting. It also analyses the proposals of the Finance Division pertaining to the definition of ALM risk indicators, stress test scenarios and the associated risk framework. As the second line of defence, the ALM Risk Department also ensures that the risk limits and thresholds of entities, Business Units / Service Units, the Group are respected and conducts a periodical review of the ALM risk framework in coordination with the first-level control teams.

Each entity, each Business Unit/Service Unit, carries out first-level controls on structural risks and is responsible for regularly assessing risks incurred, producing the risk report, and developing and implementing hedging options. Each entity, each Business Unit / Service Unit, is required to comply with Group standards and to adhere to the limits assigned to it.

Given that liquidity is a scarce resource, the Group's objective is:

- to finance its activities at the best possible rates under normal conditions, while maintaining adequate buffers to cover outflows in periods of liquidity stress;
- to ensure the stability of the financing for its activities by managing its dependency on market funding and financing stability in line with the timing of its financing needs;
- to maintain its short-term and long-term ratings near the Group's targets.

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.

The Finance Division's Strategic Financial Management Department is responsible for managing scarce resources in accordance with regulatory requirements and the Group's risk appetite and budgetary targets.

The Finance Division's Balance Sheet and Global Treasury Management Department is responsible for managing the Group's balance sheet and liquidity, in particular by implementing financing plans and contingency funding plans in the event of a liquidity crisis.

CREDIT RISKS

Audited I The risk approval process is based on three core principles:

- for each customer or customer group, the analysis and validation of credit agreements is primarily the responsibility of a designated business line within the Group (customer care area) and then a unit of the risk management function. In order to ensure a consistent approach to the Group's risk taking, this business line and this unit of risk examine all requests for authorisation relating to a particular customer or group of customers. This business line and this unit of risk must be independent of each other;

- the use of the internal ratings of the counterparties. These ratings are proposed by the business lines and validated by the Risk function. The process of granting and monitoring credit risk is different depending on the nature of the counterparties. For private and professional clients (called "retail"), credit decisions are subject to the fulfillment of award criteria defined in the credit policies and verified using scoring tools used under the control of the Risk Department. In particular, credit risk policies specify the conditions under which limits are set, as well as the processes applicable in the event of exceeding these limits. The approval process for corporate counterparties, financial institutions and sovereigns relies on in-depth knowledge of the client and a good understanding of the purpose of the operations;
- the system of delegation of authority, which relies heavily on the internal rating of counterparties and gives the business lines responsibility for all credit decisions, for which they assume, where applicable, the expense of provisions and losses.

In terms of governance, the Risk Division submits recommendations to the Group Risk Committee (CORISQ) on limits which it deems appropriate for certain countries, geographic regions, sectors, products or types of customers in order to reduce risks with strong correlations. The allocation of limits is also subject to final approval by CORISQ. Major concentration risks are analysed on a regular basis for the entire Group.

Together with the core businesses, the Risk Division has defined a control and monitoring system based on the credit risk policy. This policy is reviewed on a regular basis by the Board of Directors' Risk Committee. ▲

Within the Risk Division, credit risk supervision is organised by business division. The Market Risk Department defines the methods for evaluation of counterparty risk and is in charge of the credit risk supervision on hedge fund counterparts.

Each of these departments is responsible for:

- setting or proposing global and individual credit limits by client, client group or transaction type;
- authorising transactions submitted by the sales departments in line with the delegation system in place;
- validating credit scores or internal client rating criteria;
- monitoring large exposures, specific credit portfolios and compromised counterparties;
- 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 the Risk Committee and the Board of Directors' Risk Committee, and specific analyses are submitted to General Management.

MARKET RISKS

Audited | Although primary responsibility for managing risk exposure lies with the front office managers, the supervision system comes under the Market Risk Department of the Risk Division, which is independent from the businesses.

This department:

- checks the existence of an effective market risks monitoring system based on suitable limits;
- assesses the limit requests submitted by the different businesses within the framework of the overall limits authorised by the Board of Directors and General Management, and based on the use of these limits;
- proposes appropriate market risk limits by Group activity to the Group Risk Committee;
- defines methods for evaluating market risk;
- approves the valuation models used to calculate risk and results;
- defines methodologies for calculating provisions for market risk (reserves and adjustments to earnings) and additional valuation adjustments (AVA);
- computes and certifies on a daily basis, market risk indicators and P&L resulting from market activities, based on formal and secure procedures, then reports and analyses these indicators;
- monitors on a daily basis the limits set for each activity;
- defines the methods for determining the parameters used for the calculation of risks and results, validates sources to be used for these parameters.

In order to perform its tasks, this department also defines the architecture and the functionalities of the information system used to produce the risk and P&L indicators for market transactions, and ensures it meets the needs of the different businesses and of the Market Risk Department. ▲

In addition, this department also contributes to the detection of possible rogue trading operations through a monitoring mechanism based on alert levels (on gross nominal value of positions for example) applied to all instruments and desks.

In terms of governance, market risk oversight is provided by various committees at different levels of the Group:

- the risks related to market activities are reviewed during the Market Risk Committee (MRC) led by the Market Risk Department and chaired by the Risk Division and by the Global Markets Division. This committee provides information on risk levels for the main risk indicators as well as for some specific activities pointed out depending on market or business driven events. It also provides an opinion on the market risk framework changes falling under the remit of the Risk Division and Global Markets Division;
- the Risk Committee (CORISQ) is regularly informed of Group-level market risks. Moreover, upon a proposal from the Market Risk Division, it validates the main choices with regard to market risk measurement, as well as the key developments on the architecture and implementation of the market risk framework at Group level;
- the Risk Committee of the Board of Directors is informed of the Group's major market risks; in addition, it issues a recommendation on the most substantial proposed changes in terms of market risk measurement and framework (after prior approval by the CORISQ); this recommendation is then referred to the Board of Directors for a decision.
- accounting valuation matters are addressed in two valuation committees, both attended by representatives of the Global Markets Division, the Market Risk department and the Finance Division: the Global Valuation Committee which discusses and approves financial instrument valuation methodologies (model refinements, reserve methodologies, parameter marking methods, etc.) and the Global Valuation Review Committee, which reviews changes in reserves, valuation adjustment figures, and related accounting impacts.

- the topics related to Prudent Valuation are dealt with during methodological committees and validation committees, organised quarterly, and both attended by representatives of the Global Markets Division, the Market Risk department and the Finance Division.

In addition to these Committees, detailed and summary market risk reports, produced on a daily, weekly, monthly or quarterly basis, either related to various Group levels or geographic areas, are sent to the relevant business line and risk function managers.

RISK QUANTIFICATION PROCEDURES AND METHODOLOGIES

The Group has been authorised by its supervisory authorities:

- for credit risk, to use the internal ratings-based approach (IRB method) for most of its exposures to credit risk.

  Currently, the standard approach is used for certain selected activities and exposures. They have a limited impact on the Group's regulatory capital. The system for monitoring rating models is operational, in accordance with applicable regulations. This system is described in detail further on in this Registration Document; for these exposures covered by the standard approach, Societe Generale mainly uses the external ratings assigned by Standard & Poor's, Moody's and Fitch Ratings.
- for market risk, to use internal models (VaR – Value at Risk, Stressed VaR, IRC – Incremental Risk Charge, and CRM – Comprehensive Risk Measure).

  These models cover almost all of the transactions involved. Only some transactions are still calculated using the standard method.
- for counterparty risk on market transactions, to use the internal model since 2013 to calculate the EEPE (Effective Expected Positive Exposure) indicator.

  Exposure at Default (EAD) counterparty risk has been calculated on the basis of this indicator since June 2012 for "simple" products and since December 2013 for more complex derivative products. For Group entities where the internal model has been approved, the internal model covers 98% of derivative and repo transactions. The Group uses the marked-to-market valuation method for the rest of these transactions.
- for operational risks, to use the Advanced Measurement Approach (AMA).

Lastly, its information systems are regularly upgraded to accommodate changes in the products processed and the associated risk management techniques, both locally (within the banking entities) and centrally (Risk Division).

OPERATIONAL RISKS

The Operational Risk Department within the Group's Risk Division provides the second line of defence relating to the Group's operational risks.

In particular, the Operational Risk Department :

- conducts a critical examination of the management of operational risks (including fraud risk, risks related to information systems and information security, and risks related to business continuity and crisis management) of the BU/SUs;
- sets regulations and procedures for operational risk systems and production of cross Group analyses ;
- produces risk and oversight indicators for operational risk frameworks

To cover the whole Group, the Operational Risk Department has a central team supported by regional hubs. The regional hubs report back to the central team, providing all elements necessary for a consolidated overview of the Bank's risk profile that is holistic, prospective and valid for both internal oversight purposes and regulatory reporting.

The regional hubs are responsible for implementing Operational Risk Division's missions in accordance with the demands of their local regulators.

The Operational Risk Department communicates with the first line of defence through a network of operational risk correspondents in each core business/activity of the BU/SUs. BU/SUs are responsible as first line of defence for applying the framework and putting in place controls that ensure risks are identified, analysed, measured, monitored, managed, reported and contained with the limits set by the Group-defined risk appetite.

Regarding specifically those risks that are related to information systems and Group information security, and risks related to business continuity and crisis management, the Operational Risk Department defines the norms jointly and respectively with the Head of Group Information Systems Security and the Head of Group Business Continuity Management.

Risk related to security of property and people

In May 2018, the Group Security Department was created to bring global security, with the aim of placing Societe Generale at the height of security standards.

This Department is in charge of defining a global and prospective vision of security to protect people, property, the tangible and intangible assets of the Group, coordinating the planning of actions allowing, in all circumstances, the maintenance of the bank's vital activities, and contributing, as appropriate, to crisis management.

To this end, the main missions of this Division are as follows:

- define a global vision of security at Group level;

- identify the security threats and risks facing the Group (current and prospective vision) as well as the Group's weaknesses in the face of these threats;
- develop and disseminate Group policies and mechanisms to deal with security crises;
- organise and implement the Group's security management and crisis management system;
- coordinate relations with national, European and international public security authorities in the field of security;
- develop and coordinate business intelligence;
- contribute to the fight against fraud;
- strengthen the security culture in the Group (training, communication, etc.).

The Group Security Department acts as the first line of defense on security matters.

Risks related to information security and information systems

Information is a strategic asset for Société Générale. Whether on paper, digital or exchanged orally, the use and access to information must be in compliance with regulations and laws. It must be manipulated by the only people who need to know, in order to avoid any leakage of information or illegitimate access that could expose the bank, its customers and employees to undesirable consequences.

The Group Security Department, housed at the General Secretariat level, defines the Group's information security policy and is responsible for coordinating the management, watch and communication mechanisms relating to the security of the Group's information. This framework can be grouped into five broad categories: identify, protect, detect, respond, recover.

These systems are implemented within each BU/SU to reduce the residual risks related to information security, in coordination with the General Secretariat.

With regard to IT systems, the Head of IT Security and IT Operational Risk is housed at the Corporate Resources and Digital Transformation Division. Under the functional authority of the Director of Group Security, he proposes the strategy to protect digital information and animates the community of the security of the information systems. The information systems security framework is aligned with the market standards (NIST, ISO 27002), and implemented in each BU/SU.

At the operational level, the Group relies on a CERT (Computer Emergency Response Team) unit in charge of incident management, security watch and the fight against cybercrime. This team uses multiple sources of information and monitoring, both internal and external.

Given the increasing number and sophistication of digital attacks, the risk of cybercrime is becoming increasingly significant for players in the banking industry. Société Générale places it at the heart of its concerns in order to protect its customers, data and information systems. It is addressed in a cooperative way by the information systems security and operational risks teams and is monitored by the General Management within the framework of an information systems security master plan.

Thus, to support the “Transform to grow” Group strategic plan, an information systems security master plan is structured around five major axes guiding the 2020 actions:

- security for the bank's customers: enhancing the secure digital experience and strengthening our customers' cyber security culture;
- the protection of key assets: continue security actions closer to the data and securing the most sensitive applications;
- continued reinforcement of the Group's detection and reaction capabilities;
- developing the agility and trust zones of our IT systems and processes to facilitate internal and partner exchanges;
- developing the expertise of the SSI sector by creating a Cyber Institute, raising awareness and supporting employees.

A central team at the Resources and Digital Transformation department is responsible for managing and monitoring IT operational risks. The main missions of the team are:

- identifying and evaluating the major IT risks for the Group, including extreme risk scenarios (eg. cyber-attack, failure of a provider), to enable the bank to improve its knowledge of its risks, be better prepared for extreme risk scenarios and better align their investments with their IT risks;
- providing elements enabling the bank's management to steer risks, in particular via Key Risk Indicators (KRIs). These are communicated to Société Générale's Risk Committee and to the Risk Committee of the Board of Directors. They are reviewed regularly to stay aligned with the IT and security strategy and their objectives;
- more generally, ensuring the quality and reliability of all devices addressing IT operational risks. Particular attention is paid to the permanent control system for its IT risks, which is based on the definition of normative IT and security controls and the support of the Group in the deployment of managerial supervision on this subject. In 2018 a new version of the SI / SSI normative controls was developed to reinforce alignment with international standards (ISO 27002 and COBIT V5).

The management of all these risks is based on operational risk systems and the second line of defense is provided by the Risk Department.

MODEL RISKS

A “Model Risk Management” (MRM) Department was created within the Risk Division in 2017 to strengthen the second line of defence and the supervision of risk modelling. This department is responsible for supervising the model risk function and validating certain models that were previously validated in other departments. The Department is mainly responsible for:

- governing model risk management at Group level: this includes maintaining the standards and procedures required to ensure models are well managed and comply with regulations, as well as producing reports on the model risks incurred by the Group for General Management, the Board of Directors and the banking supervisory authorities;
- managing the Model Risk Management programme, including the improvement of model risk management via three lines of defence;
- supervising entities in charge of validating Group models in an independent manner, including valuation models for market positions and ALM models;
- validating internal models within its scope in an independent manner, in particular regulatory internal models, decision-making models and IFRS 9 accounting models. The MRM Department may perform any due diligence required by regulations in order to prepare independent reviews of all aspects of the models (design strength, implementation, usage, historical data, monitoring of models including backtesting). The scope of the models to be independently reviewed may be gradually expanded in line with the trajectory defined by the MRM programme.

NON-COMPLIANCE RISKS

The non-compliance risk prevention setup is based on shared responsibility between the operational entities and the Group Compliance function:

- The functional entities (BU/SU) must incorporate in their daily activities, compliance with laws and regulations, rules of professional best practice and with the internal rules of the Group;
- The Compliance function ensures several missions:
  - defining and implementing the overall normative framework, including the drafting, in collaboration with the Legal Department, of the procedures aimed at ensuring compliance with the laws and regulations applying to the banking and financial activities plus the conduct norms set by top management
  - adapting and implementing this normative framework in its scope of hierarchical authority or controlling its implementation on the scope under functional supervision (Group subsidiaries);
  - ensuring awareness of group staff on non-compliance risks and reinforcing the compliance culture within the Group;
  - ensuring the efficiency of the resources put in place, whether in terms of human resources or tools;
  - advising and assisting operational entities (first line of defence) on the different challenges linked to compliance;
  - undertaking the supervision and the level 2 control of the setup including the independent assessment of the non-compliance risk management on entities/activities having a major impact on the Group's risk profile and on the individual level concerning regulated staff, in line with regulations, notably CRD 4;
  - consolidating and following the significant events in all entities, notably via Group steering tools, and informing General Management and the Board of Directors, and, in coordination with the Legal Department, ensuring the follow-up of relations with the banking and regulatory supervisors.

The Compliance function was reorganised on 1st January 2018, directly reporting to General Management, thus becoming an independent managerial function in its own right. It ensures management of non-compliance and reputational risk follow-up. It keeps an eye on the consistency of the Group's non-compliance risk prevention setup, its efficiency and the development of appropriate relationships with bank supervisors and regulators.

The Head of Compliance participates in top management meetings. The funnelling of information is ensured via presentations to top management and during committees focused on compliance.

The Compliance function has implemented a clear organisation based on:

- teams focused on each business line;
- central teams focused on the oversight of risks and controls plus key transverse activities such as training and digital transformation.

It is organised around eight main non-compliance risks grouped in two broad categories, financial security, on the one hand, and regulatory risks, on the other, as detailed in chapter 4.9.

Risk and remuneration policy

Since the end of 2010, in accordance with the regulatory framework as defined by European directive CRD3, Societe Generale has implemented a specific governance for the determination of variable remuneration. Beyond financial markets professionals, the rules introduced by this directive apply to all persons whose activity is likely to have a substantial impact on the risk profile of the establishment which employs them, including those exercising control functions.

According to the principles approved by the Board of Directors as proposed by the Remuneration Committee, the remuneration mechanisms and processes for the identified population not only factor in the financial results of the undertaken operations, but also the way in which this result is generated: control and management of all risks and respect of compliance rules. For their part, control function employees are remunerated independently of the results of the operations that they control and as a function of criteria specific to their activity.

The variable remuneration harbours a non-deferred portion and a portion deferred over three years prorata temporis and under conditions of presence, performance and malus. At least 50% of this remuneration is paid in the form of shares or share equivalents. These payment modalities are aimed at aligning the remuneration on performances and the company risks horizon. The Risk division and the Compliance division participate in the definition and implementation of this policy.

The Risk division and the Compliance division participate in the definition and implementation of this policy.

The regulatory framework defined in European directive CRD4 applies since 1st January 2014 and does not modify the rules on the determination of the variable remuneration of persons whose activity is likely to have an impact on the group's risk profile and control function employees. Hence the principles and the governance mentioned above continue to apply within the group.

Moreover, Societe Generale has implemented a setup and specific governance aimed at the population of trading mandate holders, to ensure that the remuneration policy factors in the demands of the Law on the separation and regulation of banking activities of 26th July 2013 and the Volcker Rule.

Reputational risk

Each quarter, the Compliance division, and based on information from the Business Units and Service / Central management units (notably the Head of HR and communication, the Legal department, the CSR division and Data protection division) drafts an overview of the reputational risk communicated quarterly to the Risks committee and the Board of Directors.

Moreover, chief compliance officers dedicated to Business Units take part in the various organisations (new product committees, ad hoc committees, etc.) organised to validate the new types of operations, products, projects or customers and formulate a written opinion as to their assessment of the level of risk of the targeted initiative and notably the reputational risk.

4.2.4 RISK MAPPING FRAMEWORK AND STRESS TESTS

Group risk mapping framework

The risk map is an annual overview of the Group's risk identification process. Risk identification contributes to the overall assessment of the Group's risk profile, and is used in various tasks such as the Internal Capital Adequacy Assessment Process (ICAAP). Prepared by the Risk Division under the authority of General Management, the risk map is presented annually to the Board of Directors' Risk Committee.

The aim of this approach is to estimate potential material losses for the main types of risk to which the Group is exposed, including credit, market, operational and structural risks. The risk map matches potential losses to hypothetical scenarios within defined scopes. The assessment combines expert analysis and various estimated statistical approaches using historical data.

Stress tests

Stress tests or crisis simulations are used to assess the potential impact of a downturn in activity on the behaviour of a portfolio, activity or entity.

At Societe Generale, stress stests are used to help identify, assess and manage risk, and to evaluate the Group's capital adequacy with regard to risks. Accordingly, they are an important indicator of the Group's resilience and that of its activities and portfolios, and a core component in the definition of its risk appetite.

Stress tests are based on extreme but plausible hypothetical or historical economic scenarios. These scenarios are translated into impacts on the Group's activities, taking into account potential countermeasures and systematically combining quantitative methods with an expert assessment (risk, finance or business lines).

Stress tests may also rely on sensitivity analyses (single-factor or multi-factor risk).

As such, the stress test framework in place includes:

- an annual global stress test exercise, incorporated into the budget process (Strategic and Financial Plan) to ensure that the Group's profile is in line with its risk exposure tolerance in the event of an adverse scenario and to quantify the extent of deterioration in the profitability of the BUs under such a scenario. It is also incorporated into the ICAAP (Internal Capital Adequacy Assessment Process).;
- specific stress tests by risk or portfolio type:
  - Credit risk stress tests complement the comprehensive analysis with a more granular approach, thereby helping to clarify the establishment of risk appetite for an array of portfolios, an activity, etc. They are also used to refine the identification, measurement and operational oversight of this risk;
  - Stress tests of capital market activities are based on historical and hypothetical scenarios and apply to the whole Group. They are supplemented by special risk exposure stress tests based on a number of risk factors (interest rate, equities, etc.) or activities (emerging markets, etc.). A stress test limit is defined for these different risk measurements;
  - Stress tests give a picture of exposure of the value and the interest margin of the banking portfolio to structural interest rate risk. The Group sets limits on these exposures in scenarios of yield curve changes and shifts (steepening and flattening);
  - A stress test of employee benefits involves simulating the impacts of variations in market risk factors (inflation, interest rates, etc.) on the Group's net position (dedicated investments less the corresponding employee benefits). A stress test indicator is established on that indicator;
  - Liquidity stress tests; the survival horizon of one of these stresses is identified as a financial target;
  - The operational risk assessment under stress uses scenario analyses and loss modelling to calibrate the Group's capital need for operational risk purposes and allows a better understanding of the exposure to operational losses, including the exposure to unusual and severe losses which are not present historically;
  - Insurance stress tests support the process of defining risk appetite for the ASSU Business Unit, which relies on minimum profitability objectives and an SCR coverage ratio under the benchmark scenario and under a stress scenario. Furthermore, ASSU also uses the results of its stress tests to develop its hedging policy, the allocation of its assets and its dividend distribution policy.
- reverse stress tests, for both Risk Appetite and the Recovery Plan. The impact of these stress tests is defined in principle, typically using a solvency ratio or liquidity indicator disruption point (reflecting a serious threat to the bank). The hypothetical scenarios leading to this disruption point are then recreated to determine whether new vulnerabilities appear.

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 European Banking Authority and European Central Bank.

DEFINITION OF "CORE" AND "STRESSED" ECONOMIC SCENARIOS

Core scenario

It is developed on the basis of a series of observed factors, including the recent economic situation and trends in economic policy (budgetary, monetary, exchange rate policy). Based on these observed factors, economists determine the most likely trajectory for the economic and financial variables over a given time frame.

Stressed scenario

The stress scenario is intended to simulate a loss of business (based on real GDP figures) deviating from the core scenario, on a scale similar to that observed during a past "baseline" recession chosen for its severity. It is a systematic stress scenario, meaning it is constant in scale from one period to the next, whatever the trajectory forecast by the core scenario, as long as the baseline recession remains constant. The stress scenario is also generic, in that its triggering event is not specified. The impact of the stress scenario on the other economic and financial variables is determined by measuring its deviation from the core scenario.

4.3 INTERNAL CONTROL FRAMEWORK

4.3.1 INTERNAL CONTROL

Internal control is part of a strict regulatory framework applicable to all banking institutions.

In France, the conditions for conducting internal controls in banking institutions are defined in the Order of 3rd November 2014. This Order, which applies to all credit institutions and investment companies, defines the concept of internal control, together with a number of specific requirements relating to the assessment and management of the various risks inherent in the activities of the companies in question, and the procedures under which the supervisory body must assess and evaluate how the internal control is carried out.

The Basel Committee has defined four principles – independence, universality, impartiality, and sufficient resources – which must form the basis of internal control carried out by credit institutions.

The Board of Directors ensures that Societe Generale has a solid governance system and a clear organisation ensuring:

- a well-defined, transparent and coherent sharing of responsibilities;
- effective procedures for the detection, management, monitoring and reporting of risks to which the Company could be exposed.

The Audit and Internal Control Committee (CACI) is a CA Committee that is specifically responsible for preparing the decisions of the CA in in the area of internal control supervision.

As such, General Management reports to it on the internal control of the Group. It monitors the implementation of remediation plans when it considers the risk level to be justified.

Within the Societe Generale Group, these principles are applied primarily through directives, one of which establishes the general framework for the Group's internal control, and another of which constitutes the Group Audit Charter, while the others relate to the management of credit risks, market risks, operational risks, structural interest rate, exchange rate and liquidity risks, compliance control and reputational risk control.

Control is based on a **body of standards and procedures**.

All Societe Generale Group activities are governed by rules and procedures covered by a set of documents referred to collectively as the "Normative Documentation". This documentation includes all documents:

- setting forth rules for action and behaviour applicable to Group staff;
- defining the structures of the businesses and the sharing of roles and responsibilities;
- describing the management rules and internal procedures specific to each business and activity.

The Normative Documentation primarily includes:

- directives, which define the governance of the Societe Generale Group, the structures and duties of its core businesses and Corporate Divisions, as well as the operating principles of the cross-business systems and processes (Codes of Conduct, Charters, etc.);
- guidelines, which set out the operating framework of an activity and the management principles and rules applicable to products and services rendered, and also define internal procedures.

The Normative Documentation has force of law within the Group. It falls under the responsibility of the Group Corporate Secretary.

In addition to the Normative Documentation, operating procedures specific to each Group activity are applied. The rules and procedures in force are designed to follow basic rules of internal control, such as:

- segregation of functions;
- immediate, irrevocable recording of all transactions;
- reconciliation of information from various sources.

Multiple and evolving by nature, risks are present in all business processes. Risk management and control systems are therefore key to the Bank's ability to meet its targets.

The internal control system is represented by all methods which ensure that the operations carried out and the organisation and procedures implemented comply with:

- legal and regulatory provisions;
- professional and ethical practices;
- the internal rules and guidelines defined by the company's executive body.

In particular, internal control aims to:

- prevent malfunctions;
- assess the risks involved, and exercise sufficient control to ensure they are managed;
- ensure the adequacy and effectiveness of internal processes, particularly those which help safeguard assets;
- detect irregularities;
- guarantee the reliability, integrity and availability of financial and management information;
- check the quality of information and communication systems.

The internal control system is based on **five basic principles**:

- the comprehensive scope of the controls, which cover all risk types and apply to all the Group's entities;
- the individual responsibility of each employee and each manager in managing the risks they take or supervise, and in overseeing the operations they handle or for which they are responsible;
- the responsibility of functions, in line with their expertise and independence, in defining normative controls and, for three of them, exercising second-level permanent control;
- the proportionality of the controls to the magnitude of the risks involved;
- the independence of internal auditing.

The internal control system is organised according to the "**three lines of defence**" model in accordance with the texts of the Basel Committee:

- the **first line of defence** comprises all Group employees and operational management, both within the businesses and in corporate divisions (in the latter case, with respect to their own operations).

  Operational management is responsible for risks, their prevention and their management – by putting in place first-level permanent control measures, among other things – as well as for implementing corrective or remedial actions in response to any failures identified by controls and/or process steering.

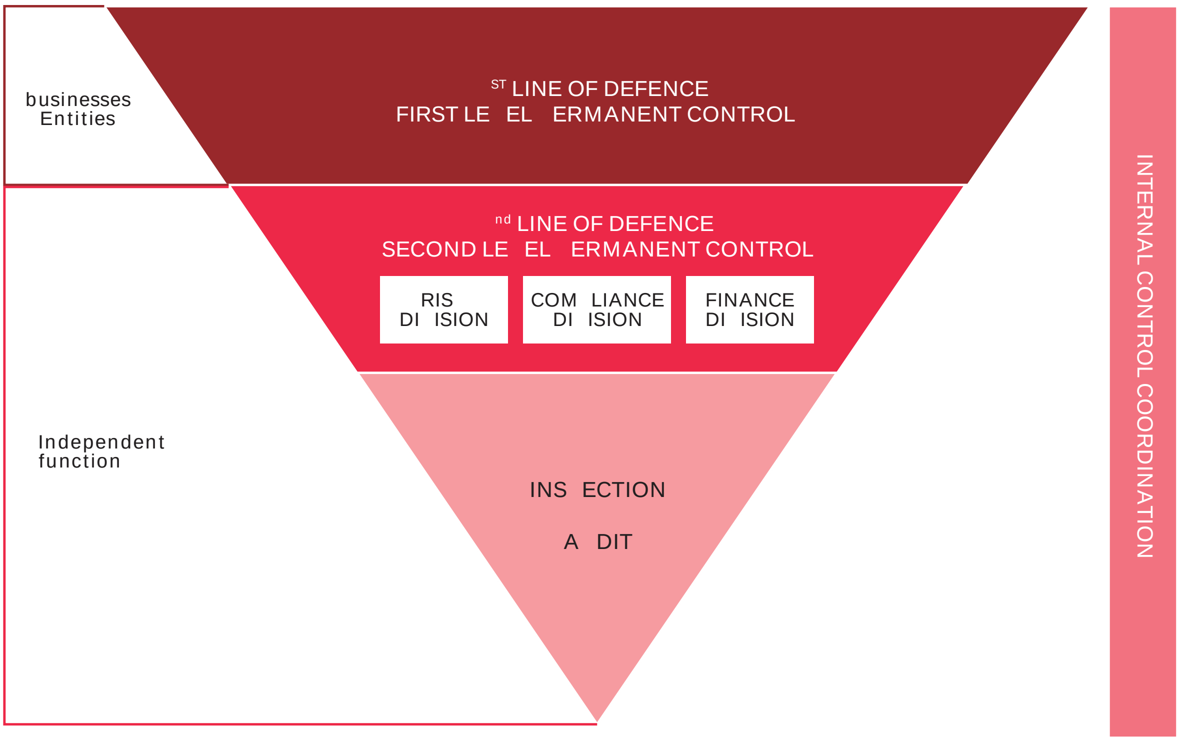
- the **second line of defence** is provided by the compliance, finance and risk functions.

  Within the internal control framework, these functions are tasked with continuously verifying that the security and management of risks affecting operations are ensured, under the responsibility of operational management, through the effective application of established standards, defined procedures, methods and controls as instructed.

  Accordingly, these functions must provide the necessary expertise to define, within their respective fields, the controls and other means of risk management to be implemented by the first line of defence, and to ensure that they are effectively implemented; they conduct second-level permanent control over all of the Group's risks, employing the controls they have established, where appropriate with other expert functions (e.g. sourcing, legal, tax, human resources, information system security, etc.) and by the businesses.

- the **third line of defence** is provided by the Internal Audit Division, which encompasses the Internal Audit and General Inspection functions. This division carries out internal audits that are strictly independent of the business lines and the permanent control function.

- **internal control coordination**, under the responsibility of a Deputy Chief Executive Officer, is also provided at Group level and is rolled out in each core business and Corporate Division.



A Deputy Chief Executive Officer is responsible for ensuring the overall consistency and effectiveness of the internal control system. This Deputy Chief Executive Officer also chairs the Group Internal Control Coordination Committee (Group ICCC), which comprises the Chief Risk Officer, the Chief Financial Officer, the Group Chief Compliance Officer, the Group Chief Information Officer, the Head of Group Internal Audit, and the Head of Internal Control Coordination.

The Group Internal Control Coordination Committee met eight times in 2018. It addressed the following issues:

- Group Compliance Division review;
- Review of the implementation and the effectiveness of the first level control for the three core businesses (French Retail Banking, International Retail Banking and Financial Services, and Global Banking and Investor Solutions);
- Finance Division (DFIN) review;
- Risk Division review;
- Review of the implementation and the effectiveness of the first level control for Corporate Secretariat and Human Resources and Communication Service Unit (HRCO-COMM).
- Cybercrime
- Transversal review of the internal control framework roll-out

The structure implemented at Group level to coordinate the actions of participants in internal control is rolled out in all business divisions and Corporate Divisions. All of the Group's business divisions and Corporate Divisions have an Internal Control Coordination Committee. Chaired by the Head of the business division or Corporate Division, these Committees bring together the competent Heads of Internal Audit and Permanent Control for the business division or Corporate Division in question, as well as the Head of Group Internal Control Coordination and the Heads of the Group-level control functions.

Permanent control system

The Group's permanent control system comprises:

- **first-level permanent control**, under the responsibility of the businesses, which aims to ensure, at the operational level, the security, quality, regularity and validity of transactions completed;
- **second-level permanent control**, independent from the businesses, comes under three Corporate Divisions (Compliance, Risk and Finance Division).

General management initiated in 2018 a program of transformation of the permanent control of the Group, which is under its direct supervision. Through a set of actions affecting the standards, the methods, the tools and the procedures, the training, etc., this program aims at strengthening the culture of control and at optimizing the risk control, so contributing to improve the quality and the reliability of services provided to our customers and partners. It is planned to end at the end of 2020.

FIRST-LEVEL PERMANENT CONTROL

First-level permanent control consists of:

- **risk prevention systems:** controls performed on a regular and continuous basis by the businesses or via automated systems when transactions are processed. They comprise a risk prevention framework: security rules and controls – automated or not – forming part of the processing of transactions, or controls included in operational procedures;
- **controls performed by managers:** line managers check the correct functioning of all systems under their responsibility. In this respect, they are required to regularly apply formalised procedures to ensure the employees comply with rules and procedures and that the first-level controls are carried out effectively.

  The line managers may rely on controls carried out by dedicated teams, for example (i) on the most sensitive processes requiring stricter or industrialised controls, or to avoid self-controlling practices (e.g. the establishment of customer relations in retail banking), and/or (ii) where the pooling of control tasks improves productivity.

  Whatever the choice of organisation, managers retain oversight of the processes carried out by the teams that report to them; they are responsible for their production quality and for correcting identified anomalies.

  A "first-level permanent control coordination" function is set up in each business line. It is responsible for the design and reporting of controls, as well as awareness-raising and training of employees with respect to control issues.

SECOND-LEVEL PERMANENT CONTROL

Second-level permanent control is one of the missions of the second line of defence. It involves ensuring the security and risk management of operations at all times, under the responsibility of operational management, through the effective application of established standards, defined procedures, methods and controls, as instructed.

Second-level control has two parts:

- assessment of the architecture of the first-level control framework by process/risk, comprising verification of the definition and efficient conduct of first-level controls, particularly examining the results of first-level controls in terms of quantitative and qualitative aspects, notably as regards the rates of realisation, level of anomaly, etc. This review also makes it possible to check the effectiveness and relevance of control implementation based on key controls and risk type, remedial action plans ;
- review of the control execution quality and anomaly corrections. The purpose of this work is to verify:
  - the quality of control execution in terms of time, compliance with procedures, operating methods and the appropriateness of samples (representativeness, selection method), frequency of execution and formal documentation;
  - the quality of follow-up of anomalies identified: appropriateness of the solution provided, efficiency of operational implementation, reaction time proportionate to the risk identified, etc.

These reviews and checks form the basis for an opinion on (i) the effectiveness of first-level controls, (ii) the quality of their implementation, (iii) their appropriateness, notably in risk-prevention and response to control objectives defined in the library of normative controls, (iv) the definition of their implementation in practice, (v) the appropriateness of remedial plans to correct anomalies and the quality of follow-up, so arriving at a conclusion as to the effectiveness of first-level controls.

These controls are performed centrally by the RISQ/CTL, CPLE/CTL and DFIN/CTL teams and locally by the second-level control teams within the BU/SUs or entities.

Internal audit

Reporting to the Group Head of Inspection and Audit, the Inspection and Audit Service Unit (IGAD) is the Group's third line of defence.

The IGAD Service Unit comprises General Inspection (IGAD/INS), Internal Audit departments (IGAD/AUD) and a support function (IGAD/COO). To fulfil its mandate, the Group's IGAD Service Unit has adequate resources from a qualitative and quantitative point of view. The Group's Inspection and Audit Service Unit has about 1,200 employees.

The General Inspection works with the Group Chief Executive Officer, with whom it has regular meetings. The Group Head of Inspection and Audit meets regularly with the Chairman of the Board of Directors. The Audit and Internal Control Committee and the Risk Committee refer to the Group Head of Inspection and Audit on their initiative or at his request on any subject. The Group Head of Inspection and Audit participates in the Internal Control Committee and the Risk Committee meetings. Moreover, there are regular bilateral meetings between the Group Head of Inspection and Audit and the chairmen of these Committees.

The Inspection and Audit Service Unit, exercising its internal audit role, forms the third line of defence, strictly independent of the businesses and permanent control.

This is defined in line with IAA (Institute of Internal Auditors) standards as an independent and objective activity that reassures the Group on the level of control over operations, offers advice to improve such operations and helps create added value. Via this mandate, the Inspection and Audit Service Unit helps the Group meet its objectives by systematically and methodologically assessing its risk management, control and corporate governance processes by making proposals to underpin their efficiency.

The Inspection and Audit Service Unit exercises a key role in the Group's risk management set-up and can evaluate all the component parts.

As part of this mandate, the Inspection and Audit Service Unit assesses the quality of risk management within the audited scope, the appropriateness and efficacy of the permanent control set-up and management's sensitivity to risks and respect of expected rules of conduct and professional practice.

Beyond its internal audit role, General Inspection has an overall mandate such that it may undertake any type of analysis or research mission, be involved in the evaluation of strategic projects or intervene on specific subjects as requested by General Management. The General Inspection also supervises the roll-out of data-analysis initiatives within the scope of Inspection and Audit activities. This mission is ensured via a dedicated data-lab (INS/DAT), under the responsibility of an Inspection Managing Director ('*Inspecteur principal*'). The General Inspection also supervises and coordinates the Service Unit's relationship with regulators as third line of defence.

To fulfil IGAD's mandate, Inspection and Audit teams work together on annual risk assessment to define the intervention plan for the upcoming year. IGAD teams regularly work together on joint assignments. They issue recommendations to correct flaws identified in risk management and generally improve operations and risk management within the Group. IGAD teams are subsequently in charge of monitoring the effective implementation of these recommendations.

IGAD has six distinct audit departments aligned with the Group organisation. The Audit departments, placed under the supervision of a head of internal Audit each have the responsibility for a scope of activity. A matrix organisation allows coverage of the main cross-business issues at the Group level. In France, the internal Audit teams are hierarchically linked to the Inspection unit. Abroad, the internal Audit teams have a strong functional link (control over hiring, audit plans, missions and their follow-up) with IGAD top management. The six Audit departments are:

- French Retail Banking Audit handles the audit of Retail Banking activities in France (BDDF Business Unit), the audit of the Boursorama and GTPS Business Units as well as the audit of the Group's activities in French Overseas territories;
- Crédit du Nord inspection is in charge of the internal audit of Crédit du Nord and its subsidiaries (CDN Business Unit);
- Audit for Europe, Russia, Africa - International Retail Banking and Financial Services is responsible for auditing the EURO, AFMO, RUSS, ALDA, SGEF and ASSU Business Units and the IRBS Service Unit;
- Global Banking and Investor Solutions Audit is responsible, on a worldwide basis, for auditing the MARK, GLFI, SGSS, WAAM, CORI, AMER and ASIA Business Units and the GBS Service Unit. This department also audits the Group's Shared Service Centres (SG EBS and SG GSC);
- Group Information Systems Audit is responsible for auditing all IT functions within the RESG, GBS and IRBS Service Units and for auditing the ITM Service Unit;
- The IT audit teams are organised as a global function with strong expertise on IT security and the ability to interact with all teams within IGAD;
- Group functions audit is responsible for auditing the RISQ, DFIN, CPLE, SEGL and DRHG/COMM Service Units, as well as the Purchasing (ACHA) and Real estate (IMM) functions of the RESG Service Unit. Model audit teams are based within that department and may work in close cooperation with other Audit and Inspection teams.

Besides being responsible for the internal audit of the divisions falling within their scope, these teams also provide expertise and coordination in support of the work performed by other audit teams in the areas applicable to them, in particular on issues related to Risk, Compliance and Finance.

4.3.2 CONTROL OF THE PRODUCTION AND PUBLICATION OF FINANCIAL MANAGMENT INFORMATION

The players involved

There are many participants in the production of financial data:

- the **Board of Directors**, and more specifically its Audit and Internal Control Committee, has the task of examining the draft financial statements which are to be submitted to the Board, as well as verifying the conditions under which they were prepared and ensuring not only the relevance but also the consistency of the accounting principles and methods applied. There has been a strengthening of the Audit and Internal Control Committee's role in the follow-up of the process of elaboration of the financial information in accordance with the audit reform. It also approves the Group's financial communication. The Statutory Auditors meet with the Audit and Internal Control Committee during the course of their assignment;
- the **Group Finance Division** gathers all accounting and management data compiled by the subsidiaries and the Business Units/Services Units in a series of standardised reports. It consolidates and verifies this information so that it can be used in the overall management of the Group and disclosed to third parties (supervisory bodies, investors, etc.).

The **Group Finance Division** also has a team in charge of the preparation of the Group regulatory reports.

- the **Finance Divisions of subsidiaries and Business Units/Services Units** carry out certification of the accounting data and entries booked by the back offices and of the management data submitted by the front offices. They are accountable for the financial statements and regulatory information required at the local level and submit reports (accounting data, finance control, regulatory reports, etc.) to the Group Finance Division. They can perform these activities on their own or else delegate their tasks to Shared Service Centres operating in finance and placed under Group Finance Division governance.
- the **Risk Division** consolidates the risk monitoring data from the Group's Business Units/Services Units and subsidiaries in order to control credit, market and operational risks. This information is used in Group communications to the Group's governing bodies and to third parties. Furthermore, in collaboration with the Group Finance Division, the responsibility of certain closing processes, notably the production of solvency ratios;
- the **back offices** are responsible for all support functions to front offices and ensure contractual settlements and deliveries. Among other responsibilities, they check that financial transactions are economically justified, book transactions and manage means of payment.

Beyond consolidating accounting and financial information as described above, the Group Finance Division is charged with significant control responsibilities:

- monitoring the financial aspects of the Group's capital transactions and its financial structure;
- managing its assets and liabilities, and consequently defining, managing and controlling the Group's financial position and structural risks;
- ensuring that the regulatory financial ratios are respected;
- defining accounting standards, frameworks, principles and procedures for the Group, and ensuring that they are observed;
- verifying the accuracy of all financial and accounting data published by the Group.

Accounting and regulatory standards

Local financial statements are drawn up in accordance with local accounting standards, and the consolidated Group financial statements are prepared in accordance with the standards defined by the Group Finance Division, which are based on IFRS as adopted by the European Union.

The applicable standards on solvency and liquidity, promulgated by the Basel Committee, were translated into European law by a directive (CRD 4) and a regulation (CRR) were enforced on January 1st, 2014. Since January 1st, 2014, several delegated acts and acts of execution specified the CRD4 / CRR. The Societe Generale group identified as the " financial conglomerate " is subjected to an additional supervision.

The Group Finance Division has dedicated teams that monitor the applicable normative regulations and draft new internal standards to comply with any changes in the accounting and regulatory framework.

Procedures for producing financial and accounting data

Each entity within the Group prepares its own accounting and management statements on a monthly basis. This information is then consolidated each month at the Group level and published for the markets on a quarterly basis. Data reported are subject to analytical reviews and consistency checks performed by Finance Divisions or, by delegation under their responsibility, by Shared Service Centres operating in finance, and sent to the Group Finance Division. The Group Finance Division transmits the consolidated financial statements, management reports and regulatory statements to General Management and any interested third parties.

In practice, procedures have been tailored to the growing complexity of products and regulations. Moreover, specific action plans for adaptation can be implemented where necessary.

Internal control procedures governing the production of financial and accounting data

Accounting data are compiled independently of the front offices and the sales teams.

The quality and objectivity of the accounting and management data are insured by the separation of sales functions and all the functions of operational processing and follow-up of the operations: back offices and middle offices integrated into Resources Division and team in charge of result production integrated into Finance Division. These teams carry out a series of controls defined by Group procedures on financial and accounting data, in particular:

- daily verification of the economic justification of all information reported;
- reconciliation, within the specified deadlines, of accounting and management data, using specific procedures;

- on market activities, reconciliation between the accounting result (produced by Finance Division) and the economic result (produced by an expert' department dedicated within the Resource Division).

Given the increasing complexity of the Group's financial activities and organisation, staff training and IT tools are regularly upgraded to ensure that the production and verification of accounting and management data are effective and reliable.

SCOPE OF CONTROL

In practice, the internal control procedures implemented in the Group's businesses are designed to guarantee the quality of financial and accounting information, and notably to:

- ensure that the transactions entered in the Group's accounts are exhaustive and accurate;
- validate the valuation methods used for certain transactions;
- ensure that transactions are correctly assigned to the corresponding fiscal period and recorded in the accounts in accordance with the applicable accounting regulations, and that the accounting aggregates used to prepare the Group financial statements are compliant with the regulations in force;
- ensure the inclusion of all entities that must be consolidated in accordance with Group regulations;
- check that the operational risks associated with the production and transmission of accounting data through the IT system are correctly controlled, that the necessary adjustments are accurately performed, that the reconciliation of accounting and management data is satisfactory, and that the flows of cash payments and other items generated by transactions are exhaustive and adequate.

CONTROL BY THE FINANCE DEPARTMENTS

The Finance Department of each subsidiary verifies the accuracy and consistency of the financial statements with respect to the relevant accounting frameworks (local standards and IFRS for subsidiaries, as well as French standards for branches). It performs checks to guarantee the accuracy of the information disclosed.

The data received for consolidation from each subsidiary are drawn from corporate accounting data by the subsidiaries, after they have been locally brought into compliance with Group accounting principles.

Each subsidiary must be able to explain the transition from the company financial statements to the financial statements reported through the consolidation tool.

The Finance Departments of Business Units/Services Units have a dedicated department to management and financial monitoring.

CONTROL BY THE SHARED SERVICE CENTRES OPERATING IN FINANCE

Shared Service Centres operating in finance perform first-level controls, as necessary to ensure the reliability of the accounting, tax and regulatory information, on the financial statements they produce in accordance with French and IFRS standards:

- data quality and consistency checks (equity, securities, foreign exchange, financial aggregates from the balance sheet and income statement, deviations from standards);
- justification and certification of the financial statements under their responsibility;
- intercompany reconciliation of the financial statements;
- regulatory statement checks;
- verification of evidence of tax charges and balances (current, deferred and duties).

These controls are declared within the managerial supervision and Group accounting certification processes.

The Shared Services Centres have also implemented a process monitoring approach, which consists in:

- monitoring the teams' work and progress according to the various milestones in order to ensure smooth operations, anticipate any delays and prioritise tasks;
- communication of incidents affecting the preparation of the financial statements, in order to warn, coordinate and monitor the corrective action plans;
- key indicators: monitoring deadlines and the quality of accounting, regulatory and tax reports; manual entries; internal/intercompany/cash gaps;
- follow-up of action plans.

These controls allow the Shared Services Centres to provide all necessary information to the Finance Departments of Business Units/Services Units and the Group Finance and Accounting Division.

SUPERVISION BY THE GROUP FINANCE DIVISION

Once the financial statements produced by the entities have been restated according to Group standards, they are entered into a central database and processed to produce the consolidated statements.

The department in charge of consolidation checks that the consolidation scope is compliant with the applicable accounting standards and performs multiple verifications on data received for consolidation. These verifications include:

- confirmation that the data collected are properly aggregated;
- verification of recurring and non-recurring consolidation entries;
- exhaustive treatment of critical points in the consolidation process;
- treatment of any residual differences in reciprocal or intercompany statements.

Ultimately, this department ensures that the overall consolidation process has been conducted properly by performing analytical reviews of the summary data and verifying the consistency of the main aggregates of the financial statements. Changes in shareholders' equity, goodwill, provisions and any deferred taxes consolidated in the fiscal year are also analysed.

This department is also in charge of managing and coordinating the system in order to certify first-level key controls on a quarterly basis.

The Group Finance Division has also a dedicated team responsible for second-level permanent control with respect to all Finance processes, independent of the production teams. Its mission consists to ensure effectiveness, quality and relevance of the first-level control system; by an evaluation of this system with processes or activities reviews, testings of controls and the follow-up of quarterly certification.

Accounting audit system

CONTROLS BY ALL OPERATIONAL STAFF INVOLVED IN THE PRODUCTION OF ACCOUNTING, FINANCIAL AND MANAGEMENT DATA

The operational staff monitor their activity via a permanent supervision process, under the direct responsibility of their management teams, repeatedly verifying the quality of the controls carried out on accounting data and the associated accounting treatment.

CONTROLS THROUGH AUDITS AND SPECIALISED AUDIT TEAMS OF THE INTERNAL AUDIT DIVISION

As part of their assignments, audit teams verify the quality of the control environment contributing to the quality of the accounting and management data produced by the audited entities. They check a certain number of accounts and assess the reconciliations between accounting and management data, as well as the quality of the permanent supervision procedures for the production and control of accounting data. They also assess the performance of IT tools and the accuracy of manual processing.

The team in charge of auditing the Corporate Divisions is also responsible for auditing the Group Finance Division. Placed under the responsibility of a dedicated business correspondent, the team coordinates and monitors all audits related to accounting and financial matters on a Group-wide basis. The team provides expertise in identifying the Group's main accounting risks and carries out audits to verify the adequate application of accounting standards in areas deemed to be the most significant for the accuracy of the Group's accounting information. The team also organises training sessions and develops methodologies to help share expertise in the auditing of accounting risks.

Based on their audit findings, these teams issue recommendations to the parties involved in the production and control of accounting, financial and management data in order to improve this process through more specific initiatives targeted towards particular entities or activities.

CONTROLS CARRIED OUT BY THE GENERAL INSPECTION DEPARTMENT

The Group's General Inspection teams typically perform accounting audits as part of their assignments, and thus check the quality of the controls carried out by the persons involved in producing accounting, financial and management data.

PRESENTATIVE RECOVERY PLAN AND DATA COLLECTION FOR RESOLUTION

The recovery plan and data collection for resolution plan arise from a European regulatory requirement adopted in 2014 (Bank Recovery and Resolution Directive).

Prepared by the Bank, the Group's recovery plan strengthens its resilience by describing as a preventative measure the provisions that would allow it to face a major crisis independently. The plan includes all the elements necessary for the effective management of a severe financial crisis: vigilance and warning system, crisis management plan, crisis communication, and a list of recovery options which, depending on the case, would restore a healthy financial situation. Societe Generale's recovery plan is assessed by the European Central Bank.

The data collection prepared by Societe Generale for the development of the resolution plan includes the information required by the resolution authority (the Single Resolution Board for Societe Generale) to enable it to maintain the resolution plan. It must include strategies and actions that could be undertaken should the Bank default, in order to protect critical functions (essential to the economy), starting for example with deposits and means of payment, while also safeguarding the value of the Group's various components as far as possible, and limiting the final losses borne by investors and shareholders.

Strictly confidential, the recovery plan, the data collection and the resolution plan are regularly supplemented to reflect changes in applicable regulations and new recommandations of authorities.

4.4 CAPITAL MANAGEMENT AND ADEQUACY

4.4.1 THE REGULATORY FRAMEWORK

Audited I Since January 2014, Societe Generale has been applying the new Basel 3 Regulation implemented in the European Union *via* a directive (CRD4) and a regulation (CRR). Some of the provisions will become effective over a period continuing until at least 2019.

The general framework defined by Basel 3 is structured around three pillars:

- Pillar 1 sets the minimum solvency requirements and defines the rules that banks must use to measure risks and calculate the related capital requirements, according to standard or more advanced methods;
- Pillar 2 concerns the discretionary supervision implemented by the competent authority, 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 taking into account all the risks to which these institutions are exposed;
- Pillar 3 encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to better assess a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

In terms of capital, the main new measures introduced to strengthen banks' solvency were as follows:

- the complete revision and harmonisation of the definition of capital, in particular with the amendment of the deduction rules, the definition of a standardised Common Equity Tier 1 (or CET1) ratio, and new Tier 1 capital eligibility criteria for hybrid securities;
- new capital requirements for the counterparty risk of market transactions, to factor in the risk of a change in CVA (Credit Value Adjustment) and to hedge exposures on the central counterparties (CCP);
- the set-up of capital buffers that can be mobilised to absorb losses in case of difficulties. The new rules require banks to create a conservation buffer and a countercyclical buffer to preserve their solvency in the event of adverse conditions. Moreover, an additional buffer is required for systemically important banks. As such, the Societe Generale Group, as a global systemically important bank (G-SIB), has had its Common Equity Tier 1 ratio requirement increased by an additional 1%. Requirements related to capital buffers gradually entered into force as from 1st January 2016, for full application by January 2019;
- the set-up of restrictions on distributions, relating to dividends, AT1 instruments and variable remuneration;
- in addition to these measures, there will be measures to contain the size and, consequently, the use of excessive leverage. To this end, the Basel Committee has defined a leverage ratio, for which the definitive regulations were published in January 2014, and included in the Commission's Delegated Regulation (EU) 2015/62. The leverage ratio compares the bank's Tier 1 capital to the balance sheet and off-balance sheet items, with restatements for derivatives and pensions. Banks have been required to publish this ratio since 2015.

In December 2017, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), endorsed the ongoing Basel 3 regulatory reforms, implemented in 2009. These new rules will take effect from 2022 with an overall output floor: the RWA of the bank will be floored to a percentage of the standard method (credit, market and operational). The output floor level will increase gradually, from 50% in 2022 to 72.5% in 2027. Nevertheless, these rules will have to be transposed into European law (CRR3/CRD6) to be applicable to the Group.

Furthermore, on 23rd November 2016 the Commission published its draft CRR2/CRD5 text. Most of the provisions will enter into force two years after the CRR2 becomes effective. Depending on the Trilogue, this may not happen before 2021 at the earliest. The final provisions will only be known following the European legislative procedure.

The new provisions concern the following:

- NSFR: new Basel provisions on the stable funding ratio;
- Leverage ratio: the 3% minimum requirement will be included in the CRR;
- Counterparty derivatives risk (SA-CCR): the SA-CCR method is the Basel method replacing the current "CEM" method to calculate the prudential exposure to derivatives using the standardised approach;
- Large exposures: the main change concerns the calculation of the Tier 1 regulatory limit (25%, instead of total capital), as well as the introduction of a cross-specific limit on systemic institutions (15%).

With regards to the implementation of market risk reform (FRTB), after the publication in January 2016 of the first revised standard and of Consultation in March 2018 on this subject, the Basel Committee published in January 2019 its final text: BCBS457. According to its previous publications, the Basel Committee confirms its implementation schedule (which does not challenge the European Union calendar below, with an entry into force no later than 1 January 2022).

As a reminder, in Europe, the CRR 2 calendar will apply as follows:

- First, the FRTB reform will come into force as a disclosure requirement (2021 for the Standard approach and 2023 for the IMA),

- FRTB's own funds requirements will then become mandatory in the CRR3 package (not before 2023).▲

At the end of 2017, the European Central Bank has confirmed the level of additional capital requirements in respect of Pillar 2 (P2R or "Pillar 2 Requirement"), effective as from 1st January 2018. This level was set at 1.50% for Societe Generale.

At the beginning of 2019, the ECB has increased the Pillar 2 requirement by +25pb bringing it to 1.75% effective as from 1st March 2019.

Detailed information on the G-SIB requirements and other prudential information is available on the Group's website, *www.societegenerale.com*, under "Registration Document" and "Pillar 3".

Throughout 2018, the Societe Generale Group complied with the minimum ratio requirements applicable to its activities.

4.4.2 SCOPE OF APPLICATION – PRUDENTIAL SCOPE

The Group's prudential reporting scope includes all fully consolidated entities, with the exception of insurance entities, which are subject to separate capital supervision.

All of the Group's regulated entities comply with their prudential commitments on an individual basis.

Non-regulated entities outside of the scope of consolidation are subject to periodic reviews, at least annually. Any differences with respect to legal capital requirements are adequately provisioned in the Group's consolidated financial statements.

The following table provides the main differences between the accounting scope (consolidated Group) and the prudential scope (Banking Regulation requirements).

TABLE 1: DIFFERENCE BETWEEN ACCOUNTING SCOPE AND PRUDENTIAL REPORTING SCOPE

Type of entity	Accounting treatment	Prudential treatment under CRR/CRD4
Entities with a finance activity	Full consolidation	Capital requirement based on the subsidiary's activities
Entities with an Insurance activity	Full consolidation	Weighted equity value
Holdings, joint ventures with a finance activity by nature	Equity method	Weighted equity value

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. Prudential filters related to entities and holdings not associated with an insurance activity are grouped together on account of their non-material weight (< 0.2%).

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

ASSETS at 31.12.2018 *(In EUR m)*	Consolidated balance sheet	Prudential restatements linked to insurance (1)	Prudential restatements linked to consolidation methods	Accounting balance sheet within the prudential scope
Cash, due from banks	96,585	0	0	96,585
Financial assets at fair value through profit or loss	365,550	9,736	0	375,286
Hedging derivatives	11,899	32	0	11,931
Financial assets at fair value through other comprehensive income	50,026	0	0	50,026
Securities at amortised cost	12,026	0	0	12,026
Due from banks at amortised cost	60,588	0	150	60,738
of which subordinated loans to credit institutions	91	0	0	91
Customer loans at amortised cost	447,229	1,539	213	448,981
Revaluation differences on portfilios hedged against interest rate risk	338	0	0	338
Investment of insurance activities	146,768	(146,768)	0	0
Tax assets	5,819	(143)	0	5,676
of which deferred tax assets that rely on future profitability excluding those arising from temporary differences	2,895	0	(816)	2,079
of which deferred tax assets arising from temporary differences	1,858	0	762	2,620
Other assets	67,446	(2,396)	56	65,106
of which defined-benefit pension fund assets	76	0	0	76
Non-current assets held for sale	13,502	3	0	13,505
Investments accounted for using the equity method	249	3,569	(68)	3,750
Tangible and intangible assets	26,751	(152)	0	26,599
of which intangible assets exclusive of leasing rights	2,198	0	(132)	2,066
Goodwill	4,652	(325)	0	4,327
TOTAL ASSETS	**1,309,428**	**(134,905)**	**351**	**1,174,874**

* *Restatement of entities excluded from the prudential scope and reconsolidation of intra-group transactions related to its entities.*

LIABILITIES at 31.12.2018 *(In EUR m)*	Consolidated balance sheet	Prudential restatements linked to insurance (1)	Prudential restatements linked to consolidation methods	Accounting balance sheet within the prudential scope
Due to central bank	5,721	0	0	5,721
Financial liabilities at fair value through profit or loss	363,083	2,472	0	365,555
Hedging derivatives	5,993	8	0	6,001
Due to banks	116,339	1,757	0	118,096
Customer deposits	94,706	(2,966)	(30)	91,710
Debt securities issued	416,818	1,529	40	418,387
Revaluation differences on portfolios hedged against interest rate risk	5,257	0	0	5,257
Tax liabilities	1,157	(333)	0	824
Other Liabilities	76,629	(6,996)	341	69,974
Non-current liabilities held for sale	10,454	58	0	10,512
Liabilities related to insurance activities contracts	129,543	(129,543)	0	0
Provisions	4,605	(12)	0	4,593
Subordinated debts	13,314	139	0	13,453
of which redeemable subordinated notes including revaluation differences on hedging items	12,730	139	0	12,869
TOTAL DEBTS	**1,243,619**	**(133,887)**	**351**	**1,110,083**
Equity, Group share	61,026	(203)	0	60,823
of which capital and related reserves	19,995	0	0	19,995
of which other capital instruments	9,109	0	0	9,109
of which retained earnings	3,448	0	0	3,448
of which accumulated other comprehensive income (including gains and losses accounted directly in equity)	24,610	(203)	0	24,407
of which net income	3,864	0	0	3,864
Minority interests	4,783	(815)	0	3,968
TOTAL EQUITY	**65,809**	**(1,018)**	**0**	**64,791**
TOTAL LIABILITIES	**1,309,428**	**(134,905)**	**351**	**1,174,874**

(1) *Restatement of entities excluded from the prudential scope and reconsolidation of intra-group transactions related to its entities.*

ASSETS at 01.01.2018 *(In EUR m)*	**Consolidated balance sheet**	**Prudential restatements linked to insurance (1)**	**Prudential restatements linked to consolidation methods**	**Accounting balance sheet within the prudential scope**
Cash, due from banks	114,404	0	0	114,404
Financial assets at fair value through profit or loss	369,112	7,733	0	376,845
Hedging derivatives	12,718	21	0	12,739
Financial assets at fair value through other comprehensive income	50,468	0	0	50,468
Securities at amortised cost	11,592	0	0	11,592
Due from banks at amortised cost	53,656	0	209	53,865
of which subordinated loans to credit institutions	133	0	0	133
Customer loans at amortised cost	417,391	1,277	15	418,683
Revaluation differences on portfilios hedged against interest rate risk	663	0	0	663
Investment of insurance activities	147,611	(147,611)	0	-
Tax assets	6,292	(112)	0	6,180
of which deferred tax assets that rely on future profitability excluding those arising from temporary differences	2,970	0	(780)	2,190
of which deferred tax assets arising from temporary differences	2,086	0	673	2,759
Other assets	60,449	(2,466)	80	58,063
of which defined-benefit pension fund assets	84	0	0	84
Non-current assets held for sale	13	0	0	13
Investments accounted for using the equity method	659	3,952	(64)	4,547
Tangible and intangible assets	24,200	(149)	0	24,051
of which intangible assets exclusive of leasing rights	1,940	0	(129)	1,811
Goodwill	4,988	(325)	0	4,663
TOTAL ASSETS	**1,274,216**	**(137,680)**	**240**	**1,136,776**

(1) Restatement of entities outside the prudential reporting scope and reconsolidation of intra-group transactions related to its entities.

LIABILITIES at 01.01.2018 *(In EUR m)*	**Consolidated balance sheet**	**Prudential restatements linked to insurance (1)**	**Prudential restatements linked to consolidation methods**	**Accounting balance sheet within the prudential scope**
Due to central bank	5,604	0	0	5,604
Financial liabilities at fair value through profit or loss	368,550	2,198	0	370,748
Hedging derivatives	6,146	17	0	6,163
Due to banks	103,235	1,608	0	104,843
Customer deposits	88,621	(3,916)	(14)	84,691
Debt securities issued	410,633	1,807	120	412,560
Revaluation differences on portfolios hedged against interest rate risk	6,020	0	0	6,020
Tax liabilities	1,608	(373)	0	1,235
Other Liabilities	69,139	(6,445)	134	62,828
Non-current liabilities held for sale	0	0	0	-
Liabilities related to insurance activities contracts	131,717	(131,717)	0	-
Provisions	6,345	(16)	0	6,329
Subordinated debts	13,647	208	0	13,855
of which redeemable subordinated notes including revaluation differences on hedging items	13,095	204	0	13,299
TOTAL DEBTS	**1,211,265**	**(136,629)**	**240**	**1,074,876**
Equity, Group share	58,428	(203)	0	58,225
of which capital and related reserves	19,996	0	0	19,996
of which other capital instruments	8,565	0	0	8,565
of which retained earnings	5,280	0	0	5,280
of which accumulated other comprehensive income (including gains and losses accounted directly in equity)	21,781	0	0	21,781
of which net income	2,806	(203)	0	2,603
Minority interests	4,523	(848)	0	3,675
TOTAL EQUITY	**62,951**	**(1,051)**	**0**	**61,900**
TOTAL LIABILITIES	**1,274,216**	**(137,680)**	**240**	**1,136,776**

(1) Restatement of entities outside the prudential reporting scope and reconsolidation of intra-group transactions related to its entities.

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

TABLE 3: ENTITIES OUTSIDE THE PRUDENTIAL REPORTING SCOPE

Company	Activity	Country
Antarius	Insurance	France
ALD RE Designated Activity Company	Insurance	Ireland
Catalyst RE International LTD	Insurance	Bermuda
Société Générale Strakhovanie Zhizni LLC	Insurance	Russia
Sogelife	Insurance	Luxembourg
Genecar - Société Générale de Courtage d'Assurance et de Réassurance	Insurance	France
Inora Life LTD	Insurance	Ireland
SG Strakhovanie LLC	Insurance	Russia
Sogecap	Insurance	France
Komercni Pojstovna A.S.	Insurance	Czech Republic
La Marocaine Vie	Insurance	Morocco
Oradea Vie	Insurance	France
Société Générale RE SA	Insurance	Luxembourg
Sogessur	Insurance	France
Société Générale Life Insurance Broker SA	Insurance	Luxembourg
SG Reinsurance Intermediary Brokerage, LLC	Insurance	USA
La Banque Postale Financement	Bank	France
SG Banque au Liban	Bank	Lebanon
Banque Pouyanne	Bank	France

Regulated financial entities and affiliates outside of 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.

The supervising authority accepted that some Group entities may be exempt from the application of prudential requirements on an individual basis or, where applicable, on a sub-consolidated basis. Accordingly, Societe Generale SA is not subject to prudential requirements on an individual basis.

Any transfer of equity or repayment of liabilities between the parent company and its entities shall be carried out in compliance with capital and liquidity requirements applicable locally.

4.4.3 REGULATORY CAPITAL

Reported according to international financial reporting standards (IFRS), Societe Generale's regulatory capital consists of the following components.

Common equity Tier 1 capital

According to CRR/CRD4 Regulations, Common Equity Tier 1 capital is made up primarily of the following:

- ordinary shares (net of repurchased shares and treasury shares) and related share premium accounts;
- retained earnings;
- components of other comprehensive income;
- other reserves;
- minority interests limited by CRR/CRD4.

Deductions from Common Equity Tier 1 capital essentially involve the following:

- estimated dividend payments;
- goodwill and intangible assets, net of associated deferred tax liabilities;
- unrealised capital gains and losses on cash flow hedging;
- income on own credit risk;
- deferred tax assets on tax loss carryforwards;
- deferred tax assets resulting from temporary differences beyond a threshold;
- assets from defined benefit pension funds, net of deferred taxes;
- 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;
- expected losses on equity portfolio exposures;
- value adjustments resulting from the requirements of prudent valuation;
- securitisation exposures weighted at 1,250%, where these positions are not included in the calculation of total risk-weighted exposures.

Additional Tier 1 capital

According to CRR/CRD4 Regulations, additional Tier 1 capital is made up of deeply subordinated notes that are issued directly by the Bank, and have the following features:

- these instruments are perpetual and constitute unsecured, deeply subordinated obligations. They rank 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, on a discretionary basis, not to pay the interest and coupons linked to these instruments. This compensation is paid out of distributable items;
- they include neither a step-up in compensation nor any other incentive to redeem;
- they must have a loss-absorbing capacity;
- subject to the prior approval of the European Central Bank, Societe Generale has the option to redeem these instruments at certain dates, but no earlier than five years after their issuance date.

Deductions of additional Tier 1 capital essentially apply to the following:

- AT1 hybrid treasury shares;
- holding of AT1 hybrid shares issued by financial sector entities;
- minority interests beyond the minimum T1 requirement in the entities concerned.

Tier 2 capital

Tier 2 capital includes:

- undated deeply subordinated notes[1];
- dated subordinated notes;
- any positive difference between (i) the sum of value adjustments and 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 using the IRB approach;
- value adjustments for credit risk related to collective impairment losses on customer loans and receivables exposures, risk-weighted using the standard approach, up to 1.25% of the total credit risk-weighted assets.

Deductions of Tier 2 capital essentially apply to the following:

- Tier 2 hybrid treasury shares;
- holding of Tier 2 hybrid shares issued by financial sector entities;
- minority interests beyond the minimum capital requirement in the entities concerned.

All capital instruments and their features are detailed online (*www.societegenerale.com*/Investors/Registration Document and Pillar 3).

TABLE 4: CHANGES IN DEBT INSTRUMENTS ELIGIBLE FOR THE SOLVENCY CAPITAL REQUIREMENTS

(In EUR m)	31.12.2017	Issues	Redemptions	Prudential supervision valuation haircut	Others	31.12.2018
Debt instruments eligible for Tier 1	8,715	2,184	(1,712)	0	237	9,424
Debt instruments eligible for Tier 2	12,388	1,254	(54)	(455)	256	13,389
TOTAL ELIGIBLE DEBT INSTRUMENTS	**21,103**	**3,439**	**(1,766)**	**(455)**	**493**	**22,813**

Solvency ratio

The solvency ratio is set by comparing the Group's equity with the sum of risk-weighted assets for credit risk and the capital requirement multiplied by 12.5 for market risks and operational risks. They are expressed as a percentage of the risk weighted assets and according to the split of own funds i.e.; Core Equity Tiers 1 (CET1), Tiers 1 (T1) or Total Capital (TC).

Every quarter, each ratio is calculated following the accounting closing and then compared to the supervisory requirements.

The regulatory minimum requirement is set at 4.5% for the CET1, 6% fot the T1 and 8% for the TC. This minimum remains stable over the time.

The minimum P2R requirement is set by the supervisor following the Supervisory regulatory evaluation process. It stands for 1.5% during 2018. The European Central Bank notified the level of additional requirement in respect of Pillar 2 for Societe Generale, which will apply from 1 March 2019. This level will stand at 1.75%.

The countercyclical buffer – just like the conservation and systemic buffers – plays a role in determining the overall buffer requirement.

- The countercyclical buffer rate is set by country. Each establishment calculates its countercyclical buffer requirement based on the average countercyclical buffer rate for each country, adjusted to take into account the relevant credit risk exposures in these countries. The countercyclical buffer rate, in force as of 1st January 2019 is equal to 0.13%.
- The conservation buffer in force as of 1st January 2006 lies between 0% and 2.50% with a transitional period (phase-in) ending in 2019. It increased from 1.875% in 2018 to 2.50% at the 1st of January 2019.
- The G-SIB buffer imposed by the Financial Stability Board (FSB) is equal to 1% because increasing and will be increased by 0.25% per annum, ultimately reaching 1% in 2019. The fully loaded rate is equal to 1% and is unchanged compared to 2018.

Taking into account the combined regulatory buffers, the phased-in CET1 ratio level that would trigger the Maximum Distributable Amount mechanism would be 9.88% as of 1 March 2019.

(1) The undated deeply subordinated notes's remuneration will be paid from the distribuable profits for the purposes of the consolidated prudential regulation.

TABLE 5: BREAKDOWN OF PRUDENTIAL CAPITAL REQUIREMENT FOR SOCIETE GENERALE – PHASED-IN RATIO (IN %)

	01.03.2019	01.01.2019	01.01.2018
Minimum requirement for Pillar 1	4.50%	4.50%	4.50%
Minimum requirement for Pillar 2 (P2R)	1.75%	1.50%	1.50%
Minimum requirement for countercyclical buffer	0.13%	0.13%	0.05%
Minimum requirement for conservation buffer	2.50%	2.50%	1.88%
Minimum requirement for systemic buffer	1.00%	1.00%	0.75%
Minimum requirement for CET1 ratio	**9.88%**	**9.63%**	**8.68%**

TABLE 6: REGULATORY CAPITAL AND CRR/CRD4 SOLVENCY RATIOS – FULLY LOADED

(In EUR m)	31.12.2018	31.12.2017
Shareholders' equity (IFRS), Group share	**61,026**	**59,373**
Deeply subordinated notes	(9,329)	(8,521)
Perpetual subordinated notes	(278)	(269)
Group consolidated shareholders' equity net of deeply subordinated and perpetual subordinated notes	**51,419**	**50,583**
Non-controlling interests	3,600	3,529
Intangible assets	(2,095)	(1,795)
Goodwill	(4,643)	(4,829)
Dividends proposed (to the General Meeting) and interest expenses on deeply subordinated and perpetual subordinated notes	(1,871)	(1,880)
Deductions and regulatory adjustments	(5,256)	(5,381)
COMMON EQUITY TIER 1 CAPITAL	**41,154**	**40,227**
Deeply subordinated notes and preferred shares	9,424	8,715
Other additional Tier 1 capital	71	101
Additional Tier 1 deductions	(138)	(136)
TOTAL TIER 1 CAPITAL	**50,511**	**48,907**
Tier 2 instruments	13,389	12,388
Other Tier 2 capital	(63)	425
Tier 2 deductions	(1,781)	(1,686)
Total regulatory capital	**62,056**	**60,034**
TOTAL RISK-WEIGHTED ASSETS	**376,049**	**353,306**
Credit risk-weighted assets	302,727	289,511
Market risk-weighted assets	23,701	14,800
Operational risk-weighted assets	49,621	48,995
Solvency ratios		
Common Equity Tier 1 ratio	10.9%	11.4%
Tier 1 ratio	13.4%	13.8%
Total capital ratio	16.5%	17.0%

The phased-in CRR/CRD4 solvency ratio at 31st December 2018 stood at 11% in Common Equity Tier 1 (11.6% at 31st December 2017), and 13.5% in Tier 1 (14% at 31st December 2017) for a total ratio of 16.6% (17.2% at 31st December 2017).

The 10.9% fully loaded ratio would stand for 11.2% pro forma of the scrip dividend subject to the General Meeting of Shareholder's approval and assuming 50% take-up.

Group shareholders' equity at 31st December 2018 totalled EUR 61.0 billion (compared to EUR 59.4 billion at 31st December 2017).

After taking into account non-controlling interests and regulatory adjustments, phased-in CET1 regulatory capital was EUR 41.4 billion at 31st December 2018, vs. EUR 40.9 billion at 31st December 2017.

The Additional Tier One deductions mainly concern authorisations to buy back own additional Tier 1 capital instruments as well as subordinated bank and insurance loans.

The table below shows the key factors in this change.

TABLE 7: CET1 REGULATORY DEDUCTIONS AND ADJUSTMENTS UNDER CRR/CRD4

(In EUR m)	31.12.2018	31.12.2017
Unrecognised minority interests	(1,917)	(1,957)
Deferred tax assets	(2,079)	(2,102)
Prudent Valuation Adjustment	(844)	(785)
Adjustments related to changes in the value of own liabilities	107	531
Other	(523)	(1,068)
TOTAL CET1 REGULATORY DEDUCTIONS AND ADJUSTMENTS	**(5,256)**	**(5,381)**

CRR/CRD4 prudential deductions and restatements included in “Other” essentially involve the following:

- any positive difference between expected losses on customer loans and receivables, measured according to the internal ratings-based (IRB) approach, and the sum of related value adjustments and impairment losses;
- expected losses on equity portfolio exposures;
- unrealised gains and losses on cash flow hedges;
- assets from defined benefit pension funds, net of deferred taxes;
- securitisation exposures weighted at 1,250%, where these positions are not included in the calculation of total risk-weighted exposures.

4.4.4 CAPITAL REQUIREMENTS

The Basel 3 Accord established the new rules for calculating minimum capital requirements in order to more accurately assess the risks to which banks are exposed. The calculation of credit risk-weighted assets takes into account the transaction risk profile based on two approaches for determining risk-weighted assets: (i) a standard method, and (ii) advanced methods based on internal models for rating counterparties.

TABLE 8: GROUP CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

	RWA		Minimum capital requirements	
(In EUR bn)	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Credit risk (excluding counterparty credit risk)	**264,787**	**250,774**	**21,183**	**20,062**
o.w. standardised approach	102,225	97,408	8,178	7,793
o.w. Foundation IRB (F-IRB) approach	4,588	4,483	367	359
o.w. Advanced IRB (A-IRB) approach	142,795	131,373	11,424	10,510
o.w. equity IRB under the simple risk-weighted approach or IMA	15,178	17,511	1,214	1,401
Counterparty credit risk	**26,834**	**28,479**	**2,147**	**2,278**
o.w. risk exposure for contributions to the default fund of a CCP	1,103	1,163	88	93
o.w. CVA	4,904	3,760	392	301
Settlement risk	**6**	**2**	**0**	**0**
Securitisation exposures in the banking book (after cap)	**2,199**	**1,779**	**176**	**142**
o.w. IRB approach	95	114	8	9
o.w. IRB supervisory formula approach (SFA)	78	4	6	0
o.w. internal assessment approach (IAA)	1,842	1,461	147	117
o.w. standardised approach	184	200	15	16
Market risk	**23,701**	**14,800**	**1,896**	**1,184**
o.w. standardised approach	2,444	1,384	196	111
o.w. IMA	21,257	13,416	1,701	1,073
Large exposures				
Operational risk	**49,621**	**48,995**	**3,970**	**3,920**
o.w. basic indicator approach	0	0	0	0
o.w. standardised approach	2,872	3,020	230	242
o.w. advanced measurement approach	46,749	45,975	3,740	3,678
Amounts below the thresholds for deduction (subject to 250% risk-weighting)	8,902	8,477	712	678
Floor adjustment	0	0	0	0
TOTAL	**376,049**	**353,306**	**30,084**	**28,264**

Change in risk-weighted assets and capital requirements

TABLE 9: RISK-WEIGHTED ASSETS (RWA) BY PILLAR AND RISK TYPE (IN EUR BN)

(In EUR bn)	Credit	Market	Operational	Total 2018	Total 2017
French Retail Banking	92.0	0.1	5.5	97.6	100.5
International Retail Banking and Financial Services	111.9	0.1	7.7	119.7	116.8
Global Banking and Investor Solutions	87.4	21.8	33.1	142.3	124.0
Corporate Centre	11.5	1.6	3.4	16.5	12.0
Group	**302.7**	**23.7**	**49.6**	**376.0**	**353.3**

At 31st December 2018, RWA (EUR 376 billion) broke down as follows:

- credit risk accounted for 81% of RWA (of which 37% for International Retail Banking and Financial Services);
- market risk accounted for 6% of RWA (of which 92% for Global Banking and Investor Solutions);
- operational risk accounted for 13% of RWA (of which 67% for Global Banking and Investor Solutions).

4.4.5 CAPITAL MANAGEMENT

Audited I As part of its capital management, the Group (under the supervision of the Finance Division) ensures that its solvency level is always compatible with the following objectives:

- maintaining its financial solidity and respecting the Risk Appetite targets;
- preserving its financial flexibility to finance organic growth and growth through acquisitions;
- allocating adequate capital to the various businesses, according to the Group's strategic objectives;
- maintaining the Group's resilience in the event of stress scenarios;
- meeting the expectations of its various stakeholders: supervisors, debt and equity investors, rating agencies, and shareholders.

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

The Group has an internal process for assessing the adequacy of its capital that measures the adequacy of the Group's capital ratios in light of regulatory constraints. ▲

In 2018, the Group's capital generation and the developments in the Group's operations portfolio (specifically the year's disposals and acquisitions) funded the extraordinary items of the 2017 financial year and helped to maintain a sufficient margin to ensure dividend and hybrid coupon payments, while keeping the Common Equity Tier 1 ratio stable overall.

In addition, the Group maintains a balanced capital allocation among its three strategic pillars:

- French Retail Banking;
- International Retail Banking and Financial Services;
- Global Banking and Investor Solutions.

Each of the Group's three pillars accounts for around a third of all risk-weighted assets (RWA), with French and International Retail Banking (more than 58% of total business loans and receivables) and credit risks (representing 81% of the Group's risk-weighted assets) accounting for the largest share.

At 31st December 2018, the Group's risk-weighted assets were up 6.4% to EUR 376 billion, compared to EUR 353.3 billion at end-December 2017.

4.4.6 LEVERAGE RATIO MANAGEMENT

The Group manages its leverage effect according to the CRR leverage ratio rules, as amended by the delegated act of 10th October 2014.

Managing the leverage ratio means both calibrating the amount of Tier 1 capital (the ratio's numerator) and controlling the Group's leverage exposure (the ratio's denominator) to achieve the target ratio levels that the Group sets for itself. To this end, the "leverage" exposure of the different businesses is under the Finance Division's control.

The Group aims to maintain a consolidated leverage ratio that is significantly higher than the 3.5% minimum in the Basel Committee's recommendations. Theses recommandations is currently being transposed in the CRR2 and including a fraction of the systemic buffer which is applicable to the Groupe.

At the end of 2018, Societe Generale's leverage ratio was 4.2%. .

TABLE 10: LEVERAGE RATIO SUMMARY AND RECONCILIATION OF PRUDENTIAL BALANCE SHEET AND LEVERAGE EXPOSURE

(In EUR m)	31.12.2018	31.12.2017
Tier 1 capital[(1)]	**50,511**	**48,907**
Total assets in prudential balance sheet[(2)]	1,174,873	1,137,688
Adjustments for fiduciary assets recognised on the balance sheet but excluded from the leverage ratio exposure	0	0
Adjustments for derivative financial instruments	(45,520)	(61,148)
Adjustments for securities financing transactions[(3)]	(11,146)	(9,035)
Off-balance sheet exposure (loan and guarantee commitments)	99,777	93,055
Technical and prudential adjustments (Tier 1 capital prudential deductions)	(10,320)	(10,716)
Leverage ratio exposure	**1,207,664**	**1,149,844**
CRR fully loaded leverage ratio[(4)]	**4.2%**	**4.3%**

(1) Capital overview is available in Table 6: Regulatory capital and CRR/CRD4 solvency ratios – fully loaded.
(2) Reconciliation of the consolidated balance sheet and the accounting balance sheet within the prudential scope is available in Table 2.
(3) Securities financing transactions: repurchase transactions, securities lending or borrowing transactions and other similar transactions.
(4) Fully loaded based on CRR rules adopted in October 2014 by the European Commission (delegated act).

4.4.7 RATIO OF LARGE EXPOSURES

The CRR (European Capital Requirements Regulation) incorporates the provisions regulating large exposures. As such, the Societe Generale Group must not have any exposure where the total amount of net risks incurred on a single beneficiary exceeds 25% of the Group's capital.

The eligible capital used to calculate the large exposure ratio is the total regulatory capital, with a limit on the amount of Tier 2 capital. Tier 2 capital cannot exceed one-third of Tier 1 capital.

The final rules of the Basel Committee on large exposures will be transposed in Europe *via* CRR2. The main change compared with the current CRR is the calculation of the regulatory limit (25%), henceforth expressed as a proportion of Tier 1 (instead of total capital), as well as the introduction of a cross-specific limit on systemic institutions (15%).

4.4.8 FINANCIAL CONGLOMERATE RATIO

The Societe Generale Group, also identified as a "Financial conglomerate", is subject to additional supervision by the French Prudential Supervisory and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR).

At 31st December 2018, the Societe Generale Group's financial conglomerate equity covered the solvency requirements for both banking activities and insurance activities. At 30 June 2018, the financial conglomerate ratio was 138%, consisting of a numerator ("Own funds of the Financial Conglomerate") of EUR 63.5 billion, and a denominator ("Regulatory requirement of the Financial Conglomerate") of EUR 46.2 billion.

4.5 CREDIT RISKS

Credit risk corresponds to 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 and securitisation activities and may be further amplified by individual, country and sector concentration risk.

4.5.1 RISK SUPERVISION AND MONOTORING SYSTEM

General principles governing risk-taking

All transactions involving credit risk must be pre-authorised.

Audited I The risk approval process is based on three fundamental principles:

- for each client or client group, the analysis and validation of credit agreements is first and foremost the responsibility of a designated business line within the Group (client monitoring sector), and then a unit in the risk management function. The business and risk unit examine all authorisation requests relating to a specific client or client group, to ensure a consistent approach to risk management. The business line and risk unit must be independent of each other;
- use of internal ratings for counterparties. These ratings are proposed by the businesses and validated by the Risk function. The credit approval and risk monitoring process differs according to the nature of the counterparty. For individual and professional clients (retail clients), credit decisions are subject to compliance with approval criteria set out in the credit policies and verified with the help of score tools used under the supervision of the Risk Division. Credit risk policies specify in particular the conditions in which limits are set, as well as the processes applicable in the event these limits are breached. The approval process for corporate counterparties, financial institutions and sovereigns is based on in-depth knowledge of the client and a proper understanding of the purpose of transactions;
- the system of delegating powers is based largely on the internal rating of counterparties and confers responsibility on the businesses for all credit decisions, for which they assume the burden, where applicable, of provisions and losses.▲

Monitoring individual concentration

Individual large exposures are reviewed by the Large Exposures Committee chaired by General Management. Societe Generale complies with regulations governing large exposures[1]. Moreover, the Group has set a stricter internal rule with a limit of 10% of the Group's consolidated shareholders' equity applying to any concentrated exposure on a client group.

The largest concentrations are monitored by rating level. The Group uses credit derivatives to reduce certain exposures considered to be too large.

Concentration levels on connected clients are established in the Business Units for the largest counterparties during Concentration Committee meetings.

Monitoring country risks

Country risk arises when an exposure (loan, security, guarantee or derivative) becomes susceptible to negative impact from changing regulatory, political, economic, social and financial conditions.

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 a macroeconomic shock (sharp slowdown in activity, systemic banking crisis, etc.), currency depreciation, or sovereign default on external debt potentially 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 countries.

Country limits are approved annually by General Management. They can 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 risk country and a final risk country (after any guarantee-related effects), which is supervised using country limits.

The procedure for placing a country on a watch list is triggered when there is a deterioration in country risk, or such a deterioration can be anticipated. During 2018, a number of countries were placed on a watch list, due to difficulties encountered.

Sector monitoring

The Group conducts routine reviews of its loan portfolio using analyses based on business sector. In addition to industry research and analyses of recurring sector-related concentration, more detailed sector-based research and business portfolio analyses may be requested by General Management, the Risk Division or bank divisions.

(1) Ratio of large exposures, p 188.

Certain scopes are subject to specific monitoring.

Specific attention is paid to hedge fund exposure. The Group incurs risk on hedge funds through derivative transactions and its financing activity guaranteed by shares in funds. Risks related to hedge funds are governed by individual limits and global limits on market risks and wrong way risk.

Portfolios have also been subject to enhanced approval criteria, in credit policies.

In leveraged finance, the Group applies the ECB definition in the "Guidance on Leveraged Transactions". The Group has also enhanced its process for analysing these third parties' capacity to repay their commitments at the time of approval, reinforced the monitoring carried out on this scope and reviewed its escalation process.

In the case of the oil and gas scope, the Group has established a credit policy adapted to the different types of activity of sector players. This policy distinguishes in particular financing guaranteed by oil reserves, project financing, short-term trade finance transactions, and takes account of specific regional characteristics.

Credit stress tests

With the aim of identifying, monitoring and managing credit risk, the Risk Division works with the businesses to conduct a set of specific stress tests relating to a country, subsidiary or activity. These specific stress tests combine both recurring stress tests, conducted on those portfolios identified as structurally carrying risk, and ad hoc 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 stressed scenario, which is defined by the Group's sector experts and economists. The stressed scenario describes triggering events and assumptions regarding the development of a crisis, in both quantitative terms (changes in a country's GDP, the unemployment rate, deterioration in a sector) and qualitative terms. The credit stress system also includes sensitivity analyses relating to the deterioration in credit quality of certain portfolios (expert rating transition matrix) or to exposure volatility at the time of default.

Structured around the portfolio analysis function, the Risk Division teams translate these economic scenarios or analyses into impacts on risk parameters (default exposure, default rate, provisioning rate at entry into default, etc.). Where relevant, the leading methods are based on the historical relationship between economic conditions and risk parameters. The stress tests take into account the possible effect of the default of counterparties in which the Group is most highly concentrated in a stressed environment.

Audited I Impairment

Impairment includes impairments of performing loans (stages 1 and 2) and impairments of non-performing loans.

The applicable accounting principles are specified in Note 3.8 of the consolidated financial statements included in Chapter 6 of the Registration Document, p. 373.

IMPAIRMENT OF PERFORMING LOANS (STAGES 1 AND 2)

Impairment is recorded on performing loans based on estimates of 12-month expected credit losses (general case) or lifetime expected credit losses (contracts on which the credit risk has deteriorated since the loan was granted).

This impairment is calculated using assumptions on default rates and losses on default. It takes into account macro-economic forecasts or forecasts specific to the business sector or country. The assumptions are calibrated by homogenous groups of assets based on each group's specific characteristics, its sensitivity to the economic environment and historical data. The assumptions are reviewed periodically by the Risk Division.

IMPAIRMENT OF NON-PERFORMING LOANS (STAGE 3)

Impairment is recorded on the counterparties concerned when 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 which may be called up.

A counterparty is considered to be in default when one of the following occurrences is noted:

- a significant deterioration in the counterparty's financial position leading to a high probability that it will not be able to honour its commitments in full, thereby generating a risk of loss for the Group;
- concessions to the loan terms which would not have been granted in other circumstances are granted in view of the borrower's financial difficulties;
- one or more repayments is past due for at least 90 days (with the exception of restructured loans, which, during a probationary period, are deemed to be impaired as of the first missed payment), whether or not a recovery procedure has begun;
- or, regardless of whether or not payments are past due, there is a known credit risk or legal procedures are in progress (bankruptcy, legal settlement or compulsory liquidation).

The Group applies the default contagion principle to all of a counterparty's outstandings. When a debtor belongs to a group, all of the group's outstandings are generally defaulted as well.▲

4.5.2 REPLACEMENT RISK

Replacement risk, *i.e.* counterparty risk associated with market transactions, is a type of credit risk (potential loss in the event that the counterparty defaults). It represents the current cost to the Group of replacing transactions with a positive market value should the counterparty default. Transactions giving rise to a replacement risk include, among others, security repurchase agreements, securities lending and borrowing, purchase/sale transactions or foreign exchange transactions performed on Delivery Versus Payment (DVP) terms, and derivative contracts, stemming either from standard market activities (OTC transactions such as swaps, options and futures) or from prime brokerage services[1].

Setting individual counterparty limits

Audited I The granting of replacement risk limits is part of the credit granting mechanism. The limits are set according to the nature and duration of the instruments concerned, as well as the strength of the associated legal documentation.).

Regarding central counterparties (CCP), specific limits in terms of margin and deposit amounts are defined to control and monitor the exposure resulting from the clearing of derivative contracts and of repurchase agreements, stemming either from standard market activities or from prime brokerage services.

Information technology systems allow both traders and the Risk Division to ensure that counterparty limits are not exceeded.

Any significant weakening in any of the Bank's counterparties triggers an urgent internal rating review. A specific supervision and approval process is put in place for more sensitive counterparties or more complex financial instruments.▲

In order to quantify the potential replacement cost, Societe Generale uses an internal model: the future fair value of market transactions with each counterparty is modelled taking into account any netting and correlation effects. The forecasts 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.

This internal model is used to compute the Effective Expected Positive Exposure (EEPE), a metric which is used to determine the counterparty risk regulatory capital requirements.

From an economic standpoint, Societe Generale monitors positions using two indicators to represent the distribution resulting from the Monte Carlo simulations:

- Credit-Value-at-Risk (or CVaR): the largest loss that could be incurred after eliminating the top 1% of the most adverse occurrences, used to set the risk limits for individual counterparties;
- current average risk, particularly suitable for analysing the risk exposure for a portfolio of customers.

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

Calculation of Exposure at Default[2] within the regulatory framework

As part of the calculation of capital in respect of counterparty risk, the French Prudential Supervisory and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR) has approved the use of the internal model described previously to determine the Effective Expected Positive Exposure (EEPE).

For the entities where this internal model is approved, it covers 98% of the transactions on OTC derivatives or security financing transactions.

For other transactions or entities, 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 the transactions (replacement cost), and increasing the sum with an add-on. This add-on, which is calculated in line with the CRD (Capital Requirements Directive), is a fixed percentage – based on the type of transaction and the residual maturity – which is applied to the transaction's nominal value.

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

Credit valuation adjustment for counterparty risk

Derivatives and security financing transactions are subject to a Credit Valuation Adjustment (CVA) to take into account counterparty risk. The Group includes in this adjustment all clients that are not subject to a daily margin call or for which the collateral only partially covers the exposure. This adjustment also reflects the netting agreements existing for each counterparty. CVA is determined on the basis of the Group entity's positive expected exposure to the counterparty, the counterparty's probability of default (conditional on the entity not defaulting), and the loss in the event of default.

Furthermore, since 1st January 2014, financial institutions have had to determine capital requirements related to CVA, covering its variation over ten days. The scope of counterparties is limited to financial counterparties as defined in the EMIR (European Market Infrastructure Regulation) or certain corporates that may use derivatives beyond certain thresholds and for purposes other than hedging. Societe Generale has implemented an internal model to compute these capital requirements, covering more than 80% of the scope. The method used is similar to the one used for the market VaR computation (see the "Market Risk" chapter of the Registration Document): it consists of carrying out a historical simulation of the change in CVA due to the variations observed in the credit spreads of the counterparties, with a 99% confidence interval. The computation is done on the credit spreads variation observed, on the one hand, over a one-year rolling period (VaR on CVA), and, on the other hand, over a fixed one-year historical window corresponding to the period of greatest tension in terms of credit spreads (stressed VaR on CVA). The associated capital requirements are equal to the sum of these two computations multiplied by a factor set by the regulator, specific to each bank. For the remaining part determined according to the standard method, Societe Generale applies the rules defined by the Capital Requirements Regulation: weighting by a normative factor of the EAD multiplied by a recomputed maturity.

The management of this exposure and regulatory capital charge led the Bank to buy protection (such as Credit Default Swaps) from major financial institutions. In addition to reducing the credit risk, it decreases their variability deriving from changes in the credit spreads of counterparties.

(1) Prime brokerage services, mainly on listed derivatives, where the bank acts as agent between a client and a clearing house.

(2) Exposure at default (EAD) of a loan is equal to its nominal amount. The potential loss amount of a derivative 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 derivatives are allowed, one using the marked-to-market valuation and one using the internal model approach (see above).

Wrong-way risk adjustment

Wrong-way risk is the risk of the Group's exposure to a counterparty increasing significantly, combined with a simultaneous increase in the probability of the counterparty defaulting.

There are two types of wrong-way risk:

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

The specific wrong-way risk is subject to dedicated regulatory capital requirements, through an add-on applied when calculating the capital requirements. The EEPE indicator for transactions identified as facing a specific wrong-way risk is reassessed based on the hypothesis of a default from the counterparty (more specifically, a conservative reassessment based on (i) a value of nil for the counterparty's shares and (ii) a value equal to the recovery rate for the bonds issued by the counterparty). This process leads to stricter capital requirements regarding counterparty risks on such transactions. The economic counterparty risk (replacement risk) calculated in these specific risk situations is also increased, thereby limiting the exposure on such transactions, as there is no change in the risk limit framework.

The general wrong-way risk is monitored through stress tests (stress tests based on mono- or multi-risk factors covering all transactions with a given counterparty, relying on the same scenarios as used in the market risk stress tests) based on:

- a quarterly analysis of the stress tests regarding all counterparties, making it possible to identify the most adverse scenarios linked to a joint deterioration in the quality of the counterparties and the associated positions;
- regarding Systemically Important Financial Institutions (SIFI), monthly monitoring of dedicated multi-risk factor stress test scenarios, subject to limits;
- regarding hedge funds and proprietary trading groups, weekly monitoring of dedicated mono-risk factor stress test scenarios, subject to limits.

4.5.3 HEDGING OF CREDIT RISK

Audited I Guarantees and collateral

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

There are two main categories:

- personal guarantees are commitments made by a third party to replace the primary debtor in the event of the latter's default. These guarantees encompass the protection commitments and mechanisms provided by banks and similar credit institutions, specialised institutions such as mortgage guarantors (*e.g.* 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.

In order to reduce its risk-taking, the Group is pursuing active management of its securities, in particular by diversifying them: physical collateral, personal guarantees and others (including CDS).

During the credit approval process, an assessment is performed on the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations. 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 function is responsible for approving the operating procedures established by the core businesses for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, whether during the approval phase for a new loan or upon the annual renewal of the credit application.

The amount of guarantees and collateral is capped at the amount of outstanding loans less provisions, *i.e.* EUR 290.17 billion at 31st December 2018 (compared with EUR 272.44 billion at 31st December 2017), of which EUR 140.37 billion for retail customers and EUR 149.80 billion for other types of counterparty (compared with EUR 137.46 billion and EUR 134.98 billion at 31st December 2017, respectively).

The oustanding loans covered by these guarantees and collateral correspond mainly to loans and receivables amounted to EUR 237.18 billion at 31st December 2018, and to off-balance sheet commitments amounted to EUR 50.46 billion (compared with 225.61 billion and EUR 43.70 billion at 31st December 2017 respectively).

The amounts of guarantees and collateral received for performing outstanding loans (Stage 1) and under-performing loans (Stage 2) with payments past due amounted to EUR 2.07 billion at 31st December 2018 (EUR 3.12 billion at 31st December 2017), including EUR 1.05 billion on retail customers and EUR 1.01 billion on other types of counterparties (versus EUR 1.28 billion and EUR 1.84 billion at 31st December 2017 respectively).

The amount of guarantees and collateral received for non performing outstanding loans at 31st December 2018 amounted to EUR 4.77 billion (compared to EUR 6.61 billion at 31st December 2017), of which EUR 2.21 billion on retail customers and EUR 2.57 billion on other types of counterparties (compared to EUR 2.92 billion and EUR 3.68 billion respectively at 31st December 2017). These amounts are capped at the amount of outstanding individually impaired loans.

Use of credit derivatives to manage Corporate concentration risk

Within Corporate and Investment Banking, the Credit Portfolio Management (CPM) team is responsible for working in close cooperation with the Risk Division and the businesses to reduce excessive portfolio concentrations and react quickly to any deterioration in the creditworthiness of a particular counterparty. CPM forms part of 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 concentrations and to implement a proactive risk and capital management approach.

Total outstanding purchases of protection through Corporate credit derivatives decreased to EUR 0.4 billion at end-December 2018 (compared to EUR 0.5 billion at end-December 2017).

The amounts recognised as assets (EUR 2.2 billion at 31st December 2018 versus EUR 2.2 billion at 31st December 2017) and liabilities (EUR 2.7 billion at 31st December 2018 versus EUR 2.6 billion at 31st December 2017) correspond to the fair value of credit derivatives mainly held under a transaction activity but also under the aforementioned protection purchases.

In 2018, the Credit Default Swap (CDS) spreads from European investment-grade issuances (iTraxx index) have been quite volatile with peaks in June/July and an upward trend in the last quarter. The overall sensitivity of the portfolio to spread widening increased, since the average maturity of protection is now longer.

All protection purchases were made from clearing houses (100% of the outstanding amounts as of 31st December 2018).

Mitigation of counterparty risk linked to market transactions

Societe Generale uses various techniques to reduce this risk. With regard to counterparties dealing with market transactions, it seeks to implement master agreements with a termination-clearing clause wherever it can. In the event of default, such agreements provide for netting of all due and payable amounts. These agreements usually call for the revaluation of the collateral required at regular intervals (generally 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.

Accordingly, at 31st December 2018, most over-the-counter (OTC) transactions were secured: by amount[1], 73% of transactions with positive mark-to-market (collateral received by Societe Generale) and 65% 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.

Moreover, regulations stipulate that a greater number of OTC derivative instruments must be cleared through clearing houses certified by competent authorities and subject to prudential regulations. The implementation of the European Market Infrastructure Regulation (EMIR) and the Dodd Frank Act – Title VII in the United States is an ongoing process in such respect. Among other things, these regulations aim to improve the stability and transparency of the derivatives market, by means of wider collateralisation of transactions, either through the use of clearing houses, for eligible products, or through bilateral and mandatory margin calls to cover actual exposure (variation margin) and future exposure (initial margins). Since 2017, the exchange of variation margins became mandatory for all financial counterparties. Since September 2018, the exchange of initial margins has become mandatory for “category 2” counterparties (financial institutions dealing beyond a certain amount in nominal). This measure will be gradually extended to all other types of counterparty by 2020.

Accordingly, at end-December 2018, 19% of the OTC transactions[2] (amounting to 53% of the nominal) were cleared through central counterparties (CCP).

Transactions stemming from prime brokerage activities are subject to systematic margin calls in order to mitigate the counterparty risk (customers post variation margins and initial margins for Societe Generale on a daily basis, to cover actual and future exposure). Exposures facing clearing houses do in this framework is the subject of daily reporting.

Credit insurance

In addition to using export credit agencies (for example Coface and Exim) and multilateral organisations (for example the European Bank for Reconstruction and Development – EBRD), the Group 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 approved by the Group’s General Management. The system is based on an overall limit for the activity, along with sub-limits by maturity, and individual limits for each insurance counterparty, the latter being furthermore required to meet strict eligibility criteria.

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

(1) Excluding OTC deals cleared in clearing houses.
(2) Excluding agency transactions.

TABLE 11: CREDIT RISK MITIGATION TECHNIQUES – OVERVIEW

	31.12.2018			
(In EUR m)	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Total loans	387,962	239,880	115,925	123,954
Total debt securities	63,044	147	0	147
TOTAL EXPOSURES	**451,006**	**240,027**	**115,925**	**124,101**

	31.12.2017			
(In EUR m)	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Total loans	385,143	228,675	108,943	119,731
Total debt securities	57,727	323	0	323
TOTAL EXPOSURES	**442,869**	**228,998**	**108,943**	**120,054**

4.5.4 RISK MEASUREMENT AND INTERNAL RATINGS

In 2007, Societe Generale obtained authorisation from its supervisory authorities to apply the internal ratings-based (IRB) approach to most of its exposures in order to calculate the capital requirements in respect of credit risk.

Since the initial authorisation was given, the transition from the standard approach to the IRB approach for some of its activities and exposures has been selective and is subject to discussion with the supervisory authority.

General framework of the internal approach

Audited I To calculate its capital requirements under the IRB method, Societe Generale estimates its Risk-Weighted Assets (RWA) and the Expected Loss (EL) that may be incurred in light of the nature of the transaction, the quality of the counterparty and all measures taken to mitigate risk.

To calculate its RWA, Societe Generale uses its own Basel parameters, which are estimated using its internal risk measurement system:

- the Exposure at Default (EAD) value is defined as the Group's exposure in the event that the counterparty should default. The EAD includes exposures recorded on the balance sheet (loans, receivables, accrued income, market transactions, etc.), and a proportion of off-balance sheet exposures calculated using internal or regulatory Credit Conversion Factors (CCF);
- the Probability of Default (PD): the probability that a counterparty of the Bank will default within one year;
- the Loss Given Default (LGD): the ratio between the loss incurred on an exposure in the event a counterparty defaults and the amount of the exposure at the time of the default.

The Societe Generale Group also takes into account:

- the impact of guarantees and credit derivatives, by substituting the PD, the LGD and the risk-weighting calculation of the guarantor for that of the obligor (the exposure is considered to be a direct exposure to the guarantor) in the event that the guarantor's risk weighting is more favourable than that of the obligor;
- collateral used as guarantees (physical or financial). This impact is factored in either at the level of the LGD models for the pools concerned or on a line-by-line basis. ▲

To a very limited extent, Societe Generale also applies an IRB Foundation approach (where only the probability of default is estimated by the Bank, while the LGD and CCF parameters are determined directly by the supervisory authority) to a portfolio of specialised lending exposures granted to the French subsidiary Franfinance Entreprises.

Moreover, the Group has received authorisation from the regulator to use the IAA (internal assessment approach) method to calculate the regulatory capital requirement for ABCP (Asset-Backed Commercial Paper) securitisation. In addition to the capital requirement calculation objectives under the IRBA method, the Group's credit risk measurement models contribute to the management of the Group's operational activities. They also constitute tools to structure, price and approve transactions and participate in the setting of approval limits granted to business lines and the Risk function.

TABLE 12: BREAKDOWN OF EAD BY THE BASEL METHOD

	31.12.2018	31.12.2017
IRB	79%	78%
Standard	21%	22%
TOTAL	**100%**	**100%**

TABLE 13: SCOPE OF APPLICATION OF THE IRB AND STANDARD APPROACHES FOR THE GROUP

	IRB approach	Standard approach
French Retail Banking	Majority of portfolios	Some retail customer portfolios, including those of the Sogelease subsidiary
International Retail Banking and Financial Services	The subsidiaries KB (Czech Republic), CGI, Fiditalia, GEFA and SG Finans, SG Leasing SPA and Fraer Leasing SPA, SGEF Italy	The other subsidiaries
Global Banking and Investor Solutions	Majority of Corporate and Investment Banking portfolios As for Private Banking, Securities Services and Brokerage, mainly the retail portfolios of the following subsidiaries: SG Hambros, SGBT Luxembourg, SGBT Monaco, SG Private Banking Suisse	For Private Banking, Securities Services and Brokerage, exposures granted to banks and companies
Corporate Centre	Majority of portfolios	-

Credit risk measurement for wholesale clients

The Group's credit risk measurement system, which estimates internal Basel parameters, uses a quantitative evaluation mechanism coupled with an expert opinion.

For Corporate, Banking and Sovereign portfolios, the measurement system is based on three key components:

- a counterparty rating system;
- a system that automatically assigns Loss Given Default (LGD) and Credit Conversion Factor (CCF) parameters according to the characteristics of each transaction;
- a collection of procedures setting out the rules relating to ratings (scope, revision frequency, rating approval procedure, etc.), as well as to the supervision, backtesting and validation of models. Among other things, these procedures help to support the human judgement that provides the critical scrutiny that is an essential complement to the models for these portfolios.

RATING SYSTEM

The rating system consists in assigning a rating to each counterparty according to an internal scale, for which each grade corresponds to a probability of default determined using historical series observed by Standard & Poor's over more than 20 years.

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 probability of default.

The rating assigned to a counterparty is generally proposed by a model and then adjusted and approved by experts in the Risk function further to the individual analysis of each counterparty.

The counterparty rating models are structured in particular according to the type of counterparty (companies, financial institutions, public entities, etc.), the country, geographic region and size of the company (usually assessed through its annual revenue).

The company rating models are underpinned by statistical models (regression methods) of client default. They combine quantitative parameters derived from financial data that evaluate the sustainability and solvency of companies and qualitative parameters that evaluate economic and strategic dimensions.

TABLE 14: SOCIETE GENERALE'S INTERNAL RATING SCALE AND CORRESPONDING SCALES OF RATING AGENCIES

Counterparty internal rating	DBRS	FitchRatings	Moody's	S&P	1 year probability
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%

LGD MODELS

The Loss Given Default (LGD) is an economic loss that is measured by taking into account all parameters pertaining to the transaction, as well as the fees incurred for recovering the receivable in the event of a counterparty default.

The models used to estimate the Loss Given Default (LGD) excluding retail clients are applied by regulatory sub-portfolios, type of asset, size and location of the transaction or of the counterparty, depending on whether or not collateral has been posted, and the nature thereof if applicable. This makes it possible to define homogeneous risk pools, particularly in terms of recovery, procedures and the legal environment.

These estimates are founded on statistics when the number of loans in default is sufficient. In such circumstances, they are based on recovery data observed over a long period.

When the number of defaults is insufficient, the estimate is revised or determined by an expert.

CCF MODELS

For its off-balance sheet exposures, the Group is authorised to use the internal approach for "Term loan with drawing period" products and revolving credit lines.

TABLE 15: PRINCIPAL CHARACTERISTICS OF MODELS AND METHODS – WHOLESALE CLIENTS

Parameter modelled	Portfolio/Category of Basel assets	Number of methods, models	Methodology Number of years default/loss
WHOLESALE CLIENTS			
Probability of Default (PD)	Sovereigns	Expert rating.	Expert method, use of the external ratings of agencies. Low default portfolio.
	Public sector entities	4 models according to geographic region.	Statistical (regression)/expert methods for the rating process, based on the combination of financial ratios and a qualitative questionnaire. Low default portfolio.
	Financial institutions	12 models according to type of counterparty: banks, insurance, funds, financial intermediaries, funds of funds.	Expert models based on a qualitative questionnaire. Low default portfolio.
	Specialised financing	3 models according to type of transaction.	Expert models based on a qualitative questionnaire. Low default portfolio.
	Large corporates	10 models according to geographic region.	Mainly statistical models (regression) for the rating process, based on the combination of financial ratios and a qualitative questionnaire. Defaults observed over a period of 8 to 10 years.
	Small- and medium-sized companies	17 models according to the size of the company and the geographic region.	Mainly statistical models (regression) for the rating process, based on the combination of financial ratios and a qualitative questionnaire. Defaults observed over a period of 8 to 10 years.
Loss Given Default (LGD)	Public sector entities – Sovereigns	6 models according to type of counterparty.	Calibration based on historical data and expert judgements. Losses observed over a period of more than 10 years.
	Large corporates – Flat-rate Approach	> 20 models Flat-rate approach according to type of collateral.	Calibration based on historical data adjusted by expert judgements. Losses observed over a period of more than 10 years.
	Large corporates – Discount Approach	16 models Discount approach according to type of recoverable collateral.	Statistical calibration based on historical market data adjusted by expert judgements. Losses observed over a period of more than 10 years.
	Small- and medium-sized companies	15 models Flat-rate approach according to type of collateral or unsecured.	Statistical calibration based on historical data adjusted by expert judgements. Losses observed over a period of more than 10 years.
	Project financing	8 models Flat-rate approach according to project type.	Statistical calibration based on historical data adjusted by expert judgements. Losses observed over a period of more than 10 years.
	Financial institutions	6 models Flat-rate approach according to type of counterparty: banks, insurance, funds, etc. and the nature of the collateral.	Statistical calibration based on historical data adjusted by expert judgements. Losses observed over a period of more than 10 years.
	Other specific portfolios	6 models: factoring, leasing with option to purchase and other specific cases.	Statistical calibration based on historical data adjusted by expert judgements. Losses observed over a period of more than 10 years.
Credit Conversion Factor (CCF)	Large corporates	5 models: term loans with drawing period, revolving credits, Czech Corporates.	Models calibrated by segment. Defaults observed over a period of more than 10 years.
Expected Loss (EL)	Real estate transactions	2 models by slotting.	Statistical model based on expert judgements and a qualitative questionnaire. Low default portfolio.

BACKTESTS

The performance level of the entire wholesale client credit system is measured by regular backtests that compare PD, LGD and CCF estimates with actual results by portfolio.

The compliance of this system is based on the consistency between the parameters used and the long-term trends analysed, with safety margins that take into account areas of uncertainty (cyclicality, volatility, quality of data, etc.).

The safety margins applied are regularly estimated, checked and revised if necessary.

The results of backtests can justify the implementation of remedial plans if the system is deemed to be insufficiently prudent. The results of backtests and remedial plans are presented to the Expert Committee for discussion and approval (see Governance of the modelling of risks, p. 201).

TABLE 16: COMPARISON OF RISK PARAMETERS: ESTIMATED AND ACTUAL PD VALUES – WHOLESALE CLIENTS (1)

	31.12.2018						
			Number of obligors				
Basel Portfolio	Weighted average PD	Arithmetic average PD (2)	End of previous year	End of the year	Defaulted obligors over the year	o.w. new defaulted obligors over the year	Average historical annual default rate (3)
Sovereigns	0.1%	0.8%	678	645	1	-	0.2%
Institutions	0.3%	0.9%	4,378	4,230	3	-	0.3%
Specialised financing (4)	1.4%	2.4%	1,785	2,234	17	-	2.3%
Large corporates	1.0%	3.1%	36,960	36,637	395	54	1.6%
Small- and medium-sized enterprises	3.7%	5.4%	88,117	96,820	2,536	382	3.6%

(1) Based on the latest available figures as of 30th September 2018.

(2) The performance of the rating system is measured by way of regular backtests, in accordance with regulations. Backtests compare the estimated probability of default (arithmetic average weighted by receivables) with the observed results (the historical annual default rate), which confirms the overall prudence of the rating system.

(3) The historical annual default rate was calculated based on a long period from 3rd quarter 2007 to 3rd quarter 2017.

(4) The Aircraft et Shipping deals are in the specialized lending portfolio in 2018.

TABLE 17: COMPARISON OF RISK PARAMETERS: ESTIMATED AND ACTUAL LGD AND EAD VALUES – WHOLESALE CLIENTS

	31.12.2018		
Basel portfolio	Estimated LGD*	Actual LGD excluding safety margin	Actual EAD**/estimated EAD
Large corporates	34%	26%	85%
Small- and medium-sized enterprises	40%	29%	

* *Senior unsecured LGD.*

** *Modelled CCF (revolving, term loans), only for defaults.*

	31.12.2017		
Basel portfolio	Estimated LGD*	Actual LGD excluding safety margin	Actual EAD**/estimated EAD
Large corporates	35%	26%	92%
Small- and medium-sized enterprises	39%	27%	

* *Senior unsecured LGD.*

** *Modelled CCF (revolving, term loans), only for defaults.*

Credit risk measurements of retail clients

PROBABILITY OF DEFAULT MODELS

The modelling of the probability of default of retail client counterparties is carried out specifically by each of the Group's business lines recording its assets using the IRBA method. The models incorporate data on the payment behaviour of counterparties. They are segmented by type of customer and distinguish between retail customers, professional customers, very small businesses and real-estate investment companies (*sociétés civiles immobilières*).

The counterparties of each segment are classified automatically, using statistical models, into homogeneous risk pools, each of which is assigned a probability of default.

Once the counterparties have been classified into statistically distinct homogeneous risk pools, the probability of default parameters are estimated by observing the average long-term default rates for each product. These estimates are adjusted by a safety margin to estimate as best as possible a complete default cycle, using a through-the-cycle (TTC) approach.

LGD MODELS

The models for estimating the Loss Given Default (LGD) of retail customers are specifically applied by business line portfolio. LGD values are estimated by product, according to the existence or not of collateral.

Consistent with operational recovery processes, estimate methods are generally based on a two-step modelling process that initially estimates the proportion of defaulted loans in loan termination, followed by the loss incurred in case of loan termination.

The expected losses are estimated using internal long-term historical recovery data for exposures that have defaulted. These estimates are adjusted by safety margins in order to reflect the possible impact of a downturn.

CCF MODELS

For its off-balance sheet exposures, Societe Generale applies its estimates for revolving loans and overdrafts on current accounts held by retail and professional customers.

TABLE 18: PRINCIPAL CHARACTERISTICS OF MODELS AND METHODS USED – RETAIL CLIENTS

Parameter modelled	Portfolio/ Category of Basel assets	Number of models	Methodology Number of years of default/loss
RETAIL CLIENTS			
Probability of Default (PD)	Residential real estate	8 models according to entity, type of guarantee (security, mortgage), type of counterparty: individuals or professionals/VSB, real-estate investment company (SCI).	Statistical model (regression), behavioural score. Defaults observed over a period of more than 5 years.
	Other loans to individual customers	15 models according to entity and to the nature and object of the loan: personal loan, consumer loan, car loan, etc.	Statistical model (regression), behavioural score. Defaults observed over a period of more than 5 years.
	Renewable exposures	5 models according to entity and nature of the loan: overdraft on current account, revolving credit or consumer loan.	Statistical model (regression), behavioural score. Defaults observed over a period of more than 5 years.
	Professionals and very small businesses	10 models according to entity, nature of the loan (medium- and long-term investment credits, short-term credit, car loans), and type of counterparty (individual or real-estate investment company (SCI)).	Statistical model (regression or segmentation), behavioural score. Defaults observed over a period of more than 5 years.
Loss Given Default (LGD)	Residential real estate	8 models according to entity, type of guarantee (security, mortgage), and type of counterparty: individuals or professionals/VSB, real-estate investment company (SCI).	Statistical model of expected recoverable flows based on the current flows. Model adjusted by expert opinions if necessary. Losses and recoverable flows observed over a period of more than 10 years.
	Other loans to individual customers	17 models according to entity and to the nature and object of the loan: personal loan, consumer loan, car loan, etc.	Statistical model of expected recoverable flows based on the current flows. Model adjusted by expert opinions if necessary. Losses and recoverable flows observed over a period of more than 10 years.
	Renewable exposures	7 models according to entity and nature of the loan: overdraft on current account, revolving credit or consumer loan.	Statistical model of expected recoverable flows based on the current flows. Model adjusted by expert opinions if necessary. Losses and recoverable flows observed over a period of more than 10 years.
	Professionals and very small businesses	12 models according to entity, nature of the loan (medium- and long-term investment credits, short-term credit, car loans), and type of counterparty (individual or real- estate investment company (SCI)).	Statistical model of expected recoverable flows based on the current flows. Model adjusted by expert opinions if necessary. Losses and recoverable flows observed over a period of more than 10 years.

Parameter modelled	Portfolio/ Category of Basel assets	Number of models	Methodology Number of years of default/loss
Credit Conversion Factor (CCF)	Renewable exposures	12 calibrations by entity for revolving products and personal overdrafts.	Models calibrated by segment over a period of observation of defaults of more than 5 years.
Expected Loss (EL)	Private Banking exposures	PD and LGD derived from loss observations.	Models restructured into a PD/LGD-based approach. Implementation under way following authorisation for use from the supervisory authorities.

BACKTESTS

The performance level of the entire retail client credit system is measured by regular backtests, which check the performance of PD, LGD and CCF models and compare estimated figures with actual figures.

Each year, the average long-term default rate observed for each homogeneous risk pool is compared with the PD. If necessary, the calibrations of PD are adjusted to preserve a satisfactory safety margin. The discrimination level of the models and changes in the portfolio's composition are also measured.

Regarding the LGD, the backtest consists in comparing the last estimation of the LGD obtained by computing the average level of payments observed and the value used to calculate regulatory capital.

The difference should in this case reflect a sufficient safety margin to take into account a potential economic slowdown, uncertainties as to the estimation, and changes in the performance of recovery processes.

The adequacy of this safety margin is assessed at an Expert Committee meeting.

Likewise, for the CCF, the level of conservatism of estimates is assessed annually by comparing estimated drawdowns to observed drawdowns on the undrawn part.

The results presented below for the PD cover all the portfolios of the Group entities with the exception of Private Banking, for which a new model is currently being implemented.

The exposures to retail customers of subsidiaries specialised in Equipment Financing are integrated into the retail customer portfolio under the "VSB and professionals" sub-portfolio (exposures of GEFA, SGEF Italy, SG Finans).

The figures below aggregate French, Czech, German, Scandinavian and Italian exposures. For all the Basel portfolios of retail clients, the actual default rate is lower than the estimated probability of default (arithmetic average), which confirms the overall conservatism of the rating system.

TABLE 19: COMPARISON OF ESTIMATED RISK PARAMETERS: ESTIMATED AND ACTUAL PD VALUES – RETAIL CLIENTS [1]

	31.12.2018					
			Numbers of obligors [4]			
Basel Portfolio	Weighted average PD	Arithmetic average PD [2]	End of previous year	End of the year	Defaulted obligors in the year	Average historical annual default rate [3]
Other loans to individual customers	3.1%	4.0%	2,065,487	2,244,707	66,736	3.8%
Real estate loans [5]	1.3%	1.2%	817,872	850,310	7,086	1.1%
Revolving credits	5.1%	2.6%	7,794,888	7,552,793	157,700	2.1%
VSB and professionals	4.1%	4.2%	823,911	828,042	30,551	3.8%

(1) Based on the latest available figures as of 30th September 2018. Exposures relating to Private Banking and factoring (SG Factoring) are excluded.
(2) The performance of the rating system is measured by way of regular backtests, in accordance with regulations. Backtests compare the estimated probability of default (arithmetic average weighted by receivables) with the observed results (the historical annual default rate), which confirms the overall prudence of the rating system..
(3) The historical annual default rate was calculated based on a long period from 2010 to 2017.
(4) Creditor current in accordance with the revised guidelines of the EBA publication of 14th December 2016 (EBA/GL/2016/11).
(5) Guaranteed and non-guaranteed exposures.

TABLE 20: COMPARISON OF RISK PARAMETERS: ESTIMATED AND ACTUAL LGD AND EAD VALUES – RETAIL CLIENTS

	31.12.2018		
Basel portfolio	**Estimated LGD (1)**	**Actual LGD excluding safety margin**	**Actual EAD (2)/ estimated EAD**
Real estate loans (excl. guaranteed exposures)	18%	12%	-
Revolving credits	45%	39%	73%
Other loans to individual customers	28%	22%	-
VSB and professionals	26%	21%	77%
TOTAL GROUP RETAIL CLIENTS (1)	**25%**	**19%**	**74%**

The estimated and actual LGD correspond to the latest values validated by the internal governance.
(1) Excluding guaranteed exposures.
(2) Revolving credits and current accounts of individual and professional customers.

	31.12.2017		
Basel portfolio	**Estimated LGD (1)**	**Actual LGD excluding safety margin**	**Actual EAD (2)/ estimated EAD**
Real estate loans (excl. guaranteed exposures)	18%	13%	-
Revolving credits	45%	39%	73%
Other loans to individual customers	27%	22%	_
VSB and professionals	26%	22%	77%
TOTAL GROUP RETAIL CLIENTS (1)	**25%**	**20%**	**74%**

The estimated and actual LGD correspond to the latest values validated by the internal governance.
(1) Excluding guaranteed exposures.
(2) Revolving credits and current accounts of individual and professional customers.

Governance of the modelling of risks

The independent review of the model corresponds to all the processes aimed at verifying the conformity of the models and their use with the objectives for which they were designed, as well as with the applicable regulations.

Independent model review teams are part of the Risk Division and are the second line of defence for model risk management; they rely, for the conduct of their missions, on principles of control of the theoretical robustness (evaluation of the quality of the design and development) of the models, the conformity of the implementation and the use, the continuous follow-up the relevance of the model over time. They issue an independent review report, which describes the scope of the review, the tests performed, the results of the review the conclusions or the recommendations made.

The need to review a model is assessed according to the level of risk of the model, its model family and the applicable regulatory requirements. Independent review by the second line of defense is triggered in particular for new models, periodic model reviews, model change proposals and cross-sectional reviews in response to a recommendation.

The approval of the models relies on a Model Committee then an Expert Committee:

- Model Committee: for subjects with a statistical component, an instruction whose objective is to gather all the statistical and banking elements to assess the quality of the models is conducted by the second line of defense, whose conclusions are formally presented Modeling entities as part of a Model Committee (Independent Review Authority for Internal Models for Calculating Capital Requirements);
- Expert Committee: a validation phase organized around the Approval Authority (Expert Committee) for internal models for calculating capital requirements which has the power to approve (with or without reservations) or to reject the use of a model, changes to the existing model, or monitoring of the timeliness of the model proposed by the first line of defence, based on the independent review report and minutes of the 'Review Authority.

In accordance with the Delegated Regulation (EU) No. 529/2014 of 20th May 2014 regarding the monitoring of internal models used to calculate capital requirements, changes to the Group's credit risk measurement system are subject to one of three types of notification to the competent supervisory authority, depending on the significance of the change, evaluated according to this rule:

- significant changes are subject to a request for authorisation prior to their implementation;
- the supervisory authority is notified of changes which are not significant according to the criteria defined by the regulation. Barring a negative response within a two-month period, such changes may be implemented;
- the competent authorities are notified of all other changes after their implementation, at least once annually in a specific report.

4.5.5 QUANTITATIVE INFORMATION

Audited I The measurement used for credit exposures in this section is EAD – Exposure At Default (on- and off-balance sheet). Under the Standard Approach, EAD is calculated net of collateral and provisions. EAD is broken down according to the guarantor's characteristics, after taking into account the substitution effect (unless otherwise indicated). ▲

The presentation of the data, applied since last year, is in line with the guidelines on prudential disclosure requirements published by the European Banking Authority (EBA) in December 2016 (document EBA/GL/2016/11).

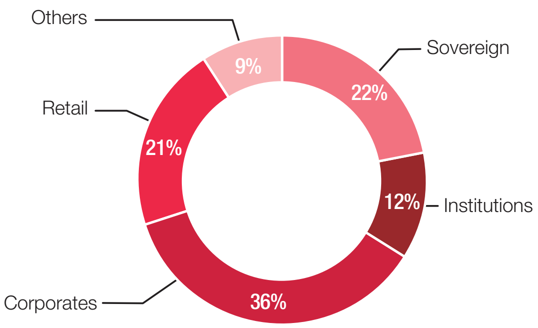
This presentation highlights the exposure categories as defined in the portfolios of the COREP regulatory financial statements, in relation to EBA requirements on Pillar 3.

Audited I Credit risk exposure

At 31st December 2018, the Group's Exposure at Default (EAD) amounted to EUR 920 billion.

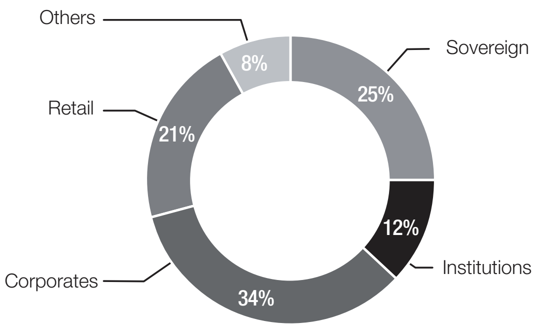
CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 31ST DECEMBER 2018

On- and off-balance sheet exposures (EUR 920 billion in EAD)



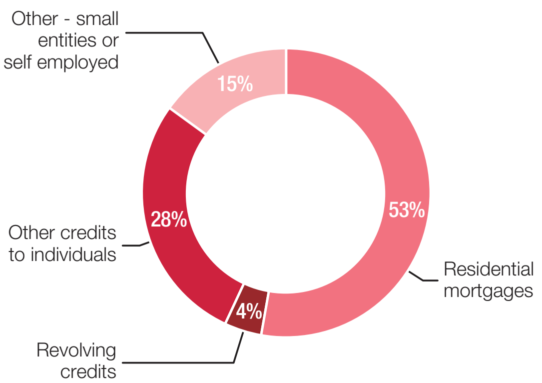
CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 31ST DECEMBER 2017

On and off-balance sheet exposures (EUR 872 billion in EAD).



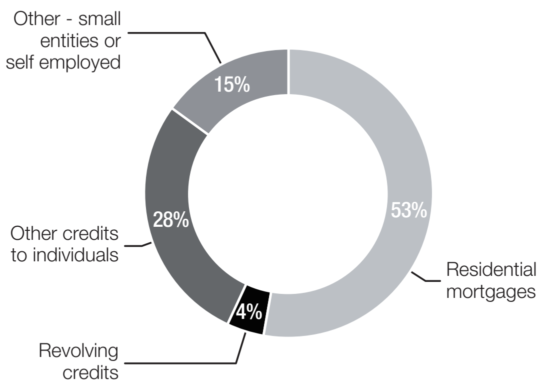
RETAIL CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 31ST DECEMBER 2018

On- and off-balance sheet exposures (EUR 189 billion in EAD)



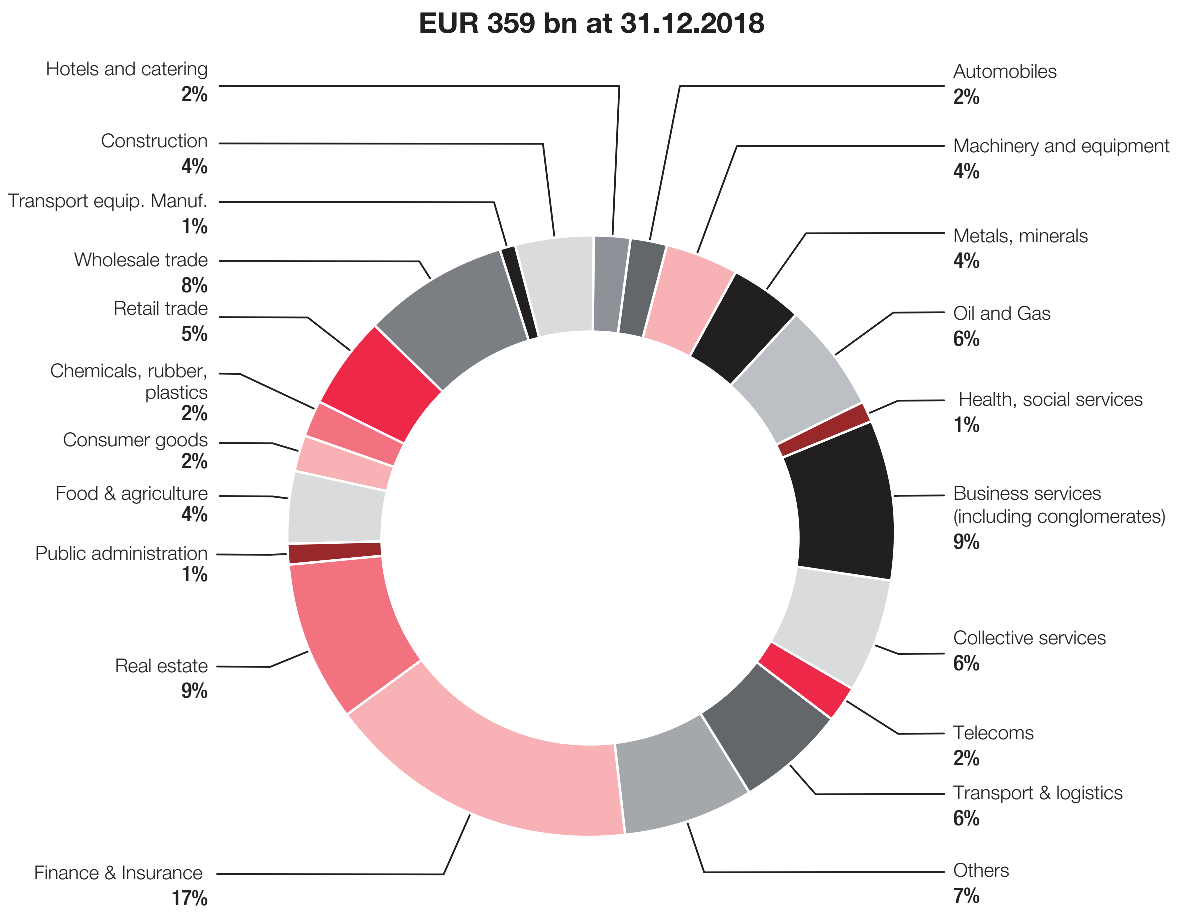
RETAIL CREDIT RISK EXPOSURE BY EXPOSURE CLASS (EAD) AT 31ST DECEMBER 2017

On- and off-balance sheet exposures (EUR 184 billion in EAD)



** Institutions: Basel classification bank and public sector portfolios.*

SECTOR BREAKDOWN OF GROUP CORPORATE EXPOSURE (BASEL PORTFOLIO)

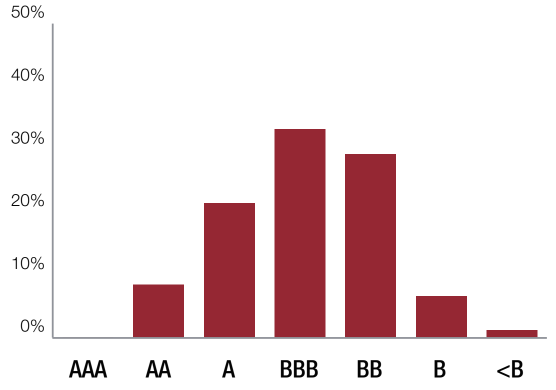


EAD of the Corporate portfolio is presented in accordance with the Basel rules (large corporates, including insurance companies, funds and hedge funds, SMEs, specialist financing, factoring businesses), based on the obligor's characteristics, before taking into account the substitution effect (credit risk scope: debtor, issuer and replacement risk).

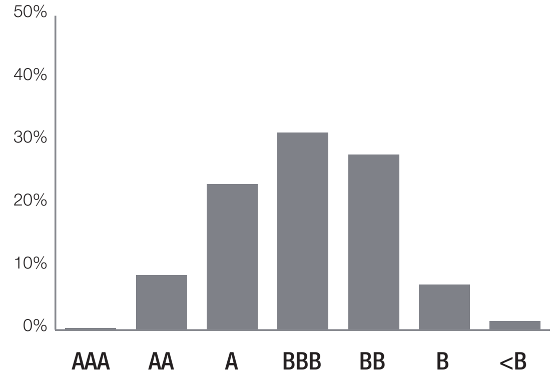
At 31st December 2018, the Corporate portfolio amounted to EUR 359 billion (on- and off-balance sheet exposures measured in EAD). Only the Finance and Insurance sector accounts for more than 10% of the portfolio. The Group's exposure to its ten largest Corporate counterparties accounts for 5% of this portfolio. ▲

Corporate and bank counterparty exposure

AUDITED I BREAKDOWN OF RISK BY INTERNAL RATING FOR CORPORATE CLIENTS AT 31ST DECEMBER 2018 (AS % OF EAD)



BREAKDOWN OF RISK BY INTERNAL RATING FOR CORPORATE CLIENTS AT 31ST DECEMBER 2017 (AS % OF EAD)

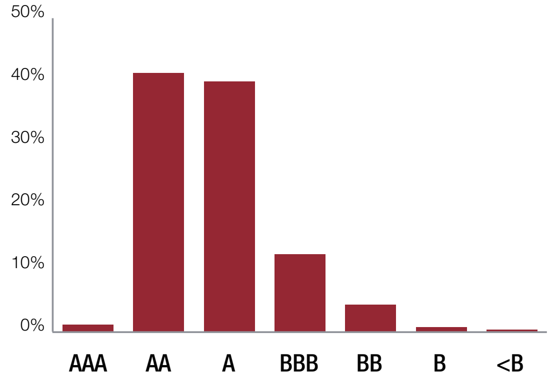


Audited I The scope includes performing loans recorded under the IRB method (excluding prudential classification criteria, by weight, of specialised financing) for the entire Corporate client portfolio, all divisions combined, and represents EAD of EUR 273 billion (out of total EAD for the Basel Corporate client portfolio of EUR 323 billion, standard method included).

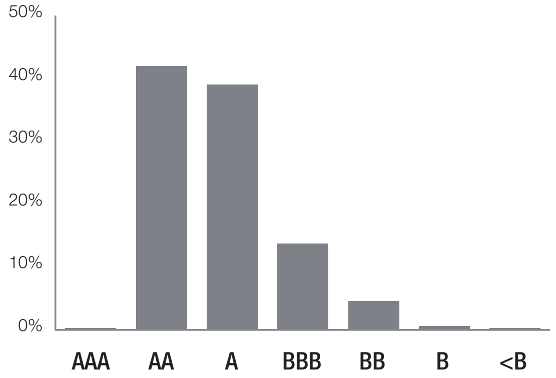
The breakdown by rating of the Group's Corporate exposure demonstrates the sound quality of the portfolio. It is based on an internal counterparty rating system, presented above as its Standard & Poor's equivalent.

At 31st December 2018, the majority of the portfolio (63% of Corporate clients) had an investment grade rating, *i.e.* counterparties with an S&P-equivalent internal rating higher than BBB-. Transactions with non-investment grade counterparties were very often backed by guarantees and collateral in order to mitigate the risk incurred. ▲

AUDITED I BREAKDOWN OF RISK BY INTERNAL RATING FOR BANKING CLIENTS AT 31ST DECEMBER 2018 (AS % OF EAD)



BREAKDOWN OF RISK BY INTERNAL RATING FOR BANKING CLIENTS AT 31ST DECEMBER 2017 (AS % OF EAD)



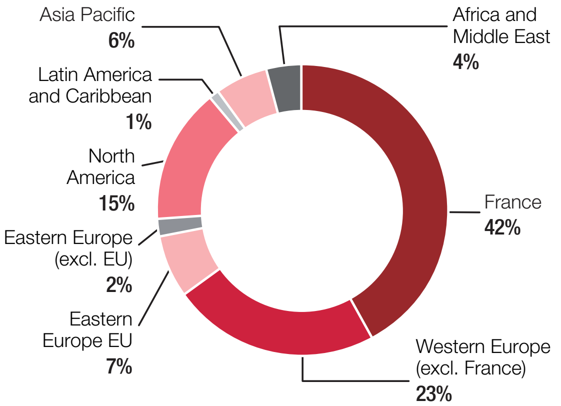
Audited I The scope includes performing loans recorded under the IRB method for the entire bank client portfolio, all divisions combined, and represents EAD of EUR 60 billion (out of total EAD for the Basel bank client portfolio of EUR 115 billion, standard method included). The breakdown by rating of 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 Standard & Poor's equivalent.

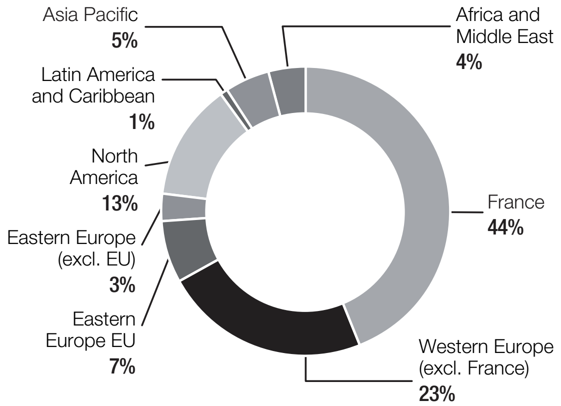
At 31st December 2018, exposure on banking clients was concentrated in investment grade counterparties (95% of exposure), as well as in developed countries (89%). ▲

Audited | Geographic breakdown of Group credit risk exposure

GEOGRAPHIC BREAKDOWN OF GROUP CREDIT RISK EXPOSURE AT 31ST DECEMBER 2018 (ALL CLIENT TYPES INCLUDED): EUR 920 BN

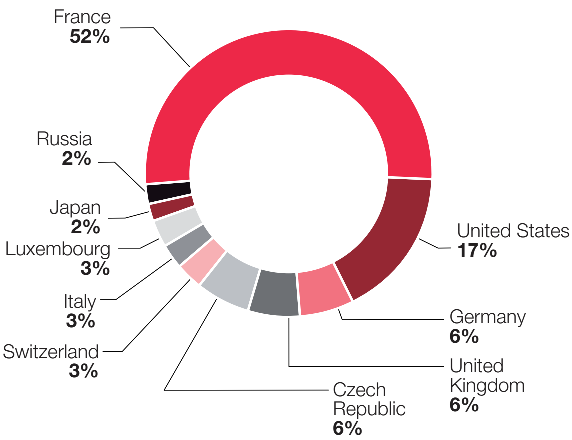


GEOGRAPHIC BREAKDOWN OF GROUP CREDIT RISK EXPOSURE AT 31ST DECEMBER 2017 (ALL CLIENT TYPES INCLUDED): EUR 872 BN

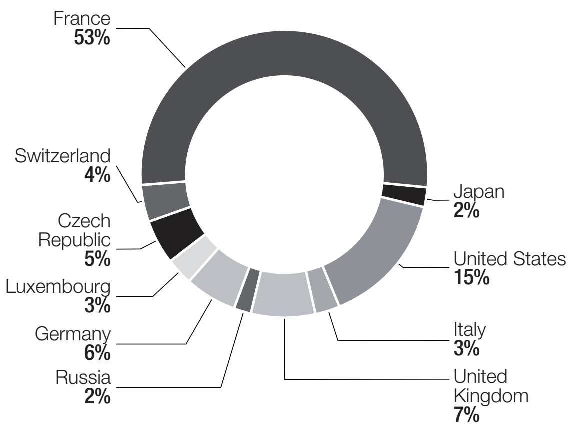


At 31st December 2018, 89% of the Group's on- and off-balance sheet exposure was concentrated in the major industrialised countries[1]. Almost half of the overall amount of outstanding loans was to French customers (26% exposure to non-retail portfolio and 16% to retail portfolio). ▲

GEOGRAPHIC BREAKDOWN OF GROUP CREDIT EXPOSURE ON TOP TEN COUNTRIES AT 31ST DECEMBER 2018: EUR 748 BN



GEOGRAPHIC BREAKDOWN OF GROUP CREDIT EXPOSURE ON TOP TEN COUNTRIES AT 31ST DECEMBER 2017: EUR 716 BN



The Group's exposure on its top ten countries represented 81% of total exposure (*i.e.* EUR 748 billion of EAD) at 31st December 2018 (versus 82% and EUR 716 billion of EAD at 31st December 2017).

(1) As defined by the IMF in its World Economic Outlook document of October 2017.

TABLE 21: GEOGRAPHIC BREAKDOWN OF GROUP CREDIT EXPOSURE ON TOP FIVE COUNTRIES BY EXPOSURE CLASS (IN %)

	France		United States		United Kingdom		Germany		Czech Republic	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sovereign	18%	21%	33%	37%	10%	11%	15%	22%	30%	22%
Institutions	8%	8%	18%	19%	29%	33%	21%	22%	3%	4%
Corporates	31%	29%	38%	34%	45%	39%	31%	26%	32%	36%
Retail	36%	36%	0%	0%	6%	6%	21%	23%	33%	35%
Other	7%	6%	11%	10%	10%	11%	12%	7%	2%	3%

Counterparty risk

TABLE 22: COUNTERPARTY RISK, EAD AND RWA BY METHOD AND EXPOSURE CLASS (IN EUR M)

Counterparty risk is broken down as follows:

	31.12.2018								
	IRB			Standard			Total		
Exposure class	Exposure	EAD	RWA	Exposure	EAD	RWA	Exposure	EAD	RWA
Sovereign	17,455	17,532	662	1	1	1	17,456	17,533	662
Institutions	19,974	19,974	3,826	31,139	31,139	1,113	51,113	51,113	4,940
Corporates	47,873	47,796	12,526	2,283	2,283	2,189	50,156	50,079	14,715
Retail	388	388	61	287	1	1	675	389	62
Other	7	7	0	436	436	448	443	443	448
TOTAL	**85,696**	**85,696**	**17,074**	**34,146**	**33,861**	**3,752**	**119,843**	**119,557**	**20,827**

	31.12.2017								
	IRB			Standard			Total		
Exposure class	Exposure	EAD	RWA	Exposure	EAD	RWA	Exposure	EAD	RWA
Sovereign	16,632	16,637	415	78	78	13	16,711	16,715	429
Institutions	19,289	19,289	3,831	30,593	30,593	1,649	49,882	49,882	5,480
Corporates	41,202	41,198	12,481	4,268	4,268	3,987	45,470	45,465	16,468
Retail	114	114	6	280	1	1	395	115	8
Other	12	12	0	1,203	1,203	1,171	1,215	1,215	1,171
TOTAL	**77,250**	**77,250**	**16,734**	**36,422**	**36,143**	**6,822**	**113,672**	**113,393**	**23,556**

Change in risk-weighted assets (RWA) and capital requirements for credit and counterparty risks

TABLE 23: CHANGE IN RISK-WEIGHTED ASSETS (RWA) BY METHOD AND EXPOSURE CLASS ON OVERALL CREDIT RISK (CREDIT AND COUNTERPARTY – IN EUR M)

(In EUR m)	RWA - IRB	RWA - Standard	RWA - Total	Capital requirements - IRB	Capital requirements - Standard	Capital requirements - total
RWA as at end of previous reporting period (31.12.2017)	**171,679**	**114,070**	**285,749**	**13,734**	**9,126**	**22,860**
Asset size	10,516	2,246	12,762	841	180	1,021
Asset quality	(3,699)	236	(3,464)	(296)	19	(277)
Model updates	1,158	0	1,158	93	0	93
Methodology and policy	197	0	197	16	0	16
Acquisitions and disposals	0	717	717	0	57	57
Foreign exchange movements	1,028	(653)	374	82	(52)	30
Other	773	(448)	325	62	(36)	26
RWA AS AT END OF REPORTING PERIOD (31.12.2018)	**181,651**	**116,167**	**297,818**	**14,532**	**9,293**	**23,825**

The table above presents the data without the CVA (Credit Value Adjustment).

The main effects explaining the EUR 12.1 billion increase in weighted assets (excluding CVA) in 2018 are as follows:

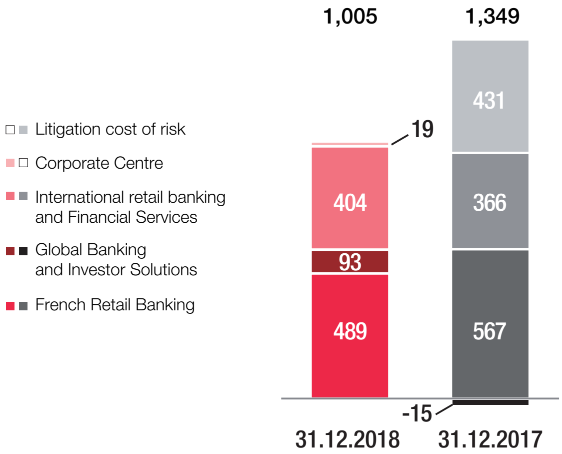
- an increase of EUR + 12.8 billion related to activity: growth in Global finance activity (EUR +7 billion), with an increase of (EUR +3.4 billion) on the French network, an increase partially offset by the extinction of the stock observed for the global banking & investor solutions (EUR -2.3 billion);
- a change in the prudential scope of (EUR +0.7 billion) related to the acquisitions of the ALD entity;
- a foreign exchange effect (EUR +0.4 billion), mainly related to the appreciation of the American dollar against the euro (EUR +1.7 billion) and partially offset by the depreciation of the Russian ruble against the euro (EUR -0.9 billion).

The effects are defined as follows:

- asset size: organic changes in book size and composition (including the creation of new business lines and maturing loans) but excluding changes due to acquisitions and disposals of entities;
- asset quality: changes in the quality of the Bank's assets due to changes in borrower risk, such as rating grade migration or similar effects;
- model updates: changes due to model implementation, changes in model scope, or any changes intended to address model weaknesses;
- methodology and policy: changes due to methodological changes in calculations driven by regulatory changes, including both revisions to existing regulations and new regulations;
- acquisitions and disposals: changes in book size due to acquisitions and disposals of entities;
- foreign exchange movements: changes arising from market fluctuations, such as foreign currency translation movements;
- other: this category is used to capture changes that cannot be attributed to any other category.

Net cost of risk

CHANGE IN GROUP NET COST OF RISK (IN EUR M)



The **Group's net cost of risk** in 2018 amounted to EUR -1,005 million, down -25.5% vs. 2017, but up 9,5% excluding the provision for litigation which is not booked in cost of risk since the implementation of IFRS 9. This low level reflects the improvement year after year in the Group's risk profile.

The commercial cost of risk (excluding litigation issues, in basis points for the average assets at the beginning of the calendar year preceding the closing date, including operating leases) remains low. It totalled 21 basis points for 2018 (vs. 19 basis points in 2017).

- In **French Retail Banking**, the commercial cost of risk was down, at 26 basis points for 2018 vs. 30 basis points for 2017, reflecting the quality of the loan approval policy.
- At 30 basis points for 2018 (vs. 29 basis points for 2017), **International Retail Banking and Financial Services**' cost of risk remains low, testifying to the effectiveness of the portfolio.

  More specifically, the cost of risk in Czech Republic and Romania is a net release (respectively -9 and -74 basis points for 2018).
- **Global Banking and Investor Solutions'** cost of risk was at 6 basis points for the year (vs. -1 basis point for 2017).

AUDITED I ANALYSIS OF GROSS OUTSTANDINGS AND PROVISIONS FOR CREDIT RISK

The following tables detail the provisionable outstandings (balance sheet and off-balance sheet) subject to impairment and provisions in accordance with the new model for estimating expected credit losses introduced by IFRS 9 and the impairments and provisions by stage.

The scope of these tables includes :

- securities (excluding securities received under repurchased agreements) and loans to customers and credit institutions and similar measured at amortized cost or at fair value through equity;
- lease and finance lease;
- financing and guarantee commitments;

The provisionable outstanding represented EUR 816 billions on december 31st 2018. It should be noted that outstanding of ex-Newedge brokerage outside France are excluded from the outstandings presented in the tables 24, 25 and 26. There is no scope exclusion in the tables 27 and 28.▲

Provisions decreased by € 2 billion, mainly on defaults (stage 3) of the corporate and retail portfolios. Healthy exposures (stage 1 and stage 2) increased by € 16 billion, mainly on the corporate portfolio, partially offset by a decrease in exposures of sovereign counterparties, while the provisions are stable.

AUDITED : TABLE 24 : BASEL PORTFOLIO BREAKDOWN OF PROVISIONED OUTSTANDINGS

	31.12.2018				01.01.2018			
(In EUR bn)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Sovereign	145,759	733	218	146,710	160,645	968	374	161,987
Institutions	55,034	361	82	55,477	58,799	250	94	59,143
Corporates	357,221	13,949	9,410	380,580	326,850	15,238	11,220	353,308
Retail	184,958	16,017	9,289	210,264	183,299	16,350	10,660	210,309
Others	23,111	67	54	23,232	18,927	0	46	18,973
TOTAL	**766,083**	**31,127**	**19,053**	**816,263**	**748,520**	**32,806**	**22,394**	**803,720**

AUDITED : TABLE 25 : GEOGRAPHICAL BREAKDOWN OF PROVISIONED OUTSTANDINGS

	31.12.2018				01.01.2018			
(In EUR bn)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
France	339,663	19,298	10,806	369,767	338,741	20,623	11,608	370,972
Western European countries (excluding France)	162,517	3,609	2,026	168,152	161,309	3,101	2,541	166,951
Eastern European countries EU	49,423	3,612	1,279	54,314	54,739	3,324	2,092	60,155
Eastern Europe excluding EU	22,423	905	844	24,172	27,348	936	1,369	29,653
North America	106,219	361	601	107,181	87,798	1,092	1,050	89,940
Latin America and Caribbean	5,477	978	212	6,667	5,295	1,158	321	6,774
Asia-Pacific	39,343	165	225	39,733	38,336	229	326	38,891
Africa and Middle East	41,018	2,199	3,060	46,277	34,954	2,343	3,087	40,384
TOTAL	**766,083**	**31,127**	**19,053**	**816,263**	**748,520**	**32,806**	**22,394**	**803,720**

AUDITED : TABLE 26: PROVISIONED OUTSTANDINGS BY RATING OF COUNTERPARTY

	31.12.2018				01.01.2018
(In EUR bn)	Stage 1	Stage 2	Stage 3	Total	Total
1	65,767	0	0	65,767	72,764
2	97,899	0	0	97,899	103,295
3	74,741	2	0	74,743	74,105
4	127,159	647	0	127,806	116,079
5	99,575	2,976	0	102,551	90,039
6	25,459	5,668	0	31,127	29,476
7	2,472	2,780	0	5,252	4,697
Default (8, 9, 10)	0	0	8,589	8,589	10,706
Other method	273,011	19,054	10,464	302,529	302,559
TOTAL	**766,083**	**31,127**	**19,053**	**816,263**	**803,720**

AUDITED : TABLE 27: BASEL PORTFOLIO BREAKDOWN OF PROVISIONS AND IMPAIRMENT FOR CREDIT RISK

	31.12.2018				01.01.2018			
(In EUR bn)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	10	1	69	80	11	1	69	81
Institutions	9	6	16	31	10	5	25	40
Corporates	589	648	5,098	6,335	647	748	5,851	7,246
Retail	427	570	4,870	5,867	498	658	5,815	6,971
Others	0	0	9	9	0	0	9	9
TOTAL	**1,035**	**1,225**	**10,062**	**12,322**	**1,166**	**1,412**	**11,769**	**14,347**

AUDITED : TABLE 28: GEOGRAPHICAL BREAKDOWN OF IMPAIRMENT AND PROVISIONS FOR CREDIT RISK

	31.12.2018				01.01.2018			
(In EUR bn)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
France	**427**	**735**	**5,292**	**6,454**	**437**	**774**	**5,609**	**6,820**
Western European countries (excluding France)	179	119	912	1,210	174	154	1,305	1,633
Eastern European countries EU	118	170	842	1,130	184	224	1,414	1,822
Eastern Europe excluding EU	76	18	655	749	133	42	1,062	1,237
North America	32	27	51	110	42	32	186	260
Latin America and Caribbean	5	6	69	80	8	5	100	113
Asia-Pacific	14	2	153	169	14	2	153	169
Africa and Middle East	184	148	2,088	2,420	174	179	1,940	2,293
TOTAL	**1,035**	**1,225**	**10,062**	**12,322**	**1,166**	**1,412**	**11,769**	**14,347**

Impairment on groups of homogeneous assets

TABLE 29: PROVISIONING OF DOUBTFUL LOANS (IN EUR BN)

	31.12.2018	31.12.2017
Gross book outstandings	501.2	478.7
Doubtful loans	18.0	20.9
Gross doubtful loans ratio	3.6%	4.4%
Specific provisions	9.7	11.3
Provisions on groups of homogeneous assets (1)	1.9	1.3
GROSS DOUBTFUL LOANS COVERAGE RATIO (OVERALL PROVISIONS/DOUBTFUL LOANS)	**64%**	**61%**
Stage 1 provisions (1)	0.9	
Stage 2 provisions (1)	1.0	
Stage 3 provisions	9.7	
GROUP GROSS DOUBTFUL LOANS COVERAGE RATIO* (STAGE 3PROVISIONS / DOUBTFUL LOANS)	**54%**	

Scope: customer loans, amounts due from banks, operating leases, lease financing and similar agreements.

Detail regarding guarantees and collateral is available on page 192.

Restructured debt

Audited I For the Societe Generale Group, “restructured” debt refers to loans whose amount, term or financial conditions have been contractually modified due to the borrower’s insolvency (whether insolvency has already occurred or will definitely occur unless the debt is restructured). Societe Generale aligns its definition of restructured loans with the EBA definition.

Restructured debt does not include commercial renegotiations involving customers for which the Bank has agreed to renegotiate the debt in order to maintain or develop a business relationship, in accordance with credit approval rules in force and without relinquishing any of the principal or accrued interest.

Any situation leading to debt restructuring entails placing the customer in question in the Basel default category and classifying the loans themselves as impaired.

The customers whose loans have been restructured are kept in the default category for as long as the Bank remains uncertain of their ability to meet their future commitments and for at least one year.

Restructured debt totalled EUR 5.11 billion at 31st December 2018. ▲

TABLE 30: RESTRUCTURED DEBT (IN EUR M)

(In EUR m)	31.12.2018	31.12.2017
Non-performing restructured debt	4,187	5,161
Performing restructured debt	919	1,021
TOTAL	**5,106**	**6,182**

(1) *As of December 31st 2018 portfolio-based provisions are the sum of stage 1 and stage 2 provisions.*

4.6 MARKET RISKS

Market risks are the risks of loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters, and the correlations between them. These parameters include, but are not limited to, exchange rates, interest rates, the price of securities (equities or bonds), commodities, derivatives and other assets.

4.6.1 METHODS FOR MEASURING MARKET RISK AND DEFINING LIMITS

Audited The Group's market risk assessment is based on several types of indicators, which are monitored through limits:

- the 99% Value-at-Riks (VaR): 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 Group within the scope of its trading activities;
- stress test measurements, based on decennial shock-type indicators, which make it possible to restrict the Group's exposure to systemic risk and exceptional market shocks. The measurements can be global, multi-risk factor (based on historic or hypothetical scenarios), by activity or risk factor in order to take into account extreme risks on a specific market, or event-driven, to temporarily monitor a particular situation;
- sensitivity and nominal indicators used to manage the size of positions: sensitivities are used to monitor the risk incurred locally on a given type of position (*e.g.* sensitivity of an option to changes in the underlying asset), while nominal indicators are used for significant positions in terms of risk;
- additional metrics such as concentration risk or holding period, maximum maturity, etc.

The following indicators are also calculated: stressed VaR (SVaR) on a daily basis, and IRC (Incremental Risk Charge) and CRM (Comprehensive Risk Measure) on a weekly basis. The capital charges arising from these internal models complement the VaR by taking into account the rating migration risks and the default risks, and by limiting the procyclical nature of capital requirements. ▲

4.6.2 ALLOCATION OF MARKET RISK APPETITE WITHIN THE GROUP

Risk appetite is defined as the level of risk that the Group is prepared to assume to achieve its strategic goals.

The business development strategy of the Group for market activities is primarily focused on meeting client needs[(1)], with a full range of products and solutions. The risk resulting from these market activities is strictly managed through a set of limits for several indicators (stress tests, VaR, sensitivity and nominal indicators, etc.).

The Market Risk Department is responsible for the assessment and validation of the limit requests submitted by the different business lines. These limits ensure that the Group complies with the market risk appetite approved by the Board of Directors, further to a proposal from General Management[(2)].

(1) Market transactions not related to client activities are confined in a dedicated subsidiary, Descartes Trading, subject to a specific risk appetite, which is limited.
(2) See "Risk Appetite" section for the detailed description of the governance and implementation of the risk appetite, as well as the role the Risk Division plays in defining it.

The choice and calibration of these limits thus transpose the Group's market risk appetite:

- they are allocated at various levels of the Group's structure and/or by risk factor, thereby ensuring the operational transposition of the Group's market risk appetite through its organisation;
- their calibration is determined using a detailed analysis of the risks related to the portfolio managed. This analysis may include various elements such as market conditions, specifically liquidity, position manoeuvrability, income generated in view of risks taken, etc.;
- regular reviews make it possible to manage risks according to the prevailing market conditions;
- specific limits, or even bans, may be put in place to manage risks for which the Group has little or no risk appetite.

The limits set for each activity are monitored daily by the Market Risk Department.

In addition to the governance structure in place between the various departments of the Risk function, Finance Division and business lines, the monitoring of limits usage, due to the products/solutions provided to clients and the market-making activities, also contributes to ensuring that market risks to which the Group is exposed are properly managed and understood. The continuous monitoring of the market risk profile is the object of regular discussions between the risk and business teams, further to which various risk hedging or mitigation initiatives may be taken by the Front Office in order to remain within the limits defined.

4.6.3 99% VALUE-AT-RISK (VAR)

Audited I 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 Value-at-Risk (VaR) assesses the potential losses on positions over a defined time horizon and for a given confidence interval (99% for Societe Generale). The method used is the "historical simulation" method, which implicitly takes into account the correlation between the various markets 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; these scenarios are updated daily with the inclusion of a new scenario and the removal of the oldest scenario. There are three coexisting methods for modelling scenarios (relative shocks, absolute shocks and hybrid shocks); the choice between these methods for a given risk factor is determined by its nature and its historical trend;
- the 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 market parameters: in most cases this calculation involves a full re-pricing. Nonetheless, for certain risk factors, a sensitivity-based approach may be used.

Within the framework described above, the one-day 99% VaR, calculated according to the 260 scenarios, corresponds to the mean of the second and third largest losses computed.

The day-to-day follow-up of market risks is performed *via* the one-day VaR, which is computed on a daily basis. For regulatory capital requirements, however, we have to take into account a ten-day horizon, thus we also compute a ten-day VaR, which is obtained by multiplying the one-day VaR by the square root of ten. This methodology complies with Basel 2 requirements and has been reviewed and validated by the regulator.

The VaR assessment is based on a model and a certain number of conventional assumptions, the main limitations of which are as follows:

- by definition, the use of a 99% confidence interval does not take into account losses arising beyond this point; VaR is therefore an indicator of the risk of loss under normal market conditions and does not take into account exceptionally significant fluctuations;
- VaR is computed using closing prices, meaning that intra-day fluctuations are not taken into account;
- the use of a historical model is based on the assumption that past events are representative of future events and may not capture all potential events.

The Market Risk Department mitigates the limitations of the VaR model by performing stress tests and other additional measurements.

At present, the market risks for almost all of Corporate and Investment Banking's activities (including those related to the most complex products) are monitored using the VaR method, as are 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 capital charges are calculated using the standard method or through alternative in-house methods.

The relevance of the model is checked through continuous backtesting in order to verify whether the number of days for which the negative result exceeds the VaR complies with the 99% confidence interval.

In compliance with regulations, backtesting compares the VaR to the (i) actual and (ii) hypothetical change in the portfolio's value.

- In the first case (backtesting against "actual P&L"), the daily P&L[1] includes the change in book value, 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 parameter adjustments made for market risk.
- In the second case (backtesting against "hypothetical P&L"), the daily P&L[2] includes only the change in book value related to changes in market parameters, and excludes all other factors. ▲

(1) "Actual P&L" by agreement hereinafter.
(2) "Hypothetical P&L" by agreement hereinafter.

In 2018, daily losses were observed on 17 occasions[1], and eight backtesting breaches occurred (seven against hypothetical P&L, one against actual P&L):

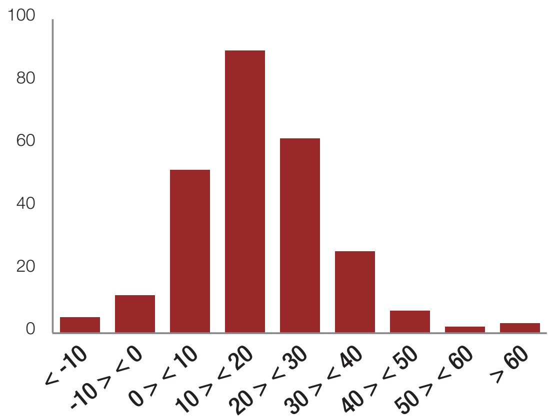
- on 5th February, against hypothetical P&L, stemming from movements on the US indices, notably a significant rise in Volatility Index, and a drop on SP500;
- on 12th February, against hypothetical P&L, due to losses on equity perimeter following a decrease in implicit volatility on major indices;
- on 28th February, against actual P&L, following adjustments related to the monthly accounts closure;
- on 12th March, against hypothetical P&L, stemming from the combination of various events, notably some losses on autocall products, and some moves on the USD/GBP basis and on the repurchase agreements activities;
- on 19th June, against hypothetical P&L, due to losses on equity perimeter as well as market making and financing activities on rates perimeter;
- on 17th August, against hypothetical P&L, following various losses on equity, rates and hybrids activities;
- on 29th November, against hypothetical P&L, resulting from significant shocks on short term currency swaps and some losses on equity derivatives and hybrid products;
- on 27th December against hypothetical P&L, following various losses on European rate swaps, equity derivatives, hybrids and precious metals.

TABLE 31: REGULATORY TEN-DAY 99% VAR AND ONE-DAY 99% VAR (IN EUR M)

	31.12.2018		31.12.2017	
(In EUR m)	VaR (10 days, 99%)*	VaR (1 day, 99%)*	VaR (10 days, 99%)*	VaR (1 day, 99%)*
Period start	54	17	113	36
Maximum value	86	27	150	48
Average value	56	18	79	25
Minimum value	33	10	40	13
Period end	59	19	67	21

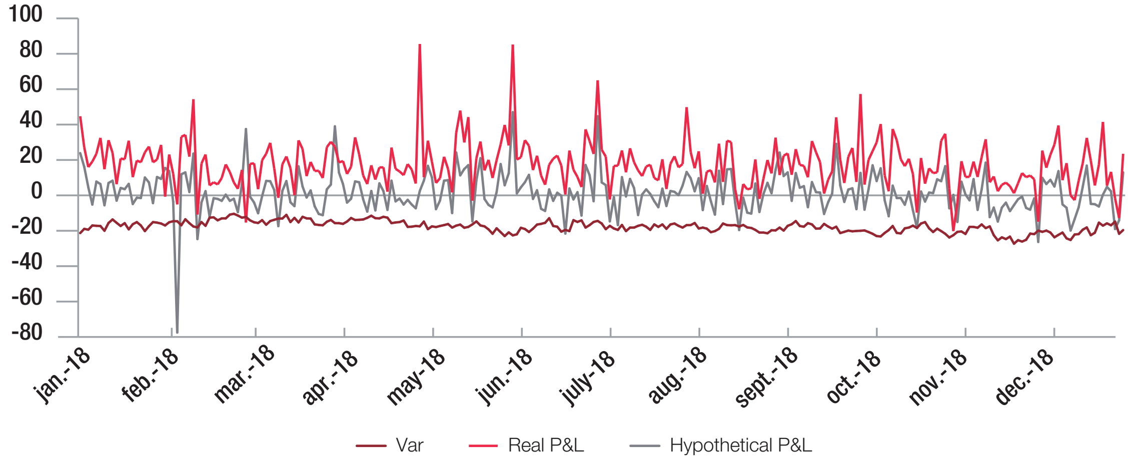
* *Over the scope for which capital requirements are assessed by internal model.*

BREAKDOWN OF THE DAILY P&L[2] OF MARKET ACTIVITIES (2018, IN EUR M)

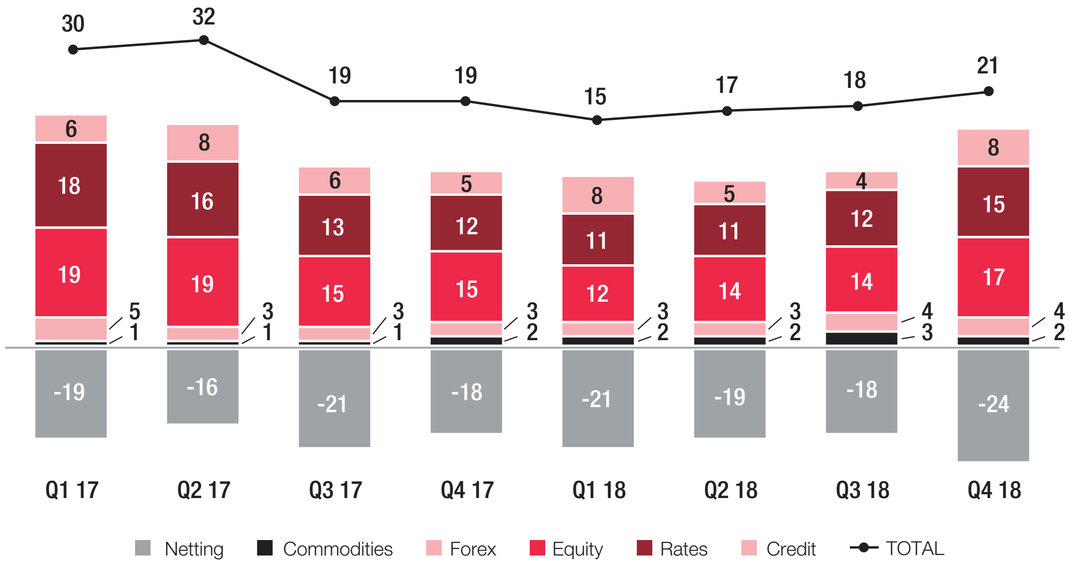


(1) Based on actual P&L.
(2) Actual P&L

TRADING VAR (ONE-DAY, 99%), DAILY ACTUAL P&L[(1)] AND DAILY HYPOTHETICAL P&L[(2)] OF THE TRADING PORTFOLIO (2018, IN EUR M)



AUDITED I BREAKDOWN BY RISK FACTOR OF TRADING VAR (ONE-DAY, 99%) – CHANGES IN QUARTERLY AVERAGE OVER THE 2017-2018 PERIOD (IN EUR M)



2018 saw a return of market volatility and a correction on risky assets (fall in risky assets, rise in volatility, rally on safe haven securities), against a backdrop of trade tensions between the United States and China. In Europe, assets also suffered from a slower economic recovery than in the United States. In these market conditions, VaR was stable and remained low, though it increased slightly (from EUR 15 million in Q1 2018 to EUR 21 million in Q4 2018) due to the natural renewal of risk scenarios in the VaR calculation, since the new scenarios are slightly higher than the ones they replaced. ▲

(1) Daily profit or loss used for the VaR backtesting against actual P&L, as defined in the "99% Value-at-Risk (VaR)" section of the Group consolidated financial statements on page 213.
(2) Daily profit or loss used for the VaR backtesting against hypothetical P&L, as defined in the "99% Value-at-Risk (VaR)" section of the Group consolidated financial statements on page 213.

Stressed VaR (SVaR)

Audited I At end-2011, Societe Generale was authorised by the French Prudential and Resolution Supervisory Authority (*Autorité de Contrôle Prudentiel et de Résolution* – ACPR) to supplement its internal models with the CRD3 requirements, in particular Stressed VaR, for the same scope as VaR.

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

The method for determining the fixed historical stress window, which has been approved by the regulator[1], is based on a review of the historic shocks on the risk factors representative of the Societe Generale portfolio (related to equity, fixed income, foreign exchange, credit and commodity risks): historical shocks are aggregated to determine the period of highest stress for the entire portfolio. Each risk factor is assigned a weighting to account for the weight of each risk factor within its asset class and the weight of the asset class in the Group's VaR. The historical window used is reviewed annually. In 2018, this window was "September 2008-September 2009".

The ten-day SVaR used for the computation of the regulatory capital is obtained, as for VaR, by multiplying the one-day SVaR by the square root of ten. ▲

The average SVaR increased from 27 MEUR in 2017 to 40 MEUR in 2018, mainly due to a higher risk on fixed income perimeter and a strong variability on equity products, combined with a risk alignment of these two perimeters in terms of scenario (lower netting).

TABLE 32: REGULATORY TEN-DAY 99% SVAR AND ONE-DAY 99% SVAR (IN EUR M)

	31.12.2018		31.12.2017	
(In EUR m)	Stressed VaR (10 days, 99%)*	Stressed VaR (1 day, 99%)*	Stressed VaR (10 days, 99%)*	Stressed VaR (1 day, 99%)*
Period start	65	21	119	38
Maximum value	395	125	198	62
Average value	128	40	85	27
Minimum value	50	16	50	16
Period end	156	49	67	21

* *Over the scope for which capital requirements are assessed by internal model.*

4.6.4 STRESS TEST ASSESSMENT

Methodology

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

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.

Two major metrics are defined and used:

- the Global Stress Test on market activities, which covers all the trading risks that could arise simultaneously in the event of a severe but plausible systemic crisis. This stress test is modelled on five scenarios
- the Market Stress Test, which uses the same scenarios as the Global Stress Test and additional scenarios corresponding to different market conditions, focusing solely on market risk.

The various scenarios for those stress tests are reviewed by the Risk Division on a regular basis, in conjunction with the Group's teams of economists and specialists. These reviews are presented during dedicated committee meetings held every six months, attended by the Head of the Market Risk Department, economists and representatives of Societe Generale's trading activities. These committee meetings cover the following topics: changes in scenarios (introduction, removal, shock review), appropriate coverage of the risk factors by the scenarios, review of the approximations made in terms of calculation, correct documentation of the whole process. The delegation level needed to validate the changes in stress test scenarios depends on the impact of the change in question.

This stress test risk assessment is applied throughout all the Bank's market activities. Stress test limits are established for Societe Generale's activity as a whole (and then for the Group's various business lines for the Market Stress Test).

Together with the VaR model, this stress test risk assessment methodology is one of the main pillars of the risk management framework.

THE GLOBAL STRESS TEST ON MARKET ACTIVITIES

The Global Stress Test on market activities has been the main risk indicator used on this scope since 2018. It covers all the trading risks that would occur simultaneously in case of a severe, but plausible, market crisis. The impact is measured over a short period of time with an expected occurrence of once per decade. The Global Stress Test uses five market scenarios and has three parts, each of which are considered in each of the five scenarios in order to ensure consistency within the same scenario:

- market risk;
- dislocation and carry risk on exotic activities related to concentration effects and crowded trades;
- market/counterparty cross-risk arising in structured products and collateralised financing transactions as well as in transactions with weak counterparties (hedge funds and proprietary trading groups);

(1) A complementary method has been submitted to the regulator for approval in Q2 2018 : the purpose is to ensure the relevance of the period obtained following the method based on the weighting of historical shocks by computing an approached VaR on the same selection of risk factors representative of Societe Generale portfolio.

The Global Stress Test corresponds to the least favourable results arising from the five scenarios and their respective components.

The market risk component

It corresponds to:

- the results of the Market Stress Test, restricted to scenarios that could cause dislocation effects on market positions and default by weak counterparties. These scenarios all simulate a sharp fall in the equity markets and a widening in credit spreads which could trigger dislocation effects. At present, these scenarios include four hypothetical scenarios (terrorist attack, general crisis (financial crisis scenario), eurozone crisis, general decline in risky assets) and one historical scenario focused on early October 2008;
- and the impact of the stress test scenario on CVA (Credit Value Adjustment) and FVA (Funding Value Adjustment) reserves, as their variations affect trading results.

The dislocation and carry risk component

Additional market risks to those assessed in the Market Stress Test can occur in market situation in which one or more participants – generally structured products sellers – have concentrated or crowded trades. Dynamic risk hedging strategies can cause larger market dislocations than those calibrated in the Market Stress Test, and these dislocations can extend beyond the shock timeline used due to an imbalance between supply and demand.

Equity, credit, fixed income, currency and commodity trading activities are regularly reviewed to identify these areas of risk and to define a scenario that takes into account the specific features of each activity and position. Each scenario associated with an identified area of risk is added to the market risk component if – and only if – it is compatible with the market scenario in question.

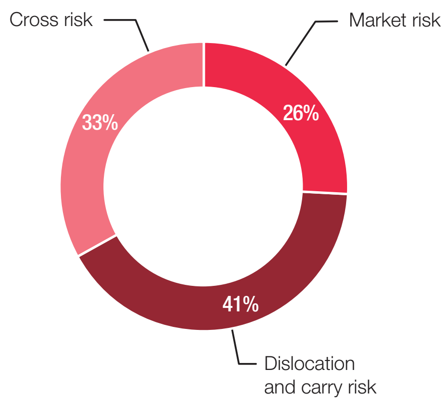
Market/counterparty cross-risk component on weak counterparties

Some counterparties may be significantly affected by a major crisis on the financial markets and their probability of default may increase. The third component of the Global Stress Test therefore aims to take into account this increased risk on certain types of weak counterparties (hedge funds and proprietary trading groups).

Three measurements are used:

- **the collateralized financing stress test:** this stress test focuses on collateralized financing activities and more specifically on weak counterparties. It applies a dislocation shock to several asset classes with the assumption of extremely tight liquidity conditions. Collateral and counterparty default rates are stressed concomitantly, taking into account any consanguinity with the collateral posted;
- **the hedge fund financing stress test:** this indicator measures the expected loss generated by products incurring gap risk (leveraged certificates, credit facilities, etc.) with hedge funds as underlying assets in extreme scenarios (expected occurrence of once per decade);
- **the adverse stress test on hedge funds and proprietary trading groups (PTG):** this stress test applies two stress scenarios to all market transactions qualifying for replacement risk with this type of counterparty. A stressed probability of default – based on the counterparty's ratings – is taken into account.▲

AVERAGE CONTRIBUTION OF THE COMPONENTS TO 2018 GLOBAL STRESS TEST ON MARKET ACTIVITIES



AUDITED I THE MARKET STRESS TEST

This metrics focuses on market risk and estimates the loss resulting from shocks on the set of risk factors. This stress test is based on 18 scenarios (3 historical and 15 hypothetical). Main principles are as follows:

- the stress test corresponds to the worst result derived from the set of historical and hypothetical scenarios;
- the shocks applied are calibrated on time horizons specific to each risk factor (the time horizon can range from five days for the most liquid risk factors, to three months for the least liquid);
- risks are calculated every day for each of the Bank's market activities (all products together), using each of the historical and hypothetical scenarios.

Historical scenarios

This method consists of an analysis of the major economic crises that have affected the financial markets : 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 main risk factors which, when applied to the Bank's trading positions, could generate significant losses. Accordingly, Societe Generale uses three significant historical scenarios related to the period from October to December 2008. This scenario selection is subject to regular review.

Hypothetical scenarios

The hypothetical scenarios are defined with the Group's economists and are designed to identify possible sequences of events that could lead to a major crisis in the financial markets (e.g. a major terrorist attack, political instability in the main oil-producing countries, etc.). The Group's aim is to select extreme but plausible events which would have major repercussions on all international markets. ▲

Accordingly, Societe Generale has adopted the 15 hypothetical scenarios described below:

- **generalised scenario (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 the spreading 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, decline in interest rates, widening of credit spreads and sharp decline in the US dollar;
- **bond crisis**: crisis in the global bond markets inducing the decoupling of bond and equity yields, strong rise in US interest rates (and a more modest rise for other interest rates), moderate decline on the equity markets, flight to quality with strong widening of credit spreads, rise in the US dollar;
- **US dollar crisis**: collapse of the US dollar against major international currencies due to a sharp deterioration in the US trade balance and budget deficit, rise in 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 yen interest rates, rise in US and Eurozone long-term interest rates and flight to quality;
- **assets drop**: unexpected halt in Central Bank quantitative easing policies leading to a widespread drop in risky assets (equity, credit, emerging) combined with a significant increase in worldwide interest rates;
- **2 other Eurozone crisis scenarios**: exit of Greece from the Eurozone, triggering a widespread drop in risky assets (equity, credit, emerging), more particularly in Europe, and a tightening of the US and Japanese sovereign spreads, mitigated with ECB support (activation of the OMT programme resulting in a decrease in Eurozone interest rates) or without ECB support (dislocation of the basis rates reflecting a freeze in the interbank market);
- **Russian crisis**: significant depreciation of the Russian currency, default of the Russian government, crisis in the bond markets and drop in equities, more particularly in emerging markets (as seen with the Russian crisis in September 1998);
- **sudden economic rebound**: sharp rise in equity markets and in US and Eurozone interest rates (as seen with the anticipation of the beginning of the Iraq War in March 2003);
- **bursting of an equity bubble**: significant drop in the equity markets following the bursting of an equity bubble in a specific business sector (as seen with the Worldcom bankruptcy in July 2002).
- **normalisation in the risk premium:** normalisation of the financial markets (in particular via a sharp drop in volatility on the main risk factors) after a period of stress.

4.6.5 VALUATION OF FINANCIAL INSTRUMENTS

In terms of valuation, market products are marked to market, when such market prices exist; otherwise, they are valued using parameter-based models.

On the one hand, each valuation model is independently validated by the Market Risk Department.

On the other hand, the parameters used in the valuation models – whether or not they come from observable data – are subject to controls by the Market Risk Department and the Finance Division (Independent Pricing Verification). If necessary, the valuations are supplemented by reserves or adjustments (for example, bid-ask spreads or liquidity) using calculation methods approved by the Market Risk Department.

Accounting valuation governance is enforced through two valuation committees, both attended by representatives of the Global Markets Division, the Market Risk department and the Finance Division:

- the Global Valuation Committee is convened whenever necessary, at least every quarter, to discuss and approve financial instrument valuation methodologies (model refinements, reserve methodologies, parameter marking methods, etc.). This committee, chaired by the Finance Division and organised by its valuation expert team (Valuation Group) has worldwide accountability with respect to the approval of the valuation policies concerning financial instruments on market activities;

(1) Excluding legacy assets, which are subject to specific risk monitoring.

- on a quarterly basis, the Global Valuation Review Committee reviews changes in reserves, valuation adjustment figures, and related accounting impacts. This analytical review is performed by the Valuation Group.

Lastly, a corpus of Valuation Policies describes the valuation framework and its governance, specifying the breakdown of responsibilities between the stakeholders.

Furthermore, Additional Valuation Adjustments (AVAs) are computed on fair value assets, in compliance with the Regulatory Technical Standards (RTS) published by the European Banking Authority (EBA), which lay out the requirements related to Prudent Valuation, in addition to the principles already specified in the CRD3 (Capital Requirements Directive). These regulatory technical standards define the various uncertainties which have to be taken into account in the Prudent Valuation and set a target level of confidence to reach (the bank must be 90% confident that the transaction could be liquidated at a better price than the Prudent Valuation).

Within this framework, in order to take into account the various factors which could generate additional exit costs compared to the expected valuation (model risk, concentration risk, liquidation cost, uncertainty on market prices, etc.), Prudent Valuation Adjustments (PVAs) are computed for each exposure. The Additional Valuation Adjustments (AVAs) are defined as the difference between the Prudent Valuation obtained and the accounting fair value of the positions, in order to comply with the target level of confidence to reach. These amounts of AVA are deducted from the Common Equity Tier 1 capital.

In terms of governance, the topics related to Prudent Valuation are dealt with during methodological committees and validation committees, organised quarterly, and both attended by representatives of the Global Markets Division, the Market Risk department and the Finance Division.

4.6.6 MARKET RISK CAPITAL REQUIREMENTS

Allocation of exposures in the trading book

The on- and off-balance sheet items must be allocated to one of the two portfolios defined by prudential regulations: the banking book or the trading book.

The banking book is defined by elimination: all on- and off-balance sheet items not included in the trading book are included by default in the banking book.

The trading book consists of all positions in financial instruments and commodities held by an institution either for trading purposes or in order to hedge other positions in the trading book. The trading interest is documented as part of the traders' mandates.

The prudential classification of instruments and positions is governed as follows:

- the Finance Division's prudential regulation experts are responsible for translating the regulations into procedures, together with the Risk Division for procedures related to holding period and liquidity. They also analyse specific cases and exceptions. They disseminate these procedures to the business lines;
- the business lines comply with these procedures. In particular, they document the trading interest of the positions taken by traders;
- the Finance and Risk Departments are in charge of the control framework.

The following controls are implemented in order to ensure that activities are managed in accordance with their prudential classification:

- "new product" process: any new product or activity is subject to an approval process that covers its prudential classification and regulatory capital treatment for transactions subject to validation;
- holding period: the Market Risk Department has designed a control framework for the holding period for certain instruments;
- liquidity: on a case-by-case basis or on demand, the Market Risk Department performs liquidity controls based on certain criteria (negotiability/transferability, bid/ask size, market volumes, etc.);
- strict process for any change in prudential classification, involving the business line and the Finance and Risk Divisions;
- Internal Audit: through its various periodic assignments, Internal Audit verifies or questions the consistency of the prudential classification with policies/procedures as well as the suitability of the prudential treatment in light of existing regulations.

Regulatory measures

At end-2011, Societe Generale received approval from the French Prudential Supervisory and Resolution Authority (Autorité de contrôle prudentiel et de résolution – ACPR) to expand its internal market risk modelling system, in particular to include stressed VaR (VaR over a 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 for VaR.

VaR and SVaR were detailed in the previous section. IRC and CRM estimate the capital charge on debt instruments that is related to rating migration and issuer default risks. These capital charges are incremental, meaning they are added to the charges calculated based on VaR and SVaR.

In terms of scope, in compliance with regulatory requirements:

- IRC is applied to debt instruments, other than securitisations and the credit correlation portfolio. In particular, this includes bonds, CDS and related derivatives;
- CRM exclusively covers the correlation portfolio, *i.e.* CDO tranches and first-to-default products, as well as their hedging using CDS and indices.

Societe Generale estimates these capital charges using internal models[1]. These models determine the loss that would be incurred following especially adverse scenarios in terms of rating changes or issuer defaults for the year that follows the calculation date, without ageing the positions. In the case of CRM, the charge determined using the internal model cannot be less than 8% of the charge determined by applying the standard method for securitisation positions.

These models are used to simulate, over a one-year horizon[2], a wide range of scenarios involving change in the factors taken into account, and to assign them an impact in terms of income. Rating change and default rate simulations are calibrated on the basis of past observations of rating migrations and default rates, taking into account:

- the frequency of rating migrations and defaults observed over a full economic cycle;
- the correlations observed among issuers in the same economic sector, and among those in different sectors.

For CRM, the spread of market parameters used is also simulated over a one-year period: change in credit spreads, recovery rates, and correlation of bases for index tranches and first-to-defaults.

When simulating a change in an issuer's rating, the decline or improvement in its financial health is modelled by the increase or decrease in its credit spread. In the event of an issuer's default, the impact on income is modelled based on a precise revaluation of the product.

IRC and CRM are calculated with a confidence interval of 99.9%: they represent the highest risk of loss obtained after eliminating the 0.1% most unfavourable scenarios simulated.

The internal IRC and CRM are subject to similar governance to that of other internal models meeting the Pillar 1 regulatory requirements. More specifically:

- the methodology and its implementation have been approved within the Group by the Risk Department in charge of internal models validation, and externally by the French Prudential Supervisory and Resolution Authority (Autorité de contrôle prudentiel et de résolution – ACPR);
- a weekly analysis is performed on these metrics;
- these metrics are compared with standard stress tests defined by the regulator;
- the models' suitability and calibration are reviewed at least once a year.

Moreover, regular operational checks are performed on the completeness of the scope's coverage as well as the quality of the data describing the positions.

TABLE 33: IRC (99.9%) AND CRM (99.9%) (IN EUR M)

(In EUR m)	31.12.2018	31.12.2017
Incremental Risk Charge (99.9%)		
Period start	263	183
Maximum value	316	321
Average value	211	256
Minimum value	116	175
Period end	266	282
Comprehensive Risk capital charge (99.9%)		
Period start	213	213
Maximum value	310	226
Average value	237	177
Minimum value	165	164
Period end	221	225

(1) The same internal model is used for all portfolios for which an IRC calculation is required. The same is true for the portfolios on which a CRM calculation is performed.

(2) The use of a constant one-year liquidity horizon for all portfolios on which IRC and CRM are calculated means that the shocks applied to the positions in order to determine these two metrics are instantaneous one-year shocks. This hypothesis appears to be the most prudent choice in terms of models and capital, rather than shorter liquidity horizons.

4.6.7 MARKET RISK CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

TABLE 34: MARKET RISK CAPITAL REQUIREMENTS AND RWA BY RISK FACTOR (IN EUR M)

	Risk-weighted assets			Capital requirement		
	31.12.2018	31.12.2017	Change	31.12.2018	31.12.2017	Change
VaR	3,365	2,606	759	269	208	61
Stressed VaR	11,771	4,466	7,305	942	357	585
Incremental Risk Change (IRC)	3,322	3,527	(205)	266	282	(16)
Correlation portfolio (CRM)	2,799	2,817	(18)	224	225	(1)
Total market risks assessed by internal model	**21,257**	**13,416**	**7,841**	**1,701**	**1,073**	**628**
Specific risk related to securitisation positions in the trading portfolio	71	189	118	6	15	(9)
Risk assessed for currency positions	1,790	640	1,150	143	51	92
Risks assessed for interest rates (excl. securitisation)	413	368	45	33	29	4
Risk assessed for ownership positions	136	108	28	11	9	2
Risk assessed for commodities	34	79	(45)	3	6	(3)
Total market risks assessed by standard approach	**2,444**	**1,384**	**1,060**	**196**	**111**	**85**
TOTAL	**23,701**	**14,800**	**8,901**	**1,897**	**1,184**	**713**

TABLE 35: CAPITAL REQUIREMENTS AND RWA BY TYPE OF MARKET RISK (IN EUR M)

	Risk-weighted assets		Capital requirement	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Risk assessed for currency positions	2,820	981	226	78
Risk assessed for credit (excl. deductions)	8,373	7,681	670	614
Risk assessed for commodities	272	225	22	18
Risk assessed for ownership positions	5,454	3,099	436	248
Risk assessed for interest rates	6,782	2,814	543	225
TOTAL	**23,701**	**14,800**	**1,897**	**1,184**

90% of Societe Generale’s capital requirements related to market risk are determined using an internal model approach. The standard approach is mainly used for the positions taken by the head office and presenting a foreign exchange risk, which are not part of the trading book, as well as for the Group’s subsidiaries that do not have access to the core IT tools developed internally, and for subsidiaries for which the Group is awaiting approval from the regulator to use the internal models. The main entities concerned are Societe Generale International Limited, SG Americas Securities Holdings, and some International Retail Banking and Financial Services entities such as Rosbank, SGMA, BRD, etc. The increase in capital requirements related to market risk is mainly due to:

- a rise in SVaR mainly due to a higher risk on fixed income perimeter and a strong variability on equity products, combined with a risk alignment of these two perimeters in terms of scenario (lower netting).
- an increase in risks assessed by standard approach for FX transactions.

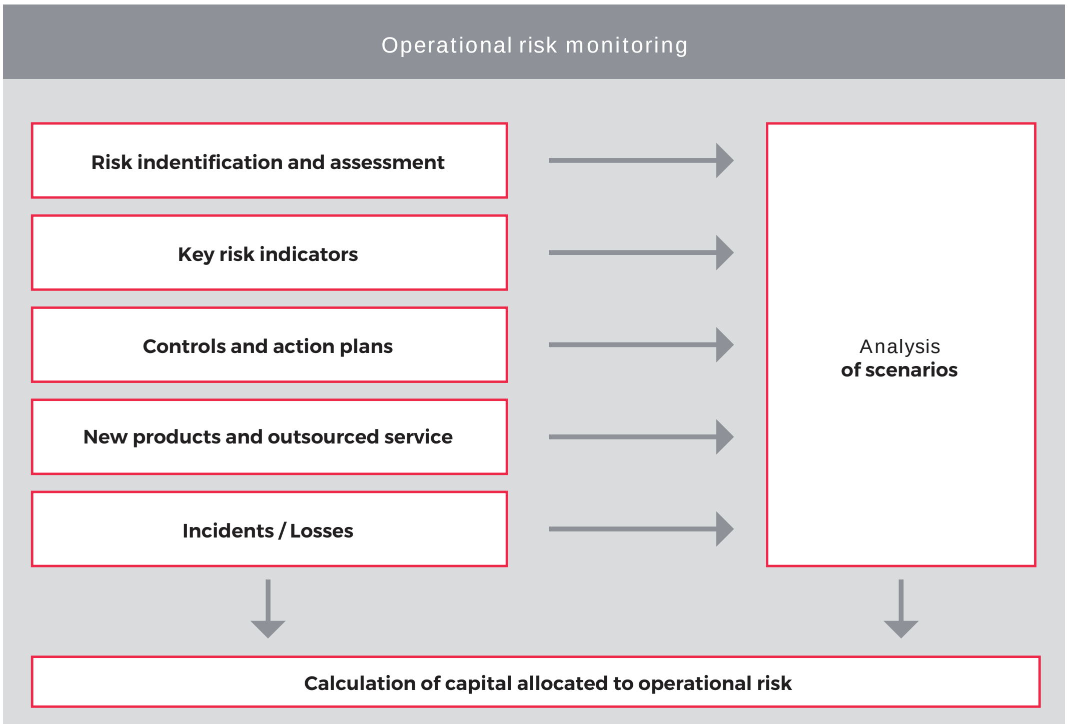
4.7 OPERATIONAL RISKS

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

4.7.1 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, implemented across the main Group entities, notably makes it possible to:

- identify the businesses that have the greatest risk exposures;
- identify the types of risk that have the greatest impact on the Group's risk profile and overall capital requirements;
- enhance the Group's awareness, vigilance and management of operational risks.



4.7.2 OPERATIONAL RISK MONITORING PROCESS

The Group's main systems for controlling operational risks are:

- collection of internal losses and analysis of external losses;
- self-assessment of risks and controls;
- framing of new products;
- management of outsourced services;
- oversight of risk indicators;
- development of scenario analyses.

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 cross-business analyses throughout the Group.

The eight event categories are as follows:

- 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 (but also gains and near loss) data has been compiled throughout the Group since 2003, enabling operational staff to:

- define and implement the appropriate corrective actions;
- achieve a deeper understanding of their risk areas;
- enhance awareness and vigilance with respect to operational risks in the Group.

The minimum threshold above which a loss (or gain or near loss) is recorded is EUR 10,000 throughout the Group, except for global market activities, where this threshold is EUR 20,000 due to the scope of such activities and the volumes involved.

Below these thresholds, losses representing weak-signal risks are collected by the Group's various Business Divisions and reported as an aggregated sum if they concern the same risk event and the total exceeds the reporting threshold.

Risk and Control Self-Assessment

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, KRIs, etc.), risk areas are identified by the functions based on their respective fields of expertise, and interviews are conducted with Group experts.

The objectives are as follows:

- identifying and assessing the major operational risks to which each business is exposed (the intrinsic risks, *i.e.* those inherent in the nature of a business, while disregarding prevention and control systems). Where necessary, risk mapping established by the functions (*e.g.* Compliance, Information Systems Security, etc.) contributes to this assessment of intrinsic risks;
- assessing the quality of major risk prevention and mitigation measures;
- assessing the 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;
- facilitating and/or supporting the implementation of key risk indicators;
- adapting the risk insurance strategy, if necessary. As part of this exercise, the risks within a given scope are described using a double scale of severity and frequency.

Key risk indicators

Key risk indicators (KRIs) supplement the overall operational risk management system by providing a dynamic view (warning system) of changes in business risk profiles.

Their follow-up provides managers of entities with a regular measure of improvements or deteriorations in the risk and the environment of prevention and control.

A cross analysis of Group-level KRIs and losses is presented to the Group's Executive Committee on a quarterly basis via a specific dashboard.

Analysis of scenarios

The analysis of scenarios serve two purposes: informing the Group of potential significant areas of risk and contributing to the calculation of the capital required to cover operational risks.

These analyzes make it possible to build an expert opinion on a distribution of losses for each risk category and thus to measure the exposure to potential losses in scenarios of very severe severity, which can be included in the calculation of the prudential capital requirements.

In practice, various scenarios are reviewed by experts who gauge the severity and frequency of the potential impacts for the Group 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.).

Governance is established in order, in particular, to:

- allow the approval of the annual scenarios update programme by the Risk Committee (CORISQ);
- allow the approval of the scenarios by the senior management of the Business and Corporate Divisions, through the internal control coordination committees of the departments involved or through *ad hoc* meetings;
- conduct an overall review of the Group's risk hierarchy and of the suitability of the scenarios through CORISQ.

Analysis of external losses

External losses correspond to the data on operational losses suffered by the banking and financial sector, provided by databases managed by external providers, as well as the data shared by the banking industry as part of consortiums.

These data are used to enhance the identification and assessment of the Group's exposure to operational risks by benchmarking internal loss records against industry-wide data.

New Product Committees

Each division must submit all new products (commercial products only) to a New Product Committee. Jointly coordinated by the Risk Division and the relevant businesses, this committee aims to ensure that, before any product launch, all types of induced risks (credit risk, market risk, liquidity and refinancing risks, country risks, operational risks, legal risks, accounting tax , financial, information systems as well as the risks of compliance, reputation, protection of personal data and CSR risk, etc.) have been identified, assessed and mitigated residual risks are accepted. This committee ensures the product launch and its execution under the conditions and security required.

This committee is underpinned by a very broad definition of "new product", which ranges from the creation of a new product or service to the adaptation of an existing product to a new environment or new customer type.

Throughout the whole Group, 510 New Product Committee meetings were held in 2018.

Outsourcing of services

The business lines decide on the outsourcing of services within the framework of standards set by the Group. Outsourcing proposals are validated by the Sponsor business further to a risk analysis performed in line with the project governance structure. The Sponsor authorises the Project Manager to conduct the risk analysis. The latter draws on the opinions of experts from different functions according to the Group field of expertise required, to ensure that the evaluations are consistent.

The analysis framework is standardised so as to guarantee coherency in the decisions taken at Group level in this area. It systematically incorporates operational risks (including fraud, execution risk…), legal, tax, non-compliance, reputational, provider, human resources, social and environmental responsibility, business continuity, reversibility/dependence, data quality, information security and data protection risks.

Legal experts qualify essential outsourcing of service as defined by the decree of 3 November 2014.

Critical services at Group level are subject to strengthened management *via* a contract management process that culminates in the signature of a regular contract covering the entire lifetime of these services. These services are identified on the basis of criteria such as the notion of "core business activity", as well as the financial impact and reputational risk assessed at Group level. These critical services are validated within a dedicated committee, chaired by the Operational Risk Division, which ensures consistency at Group level.

Crisis management and business continuity

The crisis management and business continuity systems aim to mitigate as far as possible the impacts of potential incidents on customers, staff, activities and infrastructure, thus protecting the Group's reputation, the image of its brands, and its financial resilience. These systems also satisfy regulatory requirements.

The approach used to implement and optimise the business continuity systems of each Group entity is based on a methodology that meets international standards.

2018-2020 information systems security (ISS) blueprint

With investments amounting to EUR 650 million by 2020, the ISS blueprint aims to place cybersecurity at the centre of the trusted digital relationship between Societe Generale and its clients.

The assessment of cyber risks and measures to strengthen our ISS systems are managed using a dashboard shared quarterly with the Group's management. Structured around a set of KRI covering the 8 standard categories of ISS risks recommended by the regulatory authorities and standards bodies (ACPR, EBA, NIST, etc.), this dashboard is a means of verifying compliance with the Group's risk appetite and the effectiveness of action plans.

In terms of awareness-raising, an online module on information security is mandatory for all internal staff and for all service providers using or accessing our information system. The module is available in 14 languages and covers the main aspects of cybersecurity (information leak, data security, phishing, social engineering, business e-mail compromise scams, etc.). At end-2018, 93% of Societe Generale Group employees having access to this online module had completed the training.

In addition, specific awareness-raising initiatives, for employees but also clients, are implemented throughout the year (conferences, demonstrations, workshops, etc.) For example, fake phishing e-mails are sent to all employees, at least twice a year, so that they can learn to detect a suspicious e-mail and to ensure they have the proper reflex reactions. Since the first campaigns in 2015, the number of clicks on links or the opening of attachments has halved and the reporting of suspicious messages to the security teams has virtually tripled.

4.7.3 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, the internal and external environment, and scenario analyses, are estimated and the distribution of annual losses is calculated for each segment. This approach is supplemented by cross-business scenario analyses that measure cross-business risks for core businesses, such as, for example, cybercriminality and flooding of the river Seine.

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

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

Societe Generale's total capital requirements for operational risks were EUR 4 billion at the end of 2018, representing EUR 49.7 billion in risk-weighted assets. This assessment also includes the capital requirement on the portion treated under the standardised approach.

Insurance cover in risk modelling

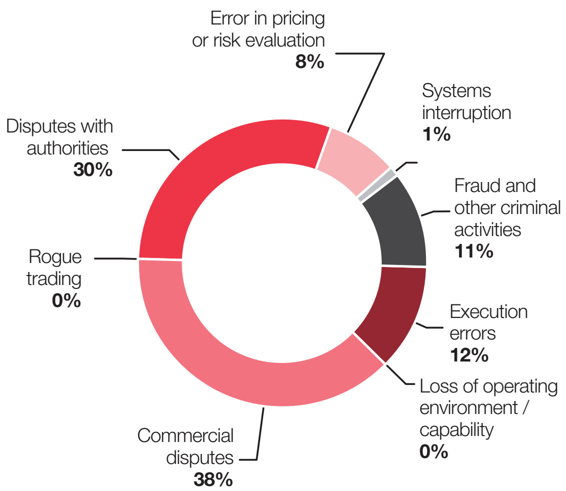
In accordance with regulations, Societe Generale incorporates risk cover provided by insurance policies when calculating regulatory capital requirements for operational risks, within the limit of 20% of said requirements. These insurance policies cover part of the Group's major risks, *i.e.* civil liability, fraud, fire and theft, as well as systems interruptions and operating losses due to a loss of operating resources.

Risk reduction through insurance policies results in a 6.2% decrease in total capital requirements for operational risks.

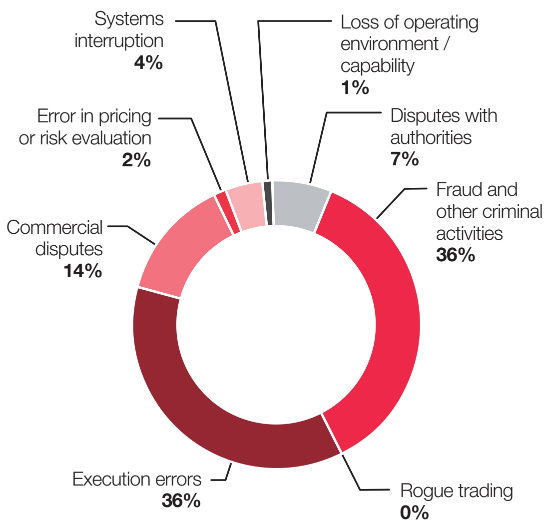
Quantitative data

The following charts break down operating losses by risk category for the 2014-2018 period.

OPERATIONAL RISK LOSSES: BREAKDOWN BY SOCIETE GENERALE RISK EVENT TYPE – AMOUNTS



OPERATIONAL RISK LOSSES: BREAKDOWN BY SOCIETE GENERALE RISK EVENT TYPE – NUMBER OF EVENTS



Over the past five years, Societe Generale's operational risks were concentrated on average on four types, accounting for 91% of the Group's total operating losses:

- commercial disputes represented 38% of total Group operating losses. The weight of this category is largely explained by the transactional agreement with the Lybian Investment Authority (LIA) in 2017. The amount of losses this category is down from last year;
- disputes with authorities, the second largest category, represented 30% of the Group's operating losses over the period. Losses incurred through this type of litigation represented relatively high unit amounts, meaning that this category represented only 7% of the total number of losses. The amount of losses in this category is up by compared to last year, due to agreements reached in 2018 with US and French authorities on LIBOR investigations, LIA and OFAC;
- execution errors represented 12% of total operating losses, thereby constituting the third leading cause of loss for the Group. The amount of losses on this category is stableover the period;
- fraud and other criminal activities represented 11% of the amount of operating losses over the period. They are mainly composed of fraud on the means of manual payment, of files of financing in recovery with production of false external documents as part of the guarantee and of supplier fraud on funded equipment.

The other categories of Group operational risk (error in pricing or risk evaluation, system interruptions, loss of operating environment / capability and rogue trading) were still relatively insignificant, representing barely 9% of the Group's losses on average over the 2014 to 2018 period.

4.7.4 OPERATIONAL RISK INSURANCE

Policies of the insurance subscription

GENERAL POLICY

Since 1993, Societe Generale has implemented a global policy of hedging Group operational risks through insurance.

This consists in searching the market for the most extensive cover available for the risks incurred and enabling all entities to benefit from such cover wherever possible. Policies are 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 that 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 main 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 on a worldwide basis. The amounts insured vary from country to country, according to operating requirements.

RISKS ARISING FROM OPERATIONS

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

Theft/fraud

These risks are included in the "Banker's Blanket Bond" policy that insures all the Group's financial activities around the world.

Internal fraud (committed by an employee or by a third party acting with the aid of an employee) and external fraud (committed by a third party acting alone), with the intent to obtain illicit personal gain or to harm the Group, are covered.

Professional liability

The consequences of any legal action in professional activities of staff or managers in the Group's professional activitie 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 a back-up solution.

Cyber attacks

In an environment – not specific to the banking sector – where new forms of crime are rapidly developing, mainly involving data theft or the compromise or destruction of computer systems, a cyber risk insurance policy has been taken out.

4.7.5 CAPITAL REQUIREMENTS

Societe Generale's capital requirements related to operational risk are calculated mainly under the internal model (94% in 2018 and 2017).

The amount of weighted assets on the AMA scope is up slightly (+EUR 836m, i.e. 1.8%) reflecting the shift in the group's operating risk profile.

The following table presents the Group's risk-weighted assets and the corresponding capital requirements at 31st December 2018.

TABLE 36: RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENTS FOR OPERATIONAL RISK (IN EUR M)

	31.12.2018				31.12.2017			
(In EUR m)	RWA under Standardised approach	RWA under Advanced Measurement Approach (AMA)	Total RWA	Capital requirements	RWA under Standardised approach	RWA under Advanced Measurement Approach (AMA)	Total RWA	Capital requirements
Global Banking and Investor Solutions	288	32,531	32,818	2,625	289	31,702	31,991	2,559
Corporate Centre	275	3,138	3,413	273	463	3,172	3,635	291
International Retail Banking and Financial Services	2,284	5,376	7,659	613	2,226	5,501	7,727	618
French Retail Banking	25	5,705	5,730	458	42	5,600	5,642	452
TOTAL	**2,872**	**46,749**	**49,621**	**3,970**	**3,020**	**45,975**	**48,995**	**3,920**

4.8 STRUCTURAL INTEREST RATE AND EXCHANGE RATE RISKS

Audited I Structural exposure to interest rate and exchange rate risks results from commercial transactions, their associated hedging transactions and corporate center transactions.

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. Structural and market exposures constitute the Group's total interest rate and exchange rate exposure.

The general principle is to reduce structural interest rate and exchange rate risks to the greatest possible extent within the consolidated entities. As far as possible, commercial transactions and corporate center operations within entities are hedged against interest rate and exchange rate risks, either through micro-hedging (individual hedging of each commercial transaction) or macro-hedging techniques under IAS 39 "carve-out" (hedging of portfolios of similar commercial transactions within a treasury department). At a consolidated level, some foreign exchange positions are kept in order to minimise the sensitivity of the Group Common Equity Tier 1 ratio to exchange rate fluctuations.

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

Audited I 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) Department within the Group's Finance Division supplements the control framework.

The Group Finance Committee, a General Management body

The Group Finance Committee:

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

The ALM Department within the Group Finance Division

The ALM (Asset and Liability Management) Department is responsible for:

- defining the structural risk policies for the Group and formalising risk appetite to structural risks;
- defining the steering indicators and overall stress test scenarios of the different types of structural risks and setting the main limits for the business divisions and the entities and Business Units (BU) and Service Units (SU);
- analysing the Group's structural risk exposure and defining hedging strategies;
- monitoring the regulatory environment concerning structural risk;▪defining the ALM principles for the Group;
- defining the normative environment of the structural risk metrics, modelling and framing methods;
- defining the models used by the Group's entities with regard to structural risks;
- identifying, consolidating and reporting on Group structural risks;
- monitoring compliance with structural risk limits.

The ALM Risk Control Department within the Risk Division

The second-level supervision of the ALM models used within the Group and of associated frameworks is provided by a dedicated service within the Risk Department. Accordingly, this department

- validates the methodological principles, feeding parameters and backtests of ALM models.
- It requests and analyses proposals from Group Finance Division regarding the risk indicators definition, stress test scenarios and structural risk frameworks.
- It also ensures at the second level that the entities' frameworks, BU/SUs' frameworks and Group frameworks are respected and conducts a regular reviewing in coordination with the first-level control teams.

Finally, the Risk Department organises and chairs the Group model validation Committee and the Group ALM norms validation Committee.

The entities and BU/SUs are responsible for ALM risk management

Each entity, each BU/SU, carries out first-level controls on structural risks and is responsible for regularly assessing risks incurred, producing the risk report, and developing and implementing hedging options. Each entity, each BU/SU is required to comply with the Group's standards and to adhere to the limits assigned to it.

For this reason, entities and BU/SUs apply the standards defined at the Group level, develop their models. Each entity has its own structural risk manager, who reports to the entity's Finance Division 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 have an ad hoc ALM (Asset Liability Management) Committee responsible for applying the validated models, managing exposures to interest rate and exchange rate risks, and implementing the hedging programs in compliance with the principles set out by the Group and the limits validated by the Finance Committee and BU/SUs ALM committees.▲

4.8.2 STRUCTURAL INTEREST RATE RISK

Audited I Structural interest rate risk is measured within the banking portfolio, specifically, commercial transactions, the associated hedging transactions and corporate center transactions 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

When steering structural interest rate risk, the main objective is to ensure that the risk is managed by reducing each Group entity's exposure to structural interest rate risk as much as possible.

For this purpose, each entity, each BU/SU as well as the Group as a whole are subject to sensitivity limits which are validated by the Finance Committee. Sensitivity is defined as the variation in the net present value of future residual fixed-rate positions (surplus or deficit), stemming from assets and liabilities in a static vision, 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.

Measurement and monitoring of structural interest rate risks

Societe Generale uses several indicators to measure the Group's overall interest rate risk. The two most important indicators are:

- the net present value sensitivity. It is used to set limits for the entities and BU/SUs and is calculated as the sensitivity of the net present 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 result 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 based on the contractual terms of transactions, amortization conventions and models based on customers' historic behaviour patterns (particularly for sight deposits, regulated savings accounts, early loan repayments) and shareholders' equity.

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, the Group measures the sensitivity of its fixed-rate position in scenarios where the interest rate curve is distorted with and without a 0% floor. In 2018, the Group maintained the overall sensitivity of net present value at a level below 0,9 % of the Group's prudential own funds Tier 1 and below the EUR 1 billion limit.

The analysis of structural interest rate risk at the business line level reveals the following points:

- within the French Retail Banking, the outstanding amounts of customer deposits are generally considered to be at fixed rate. Macro-hedging is set up mainly using interest rate swaps, in order to limit French Retail Banking's net present value and net interest margin sensitivities to interest rate risk, in the frame of the assumptions used, within its limits. Macro-hedging instruments are allocated to separate portfolios according to whether they are used to hedge assets or liabilities in the accounting books. The hedging instrument portfolios allocated to liability elements are net fixed-rate receiver / variable-rate payer whereas the hedging instrument portfolios allocated to asset elements are net fixed-rate payer / variable-rate receiver. The non-over hedging tests and hedged items non-disapearing tests make the link between the balance sheet available assets or liabilities outstandings and the amount of assets and liabilities outstandings designated as hedged. The effectiveness of the hedge is then determined using the dollar off-set method. The sources of ineffectiveness result from the last fixing of the variable leg of the hedging swaps, the bi-curve valorization of the collateralized hedging instruments, possible mismatches in the cash flows payment dates and counterparty risk on hedging instruments valorization. On December 31st 2018, the sensitivity of French Retail Banking's net present value, based on its essentially euro-denominated assets and liabilities, was EUR 126 million;
- transactions with large corporates are generally micro-hedged and therefore present no residual interest rate risk;
- transactions with customers of the Specialised Financial Services subsidiaries are generally macro-hedged and therefore generate only a very low interest rate risk;
- commercial transactions at the Group's subsidiaries and branches located in countries with weak development of the financial markets can generate structural interest rate risk. These entities may face difficulties in optimally hedging interest rate risk, but these positions, managed within limits, remain marginal at the Group level;
- corporate center transactions are subject to hedging.

Sensitivity to interest rate variations of the Group's represented EUR 452 million as of 31st December 2018 (for a 1% parallel and instantaneous rise in the yield curve).▲

AUDITED I : TABLE 37: MEASUREMENT OF THE ENTITIES' SENSITIVITY TO A 1% INTEREST RATE SHIFT, INDICATED BY MATURITY

(In EUR m)	< 1 year	1-5 years	> 5 years	Total
Amount of sensitivity (31.12. 2018)	**(55)**	**(76)**	**583**	**452**
Amount of sensitivity (31.12.2017)	4	(265)	(13)	(275)

The Group analyses the sensitivity of the interest margin to variations in market interest rates using stress tests on the Group's net interest margin under a constant balance sheet hypothesis.

The measurement of the sensitivity of the three-year interest margin in different configurations of the yield curve with a 0% floor is used by the Group to quantify the interest rate risk on a scope of significant entities.

The dynamic vision of the balance sheet varies according to the amortisation of outstanding transactions and transaction renewals based on outstanding amounts observed on the reporting date (projections under a constant balance sheet hypothesis). Since 2018, flattening and steepening scenarios depend on the concerned currency. For example, on EUR currency, the flattening assumptions used for the simulation allows a 200bp increase in short-term rates and an -58bp decrease of long-term rates. The steepening scenario used allows a -162bp decrease in short-term rates and an 88bp increase in long term rates (without floor effect).

The Societe Generale Group's interest margin sensitivity over the full year 2019 is low. In the event of a parallel shift in the yield curves of +200bp, the sensitivity is positive and represents 3% of the net banking income.

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.

The margin sensitivity on outstanding customer transactions results from the renewal of the matured portions of deposit replacements and the residual sensitivity of the balance sheet to interest rate variations.

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 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 decrease in the margin is partially offset by the increase in production margins on new loans (the decline in customer loan rates is not as rapid as the decline in market rates) and by a decrease in the cost of refinancing.

Calculations are based on aggregated estimates at 31st December of a scope of Group consolidated entities representing 8/10th of the Group's Net Interest Margin.

At 31st December 2018, the Group's net interest margin sensitivity for 2019 was as follows:

TABLE 38: SENSITIVITY OF THE GROUP'S INTEREST MARGIN

(In EUR m)	31.12.2018	31.12.2017
Parallel increase in interest rates of 200 bp	845	490
Parallel decrease in interest rates of 200 bp	(230)	(167)
Parallel increase in interest rates of 100 bp	452	234
Parallel decrease in interest rates of 100 bp	(128)	(112)
Flattening	584	210
Steepening	20	143

4.8.3 AUDITED STRUCTURAL EXCHANGE RATE RISK

Structural exchange rate risk is mainly due to:

- Exposures related to net investments abroad, i.e. subsidiaries and branches;
- Exposures related to other banking book transactions;

Objective of the Group

The Group's policy consists on the one hand in hedging its structural position non relating to net investment in foreign entities and on the other hand in calibrating the hedging of its net investments in foreign entities to reduce, as much as possible, the sensitivity of its Common Equity Tier 1 ratio against fluctuations in exchange rates. For this purpose, the Group carries out foreign exchange transactions in order to maintain exposure by currency within the limits approved by the Finance Committee.

Measurement and monitoring of structural foreign exchange rate risks

The Group analyses its exposure to structural foreign exchange rate risks arising from all assets and liabilities of the Banking Book denominated in foreign currencies.

The Group monitors the structural exchange rate positions in the different currencies to mitigate the sensitivity of the Common Equity Tier 1 ratio against foreign exchange rate fluctuations.▲

Table 39 presents the impact on the Group Common Equity Tier 1 ratio of a 10% currency depreciation or appreciation as at December 31st, 2018.

TABLE 39: SENSITIVITY OF THE GROUP'S COMMON EQUITY TIER 1 RATIO TO A 10% CHANGE IN THE CURRENCY (IN BASIS POINTS)

	Impact on the Common Equity Tier 1 ratio of a 10% currency depreciation		Impact on the Common Equity Tier 1 ratio of a 10% currency appreciation	
Currency	31.12.2018	31.12.2017	31.12.2018	31.12.2017
USD	(1)	1	1	(1)
GBP	0	0	0	0
JPY	0	0	0	0
KRW	0	0	0	0
RON	0	0	0	0
RUB	0	0	0	0
CHF	0	(1)	0	1
CZK	0	(1)	0	1
Other	(2)	(2)	2	2

4.9 LIQUIDITY RISK

Audited I 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.

4.9.1 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 Board of Directors:
  - establishes the level of liquidity risk tolerance as part of the Group's Risk Appetite exercise, including the time period during which the Group can operate under conditions of stress ("survival horizon"),
  - meets regularly (at least quarterly) to examine the Group's liquidity risk situation;
- the Executive Committee:
  - sets budget targets in terms of liquidity based on proposals from the Group Finance Division,
  - allocates liquidity to the businesses and Group Treasury based on proposals from the Group Finance Division;
- the Finance Committee is the body responsible for monitoring structural risks and managing scarce resources. As such, it:
  - meets every six weeks, under the chairmanship of the Chief Executive Officer or a Deputy Chief Executive Officer, with the representatives of the Finance and Development Division's Risk Department and of the businesses,
  - oversees and validates the limits set for structural liquidity risk,
  - regularly monitors compliance with the budget and liquidity trajectory,
  - takes decisions, if necessary, on the implementation of corrective measures,
  - takes decisions, if necessary, on methodology issues regarding liquidity risk management,
  - examines regulatory changes and their impact.

The businesses are responsible for managing liquidity risk within their scope and are directly supervised by the Group Finance Division. They must ensure compliance with the regulatory requirements applicable to the entities falling within their scope of supervision.

The Group Finance Division manages and monitors liquidity risk through three separate departments, in compliance with the principle of separation between risk steering, execution and control functions:

- the Strategic and Financial Steering Department, responsible for:
  - establishing the Group's financial trajectory, in line with its strategic targets, regulatory requirements and market expectations,
  - proposing and monitoring the businesses' budget trajectory,
  - monitoring the regulatory environment and developing liquidity steering standards for the businesses;
- the Balance Sheet and Global Treasury Management Department, responsible for:
  - implementing the Group's short-term and long-term funding plan (including the management of intraday liquidity risk),
  - supervising and coordinating the Group's Treasury functions,
  - monitoring the market and contributing its operational expertise to the establishment of Group liquidity steering objectives and the liquidity allocation for businesses,
  - managing the collateral used in refinancing operations (central banks, covered bonds, securitisation, secured funding), and monitoring the liquidity reserve,
  - managing the Group's central funding department (management of liquidity and equity within the Group), including the internal liquidity charts;
  - developing and implementing the emergency plan in the event of Group liquidity shortage;
- the ALM Department, which reports to the Chief Financial Officer, is in charge of, in particular:
  - supervising and controlling structural risks (interest rates, exchange rates and liquidity) to which the Group is exposed,
  - controlling the structural risk models and their compliance with the Group's rules and methodologies, and monitoring compliance with risk limits and management practices within the Group's divisions, business lines and entities.

Second-level supervision of the ALM models used within the Group and of the associated risk framework is conducted by a dedicated team within the Market Risk Department. Accordingly, this team provides an opinion on the methodological principles, parameters and backtests of liquidity models. It analyses proposals from the Finance Division regarding the risk indicators, stress test scenarios and liquidity and funding risk frameworks. It also conducts second-level controls of compliance with the risk limits defined under such a framework.

4.9.2 THE GROUP'S 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 provides a balance sheet framework based on an assets and liabilities target structure 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 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 is based on measurement and supervision of the businesses' liquidity gaps under reference and stress scenarios, their Group funding needs, the funds raised by the Group on the market, the eligible assets and the businesses' contribution to regulatory ratios. Accordingly, the principles of liquidity management are as follows:

1. The businesses must maintain low to nil static liquidity gaps within the operating limits of their activities, by using the Group's Central Treasury, which can, if needed, run an (anti) transformation position and manage it within the framework of the established risk limits.
2. Internal liquidity stress tests, established on the basis of a scenario combining a market and a specific stress, are steered and controlled at 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 sets out 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 franchises 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 businesses, is designed to cover upcoming repayments 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 sought and managed.
5. The Group's short-term resources are adapted to the financing of the businesses' short-term needs over periods appropriate to their management and in line with market concentration limits. As outlined above, they are adjusted in light of the liquidity reserve on the assets side, based on the established stress survival horizon as well as the Group's LCR target (Liquidity Coverage Ratio, see Regulatory Ratios section).
6. The Group's liquidity steering takes into account compliance with the target regulatory ratios (LCR, NSFR, leverage), the BU' contributions to these ratios being subject to supervision.

Lastly, liquidity is governed in terms of cost *via* the Group's internal transfer pricing scheme. Funding allocated to the businesses is charged to the latter on the basis of scales that must reflect the liquidity cost for the Group. This system is designed to optimise the use of external financing sources by businesses and is used to monitor the equilibrium of balance sheet funding.

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

4.9.3 LIQUIDITY RESERVE

The Group's liquidity reserve encompasses cash at central banks and assets that can be used to cover liquidity outflows under a stress scenario. The reserve assets are available, *i.e.* not used in 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: non-transferable excess cash (according to the regulatory ratio definition) in subsidiaries is therefore not included in the Group liquidity reserve.

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 meet the 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 as well as covered bonds 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 Global Banking and Investor Solutions pillar, and is adjusted by authorisation of the Finance Committee.

TABLE 40: LIQUIDITY RESERVE

(In EUR bn)	31.12.2018	31.12.2017
Central bank deposits (excluding mandatory reserves)	82	94
HQLA securities available and transferable on the market (after haircut)	73	64
Other available central bank-eligible assets (after haircut)	17	16
TOTAL	**172**	**174**

4.9.4 REGULATORY RATIOS

The Basel Committee recommends the international implementation of two standard ratios with harmonised parameters, to regulate bank liquidity risk profiles:

- the Liquidity Coverage Ratio (LCR) aims to ensure that banks hold sufficient liquid assets or cash to survive a significant stress scenario combining a market crisis and a specific crisis and lasting for one month;
- the Net Stable Funding Ratio (NSFR) is a transformation ratio and compares funding needs with stable resources over a one-year period.

The Basel Committee stabilised its final version of the texts pertaining to the LCR in 2013 and those pertaining to the NSFR in 2014.

The transposition of Basel 3 into European Union law under CRD4 and CRR1 was published on 27th June 2013. The French transposition was published in the French Official Journal (*Journal officiel*) on 5th November 2014.

The LCR definition was finalised, on the basis of technical standards issued by the EBA, through a Delegated Act of the European Commission on 10th October 2014. The LCR entered into force at European level on 1st October 2015. The corresponding minimum requirement was set at 70% for 2016, increasing gradually until it reached 100% as from 1st January 2018.

For the NSFR, the European Commission presented a proposal in November 2016 for transposition of the Basel Regulations, which will currently discussed at a trialogue meeting (European Parliament, Commission, Council). The European entry into force of the NSFR will depend on the duration of the legislative process and is not expected to take place before 2021. Societe Generale is actively continuing its work on transposing the European prudential legislation (or the Basel's text when the European transposition is not yet finalised) and translating it into management standards within the Group. At Group level, the LCR is now managed based on the European standards.

Since implementation of the European regulatory LCR requirement in October 2015, Societe Generale's LCR has at all times stood at a level exceeding 100% : 129% at end-2018 (vs. 140% at end-2017).

4.9.5 BALANCE SHEET SCHEDULE

The main lines comprising the Group's financial liabilities are presented in Note 3.13 to the consolidated financial statements, under the following template:

TABLE 41: BALANCE SHEET SCHEDULE

Financial liabilities

	31.12.2018					
(In EUR m)	**Note to the consolidated financial statements**	**0-3 m**	**3 m-1 yr**	**1-5 yrs**	**> 5 yrs**	**Total**
Due to central banks		5 721	0	0	0	5 721
Financial liabilities at fair value through profit or loss, excluding derivatives	Note 3.1	201 740	14 444	8 909	11 044	236 137
Due to banks	Note 3.6	26 897	26 560	20 135	21 114	94 706
Customer deposits	Note 3.6	337 374	36 027	22 013	21 404	416 818
Securitised debt payables	Note 3.6	26 034	25 017	37 348	27 940	116 339
Subordinated debt	Note 3.9	355	2	52	12 905	13 314

Note: The scheduling assumptions for these liabilities are presented in Note 3.13 to the consolidated financial statements. Particularly, 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 31st December 2018 are not scheduled.

	01.01.2018					
(In EUR m)	**Note to the consolidated financial statements**	**0-3 m**	**3 m-1 yr**	**1-5 yrs**	**> 5 yrs**	**Total**
Due to central banks		5 601	2	1	0	5 604
Financial liabilities at fair value through profit or loss, excluding derivatives	Note 3.1	179 433	12 572	17 971	16 205	226 181
Due to bankskn ow	Note 3.6	52 753	11 747	22 601	1 520	88 621
Customer deposits	Note 3.6	360 884	21 710	18 161	9 878	410 633
Securitised debt payables	Note 3.6	38 168	14 061	37 782	13 224	103 235
Subordinated debt	Note 3.9	648	1 022	602	11 375	13 647

Note: The scheduling assumptions for these liabilities are presented in Note 3.13 to the consolidated financial statements. Particularly, 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 1st January 2018 are not scheduled.

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

Financial assets

(In EUR m)	Note to the consolidated financial statements	31.12.2018 0-3 m	3 m-1 yr	1-5 yrs	> 5 yrs	Total
Cash, due from central banks		93 309	733	1 597	946	96 585
Financial assets at fair value through profit or loss, excluding derivatives	Note 3.4	240 543	2 024	0	0	242 567
Financial assets at fair value through other comprehensive income	Note 3.4	48 738	998	0	290	50 026
Securities at amortised cost		6 189	1 708	3 392	737	12 026
Due from banks at amortised cost	Note 3.5	48 248	2 618	4 614	5 108	60 588
Customer loans at amortised cost	Note 3.5	98 379	63 874	178 414	74 983	415 650
Lease financing and similar agreements	Note 3.5	2 605	6 355	17 760	4 859	31 579

(In EUR m)	Note to the consolidated financial statements	01.01.2018 0-3 m	3 m-1 yr	1-5 yrs	> 5 yrs	Total
Cash, due from central banks		111 194	773	1 646	791	114 404
Financial assets at fair value through profit or loss, excluding derivatives	Note 3.4	234 339	482	0	0	234 821
Financial assets at fair value through other comprehensive income	Note 3.4	48 045	2 130	0	293	50 468
Securities at amortised cost		9 130	292	640	1 530	11 592
Due from banks at amortised cost	Note 3.5	43 144	3 482	6 018	1 012	53 656
Customer loans at amortised cost	Note 3.5	91 816	59 613	166 513	69 981	387 923
Lease financing and similar agreements	Note 3.5	3 133	5 824	16 057	4 454	29 468

It should be noted that due to the nature of its activities, Société Générale 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.

   Positions measured mainly using unobservable market data (L3): maturity of 3 months to 1 year.

2. **Financial assets at fair value through other comprehensive income:**

   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

	31.12.2018						
(In EUR m)	Note to the consolidated financial statements	Not scheduled	0-3 m	3 m-1 yr	1-5 yrs	> 5 yrs	Total
Tax liabilities	Note 6.3	0	0	771	0	386	1 157
Revaluation difference on portfolios hedged against interest rate risk		5 257	0	0	0	0	5 257
Other liabilities	Note 4.4	0	76 629	0	0	0	76 629
Non-current liabilities held for sale	Note 2.5	0		10 454	0	0	10 454
Insurance contracts related liabilities	Note 4.3	0	12 317	8 891	35 102	73 233	129 543
Provisions	Note 8.3	4 605	0	0	0	0	4 605
Shareholders' equity		65 809	0	0	0	0	65 809

	01.01.2018						
(In EUR m)	Note to the consolidated financial statements	Not scheduled	0-3 m	3 m-1 yr	1-5 yrs	> 5 yrs	Total
Tax liabilities	Note 6.3	0	0	1 072	0	536	1 608
Revaluation difference on portfolios hedged against interest rate risk		6 020	0	0	0	0	6 020
Other liabilities	Note 4.4	0	69 139	0	0	0	69 139
Non-current liabilities held for sale	Note 2.5	0	0	0	0		0
Insurance contracts related liabilities	Note 4.3	0	14 966	8 718	33 839	74 194	131 717
Provisions	Note 8.3	6 345	0	0	0	0	6 345
Shareholders' equity		62 951	0	0	0	0	62 951

Other assets

(In EUR m)	Note to the consolidated financial statements	Not scheduled	0-3 m	3 m-1 yr	1-5 yrs	> 5 yrs	Total
	31.12.2018						
Revaluation differences on portfolios hedged against interest rate risk		338	0	0	0	0	338
Other assets	Note 4.4	0	67 446	0	0	0	67 446
Tax assets	Note 6	5 819	0	0	0	0	5 819
Investments accounted for using the equity method		0	0	0	0	249	249
Tangible and intangible fixed assets	Note 8.4	0	0	0	0	26 751	26 751
Goodwill	Note 2.2	0	0	0	0	4 652	4 652
Non-current assets held for sale	Note 2.5	0	1	13 496	2	3	13 502
Investments of insurance companies		0	29 743	6 569	31 189	79 267	146 768

(In EUR m)	Note to the consolidated financial statements	Not scheduled	0-3 m	3 m-1 yr	1-5 yrs	> 5 yrs	Total
	01.01.2018						
Revaluation differences on portfolios hedged against interest rate risk		663	0	0	0	0	663
Other assets	Note 4.4	0	60 449	0	0	0	60 449
Tax assets	Note 6	6 292	0	0	0	0	6 292
Investments accounted for using the equity method		0	0	0	0	659	659
Tangible and intangible fixed assets	Note 8.4	0	0	0	0	24 200	24 200
Goodwill	Note 2.2	0	0	0	0	4 988	4 988
Non-current assets held for sale	Note 2.5	0	1	12	0	0	13
Investments of insurance companies		0	34 511	5 787	29 285	78 028	147 611

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.Other assets and Other liabilities (guarantee deposits and settlement accounts, miscellaneous receivables) are considered as current assets and liabilities.

3.The notional maturities of commitments in derivative instruments are presented in Note 3.13 to the consolidated financial statements.

4.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.

5.Provisions and shareholders' equity are not scheduled.

4.10 COMPLIANCE AND REPUTATIONAL RISK, LITIGATION

Acting in compliance means clearly understanding and observing the external and internal rules that govern our activities. These rules aim to ensure a transparent and balanced relationship between the bank and all of its stakeholders. Compliance is the foundation stone for trust between the Bank, its customers, supervisors and staff.

Compliance with rules is the responsibility of all Group employees, who must demonstrate compliance and integrity on a daily basis. The rules must be clearly expressed, and staff must be informed and/or trained. The eight main non-compliance risks fall into two broad categories:

- financial security which includes knowledge of the client, rules relating to international sanctions and embargoes, anti-money laundering and counter-terrorism financing rules;
- regulatory risks which concern client protection, market integrity, anti-bribery & corruption, ethics & conduct, tax transparency and data protection.

FINANCIAL SECURITY			REGULATORY RISKS				
KYC	AML	Sanctions & Embargos	Customer protection	Market integrity	Tax transparency	Anti-bribery and corruption	Data
Know your customer	Anti-money laundering		MiFID II/ MIFIR PRIIPs, etc.	EMIR / DFA, Volker, FBL, MAD / MAR, benchmarks, etc.	FATCA, CRS, QI, etc.	ABC, Sapin II, etc.	GDPR, Archiving, etc.

4.10.1 COMPLIANCE

Financial security

KNOW YOUR CUSTOMER (KYC)

In 2018, the Group launched a vast programme to revamp its KYC functions in order to boost operational efficiency (via the simplification of standards, greater pooling of resources, optimisation of tools and processes) and to improve customer experience. This four-year programme, under the responsibility of the Head of Group Compliance, is closely and regularly monitored at Bank level.

ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING (AML/CTF)

The Group has implemented new measures linked to the 4th Directive on anti-money laundering and terrorist financing as well as European Regulation 2015/847 on the quality of payment information. Several internal initiatives were also launched to continuously reinforce its setup. In particular, these initiatives cover alert detection tools used in the Bank's different businesses, with use of new technologies and the optimisation of scenarios used.

SANCTIONS AND EMBARGOES

In 2018, the international context was impacted once again by reinforcement of US sanctions on Russia and Iran, with greater complexity in terms of implementation that may generate substantial operational risks for financial establishments. In this context, Societe Generale Group has confirmed its position to abstain from any trading activity with Iran and to maintain transactions with Russia within a strict framework.

Moreover, the Group has pressed on with its efforts to strengthen its Embargoes/Sanctions setup, notably in preparation of the settlement with the American authorities (that finally took place on 19th November, see p 462). Lastly, payment platform centralisation projects have made satisfactory progress while the professionalisation of the Compliance function has been further developed with the deployment of "certified" training.

Regulatory risks

CLIENT PROTECTION

Client protection is a major challenge for the Societe Generale Group which is committed to respecting and protecting the interests of its customers.

The European regulation on customer protection (MIF2), that came into force on 2nd January 2018, and the Insurance Directive (DDA), which came into force on 1st October 2018, have reinforced the existing setup which Societe Generale has revised and completed.

In this context, important measures have been taken on the Group in terms of:

- reinforcement of internal rules regarding customer claims, conflicts of interest, product governance, protection of client assets, remuneration and expertise of staff;
- specific training and increased staff awareness; the importance the Group places on this issue is largely relayed in the Group's Code of Conduct.
- necessary adaptation of existing tools to new regulatory demands.

Claims and mediation

The processing of a claim is also a commercial act that impacts customer satisfaction.

In this respect, business divisions have made substantial progress in the last three years. Entities possess an *ad hoc* governance, an organisation, human and applicative means, formalised procedures, quantitative and qualitative follow-up indicators. The progress made also stems from the substantial measures ensuring staff awareness and training.

A Group "Customer claim processing" guideline was published in January 2017. This guideline includes recommendations from the French Prudential Supervisory and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR) and MiFID II regulatory requirements, as part of the strengthening of customer protection measures in Europe.

Conflicts of interest

The Group has a normative framework on the prevention and management of conflicts of interest, which specifies the principles and mechanisms implemented. The Group's guideline was updated in 2017 to include the regulatory changes under way (see the MiFID II European Regulations on customer protection).

It covers the two categories of potential conflicts of interest: firstly, those that could occur between the Group and its customers, or between the Group's customers, and secondly, those that could occur between the Group and its employees (in particular in relation to activities involving an employee's personal interest and/or professional obligations). It sets out the obligations for identifying potential conflicts of interest, which should be entered into a tool for mapping or registering conflicts of interest.

Product governance

As it is obliged to identify the target market as of product design and verify the correspondence of criteria with customer profiles SG Group performs systematic reviews of products upstream of commercialisation and dealings between producers and distributors to follow-up products during their life cycle.

Fragile Clients

Societe Generale has implemented practices and usages to comply with regulatory obligations vis-à-vis vulnerable clients, and notably clients benefiting from the financially vulnerable 'Specific Customer Offer'.

To contribute to the national effort to boost the purchasing power of French citizens in the most difficult financial straits, the Group has completed this setup *via* the implementation of complementary measures:

- the freezing of bank fees for 2019;
- a ceiling at EUR 25 per month in bank "event" fees for vulnerable clients;
- follow-up and support suited to the situation of all customers facing difficulties in the wake of recent events.

MARKET INTEGRITY

MARKET ABUSE

Following the entry into force of the market abuse guideline (MAR ruling of July 2016), the Compliance Division has continued to improve and ensure the compliance of its setup. There has been a specific focus on the modernisation of automated detection and analysis tools, plus the training of Compliance staff in charge of these controls.

The Group has gathered its operational rules within a "Market Abuse" instruction and an instruction regarding the "Management of listed issuer privileged information". In particular, these instructions mention the measures put in place to prevent or detect market abuse practices threatening the integrity of financial markets, *i.e.*

- the transactions of 'insiders' (transmission and utilisation of privileged information);
- market manipulation (price manipulation, spreading of false information).

TAX TRANSPARENCY

Societe Generale implements control measures to ensure its operations comply with local laws and regulations, and with its Tax Code of Conduct. These controls are performed by the Tax Division and the Compliance Division. Accordingly, all new products require approval with respect to these texts; this also applies to complex operations either within the Group or with customers.

Societe Generale complies with tax transparency standards. It applies the Common Reporting Standard (CRS) to all its entities. This standard enables tax authorities to be systematically informed of income received abroad by their tax residents, including if the accounts are held in heritage structures. In 2018, these declarations concerned 37 countries where Societe Generale operates.

Moreover, Societe Generale complies with the requirements of the United States FATCA (Foreign Account Tax Compliance Act), which aims to fight tax evasion schemes involving foreign accounts or entities held by American taxpayers. Non-American financial intermediaries are thus responsible for identifying American taxpayers in their customer base in order to declare the income received by said taxpayers, directly or indirectly, to the American tax administration, thereby enabling an automatic reconciliation with their individual tax returns. The tax transparency objectives have been achieved by generating a tax report filed at national level and sharing tax information between partner countries on the basis of existing bilateral tax treaties and inter-governmental agreements (IGAs).

ANTI-BRIBERY AND CORRUPTION MEASURES

Societe Generale is fully engaged in fighting against corruption and has made clear commitments as part of the Wolfsberg group and the UN Global Compact.

The Group applies strict principles that are included in the Code of Conduct and the "Anti-Corruption and Influence Peddling Code".

In 2018, Societe Generale Group's Anti-Corruption Code updated the existing normative framework by including all the French (Sapin II) and international legal and regulatory requirements.

Societe Generale's anti-corruption programme is built around the following principles:

- Code of conduct;
- Annual risk mapping;
- Appropriate training at all levels (senior management, exposed persons, entire staff);
- Control system;
- Accounting procedures;
- Evaluation of third parties;
- Disciplinary system;
- Right to whistle-blow.

Moreover, a new instruction regarding gifts, business meals and external events has been published.

Societe Generale is also reviewing its whistleblowing framework. An instruction on the framework was published at the beginning of 2019 and a secured internet platform allowing all staff (internal, external and occasional) to exercise their whistleblowing right is being deployed. This setup protects whistle-blowers, notably by guaranteeing the protection of personal data and strict confidentiality.

In addition, a full training programme is being deployed group-wide to increase the vigilance of all staff.

DATA PROTECTION

As a trusted partner of its customers, Societe Generale is particularly sensitive to personal data protection and has drafted and implemented rules to comply with local and European Regulations.

The entry into force, in May 2018, of the new European Regulations on personal data protection (GDPR), which increases the Company's obligations and the level of sanctions in case of non-respect of these obligations, has offered an opportunity for the Group and its subsidiaries to further reinforce their setup.

Internal instructions and associated procedures, in line with local and European Regulations, define the rules to apply and the measures to take to guarantee the protection and security of customer and staff data. Information measures for persons and the processing of their demands are in place so that they can exercise their rights, notably *via* specific digital platforms. A personal data security policy is defined which fits in with the Group's overall security strategy and, in particular, in terms of cybersecurity. Moreover, as part of the GDPR deployment, there has been a specific effort to increase staff awareness *via* related compulsory training (94% follow-up rate at end-2018).

Lastly, Societe Generale Group has appointed a Data Protection Officer (DPO). Reporting to the Head of Group Compliance, and the main contact for Personal Data Protection Authority (the CNIL in France), his mission is to ensure sound Group compliance in terms of personal data protection. He has a network of local DPOs and Correspondents spread throughout Group entities and in charge of accompanying them on security issues and personal data usage. As part of his mission, the DPO regularly reviews indicators, notably the number and nature of the right exercise requests, internal follow-up rate for training plus the local DPO certification programme launched at the end of 2018.

Management of reputational risk

The management of reputational risk is governed by Societe Generale Group CEO. Control procedures are intended to prevent, identify, assess and control this risk.

It is coordinated by the Compliance Division, which:

- supports Group employees, and more particularly the Compliance Control Officers of the businesses, in their strategy for preventing, identifying, assessing and controlling reputational risk;
- offers and updates training programmes to raise awareness of reputational risk;
- defines, analyses and communicates the results of reputational risk management tools (specific dashboard) on a quarterly basis to members of the Risk Committee (CR).

The Compliance function transformation programme

The Compliance function transformation programme is aimed at reinforcing the control of non-compliance risks *via* the increased vigilance and awareness of all stakeholders, including businesses, support staff and other units, to increase the operational efficiency of the associated processes and to answer demands of supervisory and regulation watchdog bodies.

This programme includes updating the governance and allocating greater resources to the Compliance function, whether in terms of recruitment, training, or modernisation of dedicated information systems. It also encompasses updating the normative framework and risk assessments, together with strengthening controls.

Implementation of this programme is continuing in 2019 and will include a specific part on remediation linked to the agreements signed in 2018 with the US and French authorities.

COMPLIANCE REMEDIATION PLAN IN THE WAKE OF THE AGREEMENTS WITH THE FRENCH AND AMERICAN AUTHORITIES

In June 2018, Societe Generale reached agreements with the US Department of Justice ("DOJ") and the US Commodity Futures Trading Commission ("CFTC") resolving their investigations relating to the IBOR submissions, and with the DOJ and the French Parquet National Financier ('PNF') resolving their investigations relating to certain transactions involving Libyan counterparties.

In November 2018, Societe Generale entered into agreements with the U.S. authorities resolving their investigations relating to certain U.S. dollar transactions involving countries, persons or entities that are the subject of U.S. economic sanctions.

As part of such agreements, the Bank has committed to enhance its compliance program in order to prevent and detect any violation of anti-corruption, bribery and market manipulation laws, and U.S. economic sanctions regulations and New York state laws. The Bank also committed to enhance corporate oversight of its sanctions compliance program. The Bank will not be prosecuted if it abides by the terms of the agreements, to which Société Générale is fully committed.

The Bank has also agreed with the Fed to retain an independent consultant that will evaluate the Bank's progress on the implementation of enhancements to its sanctions compliance program.

The Bank has implemented a program to achieve such undertakings and strengthen its compliance program in the relevant areas. This program has been placed under the direct supervision of the Group Head of Compliance. In addition, the Steering Committee of the program is chaired by a member of the General Management of the Bank, and a report providing an update on the progress of the program is presented to the Board of Directors on a monthly basis.

UNITED STATES COMPLIANCE REMEDIATION PLAN

On 19 November 2018, Société Générale and Société Générale New York branch ("SGNY") reached an agreement (enforcement action) with the NY state Department of Financial Services, in relation with anti-money laundering compliance program of SGNY. This agreement requires submitting an enhanced anti-money laundering compliance program and a governance plan regarding anti-money laundering.

This agreement with the Cease and Desist Order signed on 14 December 2017 with the FED replaces the Written Agreement entered into in 2009 between Société Générale Group and SGNY branch one the one hand, and the Federal Reserve and NY state Department of Financial Services on the other hand.

As a reminder, on 14 December 2017, Société Generale and Société Generale New York branch ("SGNY"), entered into a Cease & Desist Order with the Board of Governors of the Federal Reserve that addresses SGNY's Bank Secrecy Act ("BSA") and Anti Money Laundering ("AML") compliance program (the "Financial Crime Compliance Program"), including aspects of its Know Your Customer program.

4.10.2 LITIGATION

The information pertaining to risks ans litigation is included in Note 9 to the consolidated financial statements, page 460

4.11 OTHER RISKS

4.11.1 EQUITY RISK

Investment strategies and purpose

The Societe Generale Group'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 some 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 are not included in its consolidation scope and which operate in France and abroad. This includes various investments and holdings that are ancillary to the Group's main banking activities, particularly in French Retail Banking, Corporate and Investment Banking, and Securities Services (private equity activities in France, closely linked with banking networks, stock market bodies, brokerages, etc.).
- Lastly, Societe Generale and some 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 abroad.

Monitoring of banking book equity investments and holdings

The portfolio of industrial holdings was significantly reduced in recent years, further to the disposal of non-strategic lines. It now includes only a limited number of investments. It 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.

The holdings that are ancillary to the Group's banking activity are monitored on a quarterly basis by the Group's Finance Division and, where necessary, value adjustments are recognised quarterly in accordance with the Group's provisioning policy. Private equity activities in France are subject to dedicated governance and monitoring, within the budgets periodically reviewed by the Group's General Management. Investment or disposal decisions take the financial aspects and the contribution to the Group's activities into consideration (supporting customers in their development, cross-selling with flow activities, Corporate and Investment Banking, Private Banking, etc.).

Valuation of banking book equities

From an accounting perspective, Societe Generale's exposure to equity investments that are not part of its trading book is classified within financial assets measured at fair value through net income or, using the option, at fair value through other comprehensive income (Cf. Consolidated financial statement – Note 3 Financial Instruments).

The Societe Generale Group's exposure to equity investments that are not part of the trading book is equal to their book value representative of a fair value based on a measure at mark to market or at mark to model.

The following table presents these exposures at end-December 2018 and 2017, for both the accounting scope and the regulatory scope. Regulatory data cannot be reconciled with data from consolidated financial statements, specifically because the regulatory scope excludes equity investments held on behalf of clients by the Group's insurance subsidiaries.

TABLE 42: SHARES AND EQUITIES IN BANKING BOOK

(In EUR m)	31.12.2018	01.01.2018
Banking book - shares and other equity securities at fair value through profit or loss	1,996	1,560
Banking book - shares and other equity securities at fair value through other comprehensive income	13,976	13,826
Banking book - shares and other equity securities on banking book - Prudential scope (Exposure at default)	5,780	6,163
o.w shares and other equity securities at fair value through profit or loss	*5,493*	*5,874*
o.w. shares and other equity securities at fair value through other comprehensive income	*287*	*289*

Unrealized gains and losses related to changes in fair value, since the end of the previous year are recognised within:

- net income statement "Net gains and losses on financial transactions" for equity investment classified into Financial assets at fair value through profit or loss; and
- other comprehensive income "Unrealised or deferred gains and losses that will not be reclassified subsequently into income" for equity investment classified into Financial assets at fair value through other comprehensive.

For investments in listed shares, the fair value is estimated based on the stock price at closing date. For investment in unlisted shares, fair value can be estimated based on one or more of the following methods:

- quantitative method such as Discounted Cash Flows (DCF), Discounted Dividend Model (DDM) ;
- pro rata share of the entity's net assets;
- recent transactions identified on the entity's share (stake acquired by third party, valuation assessed by experts);
- recent transactions identified on entities from the same sector (earnings or NAV multiples, etc.).

TABLE 43: NET GAINS AND LOSSES ON BANKING BOOK EQUITIES AND HOLDINGS

(In EUR m)	31.12.2018	01.01.2018
Gains and losses on the sale of shares and equity	651	0
Net gains/losses on banking book	80	80

Regulatory capital requirements

To calculate the risk-weighted assets under Basel 3, the Group applies the simple risk weighting method for the majority of its non-trading equity portfolio. Shares in private equity companies are assigned a risk-weighting coefficient of 190%, shares in listed companies a coefficient of 290%, and shares in unlisted companies, including the holdings in our insurance subsidiaries, a coefficient of 370%. Note that private equity shares acquired before January 2008 can be weighted at 150%. Furthermore, if they are not deducted from equity capital, material investments in the capital of finance companies are assigned a weighting coefficient of 250%.

At 31st December 2018, the Group's risk-weighted assets related to its non-trading equity portfolio, and its capital requirements, were as follows:

TABLE 44: CAPITAL REQUIREMENTS RELATED TO BANKING BOOK EQUITIES AND HOLDINGS(1)

(In EUR m)			31.12.2018			31.12.2017		
Equities & holdings	**Approach**	**Weighting**	**Exposure at default**	**Risk weighted assets**	**Capital requirements**	**Exposure at default**	**Risk weighted assets**	**Capital requirements**
Private equity	Standard	150%	11	16	1	4	7	1
Private equity	Simple approach	190%	197	375	30	198	376	30
Financial securities	Simple approach	250%	943	2,357	189	933	2,331	186
Listed shares	Simple approach	290%	18	52	4	20	59	5
Unlisted shares and insurance	Simple approach	370%	3,987	14,751	1,180	4,615	17,076	1,366
TOTAL			**5,155**	**17,551**	**1,404**	**5,770**	**19,849**	**1,588**

(1) Excluding cash investments.

4.11.2 STRATEGIC RISKS

Strategic risks are defined as the risks inherent in the choice of a given business strategy or resulting from the Group's inability to execute its strategy. They 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 General Management Committee (which meets weekly without exception), by the Group Strategy Committee (which meets every two months) and by the Strategic Steering Committees of the Business Units and Service Units (which meet at least once a year for each of the 27 Units). The make-up of these various bodies is set out in the Corporate Governance chapter of this Registration Document, chapter 3 (pages 65 and following). The Internal Rules of the Board of Directors (provided in Chapter 7 of this Registration Document, page 547) lay down the procedures for convening meetings.

4.11.3 ACTIVITY RISK

Activity risk is the risk of loss if expenses incurred are higher than revenues generated. It is managed by the Finance Division through monthly revenue committee meetings.

During these meetings, which are chaired by a member of General Management, the Group's businesses present their results and comment on the state of business. They also present an analysis of their consumption of their budget and scarce resources (especially capital and liquidity).

4.11.4 RISKS RELATING TO INSURANCE ACTIVITIES

The Group conducts Insurance activities (Life Insurance and Savings, Retirement Savings, Property & Casualty Insurance, etc.) in a "bancassurance" model, using the synergies with the retail banking networks in France and abroad to distribute products.

These activities expose the Group to two major types of risks:

- subscription risk related to pricing and claim rates deterioration
- risks related to financial markets (interest rate, credit and equity) and asset-liability management.

The monitoring structure pertaining to these risks and the related issues are described in Note 4.3 to the consolidated financial statements and in Chapter 6 of this Registration Document (p. 390).

4.11.5 ENVIRONMENTAL AND SOCIAL RISKS

The Group's approach in terms of environmental and social issues is set out in Chapter 5 of this Registration Document (pages 247 and following).

4.11.6 CONDUCT RISK

The Group is also exposed to conduct risk through all of its core businesses. The Group defines conduct risk as resulting from actions (or inactions) or behaviours of the Bank or its employees, inconsistent with the Group's Code of Conduct, which may lead to adverse consequences for its stakeholders, or place the Bank's sustainability or reputation at risk.

Stakeholders include in particular our clients, employees, investors, shareholders, suppliers, the environment, markets and countries in which we operate.

The implementation of the monitoring structure pertaining to these risks is one of the priorities of the Culture and Conduct programme in 2019 (see pages 251 and following).

6.1 CONSOLIDATED FINANCIAL STATEMENTS

6.1.1 CONSOLIDATED BALANCE SHEET – ASSETS

(In millions of euros)		31.12.2018	01.01.2018[1]	31.12.2017
Cash, due from central banks		96,585	114,404	114,404
Financial assets at fair value through profit or loss	Notes 3.1, 3.2 and 3.4	365,550	369,112	419,680
Hedging derivatives	Notes 3.2 and 3.4	11,899	12,718	13,641
Financial assets at fair value through other comprehensive income	Notes 3.3 and 3.4	50,026	50,468	
Available-for-sale assets				139,998
Securities at amortised cost	Notes 3.5, 3.8 and 3.9	12,026	11,592	
Due from banks at amortised cost	Notes 3.5, 3.8 and 3.9	60,588	53,656	60,866
Customer loans at amortised cost	Notes 3.5, 3.8 and 3.9	447,229	417,391	425,231
Revaluation differences on portfolios hedged against interest rate risk		338	663	663
Investments of insurance companies	Note 4.3	146,768	147,611	
Held-to-maturity financial assets				3,563
Tax assets	Note 6	5,819	6,292	6,001
Other assets	Note 4.4	67,446	60,449	60,562
Non-current assets held for sale	Note 2.5	13,502	13	13
Investments accounted for using the equity method		249	659	700
Tangible and intangible fixed assets	Note 8.4	26,751	24,200	24,818
Goodwill	Note 2.2	4,652	4,988	4,988
TOTAL		**1,309,428**	**1,274,216**	**1,275,128**

(1) The amounts have been restated following the first time application of IFRS 9 “Financial Instruments” (see Note 1).

6.1.2 CONSOLIDATED BALANCE SHEET – LIABILITIES

(In millions of euros)		31.12.2018	01.01.2018[1]	31.12.2017
Due to central banks		5,721	5,604	5,604
Financial liabilities at fair value through profit or loss	Notes 3.1, 3.2 and 3.4	363,083	368,550	368,705
Hedging derivatives	Note 3.2 and 3.4	5,993	6,146	6,750
Debt securities issued	Notes 3.6 and 3.9	116,339	103,235	103,235
Due to banks	Notes 3.6 and 3.9	94,706	88,621	88,621
Customer deposits	Notes 3.6 and 3.9	416,818	410,633	410,633
Revaluation differences on portfolios hedged against interest rate risk		5,257	6,020	6,020
Tax liabilities	Note 6	1,157	1,608	1,662
Other liabilities	Note 4.4	76,629	69,139	69,139
Non-current liabilities held for sale	Note 2.5	10,454	-	-
Underwriting reserves of insurance companies				130,958
Insurance contracts related liabilities	Note 4.3	129,543	131,717	
Provisions	Note 8.3	4,605	6,345	6,117
Subordinated debt	Note 3.9	13,314	13,647	13,647
TOTAL LIABILITIES		**1,243,619**	**1,211,265**	**1,211,091**
SHAREHOLDERS' EQUITY				
Shareholders' equity, Group share				
Issued common stocks, equity instruments and capital reserves		29,856	29,427	29,427
Retained earnings		28,342	27,698	27,791
Net income		3,864	2,806	2,806
SUB-TOTAL		**62,062**	**59,931**	**60,024**
Unrealised or deferred capital gains and losses	Note 7.3	(1,036)	(1,503)	(651)
SUB-TOTAL EQUITY, GROUP SHARE		**61,026**	**58,428**	**59,373**
Non-controlling interests	Note 2.3	4,783	4,523	4,664
TOTAL EQUITY		**65,809**	**62,951**	**64,037**
TOTAL		**1,309,428**	**1,274,216**	**1,275,128**

(1) The amounts have been restated following the first time application of IFRS 9 "Financial Instruments" (see Note 1).

6.1.3 CONSOLIDATED INCOME STATEMENT

(In millions of euros)		2018[1]	2017
Interest and similar income	Note 3.7	22,678	23,679
Interest and similar expense	Note 3.7	(11,659)	(13,263)
Fee income	Note 4.1	9,124	10,504
Fee expense	Note 4.1	(3,600)	(3,681)
Net gains and losses on financial transactions		5,189	5,826
o/w net gains and losses on financial instruments at fair value through profit or loss	Note 3.1	*5,119*	*5,113*
o/w net gains and losses on available-for-sale financial assets			*713*
o/w net gains and losses on financial instruments at fair value through other comprehensive income	Note 3.3	*83*	
o/w net gains and losses from the derecognition of financial assets at amortised cost		*(13)*	
Net income of insurance activities	Note 4.3	1,724	
Income from other activities	Note 4.2	10,761	22,045
Expenses from other activities	Note 4.2	(9,012)	(21,156)
Net banking income		**25,205**	**23,954**
Personnel expenses	Note 5	(9,561)	(9,749)
Other operating expenses	Note 8.2	(7,366)	(7,083)
Amortisation, depreciation and impairment of tangible and intangible fixed assets		(1,004)	(1,006)
Gross operating income		**7,274**	**6,116**
Cost of risk	Note 3.8	(1,005)	(1,349)
Operating income		**6,269**	**4,767**
Net income from investments accounted for using the equity method	Note 2.3	56	92
Net income/expense from other assets		(208)	278
Value adjustments on goodwill	Note 2.2	-	1
Earnings before tax		**6,117**	**5,138**
Income tax	Note 6	(1,561)	(1,708)
Consolidated net income		**4,556**	**3,430**
Non-controlling interests		692	624
Net income, Group share		**3,864**	**2,806**
Earnings per ordinary share	Note 7.2	**4.24**	**2.92**
Diluted earnings per ordinary share	Note 7.2	**4.24**	**2.92**

(1) The presentation of the Group's consolidated income statement is modified as from 2018 following the transition to IFRS 9:
- *income and expenses from insurance activities are grouped on a specific line item within the "Net banking income" (see Note 1.4);*
- *the line item "Cost of risk" is now exclusively dedicated to credit risk (see Note 3.8);*
- *fair value changes of financial liabilities designated to be measured at fair value through profit or loss (using the fair value option) attributable to changes in own credit risk are now recorded under "Unrealised or deferred gains and losses" (see Note 3.1).*

6.1.4 STATEMENT OF NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES

(In millions of euros)	2018	2017
Consolidated net income	**4,556**	**3,430**
Unrealised or deferred gains and losses that will be reclassified subsequently into income	**24**	**(2,371)**
Translation differences	370	(2,088)
Revaluation of debt instruments at fair value through other comprehensive income	(233)	
Revaluation differences of the period	*(193)*	
Reclassified into income	*(40)*	
Revaluation of available-for-sale financial assets[1]	(74)	(218)
Revaluation differences of the period	*(54)*	*69*
Reclassified into income	*(20)*	*(287)*
Revaluation of hedging derivatives	(120)	(100)
Revaluation differences of the period	*(156)*	*(94)*
Reclassified into income	*36*	*(6)*
Unrealised gains and losses of entities accounted for using the equity method	1	(20)
Tax related	80	55
Unrealised or deferred gains and losses that will not be reclassified subsequently into income	**411**	**19**
Actuarial gains and losses on defined benefits plans	30	42
Revaluation of own credit risk on financial liabilities at fair value through profit or loss	529	
Revaluation of equity instruments through other comprehensive income	1	
Unrealised gains and losses of entities accounted for using the equity method	(3)	
Tax related	(146)	(23)
Total unrealised or deferred gains and losses	**435**	**(2,352)**
Net income and unrealised or deferred gains and losses	**4,991**	**1,078**
o/w Group share	*4,331*	*504*
o/w non-controlling interests	*660*	*574*

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities from the 2018 financial year.

6.1.5 CHANGES IN SHAREHOLDERS' EQUITY

(In millions of euros)	Capital and associated reserves						
	Issued common stocks	Issuing premium and capital reserves	Elimination of treasury stock	Other equity instruments	Total	Retained earnings	Net income, Group share
Shareholders' equity at 1 January 2017	**1,010**	**20,277**	**(371)**	**9,680**	**30,596**	**29,687**	**-**
Increase in common stock	-	8	-	-	8	-	-
Elimination of treasury stock	-	-	(122)	-	(122)	(29)	-
Issuance/Redemption/ Remuneration of other equity instruments (see Note 7.1)	-	-	-	(1,114)	(1,114)	(540)	-
Equity component of share-based payment plans	-	59	-	-	59	-	-
2017 dividends paid (see Note 7.2)	-	-	-	-	-	(1,762)	-
Effect of changes of the consolidation scope	-	-	-	-	-	419	-
Sub-total of changes linked to relations with shareholders	***-***	***67***	***(122)***	***(1,114)***	***(1,169)***	***(1,912)***	***-***
Change in unrealised or deferred gains and losses	-	-	-	-	-	19	-
2017 Net income	-	-	-	-	-	-	2,806
Change in equity of associates and joint ventures accounted for the equity method	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	(3)	-
Sub-total	***-***	***-***	***-***	***-***	***-***	***16***	***2,806***
Shareholders' equity at 31 December 2017	**1,010**	**20,344**	**(493)**	**8,566**	**29,427**	**27,791**	**2,806**
Appropriation of net income	-	-	-	-	-	2,806	(2,806)
IFRS 9 First time application (see Note 1)	-	-	-	-	-	(93)	-
Shareholders' equity at 1 January 2018	**1,010**	**20,344**	**(493)**	**8,566**	**29,427**	**30,504**	**-**
Increase in common stock	-	-	-	-	-	-	-
Elimination of treasury stock (see Note 7.1)	-	-	(174)	-	(174)	(12)	-
Issuance/Redemption/ Remuneration of other equity instruments (see Note 7.1)	-	-	-	544	544	(458)	-
Equity component of share-based payment plans (see Note 5.3)	-	59	-	-	59	-	-
2018 dividends paid (see Note 7.2)	-	-	-	-	-	(1,764)	-
Effect of changes of the consolidation scope	-	-	-	-	-	52	-
Sub-total of changes linked to relations with shareholders	***-***	***59***	***(174)***	***544***	***429***	***(2,182)***	***-***
Change in unrealised or deferred gains and losses	-	-	-	-	-	-	-
2018 Net income	-	-	-	-	-	-	3,864
Change in equity of associates and joint ventures accounted for the equity method	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	20	-
Sub-total	***-***	***-***	***-***	***-***	***-***	***20***	***3,864***
Shareholders' equity at 31 December 2018	**1,010**	**20,403**	**(667)**	**9,110**	**29,856**	**28,342**	**3,864**

Unrealised or deferred gains and losses				Non-controlling interests				
that will be reclassified subsequently into income	that will not be reclassified subsequently into income	Total	Shareholder's Group Share	Capital and reserves	Other equity instruments issued by subsidiaries	Unrealised or deferred gains and losses	Total	Total consolidated shareholders' equity
1,670	**-**	**1,670**	**61,953**	**2,920**	**800**	**33**	**3,753**	**65,706**
-	-	-	8	-	-	-	-	8
-	-	-	(151)	-	-	-	-	(151)
-	-	-	(1,654)	(33)	-	-	(33)	(1,687)
-	-	-	59	-	-	-	-	59
-	-	-	(1,762)	(243)	-	-	(243)	(2,005)
-	-	-	419	614	-	-	614	1,033
-	***-***	***-***	***(3,081)***	***338***	***-***	***-***	***338***	***(2,743)***
(2,307)	-	(2,307)	(2,288)	(1)	-	(49)	(50)	(2,338)
-	-	-	2,806	624	-	-	624	3,430
(14)	-	(14)	(14)	-	-	-	-	(14)
-	-	-	(3)	(1)	-	-	(1)	(4)
(2,321)	***-***	***(2,321)***	***501***	***622***	***-***	***(49)***	***573***	***1,074***
(651)	**-**	**(651)**	**59,373**	**3,880**	**800**	**(16)**	**4,664**	**64,037**
-	-	-	-	-	-	-	-	-
(393)	**(459)**	**(852)**	**(945)**	**(112)**	**-**	**(29)**	**(141)**	**(1,086)**
(1,044)	**(459)**	**(1,503)**	**58,428**	**3,768**	**800**	**(45)**	**4,523**	**62,951**
-	-	-	-	-	-	-	-	-
-	-	-	(186)	-	-	-	-	(186)
-	-	-	86	(33)	-	-	(33)	53
-	-	-	59	-	-	-	-	59
-	-	-	(1,764)	(368)	-	-	(368)	(2,132)
-	-	-	52	(5)	-	-	(5)	47
-	***-***	***-***	***(1,753)***	***(406)***	***-***	***-***	***(406)***	***(2,159)***
58	412	470	470	-	-	(32)	(32)	438
-	-	-	3,864	692	-	-	692	4,556
-	(3)	(3)	(3)	-	-	-	-	(3)
-	-	-	20	6	-	-	6	26
58	***409***	***467***	***4,351***	***698***	***-***	***(32)***	***666***	***5,017***
(986)	**(50)**	**(1,036)**	**61,026**	**4,060**	**800**	**(77)**	**4,783**	**65,809**

6.1.6 CASH FLOW STATEMENT

(In millions of euros)	2018	2017
Consolidated net income (I)	**4,556**	**3,430**
Amortisation expense on tangible and intangible fixed assets (including operational leasing)	4,589	4,283
Depreciation and net allocation to provisions	2,343	108
Net income/loss from investments accounted for using the equity method	(53)	(92)
Change in deferred taxes	357	673
Net income from the sale of long-term assets and subsidiaries	(101)	(110)
Other changes	2,256	4,367
Non-cash items included in net income and others adjustments excluding income on financial instruments at fair value through profit or loss (II)	**9,391**	**9,229**
Income on financial instruments at fair value through profit or loss	4,901	(5,113)
Interbank transactions	(1,929)	5,200
Customers transactions	(11,732)	(4,996)
Transactions related to other financial assets and liabilities	(1,598)	22,876
Transactions related to other non financial assets and liabilities	(4,643)	(2,228)
Net increase/decrease in cash related to operating assets and liabilities (III)	**(15,001)**	**15,739**
Net cash inflow (outflow) related to operating activities (A) = (I) + (II) + (III)	**(1,054)**	**28,398**
Net cash inflow (outflow) related to acquisition and disposal of financial assets and long term investments	(5,928)	(280)
Net cash inflow (outflow) related to tangible and intangible fixed assets	(7,621)	(5,928)
Net cash inflow (outflow) related to investment activities (B)	**(13,549)**	**(6,208)**
Cash flow from/to shareholders	(2,543)	(3,836)
Other net cash flows arising from financing activities	(471)	(331)
Net cash inflow (outflow) related to financing activities (C)	**(3,014)**	**(4,167)**
Net inflow (outflow) in cash and cash equivalents (A) + (B) + (C)	**(17,617)**	**18,023**
Cash, due from central banks (assets)	114,404	96,186
Due to central banks (liabilities)	(5,604)	(5,238)
Current accounts with banks (see Notes 3.5 and 4.3)	22,159	24,639
Demand deposits and current accounts with banks (see Note 3.6)	(11,686)	(14,337)
Cash and cash equivalents at the start of the year	**119,273**	**101,250**
Cash, due from central banks (assets)	96,585	114,404
Due to central banks (liabilities)	(5,721)	(5,604)
Current accounts with banks (see Notes 3.5 and 4.3)	24,667	22,159
Demand deposits and current accounts with banks (see Note 3.6)	(13,875)	(11,686)
Cash and cash equivalents at the end of the year	**101,656**	**119,273**
Net inflow (outflow) in cash and cash equivalents	**(17,617)**	**18,023**

CONTENTS OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 6 February 2019.

NOTE 1 SIGNIFICANT ACCOUNTING PRINCIPLES

NOTE 1.1 Introduction

ACCOUNTING STANDARDS

In accordance with European Regulation 1606/2002 of 19 July 2002 on the application of International Accounting Standards, the Societe Generale Group ("the Group") prepared its consolidated financial statements for the year ended 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in force at that date.

These standards are available on the European Commission website at:

https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps_en

The most significant change made to the accounting principles is the application of IFRS 9 "Financial Instruments" as from 1 January 2018.

In accordance with the transitional measures provided by IFRS 9, the Group has elected to recognise hedging transactions under IAS 39 as adopted by the European Union, including measures related to macro-fair value hedge accounting (IAS 39 "carve-out").

FINANCIAL STATEMENTS PRESENTATION

As the IFRS accounting framework does not specify a standard model, the format of the condensed financial statements used to present the data for financial year 2018 is consistent with the format of financial statements proposed by the French Accounting Standard Setter, the *Autorité des Normes Comptables* (ANC), under Recommendation No. 2017-02 of 2 June 2017. The presentation of the comparative data relative to financial year 2017 has not been modified and complies with the provisions of ANC Recommendation No. 2013-04 of 7 November 2013.

The disclosures provided in the notes to the consolidated financial statements of the Societe Generale Group, its activities and the circumstances in which it conducted its operations over the period.

PRESENTATION CURRENCY

The presentation currency of the consolidated financial statements is the euro.

The figures presented in the financial statements and in the notes are expressed in millions of euros, unless otherwise specified. The effect of rounding can generate discrepancies between the figures presented in the financial statements and those presented in the notes.

NOTE 1.2 New accounting standards applied by the group as of 1 January 2018

- IFRS 9 “Financial Instruments” (see Note 1.4)
- IFRS 15 “Revenue from Contracts with Customers” and subsequent clarifications
- Amendments to IFRS 4: Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (see Note 1.4)
- Annual improvements (2014-2016)
- Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”
- Amendments to IAS 40 “Transfers of Investment Property”
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”
- Amendments to IFRS 9 “Prepayment Features with Negative Compensation” (see Note 1.4)

IFRS 9 “FINANCIAL INSTRUMENTS”, SUBSEQUENT AMENDMENTS AND AMENDMENTS TO IFRS 4 RELATED TO THE APPLICATION OF IFRS 9 BY INSURANCE COMPANIES

The impacts of the first-time application of IFRS 9 are presented in Note 1.4 *First-time application of IFRS 9 “Financial Instruments”*.

IFRS 15 “Revenue from Contracts with Customers” and subsequent clarifications

This standard supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and their interpretations and sets out the new requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees.

The recognition of revenues in the income statement shall depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To apply this core principle, IFRS 15 provides a five-step model from the identification of the contract with the customer until the recognition of the related revenue when the performance obligation is fulfilled:

In the Group, the contracts that are the most concerned by the new standard are:

- banking services contracts that lead to the recognition of fee income (packages of banking services, fees related to asset management or to loan syndication, etc.);
- contracts for services linked to leasing activities (such as maintenance services for operational vehicle leasing and fleet management);
- real estate development transactions.

The Group has performed a review of the accounting treatments applied in prior periods for the recognition of revenues generated by contracts with customers and has assessed that they comply with the treatments provided by IFRS 15.

IFRS15 and the other standards, amendments, improvements and interpretations presented below, applicable as from 1 January 2018, have no material impact on the net income and shareholders’ equity of the Group.

ANNUAL IMPROVEMENTS (2014-2016)

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued amendments to IAS 28 “Investments in Associates and Joint Ventures” and IFRS 12 “Disclosure of Interests in Other Entities”.

The amendment to IAS 28 clarifies the measurement of investments in associates or joint ventures held by a venture capital organisation or other qualifying entity.

The amendment to IFRS 12 clarifies the disclosure requirements related to an entity’s interest that is classified as held for sale or as discontinued operations in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

AMENDMENTS TO IFRS 2 “CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS”

These amendments clarify how to account for certain types of share-based payment transactions: modelling vesting conditions regardless of settlement method, impacts of tax withholdings on share-based payment transactions, accounting treatment of modifications that change the settlement method (cash versus equity instruments) of the share-based payment transactions.

AMENDMENTS TO IAS 40 "TRANSFERS OF INVESTMENT PROPERTY"

These amendments reinforce the principle according to which the entity shall transfer property into or out of the investment property category. Such a transfer shall occur if and only if property meets, or ceases to meet, the definition of investment property and if there is evidence of a change in management's intentions regarding the use of the property.

IFRIC 22 "FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION"

This interpretation clarifies the accounting for foreign currency transactions (payments or prepayments). The transaction shall provide a consideration that is denominated or priced in a foreign currency. Before this transaction, a prepayment asset or a deferred income liability shall be recognised and considered as a non-monetary item. The date of the transaction, for determining the exchange rate, is the date of initial recognition of the non-monetary asset or liability, except when there are multiple payments or receipts in advance, in which case the date of transaction will be established for each payment or receipt.

NOTE 1.3 Accounting standards, amendments or interpretations to be applied by the Group in the future

IASB published accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 31 December 2018. They are required to be applied from annual periods beginning on 1 January 2019 at the earliest or on the date of their adoption by the European Union. They were therefore not applied by the Group as at 31 December 2018.

These standards are expected to be applied according to the following schedule:

2019

- IFRS 16 "Leases" [Adopted by EU] (see paragraph 5)
- IFRIC 23 "Uncertainty over Income Tax Treatments" [Adopted by EU]
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"
- Annual improvements (2015-2017 cycle)
- Amendments to IAS 19 "Plan amendments, curtailments and settlements"

2020

- Amendments to IFRS 3 "Business combinations"
- Amendments to IAS 1 and IAS 8 "Definition of Material"

2021

- IFRS 17 "Insurance contracts"

IFRS 16 "LEASES"

IFRS 16 is presented in Note 1.5 *Preparation for the first application of IFRS 16 "Leases"* below.

IFRIC 23 "UNCERTAINTY OVER INCOME TAX TREATMENTS"

Adopted by the European union on 23 October 2018

This interpretation provides clarifications about the measurement and accounting treatment of income tax when there is uncertainty over income tax treatments. The approach to be used should be the one that provides the best predictions of the resolution of the uncertainty.

The process for identifying, analysing and monitoring tax uncertainties has been reviewed. The Group expects no material effect of this interpretation on equity.

AMENDMENTS TO IAS 28 "LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES"

Issued by IASB on 12 October 2017

The amendments clarify that IFRS 9 "Financial Instruments" shall be applied to financial instruments that form part of the net investment in an associate or a joint venture but to which the equity method is not applied.

ANNUAL IMPROVEMENTS (2015-2017)

Issued by IASB on 12 December 2017

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs".

AMENDMENTS TO IAS 19 "PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT"

Issued by IASB on 7 February 2018

These amendments clarify how pension expenses are determined in the event of amendment, curtailment or settlement of defined benefit pension plans. In these cases, IAS 19 currently calls for the net cost of the defined benefit asset or liability to be remeasured.

The amendments require the entity to use the updated actuarial assumptions from this remeasurement to determine past service cost and net interest.

AMENDMENTS TO IFRS 3 "BUSINESS COMBINATIONS"

Issued by the IASB on 22 October 2018

The amendments are intended to provide clearer application guidance to make it easier to differentiate between the acquisition of a business and the acquisition of a group of assets, whose accounting treatment is different.

AMENDMENTS TO IAS 1 AND IAS 8 "DEFINITION OF MATERIAL"

Issued by the IASB on 31 October 2018

These amendments are intended to clarify the definition of 'material' in order to facilitate the exercise of judgement during the preparation financial statements, particularly when selecting the information to be presented in the Notes.

IFRS 17 "INSURANCE CONTRACTS"

Issued by IASB on 18 May 2017

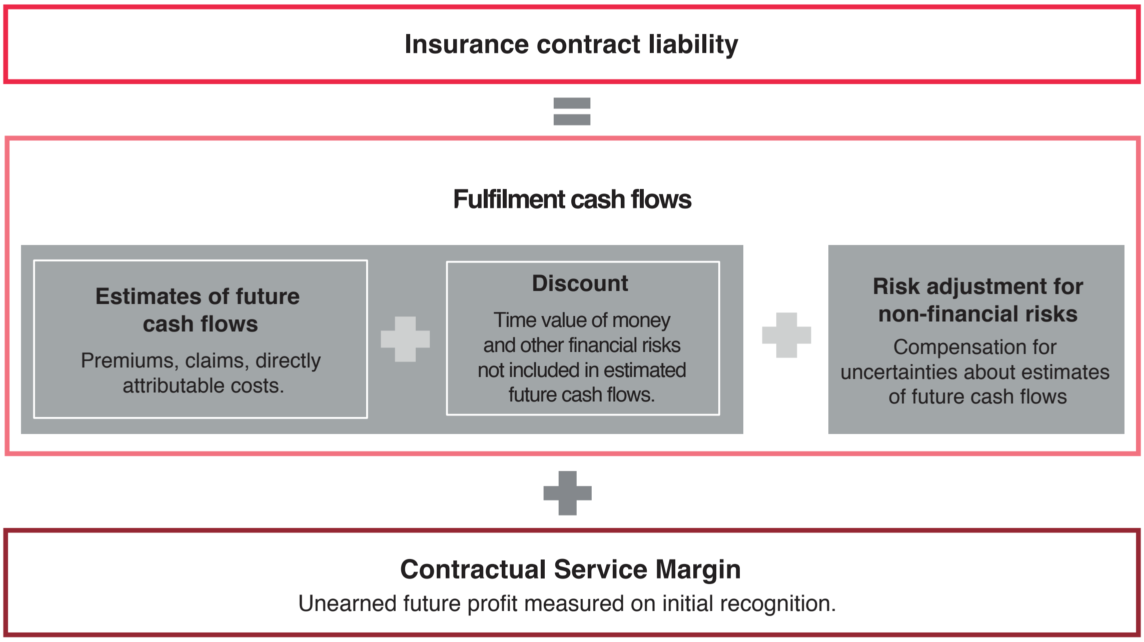
This new standard will replace IFRS 4 "Insurance Contracts" that was issued in 2004 and which currently allows entities to use national requirements for the accounting of insurance contracts.

IFRS 17 provides new rules for the recognition, measurement, presentation and disclosure of insurance contracts that belong to its application scope (insurance contracts issued, reinsurance contracts held and investment contracts issued with discretionary participation features). The underwriting reserves currently recognised among liabilities in the balance sheet will be replaced by a current value measurement of insurance contracts.

The general model provided for the measurement of insurance contracts in the balance sheet will be based on a building-blocks approach: a current estimate of future cash flows, a risk adjustment, and a contractual service margin.

Positive contractual service margins will be recognised as income over the duration of the insurance service, whereas negative margins will be immediately recognised as expense, as soon as the insurance contract is identified as onerous.

The general model will be the default measurement model for all insurance contracts.



However IFRS 17 also provides a mandatory alternative model for insurance contracts with direct participation features. Under this model, called "variable fee approach", the measurement of the insurance contract liability shall take into account the obligation to pay to policyholders a substantial share of the fair value returns on the underlying items, less a fee for future services provided by the insurance contract (changes in the fair value of underlying items due to policyholders are then recognised as an adjustment of the contractual service margin).

A simplified measurement (premium allocation approach) is also allowed by the standard under conditions for short-term contracts (12 months or less) and contracts for which the result of premium allocation approach is closed to the general approach.

These measurement models will have to be applied to homogeneous portfolios of insurance contracts. The level of aggregation of these portfolios will be assessed considering:

- contracts that are subject to similar risks and managed together;
- the year during which contracts are issued; and
- at initial recognition, contracts that are onerous, contracts that have no significant possibility of becoming onerous subsequently, and the remaining contracts.

IASB is currently discussing implementation challenges and concerns raised by stakeholders since IFRS 17 was issued and is considering whether there is a need to amend the Standard. Moreover, in November 2018, Board members decided to defer by one year the mandatory effective date of IFRS 17, so that it would become applicable for annual periods beginning on or after 1 January 2022 if this amendment is issued.

NOTE 1.4 First application of IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39, defining a new set of rules for measuring and classifying financial assets and liabilities, establishing a new methodology for the credit impairment of financial assets and for determining loss allowances for loan and guarantee commitments, and introducing changes in the treatment of hedging transactions, with the exception of macro-hedging transactions which will be covered by a separate standard currently under review by the IASB.

As from 1 January 2018, the Group applies IFRS 9 as adopted by the European Union on 22 November 2016. The Group did not early apply the provisions of IFRS 9 to previous reporting periods. Consequently, the accounting principles applicable to financial instruments have been amended and the disclosures presented in the notes to the consolidated financial statements have been updated, in accordance with the amendments to IFRS 7 issued with IFRS 9.

In accordance with the recommendations provided by the market authorities (ESMA and AMF), the Group elected to early apply, at 1 January 2018, the amendment to IFRS 9 "Prepayment Features with Negative Compensation", issued by the IASB on 12 October 2017 and adopted by the European Union on 22 March 2018.

IFRS 9 ACCOUNTING PRINCIPLES

Classification and measurement of financial assets and liabilities

Under IFRS 9, financial assets are classified among three categories (Amortised cost, Fair value through profit or loss, and Fair value through other comprehensive income), based on their contractual cash flow characteristics and the entity's business model for managing these assets.

IFRS 9 carries forward the rules for classifying and measuring financial liabilities as they appear in IAS 39, without modification. The only exception applies to financial liabilities designated to be measured at fair value through profit or loss (using the fair value option), in which case the portion of the fair value changes attributable to changes in own credit risk is recorded under *Unrealised or deferred gains and losses* without subsequent reclassification into profit or loss (changes attributable to other factors will continue to be recognised in profit or loss). The scope of financial liabilities designated by the Group to be measured at fair value through profit or loss is not modified by IFRS 9. IFRS 9 also details how to recognise modifications of the terms of financial liabilities that do not result in derecognition.

The principles for the classification and measurement of financial instruments are detailed in Note 3.

Credit risk

IFRS 9 has replaced the incurred loss model provided for in IAS 39 with an expected credit loss (ECL) model. Under this model, impairments and provisions for credit risk are recorded at the initial recognition of the financial assets and of loan and guarantee commitments without waiting for the occurrence of objective evidence of impairment (trigger event).

The application scope and accounting principles for recognising impairment and provisions for credit risk are detailed in Note 3.8.

Hedge accounting

In accordance with the transitional measures provided by IFRS 9, the Group has elected to continue recognising hedging transactions under IAS 39 as adopted by the European Union.

However, additional disclosures related to hedging transactions are provided in Note 3.2 to the 31 December 2018 consolidated financial statements pursuant to amendments to IFRS 7.

TRANSITION REQUIREMENTS

The first-time application of IFRS 9 at 1 January 2018 is retrospective in terms of "Classification and measurement" and "Credit risk"; however, the transitional provisions of IFRS 9 provide the option, taken by the Group, of not restating comparative data for previous financial years.

Consequently, for financial instruments, the data for financial year 2017 which are presented in comparison with the data for financial year 2018 comply with the provisions of IAS 39 as adopted by the European Union. Accounting principles applicable to financial instruments up to 31 December 2017 are presented in the Note 8.8.

Differences in the measurement of financial assets and liabilities resulting from the first-time application of IFRS 9 at 1 January 2018 are recorded directly in equity at that date.

As permitted by the amendment to IFRS 4 "Applying IFRS 9, Financial Instruments, with IFRS 4, Insurance Contracts", as adopted by the European Union on 3 November 2017, the Group has elected to defer the application of IFRS 9 and continue applying IAS 39, as adopted by the European Union, for its insurance subsidiaries (see Note 4.3).

According to ANC's Recommendation No. 2017-02 of 2 June 2017, a separate line was added to the income statement under *Net banking income* for clarification purposes.

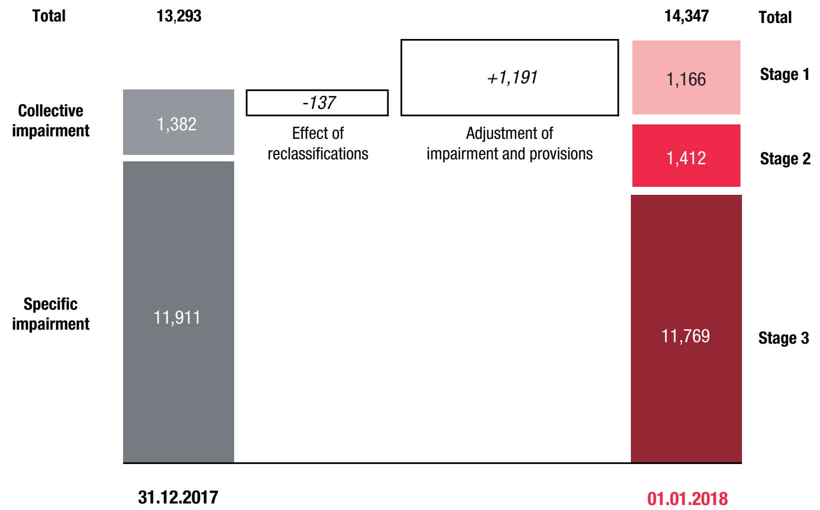
The following table shows the 2018 *Net banking income* prior to this reclassification:

(In millions of euros)	2018	2017
Interest and similar income	24,730	23,679
Interest and similar expense	(14,065)	(13,263)
Fee income	10,798	10,504
Fee expense	(3,874)	(3,681)
Net gains and losses from financial transactions	5,471	5,826
o/w net gains and losses on financial instruments at fair value through profit or loss	*5,018*	*5,113*
o/w net gains and losses on available-for-sale financial assets	*136*	*713*
o/w net gains and losses on financial instruments at fair value through other comprehensive income	*330*	
o/w net gains and losses from the derecognition of financial assets at amortised cost	*(13)*	
Income from other activities	24,097	22,045
Expenses from other activities	(21,952)	(21,156)
NET BANKING INCOME	**25,205**	**23,954**

IMPACTS ON IMPAIRMENT AND PROVISIONS

Adjustment of credit risk impairment and provisions at first time application

The following diagram presents the adjustments recorded on credit risk impairment and provisions between the situation as at 31 December 2017 established in compliance with IAS 39 and the situation as at 1 January 2018, established in compliance with IFRS 9.



The increase of impairment and provisions for credit risk is mainly due to the transition from a model based on the recognition of incurred losses to a model based on the recognition of expected losses.

There is a direct match between specific impairment and provisions under IAS 39 and Stage 3 impairment and provisions under IFRS 9 with the exception of impairment on financial assets that are measured at fair value through profit or loss either because they do not satisfy the SPPI criteria under IFRS 9 (reclassified outstandings: EUR 643 million) or they have been reclassified in the trading portfolio regarding their business model (reclassified outstandings: EUR 644 million). Indeed, the definition of default exposure remains unchanged between the two standards. After an in-depth analysis of methods used to estimate future recoverable cash flows, we found that a large portion of cash flow estimates already include a prospective feature. In cases where the loss assessment method was based on a statistical method, the link between credit losses and macro-economic variables is not relevant.

Moreover, no outstanding has been classified as purchased or originated credit-impaired assets.

However, impairments on groups of homogeneous assets have been replaced by expected credit loss impairments at one year or at maturity:

- outstandings on counterparties with a weakened financial situation since the initial recognition of those financial assets but without any objective evidence of impairment identified individually (watchlist outstanding) have been partly included in the Stage 2 category with expected credit loss impairment calculated at maturity;
- outstandings on counterparties of economic sectors considered as in crisis following loss triggering events on outstandings on geographical sectors or on countries for which a deterioration of the credit risk has been observed, have been allocated to Stage 1 (expected credit loss impairment at one year) and Stage 2 categories (expected credit loss impairment at maturity) depending on their individual credit risk and taking into account the deterioration of the sector or country between the granting date of the loan and the reporting date.

As a result, the net increase related to the transition to IFRS 9 is limited to EUR 1,054 million and is mainly due to one year expected credit loss impairments and provisions.

BREAKDOWN OF IMPAIRMENT AND PROVISIONS BY ITEM OF THE BALANCE SHEET

	Balance as of 31.12.2017 IAS 39/IAS 37					Balance as of 01.01.2018 IFRS 9			
(In millions of euros)	Specific assessment	Collective assessment	Total	Reclassification effects	Adjustment of credit risk impairment/ provisions	Stage 1	Stage 2	Stage 3	Total
Impairment of financial assets	**11,565**	**1,311**	**12,876**	**(137)**	**925**	**997**	**1,244**	**11,423**	**13,664**
Impairment of financial assets at amortised cost	11,460	1,311	12,771	(47)	925	992	1,244	11,413	13,649
Customer loans at amortised cost	*11,214*	*1,311*	*12,525*	*(52)*	*888*	*982*	*1,217*	*11,162*	*13,361*
Due from banks at amortised cost	*25*		*25*		*4*	*4*		*25*	*29*
Securities at amortised cost				*5*	*6*	*6*		*5*	*11*
Held-to-maturity financial assets									
Other assets	*221*		*221*		*27*		*27*	*221*	*248*
Impairment of financial assets at fair value through other comprehensive income	105	-	105	(90)	-	5	-	10	15
Available-for-sale financial assets	*105*		*105*	*(105)*					
Financial assets at fair value through other comprehensive income				*15*		*5*		*10*	*15*
Provision for credit risk on commitments	**346**	**71**	**417**		**266**	**169**	**168**	**346**	**683**
TOTAL IMPAIRMENT/PROVISIONS	**11,911**	**1,382**	**13,293**	**(137)**	**1,191**	**1,166**	**1,412**	**11,769**	**14,347**

IMPACT ON BALANCE SHEET

Reconciliation of the asset side between IAS 39 and IFRS 9

To determine the classification under IFRS 9 of financial assets recognised on balance sheet as at 31 December 2017, the Group performed a detailed analysis of:

- the characteristics of contractual cash flows based on facts and circumstances at the date of initial recognition of the instruments;
- the business models of its financial assets based on facts and circumstances at 1 January 2018.

Moreover, the Group implemented a new expected credit loss model to estimate impairment on financial assets measured at amortised cost or at fair value through other comprehensive income and on receivables classified among *Other assets* (operating lease receivable and sundry debtors in particular) and to estimate provisions on financial guarantee and loan commitments.

The carrying amount of investments accounted for using the equity method has been adjusted according to IFRS 9 impacts on the financial assets held by those entities.

The following tables reconcile the asset side of the balance sheet as at 31 December 2017, prepared in compliance with IAS 39, and the asset side of the balance sheet as at 1 January 2018, prepared in compliance with IFRS 9.

		Reclassifications						
(In millions of euros)	**Balances at 31.12.2017 IAS 39**	**of investments of insurance activities**	**of available-for-sale financial assets**	**of held-to-maturity financial assets**	**of non-SPPI loans and receivables**	**of loans and receivables regarding their business model**	**Others**	**Reclassified balances**
		A	**B**	**C**	**D**	**E**	**F**	
Cash, due from central banks	114,404	-	-	-	-	-	-	114,404
Financial assets at fair value through profit or loss	419,680	(54,598)	2,422	-	643	644	537	369,328
Hedging derivatives	13,641	(420)	-	-	-	-	(503)	12,718
Financial assets at fair value through other comprehensive income	N/A	-	49,874	485	-	80	-	50,439
Available-for-sale financial assets	139,998	(84,731)	(55,267)	-	-	-	-	-
Securities at amortised cost	N/A	-	2,971	3,078	-	-	5,650	11,699
Due from banks at amortised cost	60,866	(7,103)	-	-	(5)	(80)	(18)	53,660
Customer loans at amortised cost	425,231	(141)	-	-	(638)	(644)	(5,580)	418,228
Revaluation differences on portfolios hedged against interest rate risk	663	-	-	-	-	-	-	663
Investments of insurance activities	N/A	147,611	-	-	-	-	-	147,611
Held-to-maturity financial assets	3,563	-	-	(3,563)	-		-	-
Tax assets	6,001	-	-	-	-	-	-	6,001
Other assets	60,562	-	-	-	-	-	(86)	60,476
Non-current assets held for sale	13	-	-	-	-	-	-	13
Investments accounted for using the equity method	700	-	-	-	-	-	-	700
Tangible and intangible fixed assets	24,818	(618)	-	-	-	-	-	24,200
Goodwill	4,988	-	-	-	-	-	-	4,988
TOTAL	**1,275,128**	**-**	**-**	**-**	**-**	**-**	**-**	**1,275,128**

		Value adjustments			
(In millions of euros)	**Reclassified balances**	**Reclassification effects**	**Impairment for credit risk**	**Change in deferred taxes**	**Balance at 01.01.2018 IFRS 9(1)**
		G	**H**	**I**	
Cash, due from central banks	114,404	-	-	-	114,404
Financial assets at fair value through profit or loss	369,328	(216)	-	-	369,112
Hedging derivatives	12,718	-	-	-	12,718
Financial assets at fair value through other comprehensive income	50,439	29	-	-	50,468
Available-for-sale financial assets	-	-	-	-	
Securities at amortised cost	11,699	(100)	(7)	-	11,592
Due from banks at amortised cost	53,660	-	(4)	-	53,656
Customer loans at amortised cost	418,228	50	(887)	-	417,391
Revaluation differences on portfolios hedged against interest rate risk	663	-	-	-	663
Investments of insurance activities	147,611	-	-	-	147,611
Held-to-maturity financial assets	-	-	-	-	
Tax assets	6,001	-	-	291	6,292
Other assets	60,476	-	(27)	-	60,449
Non-current assets held for sale	13	-	-	-	13
Investments accounted for using the equity method	700	(45)	-	4	659
Tangible and intangible fixed assets	24,200	-	-	-	24,200
Goodwill	4,988	-	-	-	4,988
TOTAL	**1,275,128**	**(282)**	**(925)**	**295**	**1,274,216**

(1) Except for insurance subsidiaries (see Note 4.3).

DESCRIPTION OF RECLASSIFICATIONS

Identification of insurance investments (column A)

Following the decision of the Group to defer the application of IFRS 9 for its insurance subsidiaries, all financial assets and real-estate investments hold by those entities have been grouped in a specific line of the balance sheet (*Investments of insurance activities*) in which financial assets remain recorded in compliance with IAS 39.

Reclassification of available-for-sale and held-to-maturity financial assets (columns B and C)

Applying IFRS 9 causes the disappearance of the accounting categories *Available-for-sale financial assets* and *Held-to-maturity financial assets*. Consequently, except for instruments grouped in the line *Investments of insurance activities*, instruments previously included in those categories have been reclassified in the new IFRS 9 accounting categories according to the characteristics of their contractual cash flows and their business model.

As of 31 December 2017, except for investments of insurance activities, available-for-sale financial assets included debt securities (bonds and equivalent securities) for EUR 53,464 million and equity securities (shares and equivalent securities) for EUR 1,803 million.

- Debt securities are mainly held as part of the cash management activities for the Bank's own account and as part of the management of HQLA (High Quality Liquid Assets) portfolios included in the liquidity buffer. Those securities, whose contractual cash flows are SPPI, are primarily classified as *Financial assets at fair value through other comprehensive income* for EUR 49,584 million in compliance with their business model which implies regular sales of assets from liquidity buffer portfolios. The business model implying collecting contractual cash flows is only marginally applied by some subsidiaries for their HQLA portfolios which have therefore been classified as *Securities at amortised cost* for EUR 2,971 million;
- The other debt securities belong mainly to residual portfolios of securitisation assets managed in run-off which have therefore been classified as *Financial assets at fair value through profit or loss* for EUR 895 million;
- Equity securities have been classified by default as *Financial assets at fair value through profit or loss* for EUR 1,513 million. The option to measure shares at fair value through other comprehensive income without later reclassification through profit or loss has been chosen in a very few cases by the Group (EUR 290 million).

Financial assets previously classified as *Held-to-maturity financial assets* included exclusively debt securities with SPPI contractual cash flows. Those securities are held for the management of the Group liquidity buffer which implies collecting their contractual cash flows. Consequently, they have been classified as *Securities at amortised cost* for EUR 3,078 million. Marginally, some long-term securities have been classified as *Financial assets at fair value through other comprehensive income* considering their specific business model which can imply selling assets (EUR 485 million).

Marginal amount of non-SPPI loans and receivables (column D)

The amount of loans and receivables that have been reclassified among *Financial assets at fair value through profit or loss* due to the non-SPPI characteristics of their contractual cash flows is limited: EUR 643 million. Those instruments are mainly loans that include prepayment features with compensation that do not reflect the effect of changes in the benchmark interest rate.

Limited impact of reclassifications related to the business model (column E)

Loans and receivables to customers reclassified as *Financial assets at fair value through profit or loss* for EUR 644 million include mainly:

- the portion of syndicated loans that are not intended to be kept by the Group and that have been identified since their origination as to be sold in the short term on the secondary market; and
- residual outstandings of CDO (Collateralised Debt Obligations) tranches and ABS (Asset Backed Securities) tranches presented among loans and receivables since their reclassification in 2008 and that are intended to be sold through an organised and pre-determined disposal program.

Other reclassifications (column F)

Hedging derivative instruments, for which the hedged financial asset has been reclassified as *Financial assets at fair value through profit or loss*, have been de-designated and reclassified as trading instruments for an amount of EUR 503 million on the asset side. Moreover, bonds which were considered to be loans and receivables under IAS 39 as those instruments are unquoted, have been reclassified as *Securities at amortised cost* for an amount of EUR 5,612 million.

DESCRIPTION OF VALUE ADJUSTMENTS

Limited effects of reclassifications (column G)

The balance sheet value of financial assets, which have been reclassified according to IFRS 9, has been adjusted based on their new measurement method. Those adjustments include EUR 137 million of credit risk impairment reversal on financial assets reclassified as *Financial assets at fair value through profit or loss*.

Increase in credit risk impairment (column H)

The application of the new accounting model for credit risk causes an adjustment of impairment related to financial assets measured at amortised cost (increase of EUR 925 million). This adjustment concerns mainly loans to customers. The analysis of those adjustments is presented in section "Impact on impairment and provisions".

Tax effects (column I)

The tax effects of those adjustments have changed the amounts of deferred tax assets and liabilities in the Group balance sheet.

Reconciliation of the liability side between IAS 39 and IFRS 9

The following table reconciles the liability side of the balance sheet as at 31 December 2017 prepared in compliance with IAS 39 and the liability side of the balance sheet as at 1 January 2018 prepared in compliance with IFRS 9.

(In millions of euros)	Balances at 31.12.2017 IAS 39	Reclassifications: of insurance liabilities	Reclassifications: of own credit risk adjustment	Reclassifications: Others	Value adjustments: Reclassifications effects	Value adjustments: Impairment and provisions for credit risks	Value adjustments: Change in deferred taxes	Balance at 01.01.2018 IFRS 9(1)
		A	B	C	D	E	F	
Due to central banks	5,604	-	-	-	-	-	-	5,604
Financial liabilities at fair value through profit or loss	368,705	(759)	-	604	-	-	-	368,550
Hedging derivatives	6,750	-	-	(604)	-	-	-	6,146
Debt securities issued	103,235	-	-	-	-	-	-	103,235
Due to banks	88,621	-	-	-	-	-	-	88,621
Customer deposits	410,633	-	-	-	-	-	-	410,633
Revaluation differences on portfolios hedged against interest rate risk	6,020	-	-	-	-	-	-	6,020
Tax liabilities	1,662	-	-	-	-	-	(54)	1,608
Other liabilities	69,139	-	-	-	-	-	-	69,139
Non-current liabilities held for sale	-	-	-	-	-	-	-	-
Underwriting reserves of insurance companies	130,958	(130,958)	-	-	-	-	-	
Liabilities related to insurance companies	N/A	131,717	-	-	-	-	-	131,717
Provisions	6,117	-	-	-	(38)	266	-	6,345
Subordinated debt	13,647	-	-	-	-	-	-	13,647
TOTAL LIABILITIES	**1,211,091**	**-**	**-**	**-**	**(38)**	**266**	**(54)**	**1,211,265**
SHAREHOLDERS' EQUITY								
Shareholders' equity, Group share								
Issued common stocks, equity instruments and capital reserves	29,427	-	-	-	-	-	-	29,427
Retained earnings	27,791	-	724	-	113	(1,031)	101	27,698
Net income	2,806	-	-	-	-	-	-	2,806
SUB-TOTAL	**60,024**	**-**	**724**	**-**	**113**	**(1,031)**	**101**	**59,931**
Unrealised or deferred capital gains and losses	(651)	-	(724)	-	(329)	5	196	(1,503)
SUB-TOTAL EQUITY, GROUP SHARE	**59,373**	**-**	**-**	**-**	**(216)**	**(1,026)**	**297**	**58,428**
Non-controlling interests	4,664	-	-	-	(28)	(165)	52	4,523
TOTAL EQUITY	**64,037**	**-**	**-**	**-**	**(244)**	**(1,191)**	**349**	**62,951**
TOTAL	**1,275,128**	**-**	**-**	**-**	**(282)**	**(925)**	**295**	**1,274,216**

(1) Except for insurance subsidiaries (see Note 4.3).

DESCRIPTION OF RECLASSIFICATIONS

Identification of liabilities related to insurance contracts (column A)

Following the decision of the Group to defer the application of IFRS 9 for its insurance subsidiaries, liabilities related to insurance contracts (underwriting reserves of insurance companies and derivatives instruments) have been grouped in a specific line of the balance sheet (*Insurance contracts related to liabilities*).

OCA (Own Credit risk Adjustment) (column B)

Revaluation differences on financial liabilities designated at fair value through profit or loss using the fair value option, and related to the Group's own credit risk (also called OCA) are now recorded among *Unrealised or deferred capital gains and losses*, without subsequent reclassification in profit or loss. The cumulated differences as at 31 December 2017 amount to EUR -724 million.

Other reclassifications (column C)

Hedging derivative instruments for which the hedged financial asset has been reclassified as *Financial assets at fair value through profit or loss* have been de-designated and reclassified as trading instruments for an amount of EUR 604 million on the liability side.

DESCRIPTION OF VALUE ADJUSTMENTS

Limited increase in provisions for credit risk (column E)

The application of the new accounting model for credit risk causes an adjustment of provisions on guarantee and loan commitments for an amount of EUR 266 million in addition to an adjustment of impairment on the asset side. The analysis of those adjustments is presented in the section "Impacts on impairment and provisions".

Tax effects (column F)

The tax effects of those adjustments have changed the amounts of deferred tax assets and liabilities in the Group's balance sheet.

Equity (columns D, E and F)

The value adjustments recorded as at 1 January 2018 on Group assets and liabilities in compliance with IFRS 9 have been recorded with a corresponding entry in equity. Those adjustments are mainly due to the application of the new accounting model for credit risk (EUR -1,191 million).

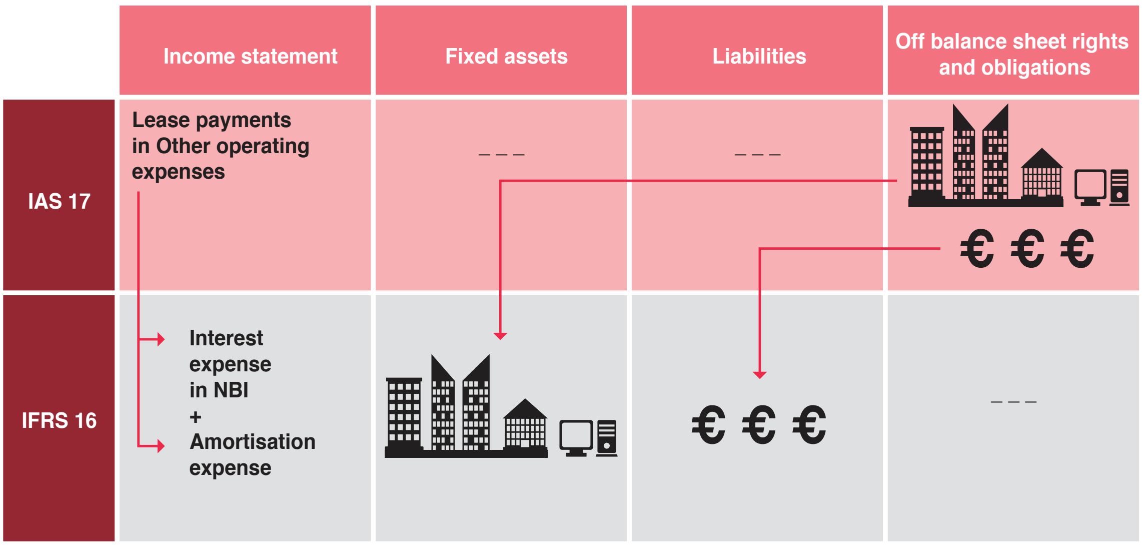
Moreover, adjustments of impairment on debt financial assets at fair value through other comprehensive income have been reclassified from *Unrealised or deferred capital gains and losses* to *Retained earnings* (EUR 5 million).

NOTE 1.5 Preparation for the first application of IFRS 16 "Leases"

This new standard will supersede, as from 1 January 2019, the existing standard, IAS 17. It will modify the accounting requirements for leases, more specifically in relation to the lessees' financial statements, with very few impacts for the lessors.

ACCOUNTING TREATMENTS PROVIDED BY IFRS 16

For all lease agreements, the lessee will be required to recognise a right-of-use asset in its balance sheet representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In its income statement, the lessee will separately recognise the depreciation of the right-of-use assets and the interest expense on lease liabilities. This treatment is currently applied by lessees to finance-lease transactions and it will then be extended to operating leases as well:



Scope

IFRS 16 will concern any contract meeting the definition of a lease except for:

- leases to explore for or use non-regenerative resources and leases of biological assets;
- service concession arrangements;
- licences of intellectual property;
- rights held by a lessee under licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Lessees are not required to apply this standard to intangible assets leases (software for example). In preparing the application of the standard, the Group used this option.

The Group, as a lessee, recorded its leases as operating leases until 31 December 2018, and recorded the lease payments as an expense on a straight-line basis over the lease term, pursuant to IAS 17.

These annual lease payments totalled EUR 752 million in 2018, compared to EUR 839 million in 2017 (see Note 8.2).

Property Leases

Most of the leases (>90%) involve building leases contracted for the lease of commercial and office space:

- The commercial spaces are branches in the Group's French and international retail banking networks.
- The office buildings are leased for certain departments reporting to the Group's French headquarters or the local head offices of the main foreign subsidiaries, and for certain locations in the main international financial centres: London, New York, Hong Kong...

At 31 December 2018, there are approximately 4,500 outstanding property leases, including more than 3,500 in France.

The majority of leases contracted in France are nine-year commercial leases with early termination options at three and six years (so-called "3/6/9" leases).

Outside France, residual lease periods are generally below 10 years. In some countries, such as Russia, leases can be annual, with optional automatic renewal. In other locations, specifically London and New York, lease periods can be as long as 25 years.

Equipment Leases

Other leases (<10%) are mainly computer equipment leases and a very small percentage of vehicle leases.

Simplified procedures

Lessors may choose not to apply the new lease treatment to contracts with a term of less than one year (including renewal options), nor to contracts on low-value items. This last simplification applies specifically to small equipment such as personal computers, tablets, telephones, and small items of office furniture. The IASB mentions a guideline threshold of USD 5,000 in the standard's Basis for Conclusions (the threshold should be measured against the replacement cost per unit of the leased asset).

The Group has decided to apply this exemption threshold of USD 5,000 and has, furthermore, considered the possibility to exclude other lease agreements provided the effect of these exclusions will remain immaterial with regard to its financial statements.

The majority of vehicle leases are contracted with the Group's consolidated entities belonging to the ALD Automotive sub-group. Leases contracted with lessors outside the Group are marginal and fall within the scope of additional exclusions because they are immaterial.

Distinction between leases and service contracts

IFRS 16 introduces new provisions for distinguishing leases from service contracts.

In the lessees' accounts, the standard will no longer separate contracts classified as operating leases from lease financing contracts.

However, the contracts must be analysed to determine whether they meet the definition of a lease, and to separate, as applicable, the various lease components from the non-lease (or service) components.

A contract is, or contains, a lease if it conveys to the lessor the right to control the use of an identified asset for a period of time in exchange for consideration:

- Control is conveyed where the customer has both the right to direct the identified asset's use, and to obtain substantially all the economic benefits from that use throughout the lease period.
- The existence of an identified asset will depend on the absence, for the lessor, of substantive substitution rights for the leased asset; this condition is measured with regard to the facts and circumstances existing at the commencement of the contract. If the lessor has the option of freely substituting the leased asset, the contract can not be qualified as a lease, since its purpose is the provision of a capacity and not an asset.
- A capacity portion of an asset is still an identified asset if it is physically distinct (*e.g.* a floor of a building). Conversely, a portion of the capacity or of an asset that is not physically distinct does not constitute an identified asset (*e.g.* the lease of co-working area within a unit with no pre-defined location inside that unit).

If the lessor cannot separate the non-lease (or service) components from the lease components within a single contract, the contract will be qualified as a single lease.

The Group has entered into contracts giving it access to back up sites that can be used if the entities' customary premises should become inaccessible. If these contracts include lease and service components, they will be treated entirely as leases.

Marginally, certain contracts for providing back up sites have been identified as being entirely service contracts. These back up sites are not specifically designed for the entity and do not consist of entire buildings; they only provide areas within building complexes, without pre-defined location within the building complex, and they do not represent virtually all of the capacity of the building complex.

Accounting treatment of lease contracts for the lessees

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RECOGNITION OF A LESSEE'S LEASE LIABILITY

On the commencement date (on which the leased asset is made available for use), the lessee must book a lease liability on the liabilities side of its balance sheet. The initial amount of the liability is equal to the discounted value of the rental payments that will be payable over the lease period.

This lease liability is then measured at the amortised cost using the effective interest rate method: part of each rental payment will then be booked as interest expenses in the income statement, and part will be gradually deducted from the lease liability on the balance sheet.

The amount of the lease liability may be adjusted later if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

As applicable, the lessee must also recognise a provision in its liabilities to cover the costs of restoring the leased asset that would be assumed when the lease ends.

LEASE PERIOD

The lease period to be applied in determining the rental payments to be discounted will match the non-cancellable period of the lease adjusted for:

- options to extend the contract that the lessee is reasonably certain to exercise,
- and early termination options that the lessee is reasonably certain not to exercise.

The measurement of the reasonable certainty of exercising or not exercising the extension or early termination options shall take into account all the facts and circumstances that may create an economic incentive to exercise or not to exercise these options, specifically:

- the conditions for exercising these options (including measurement of the amount of the rental payments in case of an extension, or of the amount of penalties that may be imposed for early termination),
- substantial changes made to the leased premises (specific layouts, such as a bank vault),
- the costs associated with terminating the contract (negotiation costs, moving costs, research costs for a new asset that meets the lessee's requirements, etc.),
- the importance of the leased asset for the lessee, in view of its specific nature, its location, or the availability of substitute assets (specifically for branches located in commercially strategic sites, given their accessibility, expected traffic, or the prestige of the location),
- the history of renewals of similar contracts, as well as the strategy for the future use of the assets (based on the prospect of redeployment or rearrangement of a commercial branch network, for example).

If the lessee and the lessor each have the right to terminate the lease without the prior agreement of the other party and with no penalty other than a negligible one, the contract is no longer binding, and thus it no longer creates a lease liability.

In France, the majority of property leases contracted in France are nine-year commercial leases with early termination options at three and six years (so-called "3/6/9" leases). If a new contract is not signed by the end of that nine-year period, the initial lease is automatically extended.

These "3/6/9" commercial leases are generally enforceable for a term of nine years, with an initial three-year non-cancellation period.

LEASE DISCOUNT RATES

The implicit contract rates are not generally known nor easily determined, specifically for building leases. Therefore, the Group has decided to use the lessees' incremental borrowing rate to discount the rental payments as well as the amount of lease liabilities.

The incremental borrowing rate is set by the lessee entity, not by the Group, in consideration of the borrowing terms and that entity's credit risk.

The discount rates to be used by the Group shall be set according to the currency and country of location of the lessee entities.

RENTAL PAYMENT AMOUNTS

The payments to be applied for the measurement of the lease liability include fixed and variable rental payments based on an index (*e.g.* consumer price index or construction cost index) or a benchmark interest rate (Euribor), plus, where applicable, the funds that the lessee expects to pay the lessor for residual value guarantees, purchase options, or early termination penalties.

However, variable lease payments that are indexed based on the use of the leased asset (indexed to revenue or mileage, for example) are excluded from the measurement of lease liability. This variable portion of the rental payments is recorded in the net income over time according to fluctuations in contractual indexing.

In France, rental payments will be applied based on their amount net of value-added tax. In addition, for building leases, occupancy taxes and property taxes passed on by lessors will be excluded from lease liabilities because their amount, as set by the competent public authorities, is variable.

RECOGNITION OF A LESSEE'S RIGHT-OF-USE

On the availability date of the leased asset, the lessee must enter a right-of-use to the leased asset, on the assets side of the balance sheet, for an amount equal to the initial value of the lease liability, plus, as applicable, initial direct costs, advance payments, and restoration costs.

This asset is then depreciated on a straight-line basis over the lease period that is applied for measuring the lease liability.

The asset's value may be adjusted later if the lease is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

Rights-of-use will be presented on the lessee's balance sheet under the items of fixed assets where properties of the same type that are held in full ownership are entered. If the leases stipulate the initial payment of a leasehold right to the former tenant of the premises, the amount of that right will be stated as a component of the right of use and presented under the same heading as the latter. At 31 December 2018, the amount of leasehold rights recorded by the Group under Intangible f*ixed assets was approxi*mately EUR 100 million.

In the income statement, depreciation charges on rights-to-use will be presented with the depreciation charges on fixed assets held in full ownership.

INCOME TAX

Deferred tax will be recorded on the basis of the net amount of taxable and deductible temporary differences.

On the date of the initial recording of the right-of-use and the lease liability, no deferred tax will be recorded if the asset value is equal to the liability value.

The net temporary differences that may result from subsequent changes in the right-to-use and lease liability will result in the recognition of deferred tax.

ORGANISATION OF THE SCHEDULE FOR IMPLEMENTING IFRS 16

In the fourth quarter of 2016, following a preliminary analysis phase on IFRS 16, the Group began scoping work for adapting information systems and processes, and defining the scope of such contracts.

To this end, a project structure was set up under the joint governance of the Group's Finance and Corporate Resources Divisions.

Over the course of 2017, the Group undertook an initial collection of leases on real estate assets and began the collection of contracts for IT equipment to enter into a contract database.

At the same time, the Group undertook development of an in-house calculation and operation tool for lease databases, which will be used to generate the data required to recognise the leases in accordance with IFRS 16.

In 2018, the Group finalised the development of its calculation tool and its entries through the lease databases and tested its features. All personnel involved received training in IFRS 16 and its implementation procedures as well as in the new operation tools and processes in place. In the second half of the year, a full rehearsal was done to test the entire implementation mechanism for IFRS 16.

TRANSITION PROCEDURES

For the first-time application of IFRS 16, the Group chose to implement the amended retrospective approach proposed by the standard.

At 1 January 2019, the amount of the lease liability on outstanding leases will be calculated by discounting residual rental payments with the rate in effect on that date, taking into account the residual maturity of the contracts. The corresponding rights-to-use will be recorded on the balance sheet for an amount equal to the lease liability. Therefore, the first-time application of IFRS 16 will have no impact on the amount of the Group shareholders' equity at 1 January 2019.

On that date, leases that have a remaining life of less than 12 months and those that are automatically renewable will be considered short-term leases (leases of less than one year) and not restated, in accordance with the option offered by IFRS 16.

Pursuant to IFRS 16 in its provisions on the amended retrospective approach, comparative data on financial year 2018 that are presented with regard to 2019 will not be restated.

FIRST-TIME APPLICATION OF IFRS 16

Identification and analysis of the lease contracts were approved by the Group by 31 December 2018. The entry of outstanding leases at 1 January 2019 into the lease databases and their release into the calculation tool to determine the final amount of the lease liability and rights-to-use as of the first-time application date will be finalised during the first quarter of 2019.

At the date of approval of these consolidated financial statements by the Board of Directors, the Group estimates that the first application of IFRS 16 will lead to the recognition of a lease liability and of an asset representative of the rights-to-use for an amount of less than EUR 2.5 billion.

NOTE 1.6 Use of estimates and judgment

When applying the accounting principles disclosed in the following notes for the purpose of preparing the Group's consolidated financial statements, the Management makes assumptions and estimates that may have an impact on figures recorded in the income statement, on the *Unrealised or deferred gains and losses* 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, the Management uses information available at the date of preparation of the consolidated financial statements and can exercise its judgment. By nature, valuations based on estimates include risks and uncertainties relating to their occurrence in the future. Consequently, actual future results may differ from these estimates and may then have a significant impact on the financial statements.

The use of estimates and judgment mainly concerns the following topics:

- the fair value in the balance sheet of financial instruments not quoted in an active market which are classified as *Financial assets and liabilities at fair value through profit or loss*, *Hedging derivatives*, *Financial assets at fair-value through other comprehensive income* or even *Available-for-sale financial assets* for the 2017 financial year (described in Notes 3.1, 3.2, 3.3 and 3.4) and fair value of instruments measured at amortised cost for which this information must be disclosed in the notes to the financial statements (see Note 3.9);
- the amount of impairment and provisions for credit risk related to financial assets measured at amortised cost, or at fair-value through other comprehensive income, loan commitments granted and guarantee commitments granted measured with models or internal assumptions based on historical, current and prospective data (see Note 3.8);
- the amount of impairment on *Goodwill* (see Notes 2.2);
- the provisions recognised under liabilities (in particular, provisions for disputes in a complex legal environment and provisions for employee benefits), including underwriting reserves of insurance companies and deferred profit-sharing (see Notes 4.3, 5.2 and 8.3);
- the amount of deferred tax assets recognised in the balance sheet (see Note 6);
- the assessment of control of the Group over an entity when updating the consolidation scope, mainly when structured entities are concerned (see Note 2);
- the initial value of goodwill determined for each business combination (see Notes 2.1 and 2.2).

For the application of IFRS 9, the Group has expanded the use of estimates and judgement in analysing the contractual cash flow characteristics of financial assets, assessing the increase in credit risk observed since the initial recognition of financial assets, and measuring the amount of expected credit losses on these same financial assets.

The United Kingdom has organised on 23 June 2016 a referendum in which a majority of British citizens voted to leave the European Union (Brexit). This exit must occur on 29 March 2019. The technical agreement concluded between the British government and the European Commission to reshape the economic relations between United Kingdom and the European Union has been rejected by the British parliament in January 2019. In the event of an exit of United Kingdom from the European Union on 29 March 2019 without any consent on a transition agreement, the Group is taking actions to ensure the business continuity for its customers from this date. Those changes of Brexit implementation process have been considered in the assumptions and assessments adopted for the preparation of the Group financial statements.

NOTE 2 CONSOLIDATION

MAKE IT SIMPLE

The various activities of the Societe Generale Group in France and abroad are carried out by Societe Generale – Parent company (which includes the Societe Generale foreign branches) and by all of the entities that it controls either directly or indirectly (subsidiaries and joint arrangements) or on which it exercises significant influence (associates). All of these entities make up the scope of the Group consolidation.

Consolidation uses a standardized accounting process to give an aggregated presentation of the accounts of Societe Generale – Parent company and its subsidiaries, joint arrangements and associates, presented as if they were a single entity.

To do so, the individual accounts of the entities that make up the Group are restated so that they are in accordance with IFRS, as adopted by the European Union, in order to present consistent information in the consolidated financial statements.

In addition, the accounting balances (assets, liabilities, income and expense) generated by transactions between Group entities are eliminated through the consolidation process so that the consolidated financial statements present only the operations and results made with third parties outside of the Group.

ACCOUNTING PRINCIPLES

The consolidated financial statements of Societe Generale include the financial statements of the parent company and of the main French and foreign companies as well as foreign branches over which the Group exercises control, joint control or significant influence.

Consolidated entities

SUBSIDIARIES

Subsidiaries are the entities over which the Group has exclusive control. The Group controls an entity if and only if the following conditions are met:

- the Group has power over the entity (ability to direct its relevant activities, *i.e.* the activities that significantly affect the entity's returns), through the holding of voting rights or other rights; and
- the Group has exposure or rights to variable returns from its involvement with the entity; and
- the Group has the ability to use its power over the entity to affect the amount of the Group's returns.

Power

When determining voting rights for the purpose of establishing the Group's degree of control over an entity and the appropriate consolidation methods, potential voting rights are taken into account where they can be freely exercised at the time the assessment is made or at the latest when decisions about the direction of the relevant activities need to be made. Potential voting rights are instruments such as call options on ordinary shares outstanding on the market or rights to convert bonds into new ordinary shares.

When voting rights are not relevant to determine whether or not the Group controls an entity, the assessment of this control shall consider all the facts and circumstances, including the existence of one or more contractual arrangements. Power over an investee exists only if the investor has substantive rights that give it the current ability to direct relevant activities without barriers.

Some rights are designed to protect the interests of their holder (protective rights) without giving that party power over the investee to which those rights relate.

If several investors each have substantive rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the variable returns of the investee is presumed to have power over the investee.

Exposure to variable returns

Control exists only if the Group is significantly exposed to the variability of variable returns generated by its investment or its involvement in the entity. These returns, which could be dividends, interest, fees, etc., can be only positive, only negative or both positive and negative.

Link between power and returns

Power over the relevant activities does not give control to the Group if this power does not allow it to affect its returns from its involvement with the entity. If the Group has been delegated decision-making rights that it exercises on behalf and for the benefit of third parties (the principals), it is presumed to act as an agent for these principals, and therefore it does not control the entity when it exercises its decision-making authority. In asset management activities, an analysis shall be performed in order to determine whether the asset manager is acting as agent or principal when managing the net assets of a fund; the fund is presumed to be controlled by the asset manager if the latter is considered as a principal.

Special case of structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Such is the case, for example, when the relevant activities are directed by means of contractual arrangements.

A structured entity often presents certain characteristics such as a limited business activity, a specific and carefully defined purpose, or insufficient capital to fund its activities without the use of subordinated financing.

Structured entities may assume different legal forms: stock companies, partnerships, securitisation vehicles, mutual funds, unincorporated entities, etc.

When assessing the existence of control over a structured entity, all facts and circumstances shall be considered among which:

- the purpose and design of the entity;
- the structuring of the entity;
- risks to which the entity is exposed by way of its design and the Group's exposure to some or all of these risks;
- potential returns and benefits for the Group.

Unconsolidated structured entities are those that are not exclusively controlled by the Group.

JOINT ARRANGEMENTS

Through a joint arrangement (either a joint operation or a joint venture) the Group exercises joint control over an entity if decisions about the direction of its relevant activities require the unanimous consent of the parties that collectively control the entity. Assessing joint control requires an analysis of the rights and obligations of all the parties.

In the case of a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities.

In the case of a joint venture, the parties have rights to the net assets of the entity.

ASSOCIATES

Associates are companies over which the Group exercises significant influence and are accounted for using the equity method in the Group's consolidated financial statements. Significant influence is the power to participate in the financial and operating policies of an entity without exercising control. In particular, significant influence can result from Societe Generale being represented on the Board of Directors or Supervisory Board, from its involvement in strategic decisions, from the existence of significant intercompany transactions, from the exchange of management staff, or from the company's technical dependency on Societe Generale. The Group is assumed to exercise significant influence over the financial and operating policies of an entity when it directly or indirectly holds at least 20% of the voting rights in this entity.

Consolidation rules and methods

The consolidated financial statements are built up from the financial statements of the entities that are included in the consolidation scope. Companies with a fiscal year ending more than three months before or after that of Societe Generale prepare pro-forma statements for a twelve-month period ended 31 December. All significant balances, profits and transactions between Group companies are eliminated.

The results of newly acquired subsidiaries are included in the consolidated financial statements from the date the acquisition became effective and results of subsidiaries disposed of during the fiscal year are included up to the date where the Group relinquished control.

CONSOLIDATION METHODS

The subsidiaries, which may include structured entities over which the Group has exclusive control, are fully consolidated.

In the consolidated balance sheet, full consolidation consists in replacing the value of the subsidiary's equity securities held by the Group with each of the subsidiary's assets and liabilities, in addition to the goodwill recognised when the Group assumed control over the entity (see Note 2.2).

In the income statement and the statement of net income and unrealised or deferred gains and losses, the subsidiary's expense and income items are aggregated with those of the Group.

The share of non-controlling interests in the subsidiary is presented separately in the consolidated balance sheet and income statement. However, in consolidating structured entities that are controlled by the Group, the shares of said entities not held by the Group are recognised as *Debt* in the balance sheet.

In the case of a joint operation, the Group distinctly recognises in its consolidated financial statements its share in the assets and liabilities as well as its share in the related revenue and expense.

Associates and joint ventures are accounted for using the equity method in the consolidated financial statements of the Group. Under the equity method, on initial recognition the investment in an associate is recognised under *Investments accounted for using the equity method* at the cost of the Group's investment in the joint venture or associate, including goodwill and after the date of acquisition the carrying amount is increased or decreased to recognise the changes in the investor's share in the net asset value of the investee.

These investments are tested for impairment if there is objective evidence of impairment. If the recoverable amount of the investment (value in use or market value net of selling costs, whichever is higher) is lower than its carrying amount, an impairment loss is recorded on the balance sheet at the carrying amount of the investment. Impairment allowances and reversals are recorded under *Net income from investments accounted for using the equity method*.

The Group's share in the entity's net income and unrealised or deferred gains and losses is presented on separate lines in the consolidated income statement and the consolidated statement of net income and unrealised or deferred gains and losses. If the Group's share un the losses of an entity consolidated using the equity method becomes greater than or equal to its ownership interest in the company, the Group ceases to recognise its share in subsequent losses unless it is required to do so by legal or implied obligations, in which case it records a provision for said losses.

Capital gains and losses generated on disposal of companies accounted for using the equity method are recorded under Net income/expense from other assets.

TRANSLATION OF FOREIGN ENTITY FINANCIAL STATEMENTS

The balance sheet items of consolidated companies reporting in foreign currencies are translated into euro at the official exchange rates prevailing at the closing date. Income statement items of these companies are translated into euros, at the average month-end exchange rates. Gains and losses arising from the translation of capital, reserves, retained earnings and income are recognised under *Unrealised or deferred gains and losses – Translation differences*. Gains and losses arising from the translation of the capital contribution of foreign branches of Group banks are also included in changes in consolidated shareholders' equity under the same heading.

In accordance with the option allowed under IFRS 1, the Group allocated all differences arising on translation of foreign entity financial statements at 1 January 2004 to consolidated reserves. As a result, if any of these entities are sold, the proceeds from the sale will only include write-backs of those translation differences arising since 1 January 2004

CHANGES IN GROUP'S OWNERSHIP INTEREST IN A CONSOLIDATED ENTITY

In the event of an increase in Group's ownership interest in a subsidiary over which it already exercises control: the differences between the price paid for the additional stake and the assessed fair value of the proportion of net assets acquired at this date is recorded under *Consolidation reserves, Group share*.

The cost relative to these transactions is recognised directly in equity.

At this date when the Group losses control of a consolidated subsidiary, any investment retained in the former subsidiary is then remeasured at fair value through profit or loss, at the same time the capital gain or loss is recorded under *Net income/expense from other assets* in the consolidated income statement. The gain or loss on disposal includes a share of goodwill previously allocated to the cash-generating units to which the subsidiary belongs. This share is determined using a relative approach based on the normative capital allocated to the subsidiary that is sold and to the portion of cash-generating unit that is retained.

Commitments to buy out minority shareholders in fully consolidated subsidiaries

The Group has awarded minority shareholders in some fully consolidated Group subsidiaries commitments to buy out their stakes. For the Group, these buyout commitments are put option sales. The exercise price for these options can be established using a formula agreed upon at the time of the acquisition of the shares in the subsidiary that takes into account its future performance. It can also be set as the fair value of these shares at the exercise date of the options.

The commitments are recorded as follows:

- in accordance with IAS 32, the Group records a financial liability for the put options granted to minority shareholders of the subsidiaries over which it exercises control. This liability is initially recognised at the present value of the estimated exercise price of the put options under *Other Liabilities*;
- the obligation to recognise a liability even though the put options have not been exercised means that, in order to be consistent, the Group must use the same accounting treatment as that applied to transactions in *Non-controlling interests*. As a result, the counterpart of this liability is a write-down in value of non-controlling interests underlying the options, with any balance deducted from *Retained earnings, Group share*;
- subsequent variations in this liability linked to changes in the estimated exercise price of the options and the carrying value of *Non-controlling interests* are recorded in full in *Retained earnings, Group share*;
- if the buy-out takes place, the liability is settled by the cash payment linked to the acquisition of non-controlling interests in the subsidiary in question. However if, when the commitment reaches its term, the buy-out has not occurred, the liability is written off against *Non-controlling interests* and *Retained earnings, Group share* for their respective portions;
- as long as the options have not been exercised, the results linked to *Non-controlling interests* with a put option are recorded under *Non-controlling interests* on the Group's consolidated income statement.

NOTE 2.1 Consolidation scope

The scope of consolidation is presented by location in Note 8.6.

The consolidation scope includes subsidiaries and structured entities under the Group's exclusive control, joint arrangements (joint ventures and joint operations) and associates whose financial statements are significant relative to the Group's consolidated financial statements, notably regarding Group consolidated total assets and gross operating income.

There is no significant change to the consolidation scope at 31 December 2018, compared with the scope applicable at the closing date of 31 December 2017.

NOTE 2.2 Goodwill

MAKE IT SIMPLE

When the Group acquires a company, it integrates in its consolidated balance sheet all of the new subsidiary's assets and liabilities at fair value, as if they had been individually acquired.

But the acquisition price of a company is generally higher than the net revalued amount of its assets and liabilities. The excess value, called goodwill, can represent part of the company's intangible capital (reputation, quality of its personnel, market shares, etc.) which contributes to its overall value, or the value of the future synergies that the Group hopes to develop by integrating the new subsidiary in its existing activities.

In the consolidated balance sheet, the goodwill is recognised as an intangible asset, the useful life of which is presumed to be unlimited; it is not amortised and therefore does not generate any recurring expense in the Group's future results.

However, every year, the Group assesses whether the value of its goodwill has not depreciated. If it has, an irreversible expense is immediately recognised in the Group results, which indicates that the profitability of the intangible capital of the acquired entity is inferior to initial expectations, or that the anticipated synergies have not been fulfilled.

ACCOUNTING PRINCIPLES

The Group uses the acquisition method to recognise its business combinations.

At the acquisition date, all assets, liabilities, off-balance sheet items and contingent liabilities of the acquired entities that are identifiable under the provisions of IFRS 3 "Business Combinations" are measured individually at their fair value regardless of their purpose. The analyses and professional appraisals required for this initial valuation must be carried out within 12 months as from the acquisition date, as must any adjustment to the value based on new information related to facts and circumstances existing at the acquisition date. At the same time, *Non-controlling interests* are valued according to their share of the fair value of the identifiable assets and liabilities of the acquired entity. However, for each business combination, the Group may also choose to measure *Non-controlling interests* initially at their fair value, in which case a fraction of goodwill is allocated.

The acquisition cost is calculated as the total fair value, at the date of acquisition, of all assets given, liabilities incurred or assumed and equity instruments issued in exchange for the control of the acquired entity. The costs directly linked to business combinations are recognised in the income statement for the period except those related to the issuance of equity instruments.

Any contingent consideration is included in the acquisition cost at its fair value on the acquisition date, even if its occurrence is only potential. It is recognised under equity or debt in the balance sheet depending on the settlement alternatives.

If it is recognised as debt, any subsequent adjustments are recorded under income for financial liabilities in accordance with IFRS 9 and within the scope of the appropriate standards for other debts; if it is recognised as equity, these subsequent adjustments are not recognised. Any excess of the price paid over the assessed fair value of the proportion of net assets acquired is recorded on the asset side of the consolidated balance sheet under *Goodwill*. Any deficit is immediately recognised in the income statement. On the date of acquisition of an entity, any stake in this entity already held by the Group is remeasured at fair value through profit or loss. In the case of a step acquisition, goodwill is therefore determined by referring to the fair value on the acquisition date.

At the acquisition date, each item of goodwill is allocated to one or more Cash-Generating Units (CGU's) expected to derive benefits from the acquisition. When the Group reorganises its reporting structure in a way that changes the composition of one or more CGU's, goodwill previously allocated to modified units is reallocated to the units affected (new or existing). This reallocation is generally performed using a relative approach based on the normative capital requirements of each CGU's affected.

Goodwill is reviewed regularly by the Group and tested for impairment whenever there is any indication that its value may have diminished, and at least once a year. Any impairment of goodwill is calculated based on the recoverable value of the relevant CGU's.

If the recoverable amount of the CGU's is less than its (their) carrying amount, an irreversible impairment is recorded in the consolidated income statement for the period under *Value adjustments on goodwill*.

At 31 December 2018, goodwill recorded by the 11 CGUs can be broken down as follows:

Pillars	Activities
French Retail Banking	
Societe Generale network	Societe Generale's retail banking network, Boursorama online banking activities, consumer and equipment financing in France
Crédit du Nord	Retail banking network of Crédit du Nord and its 7 regional banks
International Retail Banking and Financial Services	
Europe	Retail banking and consumer finance services in Europe, notably in Germany (Hanseatic Bank, BDK), Italy (Fiditalia), Czech Republic (KB, Essox), Romania (BRD)
Russia	Integrated banking group including Rosbank and its subsidiaries DeltaCredit and Rusfinance
Africa, Mediterranean Basin and Overseas	Retail banking and consumer finance in Africa, Asia, the Mediterranean Basin and Overseas, including in Morocco (SGMA), Algeria (SGA), Tunisia (UIB), Cameroon (SGBC), Côte d'Ivoire (SGBCI) and Senegal (SGBS)
Insurance	Life and non-life insurance activities in France and abroad (including Sogécap, Sogessur, Oradéa Vie and Antarius)
Equipment and Vendor Finance	Financing of sales and professional equipment by Societe Generale Equipment Finance
Auto Leasing Financial Services	Operational vehicle leasing and fleet management services (ALD Automotive)
Global Banking and Investor Solutions	
Global Markets and Investor Services	Market solutions for businesses, financial institutions, the public sector, family offices and a full range of securities services, clearing services, execution, prime brokerage and custody
Financing and Advisory	Advisory and financing services for businesses, financial institutions and the public sector and transaction and payment management services
Asset and Wealth Management	Asset and Wealth Management Solutions in France and abroad

The table below shows the changes in the net values of goodwill recorded by the Cash-Generating Units (CGUs) in 2018:

(In millions of euros)	Net book value at 31.12.2017	Acquisitions and other increases	Disposals and other decreases(1)	Transfers(2)	Net book value at 31.12.2018
French Retail Banking	**815**			**(18)**	**797**
Societe Generale network	304			(18)	286
Crédit du Nord	511				511
International Retail Banking & Financial Services	**3,209**	**13**	**(337)**		**2,885**
Europe	1,787		(337)		1,450
Russia	-				-
Africa, Mediterranean Basin and Overseas(3)	231				231
Insurance	335				335
Equipment and Vendor Finance	335				335
Auto Leasing Financial Services	521	13			534
Global Banking and Investor Solutions	**964**		**(12)**	**18**	**970**
Global Markets and Investor Services	501				501
Financing and Advisory	39			18	57
Asset and Wealth Management	424		(12)		412
TOTAL	**4,988**	**13**	**(349)**		**4,652**

(1) The goodwill relative to Asset management and private banking in Belgium (SG Private Banking NV) and for the retail banking in Albanian (Banka SG Albania), in Bulgarian (SG Express Bank), in Poland (Eurobank), in Serbia (SG Banka Srbija A.D. Beograd), in Macedonia (Ohridska Banka A.D. Skopje), in Moldova (Mobiasbanca Group SG) and in Montenegro (SG Banka Montenegro A.D.) has been reclassified to "Non-current assets held for sale" (See Note 2.5).

(2) Since 1 January 2018, the activity Global Transaction and Payment Services has been transferred from French Retail Banking to Global Banking and Investor Solutions.

(3) The CGU "Africa, Asia, Mediterranean Basin and Overseas" has been renamed "Africa, Mediterranean Basin and Overseas" without consequences on the amount of goodwill.

The Group performed an annual impairment test at 31 December 2018 for each CGU to which goodwill had been allocated. A CGU is defined as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from the Group's other assets or groups of assets. Impairment tests consist into assessing the recoverable value of each CGU and comparing it with its carrying value. An irreversible impairment loss is recorded in the income statement if the carrying value of a CGU, including goodwill, exceeds its recoverable value. This loss is booked to the impairment of goodwill.

The recoverable amount of a cash-generating unit is calculated using the most appropriate method, generally the discounted cash flow (DCF) method applied to the entire cash-generating unit. The cash flows used in this calculation are income available for distribution generated by all the entities included in the cash-generating unit, taking into account the Group targeted equity allocated to each CGU.

The cash flows were determined this year on a five-year period, with the prospective four-year budgets (from 2019 to 2022) extrapolated over the year 2023, this one corresponding to a "normative" year used to calculate the terminal value:

- allocated equity at 31 December 2018 amounted to 11% of risk-weighted assets, excepted for Crédit du Nord, whose allocated equity amounted to 10.5%, in accordance with the entity's management guidelines;
- the discount rate is calculated using a risk-free rate grossed up by a risk premium based on the CGU's underlying activities. This risk premium, specific to each activity, is calculated from a series of equity risk premiums published by SG Cross Asset Research and from its specific estimated volatility (beta). Where appropriate, the risk-free rate is also grossed up by a sovereign risk premium, representing the difference between the risk-free rate available in the area of monetary assignment (mainly US dollar area or Euro area) and the interest rate observed on liquid long-term treasury bonds issued (mainly US dollar area or Euro area), in proportion with risk-weighted assets for CGUs covering several countries;
- the growth rates used to calculate the terminal value is determined using forecasts on long-term economic growth and sustainable inflation. These rates are estimated using two mains sources, namely the International Monetary Fund and the economic analyses produced by SG Cross Asset Research which provide up 2023 forecasts.

No goodwill impairment was recognised as at 31 December 2018 as a result of the annual CGU impairment test.

The table below presents discount rates and long-term growth rates specific for the CGUs of the Group's three core businesses:

Assumptions at 31 December 2018	Discount rate	Long-term growth rate
French Retail Banking		
Societe Generale network and Crédit du Nord	8%	2%
International Retail Banking and Financial Services		
Retail Banking and Consumer Finance	10.6% to 15.2%	2% to 3%
Insurance	9.1%	2.5%
Equipment and Vendor Finance and Auto Leasing Financial Services	9.6%	2%
Global Banking and Investor Solutions		
Global Markets and Investor Services	11.5%	2%
Financing and Advisory	9.8%	2%
Asset and Wealth Management	9.6%	2%

Budget projections are based on the following main business line and macroeconomic assumptions:

French Retail Banking	
Societe Generale network and Crédit du Nord	■ In a challenging environment (regulatory constraints, low inflation, historically low rates), ongoing efforts to shift operations and relationship banking at Societe Generale and Crédit du Nord towards a digital model ■ Confirmation of Boursorama's customer acquisition plan
International Retail Banking & Financial Services	
Europe	■ Continued adaptation of our models to capture growth potential in the region and consolidate the competitive positions of our operations ■ Strict discipline applied to operating expenses and normalisation of cost of risk
Russia	■ Achievement of recovery of activities in Russia in stabilising economic conditions ■ Strict discipline applied to operating expenses and cost of risk
Africa, Mediterranean Basin and Overseas	■ Continued development of Societe Generale's sales network and expansion of services through the mobile banking offer ■ Continued focus on operating efficiency
Insurance	■ Reinforcement of integrated bank insurance model and continued dynamic growth in France and abroad in synergy with the retail banking network, Private Banking and financial services to businesses
Equipment and Vendor Finance	■ Consolidation of leadership in these corporate financing businesses ■ Consolidation of profitability by continuing to focus on activities with the best risk/reward
Auto Leasing Financial Services	■ Reinforcement of leadership of ALD relative to solutions of mobility and continued growth for the long-time leasing to retail customers
Global Banking and Investor Solutions	
Global Markets and Investor Services	■ Adaptation of market activities to a competitive environment, coupled with further business and regulatory investments. ■ Consolidation of market-leading franchises (equities) and development of prime brokerage activities ■ Continued of optimization measures and investments in information systems
Financing and Advisory	■ Continuation of origination momentum of financing activities ■ Consolidation of market-leading franchises (commodity and structured financing) ■ Management of cost of risk despite challenging economic conditions
Asset and Wealth Management	■ Continued development of synergies with retail bank networks, both in France or abroad, development of synergies between private banking and Asset and Wealth Management, improvement of commercial and operational efficiency

Sensitivity tests are carried out to measure the impact on each CGU's recoverable value of the variation in certain assumptions.

At 31 December 2018, in light of the risks associated with business activity in the current environment (market volatility, regulatory uncertainties), sensitivities to variations in the discount rate, long-term growth were measured.

According to the results of these tests:

- an increase of 50 basis points applied to all discount rates for the CGUs disclosed in the table above would lead to a decrease of 23.9% in recoverable value and would not generate any additional impairment;
- similarly, a decrease of 50 basis points in long-term growth rates would lead to a decrease of 7.7% in recoverable value and would not generate any additional impairment.

NOTE 2.3 Additional disclosures for consolidated entities and investments accounted for using the equity method

This Note provides additional disclosures for entities included in the consolidation scope.

These disclosures concern entities over which Societe Generale exercices exclusive control, joint control or significant influence, provided these entities have significant impact on the Group's consolidated financial statements. The significance of the impact is considered in particular regarding Group consolidated total assets and gross operating income.

NOTE 2.3.1 CONSOLIDATED STRUCTURED ENTITIES

Consolidated structured entities include:

- collective investment vehicles such as SICAVs (open-ended investment funds) and mutual funds managed by the Group's asset management subsidiaries;
- securitisation funds and conduits issuing financial instruments that can be subscribed for by investors and that generate credit risks inherent in an exposure or basket of exposures which can be divided into tranches; and
- asset financing vehicles (aircraft, rail, shipping or real estate finance facilities).

The Group has not provided any financial support to these entities outside of any contractual framework for the closing period and as of 31 December 2018 does not intend to support them financially.

The Group has entered into contractual agreements with certain consolidated structured entities that may lead to financial support for these entities due to their exposure to credit, market or liquidity risks.

Securities issued by structured debt vehicles carry an irrevocable and unconditional guarantee from Societe Generale for payment of amounts due by issuer. These issuers also enter into hedging transactions with Societe Generale to enable them to meet their payment obligations. As of 31 December 2018, the amount of outstanding loans thus guaranteed is EUR 48.3 billion.

As part of its securitization activities on behalf of its clients or investors, Societe Generale grants two liquidity lines to ABCP vehicules (Asset Back Commercial Paper) for a total amount of EUR 21.8 billion as of 31 December 2018.

NOTE 2.3.2. NON-CONTROLLING INTERESTS

Non-controlling interests refer to equity holdings in fully consolidated subsidiaries that are neither directly nor indirectly attributable to the Group. They include equity instruments issued by these subsidiaries and not held by the Group, as well as the share of income and accumulated reserves, and of unrecognised or deferred gains and losses attributable to the holders of these instruments.

Non-controlling interests amounted to EUR 4,783 million at 31 December 2018 (vs. EUR 4,664 million at 31 December 2017) and accounted for 7% of total shareholders' equity at 31 December 2018 (vs. 7% at 31 December 2017).

The *Non-controlling interests*, of significant amount in terms of contribution to the total shareholders' equity in the Group's consolidated balance sheet, relate to:

- listed subsidiaries Komerčni Banka A.S, BRD – Groupe Société Générale SA and SG Marocaine de Banques;
- ALD SA, whose data presented here correspond to those of the ALD group;
- Sogécap, fully owned, with the subordinated notes issued in December 2014.

	31.12.2018				
(In millions of euros)	**Group voting interest**	**Group ownership interest**	**Net income attributable to non-controlling interests**	**Total non-controlling interests**	**Dividends paid during the year to holders of non-controlling interests**
KOMERCNI BANKA A.S	60.73%	60.73%	220	1,437	(122)
BRD - GROUPE SOCIETE GENERALE SA	60.17%	60.17%	128	623	(94)
ALD GROUP	79.82%	79.82%	120	658	(50)
SG MAROCAINE DE BANQUES	57.57%	57.57%	39	413	(8)
SOGECAP	100.00%	100.00%	33	829	(33)
Other entities	-	-	152	823	(94)
TOTAL	**-**	**-**	**692**	**4,783**	**(401)**

	31.12.2017				
(In millions of euros)	Group voting interest	Group ownership interest	Net income attributable to non-controlling interests	Total non-controlling interests	Dividends paid during the year to holders of non-controlling interests
KOMERCNI BANKA A.S	60.73%	60.73%	214	1,390	(104)
BRD - GROUPE SOCIETE GENERALE SA	60.17%	60.17%	122	634	(43)
ALD GROUP	79.82%	79.82%	68	601	(6)
SG MAROCAINE DE BANQUES	57.53%	57.53%	37	409	(7)
SOGECAP	100.00%	100.00%	33	829	(33)
Other entities	-	-	150	801	(83)
TOTAL	**-**	**-**	**624**	**4,664**	**(276)**

SUMMARISED FINANCIAL INFORMATION FOR MAIN NON-CONTROLLING INTERESTS

The information below are the data of the entities (excluding Sogécap) taken at 100% and before the elimination of intra-group operations.

	31.12.2018			
(In millions of euros)	Net banking income	Net income	Net income and unrealised or deferred gains and losses	Total balance sheet
KOMERCNI BANKA A.S	1,227	595	969	40,501
BRD - GROUPE SOCIETE GENERALE SA	636	327	62	11,618
ALD GROUP	1,321	561	408	43,681
SG MAROCAINE DE BANQUES	399	100	128	8,583

	31.12.2017			
(In millions of euros)	Net banking income	Net income	Net income and unrealised or deferred gains and losses	Total balance sheet
KOMERCNI BANKA A.S	1,140	567	925	38,655
BRD - GROUPE SOCIETE GENERALE SA	585	310	184	11,701
ALD GROUP	1,272	671	565	37,875
SG MAROCAINE DE BANQUES	384	89	90	7,890

NOTE 2.3.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (ASSOCIATES AND JOINT VENTURES)

SUMMARISED FINANCIAL INFORMATION FOR JOINT VENTURES AND ASSOCIATES

	Joint ventures		Associates		Total investments accounted for using the equity method	
(In millions of euros)	2018	2017	2018	2017	2018	2017
Group share:						
Net income	5	19	51	73	56	92
Unrealised or deferred gains and losses (net of tax)		-	(3)	(14)	(3)	(14)
NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES	**5**	**19**	**48**	**59**	**53**	**78**

COMMITMENTS TO RELATED PARTIES

(In millions of euros)	31.12.2018	31.12.2017
Loan commitments granted	-	-
Guarantee commitments granted	54	75
Forward financial instrument commitments	142	6

NOTE 2.3.4 RESTRICTIONS

SIGNIFICANT RESTRICTIONS ON THE ABILITY TO ACCESS OR USE THE ASSETS OF THE GROUP

Legal, regulatory, statutory or contractual constraints or requirements may restrict the ability of the Group to transfer assets freely to or from entities within the Group.

The ability of consolidated entities to distribute dividends or to grant or repay loans and advances to entities within the Group depends on, among other things, local regulatory requirements, statutory reserves and financial and operating performance. Local regulatory requirements may concern regulatory capital, exchange controls or non-convertibility of the local currency (as it is the case in countries belonging to the West African Economic and Monetary Union or to the Economic and Monetary Community of Central Africa), liquidity ratios (as in the United States) or large exposures ratios that aim to cap the entity's exposure in relation to the Group (regulatory requirement to be fulfilled in most countries in Eastern and Central Europe, Maghreb and sub-Saharan Africa).

The ability of the Group to use assets may also be restricted in the following cases:

- assets pledged as security for liabilities, notably guarantees provided to the central banks, or assets pledged as security for transactions in financial instruments, mainly through guarantee deposits with clearing houses;
- securities that are sold under repurchase agreements or that are lent;
- assets held by insurance subsidiaries in representation of unit-linked liabilities with life-insurance policy holders;
- assets held by consolidated structured entities for the benefit of the third-party investors that have bought the notes or securities issued by the entity;
- mandatory deposits placed with central banks.

NOTE 2.4 Unconsolidated structured entities

The information provided hereafter concerns entities structured but not controlled by the Group. This information is grouped by main type of similar entities, such as Financing activities, Asset management and Others (including Securitisation and Issuing vehicules).

Asset financing includes lease finance partnerships and similar vehicles that provide aircraft, rail, shipping or real estate finance facilities.

Asset management includes mutual funds managed by the Group's asset management subsidiaries.

Securitisation includes securitisation funds or similar vehicles issuing financial instruments that can be subscribed for by investors and that generate credit risks inherent in an exposure or basket of exposures which can be divided into tranches.

The Group's interests in unconsolidated entities that have been structured by third parties are classified among financial instruments in the consolidated balance sheet according to their nature.

NOTE 2.4.1 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group's interests in an unconsolidated structured entity refer to contractual and non-contractual involvements that expose the Group to the variability of returns from the performance of this structured entity.

Such interests can be evidenced by:

- the holding of equity or debt instruments (regardless of their rank of subordination);
- other funding (loans, cash facilities, loan commitments, liquidity facilities…);
- credit enhancement (guarantees, subordinated instruments, credit derivatives…);
- issuance of guarantees (guarantee commitments);
- derivatives that absorb all or part of the risk of variability of the structured entity's returns, except Credit Default Swap (CDS) and options purchased by the Group;
- contracts remunerated by fees indexed to the structured entity's performance;
- tax consolidation agreements.

	Asset financing		Asset management		Others	
(In millions of euros)	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Total balance sheet(1) of the entity	**7,900**	**8,777**	**121,154**	**102,355**	**27,464**	**41,067**
Net carrying amount of Group interests in unconsolidated structured entities						
Assets	**3,232**	**3,629**	**5,596**	**10,452**	**10,645**	**13,054**
Financial assets at fair value through profit or loss	384	411	4,964	9,906	5,509	7,819
Financial assets at fair value through other comprehensive income	-		-		56	
Available-for-sale financial assets		85		14		556
Due from banks and customer loans at amortised cost	1,880	3,127	447	458	3,887	4,677
Securities at amortised cost	963		15		1,193	
Others	5	6	170	74	-	2
Liabilities	**1,533**	**1,641**	**4,701**	**11,180**	**5,680**	**7,580**
Financial liabilities at fair value through profit or loss	198	225	3,122	9,549	4,845	6,699
Due to banks and customer deposits	1,313	1,389	1,487	1,580	830	876
Others	22	27	92	51	5	5

(1) For Asset management, NAV (Net Asset Value) of funds.

The Group did not provide any financial support to these entities outside of any binding contractual arrangement and, as of 31 December 2018, did not have any intention to provide such support.

The maximum exposure to loss related to interests in unconsolidated structured entities is measured as:

- the amortised cost or fair value[1] for non-derivative financial assets entered into with the structured entity depending on how they are measured on the balance sheet;
- the fair value[1] of derivative financial assets recognised in the balance sheet;
- the notional amount of written Credit Default Swaps (maximum amount to pay);
- the notional amount of loan commitments or guarantee commitments granted.

	Asset financing		Asset management		Others	
(In millions of euros)	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Amortised cost or fair value[1] (according to the measurement of the financial instrument) of non-derivative financial assets entered into with the structured entity	2,910	3,190	5,227	5,993	2,450	3,229
Fair value[1] of derivative financial	248	283	1,268	5,990	4,309	6,295
Notional amount of CDS sold (maximum amount to be paid)	-	-	-	-	-	-
Notional amount of loan or guarantee commitments granted	387	535	1,355	1,536	1,198	788
Maximum exposure to loss	**3,545**	**4,008**	**7,850**	**13,519**	**7,957**	**10,312**

The amount of maximum exposure to loss can be mitigated by:

- the notional amount of guarantee commitments received;
- the fair value[1] of collateral received;
- the carrying amount of surety deposits received.

These mitigating amounts must be capped in case of legal or contractual limitation of their realisable or recoverable amounts. They amounted to EUR 2,407 million and mainly concern Asset financing.

(1) Fair value at the closing date. This fair value can change during the previous exercises.

NOTE 2.4.2 INFORMATION ON UNCONSOLIDATED STRUCTURED ENTITIES SPONSORED BY THE GROUP

The Group may have no ownership interest in a structured entity, but still be considered as a sponsor of this structured entity if it acts or has acted as:

- a structurer;
- an originator for potential investors;
- an asset manager;
- an implicit or explicit guarantor of the entity's performance (in particular via capital or return guarantees granted to mutual fund unit holders).

A structured entity is also considered to be sponsored by the Group if its name includes the name of the Group or the name of one of its subsidiaries.

Conversely, entities that are structured by the Group according to specific needs expressed by one or more customers or investors are considered to be sponsored by said customers or investors.

At 31 December 2018, the total amount of the balance sheet of these unconsolidated structured entities, sponsored by the Group, and in which the Group does not have any interest, was EUR 4,518 million (including EUR 1,708 million for Other structures).

In 2018, no significant revenue has been recognized for theses structured entities.

NOTE 2.5 Non-current assets held for sale and related debt

ACCOUNTING PRINCIPLES

A non-current asset or group of assets and liabilities is deemed to be “held for sale” if its carrying value will primarily be recovered through a sale and not through its continuing use. For this classification to apply, the asset or group of assets and liabilities must then be immediately available-for-sale in its present condition and it must be highly probable that the sale will occur within twelve months.

For this to be the case, the Group must be committed to a plan to sell the asset (or disposal group if assets and liabilities) and have begun actively searching for a buyer. Furthermore, the asset or group of assets and liabilities must be measured at a price that is reasonable in relation to its current fair value.

Assets and liabilities into this category are classified as *Non-current assets held for sale* and *Non-current liabilities held for sale*, with no netting.

If the fair value less selling costs of non-current assets and groups of assets and liabilities held for sale is less that their net carrying value, an impairment is then recognized in profit or loss. Moreover, *Non-current assets held for sale* are no longer amortised or depreciated.

(In millions of euros)	31.12.2018	31.12.2017
Assets	**13,502**	**13**
Fixed assets and Goodwill	262	6
Financial assets	11,245	7
Financial assets at fair value through profit or loss	*111*	*7*
Hedging derivatives	-	-
Financial assets at fair value through equity	*1,429*	-
Securities measured at the amortised cost	*59*	-
Due from banks	*324*	-
Customer loans	*9,322*	-
Other assets	1,995	-
Liabilities	**10,454**	**-**
Provisions	22	-
Financial liabilities	10,309	-
Financial liabilities at fair value through profit or loss	*2*	-
Hedging derivatives	-	-
Debt securities issued	*116*	-
Due to banks	*596*	-
Customer deposits	*9,595*	-
Subordinated debt	-	
Other liabilities	123	-

The *Non-current assets held for sale* and *Non-current liabilities held for sale* items mainly encompass the assets and liabilities of the Group’s Albanian, Bulgarian, Polish, Serbian, Moldavian, Montenegrin and Macedonian retail banking arms (Banka SG Albania, SG Express Bank, Eurobank, SG Banka Srbija A.D. Beograd, Mobiasbanca Groupe SG, SG Banka Montenegro A.D., Ohridska Banka A.D. Skopje), the assets and liabilities of the Spanish online banking (Self Trade Bank SA), the assets and liabilities of the Belgian private bank (SG Private Banking NV), the assets and liabilities related to the South African securities services activity (SG Johannesburg), and the equity accounted investment in La Banque Postale Financement.

The principle applied whereby some *Non-current assets held for sale* (mostly goodwill and fixed assets) are assessed at their lowest accounting value and lowest net fair value for the disposal costs means that all or part of any expected capital loss from the sale of an asset group can be allocated as soon as these assets are reclassified under *Non-current assets held for sale*. In this context, the impairment cost recognised by the Group at 31 December 2018 amounts to EUR -273 million under *Net gains or losses from other assets*.

NOTE 3 FINANCIAL INSTRUMENTS

MAKE IT SIMPLE

The financial instruments represent the contractual rights or obligations to receive or to pay cash or other financial assets. The Group's banking activities generally take the form of financial instruments covering a broad spectrum of assets and liabilities, such as loans, investment portfolios (equity, bonds, etc.), deposits, regulated savings accounts, debt securities issued and derivative instruments (swaps, options, forward contracts, credit derivatives, etc.).

In the financial statements, the classification and valuation of financial assets and liabilities depend on their contractual characteristics and the way the entity manages those financial instruments.

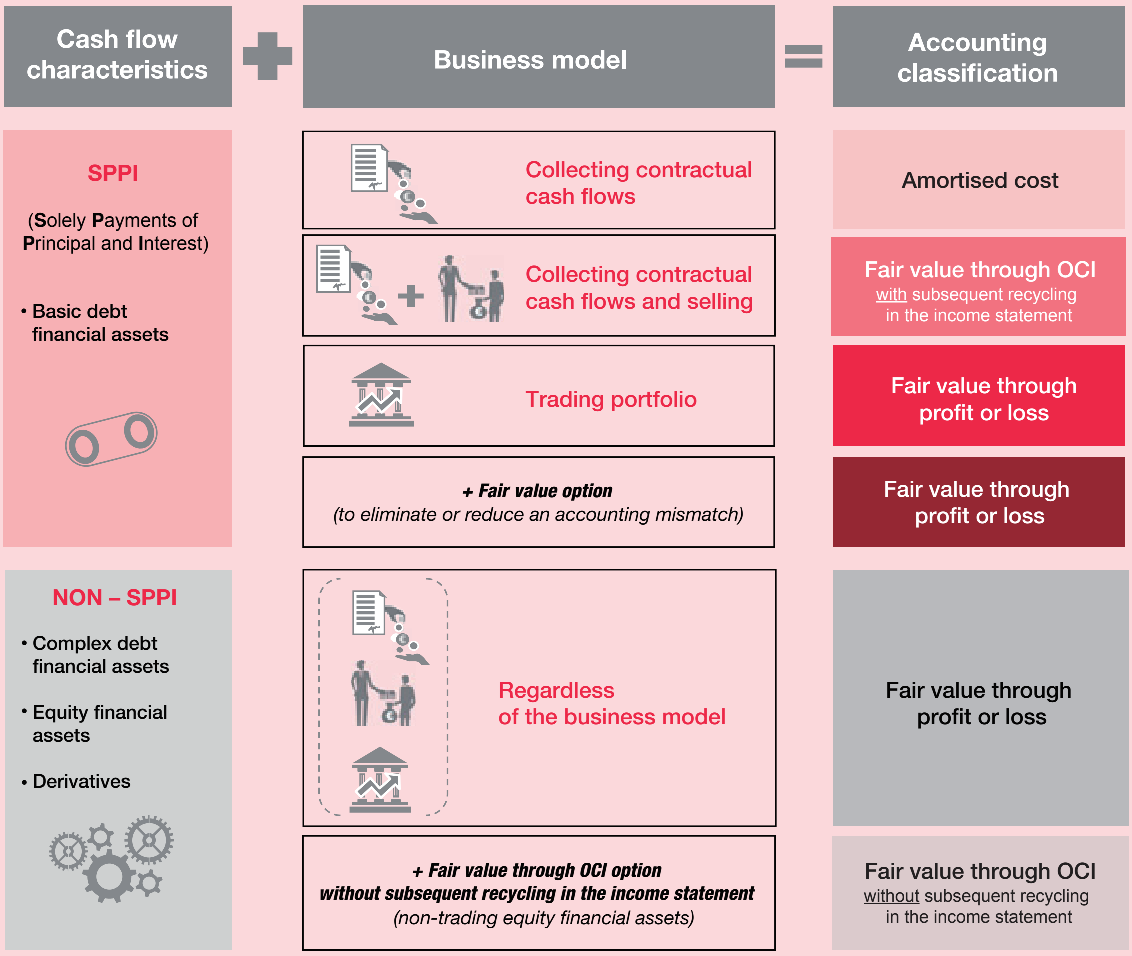
However, this distinction is not applicable to derivative instruments, which are always measured at fair value in the balance sheet, no matter what their purpose is (market activities or hedging transactions).

ACCOUNTING PRINCIPLES

Accounting principles applicable to financial instruments up to 31 December 2017 are presented in the Note 8.8. Accounting principles presented in this Note 3 are those applied as from 1 January 2018 according to the IFRS 9 provisions excluding insurance activities (see Note 4.3).

Classification of financial assets

At initial recognition, financial instruments are classified in the Group balance sheet in one of three categories (amortised cost, fair value through profit or loss, and fair value through other comprehensive income) that determine their accounting treatment and subsequent measurement method. Classification is based on their contractual cash flow characteristics and the entity's business model for managing the assets.



The accounting principles for classifying financial assets require the entity to analyse the contractual cash flows generated by the financial instruments and to analyse the business model for managing the financial instruments.

Analysis of contractual cash flow characteristics

The aim of the analysis of contractual cash flow characteristics is to limit exclusively the recognition of revenues from financial assets using the effective interest method to the instruments whose characteristics are similar to those of a basic lending arrangement, meaning their associated cash flows are highly predictable. All other financial instruments that do not share these characteristics are measured at fair value through profit or loss, regardless of the business model used to manage them.

Contractual cash flow that represent solely payments of principal and interest (SPPI) on the principal amount outstanding are consistent with a basic lending arrangement.

In a basic lending arrangement, interest predominantly consists of a consideration for the time value of money and for credit risk. Interest may also include a consideration for liquidity risk, administrative costs, and a commercial profit margin. Negative interest is not inconsistent with this definition.

All financial assets that are not basic will be mandatorily measured at fair value through profit or loss, regardless of the business model for managing them.

Derivatives qualifying as hedging instruments for accounting purposes are recorded on a separate line in the balance sheet (see Note 3.2).

The Group can make the irrevocable decision, on a security-by-security basis, to classify and measure an investment in an equity instrument (shares and other equity securities) that is not held for trading purposes at fair value through other comprehensive income. Subsequently, the profit or loss accumulated in other comprehensive income will never be reclassified into profit or loss (only dividends from those investments will be recognised as income).

Analysis of the business model

The business model represents how the financial instruments are managed in order to generate cash flows and income.

The Group uses several business models in the course of exercising its different business lines. Business models are assessed on how groups of financial instruments are managed together to achieve a particular business objective. The business model is not assessed on an instrument-by-instrument basis, but at a portfolio level, considering relevant evidence such as:

- how the performance of the portfolio is evaluated and reported to the Group's management;
- how risks related to financial instruments within that business model are managed;
- how managers of the business are compensated;
- sales of assets realised or expected (value, frequency, purpose).

To determine the classification and measurement of financial assets, three different business models shall be distinguished:

- a business model whose objective is to collect contractual cash flows ("Collect" business model);
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Collect and Sell" business model);
- and a separate business model for other financial assets, especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.

Fair value option

SPPI financial assets that are not held for trading purposes can be designated, at initial recognition, at fair value through profit or loss if such designation eliminates or significantly reduces discrepancies in the accounting treatment of related financial assets and liabilities (accounting mismatch).

Classification of financial liabilities

Financial liabilities are classified into one of the following two categories:

- *Financial liabilities at fair value through profit or loss*: these are financial liabilities held for trading purposes, which by default include derivative financial liabilities not qualifying as hedging instruments and non-derivative financial liabilities designated by the Group upon initial recognition to be measured at fair value through profit or loss using the fair value option;
- *Debts*: these include the other non-derivative financial liabilities and are measured at amortised cost.

Derivative financial assets and liabilities qualifying as hedging instruments are presented on separate lines of the balance sheet (see Note 3.2).

Reclassification of financial assets

Reclassification of financial assets are only required in the exceptional event that the Group changes the business model used to manage these assets.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation methods used by the Group to establish the fair value of financial instruments are detailed in Note 3.4.

Initial recognition

Financial assets are recognised on the balance sheet:

- at the settlement/delivery date for securities;
- at the trade date for derivatives;
- at the disbursement date for loans.

For instruments measured at fair value, changes in fair value between the trade date and the settlement-delivery date are recorded in net income statement or in other comprehensive income, depending on the accounting classification of the financial assets in question. The trade date is the date on which the contractual commitment becomes binding and irrevocable for the Group.

When initially recognised, financial assets and liabilities are measured at fair value including transaction costs directly attributable to their acquisition or issuance, except for financial instruments recognised at fair value through profit or loss, for which these costs are booked directly to the income statement.

If the initial fair value is based on observable market data, any difference between the fair value and the transaction price, *i.e.* the sales margin, is immediately recognised in the income statement. However, if valuation inputs are not observable or if the valuation models are not recognised by the market, the recognition of the sales margin is then generally recognised in the income statement in a delayed manner. For some instruments, due to their complexity, this margin is recognised at their maturity or upon disposal in the event of early sale. When valuation inputs become observable, any portion of the sales margin that has not yet been recorded is recognised in the income statement at that time (see Note 3.4.7).

Derecognition of financial assets and liabilities

The Group derecognises all or part of a financial asset (or group of similar assets) 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 ownership of the asset.

The Group also derecognises financial assets over which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party ("pass-through agreement") and for which it has transferred substantially all the risks and rewards.

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 and for the value of any servicing asset or servicing liability. Indemnities billed to borrowers following the prepayment of their loan are recorded in the income statement on the prepayment date among *Interest and similar income*.

The Group derecognises all or part of a financial liability when it is extinguished, *i.e.* when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability may also be derecognised in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

ANALYSIS OF CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS

The Group has established procedures for determining if financial assets pass the SPPI test at initial recognition (loans granting, acquisition of securities, etc.).

All contractual terms shall be analysed, particularly those that could change the timing or amount of contractual cash flows. A contractual term that permits the borrower or the lender to prepay or to return the debt instrument to the issuer before maturity remains consistent with SPPI cash flows, provided the prepayment amount primarily represents the principal remaining due and accrued but unpaid contractual interest, which may include a reasonable compensation. The fact that such compensation can be either positive or negative is not inconsistent with the SPPI nature of cash flows.

The prepayment compensation is considered as reasonable especially when:

- the amount is calculated as a percentage of the outstanding amount of the loan and is capped by regulations (in France, for example, compensation for the prepayment of mortgage loans by individuals is legally capped at an amount equal to six months of interest or 3% of the principal outstanding), or is limited by competitive market practices;
- the amount is equal to the difference between contractual interest that should have been received until the maturity of the loan and the interest that would be obtained by the reinvestment of the prepaid amount at a rate that reflects the relevant benchmark interest rate.

Some loans are prepayable at their current fair value, while others can be prepayable at an amount that includes the fair value cost to terminate an associated hedging swap. It is possible to consider such prepayment amounts as SPPI provided that they reflect the effect of changes in the relevant benchmark interest rate.

Basic financial assets (SPPI) are debt instruments which mainly include:

- fixed-rate loans,
- variable-rate loans that can include caps or floors,
- fixed or variable-rate debt securities (government or corporate bonds, other negotiable debt securities),
- securities purchased under resale agreements (reverse repos),
- guarantee deposits paid,
- trade receivables.

Contractual terms that would introduce exposure to risks or volatility in the contractual cash flows, unrelated to a basic lending arrangement (such as exposure to changes in equity prices or stock indexes for instance, or leverage features), could not be considered as being SPPI, except if their effect on the contractual cash flows remains minimum.

Non-basic financial assets (non-SPPI) mainly include:

- derivative instruments,
- shares and other equity instruments held by the entity,
- equity instruments issued by mutual funds,
- debt financial assets that can be converted or redeemed into a fixed number of shares (convertible bonds, equity-linked securities, etc.).

When the time value component of interest can be modified according to the contractual term of the instrument, it may be necessary to compare the contractual cash flow with the cash flow that would arise from a benchmark instrument. For instance, that is the case when an interest rate is periodically reset, but the frequency of that reset does not match the tenor of the interest rate (such as an interest rate reset every month to a one-year rate), or when the interest rate is periodically reset to an average of short- and long-term interest rates.

If the difference between the undiscounted contractual cash flows and the undiscounted benchmark cash flows is or may become significant, then the instrument is not considered basic.

Depending on the contractual terms, the comparison with benchmark cash flow may be performed through a qualitative assessment; but in other cases, a quantitative test is required. The difference between contractual and benchmark cash flows has to be considered in each reporting period and cumulatively over the life of the instrument. When performing this benchmark test, the entity considers factors that could affect future undiscounted contractual cash flows: using the yield curve at the date of the initial assessment is not enough, and the entity also has to consider whether the curve could change over the life of the instrument according to reasonably possible scenarios.

Within the Group, the financial instruments concerned by a benchmark test include, for instance, variable-rate housing loans for which interest rates are reset every year based on the twelve-month Euribor average observed over the two months previous to the reset. Another example is loans granted to real estate professionals for which interest is revised quarterly based on the one-month Euribor average observed over the three months previous to the reset. Following the benchmark analysis performed by the Group, it has been concluded that these loans are basic.

Furthermore, a specific analysis of contractual cash flow is required when financial assets are instruments issued by a securitisation vehicle or a similar entity that prioritises payments to holders using multiple contractually-linked instruments that create concentrations of credit risk (tranches). When assessing whether contractual cash flows are SPPI or not, the entity must analyse the contractual terms, as well as the credit risk of each tranche and the exposure to credit risk in the underlying pool of financial instruments. To that end, the entity must apply a "look-through approach" to identify the underlying instruments that are creating the cash flows.

COMPARATIVE DATA

For the balance sheet items impacted by the first time application of IFRS 9, comparative data presented throughout Note 3 are the balances at 1 January 2018. These amounts constitute the balances at 31 December 2017, corrected for reclassifications and value adjustments resulting from the first-time application of IFRS 9 (see Note 1).

The comparative data at 31 December 2017 are available in the consolidated financial statements for financial year 2017, presented in the Chapter 6 of the 2018 Registration Document of the Societe Generale Group, whereas the accounting policies applicable to financial instruments at 31 December 2017 are detailed in Note 8.8.

Furthermore, the Group has elected that all its insurance subsidiaries will defer the effective date of IFRS 9 and will continue to apply IAS 39 as adopted by the European Union. As of 1 January 2018, the financial assets and liabilities of these subsidiaries, and the related income, are presented on separate lines in the balance sheet (*Investments of insurance activities* and *Insurance contracts related liabilities*) and in the income statement (*Net income from insurance activities*). Consequently, the data for financial year 2018 presented in Note 3 exclude the financial instruments of insurance subsidiaries (the data for insurance subsidiaries are presented in Note 4.3).

The information on the types of risks, the risk management linked to financial instruments as well as the information on capital management and compliance with regulatory ratios, required by IFRS as adopted by the European Union, are disclosed in Chapter 4 of the present Registration Document (Risks and capital adequacy).

NOTE 3.1 Financial assets and liabilities at fair value through profit or loss

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS IN NOTE 1)

		Reclassifications						
(In millions of euros)	Balance at 31.12.2017 IAS 39	of investments and liabilities related to insurance activities	of available-for-sale financial assets	of non-SPPI loans and receivables	of loans and receivables regarding the business model	Others	Value adjust-ments	Balance at 01.01.2018 IFRS 9
Financial assets at fair value through profit or loss								
Trading portfolio	342,616	(699)	737	-	644	586	(47)	343,837
Financial assets mandatorily at fair value through profit or loss	N/A	-	1,685	19,992	-	61	(169)	21,569
Financial assets at fair value through profit or loss using the fair value option	77,064	(53,899)	-	(19,349)	-	(110)	-	3,706
TOTAL	**419,680**	**(54,598)**	**2,422**	**643**	**644**	**537**	**(216)**	**369,112**
Financial liabilities at fair value through profit or loss								
Trading portfolio	288,689	(759)	-	-	-	604	-	288,534
Financial liabilities at fair value through profit or loss using the fair value option	80,016	-	-	-	-	-	-	80,016
TOTAL	**368,705**	**(759)**	**-**	**-**	**-**	**604**	**-**	**368,550**

OVERVIEW OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2018		01.01.2018	
(In millions of euros)	Assets	Liabilities	Assets	Liabilities
Trading portfolio	338,312	285,478	343,837	288,534
Financial instruments mandatorily at fair value through profit or loss	24,057		21,569	
Financial instruments at fair value through profit or loss using the fair value option	3,181	77,605	3,706	80,016
TOTAL	**365,550**	**363,083**	**369,112**	**368,550**
o/w securities purchased/sold under resale/repurchase agreements	*129,628*	*98,874*	*101,414*	*105,737*

NOTE 3.1.1 TRADING PORTFOLIO

ACCOUNTING PRINCIPLES

The trading book contains financial assets and liabilities held or accrued for the purpose of capital markets activities.

This portfolio also includes, among other trading assets, physical commodities that are held by the Group as part of its market-maker activity on commodity derivative instruments.

By default, derivative financial instruments are classified into the trading portfolio, unless they qualify as hedging instruments (see Note 3.2).

The financial instruments recorded in the trading portfolio are measured at fair value at the balance sheet date and recognised in the balance sheet under *Financial assets or liabilities at fair value through profit or loss*. Changes in their fair value and revenues associated to those instruments are recorded in the income statement as *Net gains and losses on financial instruments at fair value through profit or loss*.

TRADING ACTIVITIES

Financial assets held for trading are:

- acquired with the intention of selling them in the short term; or
- held for market-making purposes; or
- acquired for the purposes of the specialised management of a trading portfolio, including derivative financial instruments, securities or other financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Global market activities

The trading business model is applied by Global Banking and Investor Solutions to manage its global market activities.

It is also applied for managing syndicated loan commitments and loans that are not intended to be kept by the Group and that have been identified since their origination as to be sold in the short term (within 6 to 12 months) on the secondary market, as well as for loans originated by the Group through originate-to-distribute activities and that are expected to be sold shortly.

Financial assets held in run-off portfolios are also monitored based on their fair value. Although those portfolios are not related to market activities, those assets are presented amongst trading portfolio and are measured at fair value through profit or loss.

These financial assets include tranches of CDOs (Collateralised Debt Obligations) or ABS (Asset-Backed Securities) in which the Group still holds residual lines subject to gradual disposals. In 2008, these financial assets had been reclassified to *Loans* and *receivables* and were transferred to *Financial assets at fair value through profit or loss at 1 January 2018* as a result of the first-time application of IFRS 9.

Trading portfolio includes all the financial assets held for trading purpose regardless of the characteristics of their contractual cash flows. Only non-SPPI financial assets that are not held for trading are classified amongst *Financial assets measured mandatorily at fair value through profit or loss (see Note 3.1.2* below).

ASSETS

(In millions of euros)	31.12.2018	01.01.2018
Bonds and other debt securities	29,732	28,006
Shares and other equity securities	49,297	80,059
Loans and securities purchased under resale agreements	135,861	101,110
Trading derivatives[(1)]	122,983	134,291
Other transaction assets	439	371
TOTAL	**338,312**	**343,837**
o/w securities lent	*12,411*	*15,807*

(1) See Note 3.2 Financial derivatives.

LIABILITIES

(In millions of euros)	31.12.2018	01.01.2018
Amounts payable on borrowed securities	51,264	34,844
Bonds and other debt instruments sold short	6,231	5,416
Shares and other equity instruments sold short	1,248	1,002
Borrowings and securities sold under repurchase agreements	98,299	104,090
Trading derivatives[(1)]	126,946	142,369
Other trading liabilities	1,490	813
TOTAL	**285,478**	**288,534**

(1) See Note 3.2 Financial derivatives.

NOTE 3.1.2 FINANCIAL INSTRUMENTS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING PRINCIPLES

Financial assets measured mandatorily at fair value through profit or loss include:

- loans, bonds and bond equivalents that are not held for trading purposes and do not pass the SPPI test (non-basic or non-SPPI instruments);
- shares and share equivalents that are not classified in any other sub-category: trading book at fair value through profit or loss, instruments designated by the Group at fair value through other comprehensive income without subsequent reclassification to profit or loss.

These assets are recorded at fair value in the balance sheet under *Financial assets at fair value through profit or loss* and changes in the fair value of these instruments (excluding interest income) are recorded in the income statement under *Net gains or losses on financial instruments at fair value through profit or loss*.

BREAKDOWN OF FINANCIAL ASSETS MEASURED MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

(In millions of euros)	31.12.2018	01.01.2018
Bonds and other debt securities	158	159
Shares and other equity securities	1,996	1,560
Loans and receivables and securities purchased under resale agreements	21,903	19,850
TOTAL	**24,057**	**21,569**

BREAKDOWN OF LOANS AND RECEIVABLES AND SECURITIES PURCHASED UNDER RESALE AGREEMENTS

(In millions of euros)	31.12.2018	01.01.2018
Short-term loans	2,354	1,316
Equipment loans	15,796	14,325
Other loans	3,753	4,209
TOTAL	**21,903**	**19,850**

The loans and receivables recorded in the balance sheet under *Financial assets at fair value through profit or loss* are mainly:

- loans that include prepayment features with compensation that do not reflect the effect of changes in the benchmark interest rate;
- loans that include indexation clauses that do not permit to recognize as basic loans (SPPI).

Until 31 December 2017, almost all these loans were classified as *Financial assets measured at fair value option through profit or loss* in order to eliminate or significantly reduce accounting mismatches with hedging derivatives that were not accounted for as hedging instruments, or in order to avoid the separate recognition of embedded derivatives.

At 1 January 2018, only EUR 643 million were reclassified from *Loans and receivables* into *Financial assets mandatorily measured at fair value through profit or loss*.

NOTE 3.1.3 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS USING FAIR VALUE OPTION

ACCOUNTING PRINCIPLES

In addition to financial assets and liabilities held for trading, and financial assets measured mandatorily at fair value through profit or loss, the same headings in the financial statements include non-derivative financial assets and liabilities that the Group has designated at fair value through profit or loss. Changes in the fair value of these instruments (including interest) are recorded in the income statement under *Net gains or losses on financial instruments at fair value through profit or loss*, except the share related to the Group's own credit risk on financial liabilities which is booked under *Unrealised or deferred gains and losses*.

Furthermore, in case of derecognition of a financial liability at fair value through profit or loss using the fair value option before its contractual maturity, gains and losses, if any, related to the Group's own credit risk are booked under *Unrealised or deferred gains and losses* and then reclassified under *Retained earnings* at the beginning of the subsequent financial year.

For financial assets, this option may only be used to eliminate or significantly reduce accounting mismatches that would otherwise arise from applying different accounting treatments to certain related financial assets and liabilities.

For financial liabilities, this option may only be used in the following cases:

- to eliminate or reduce discrepancies in the accounting treatment of certain related financial assets and liabilities;
- when it applies to a hybrid financial instrument with one or more embedded derivatives, which should be recognised separately;
- when a group of financial assets and/or liabilities is managed together and its performance is measured at fair value.

The Group thus recognises structured bonds issued by Societe Generale Corporate and Investment Banking at fair value through profit or loss. These issues are purely commercial and the associated risks are hedged on the market using financial instruments managed in trading portfolios. By using the fair value option, the Group can ensure consistency between the accounting treatment of these bonds and that of the derivatives hedging the associated market risks, which have to be carried at fair value.

ASSETS

(In millions of euros)	31.12.2018	01.01.2018
Bonds and other debt securities	1,310	1,045
Loans and securities purchased under resale agreements	819	2,119
Separate assets for employee benefits plans[1]	1,052	542
TOTAL	**3,181**	**3,706**

(1) See Note 5.2.1

LIABILITIES

Financial liabilities measured at fair value through profit or loss in accordance with the fair value option predominantly consist of structured bonds issued by the Societe Generale Group.

Changes in fair value attributable to own credit risk generated a gain of EUR 529 million at 31 December 2018, which was recognised in other comprehensive income. Up to this date, the total gains and losses attributable to own credit risk amounted to EUR -195 million (see "Statement of net income and unrealised or deferred gains and losses" and "Changes in shareholders' equity").

At 31 December 2017, changes in fair value attributable to own credit risk were recognised in the income statement.

The revaluation differences attributable to the Group's issuer credit risk are determined using valuation models taking into account the Societe Generale Group's most recent financing terms and conditions on the markets and the residual maturity of the related liabilities.

At 31 December 2018, the difference between the fair value of financial liabilities measured using the fair value option through profit or loss (EUR 77,605 million versus EUR 80,016 million at 31 December 2017) and their amount redeemable at maturity (EUR 78,080 million versus EUR 79,597 million at 31 December 2017) stood at EUR -475 million (EUR 419 million at 31 December 2017).

NOTE 3.1.4 NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(In millions of euros)	2018	2017
Net gain/loss on trading portfolio (excluding derivatives)	(6,091)	10,440
Net gain/loss on financial instruments at fair value through profit or loss[(1)(2)]	941	
Net gain/loss on financial instruments measured using fair value option	4,277	(5,131)
Net gain/loss on derivative instruments	6,263	(1,272)
Net gain/loss on hedging transactions[(3)]	35	-
Net gain/loss on fair value hedging derivatives	*(947)*	*(2,746)*
Revaluation of hedged items attributable to hedged risks[(4)]	*982*	*2,746*
Net gain/loss on foreign exchange transactions	(306)	1,076
TOTAL OF NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**5,119**	**5,113**
o/w gains on financial instruments at fair value through other comprehensive income	*103*	

(1) This item includes realised and unrealised gains and losses on debt and equity instruments, with the exception of the income component of debt instruments representative of an interest rate, which is recorded under net interest margin (see Note 3.7).

(2) This item includes realised and unrealised gains during the financial year on Euribor securities in the amount of EUR 319 million.

(3) This item includes only the net gain/loss on hedging transactions related to financial instruments. For the hedging transactions related to non-financial assets and liabilities, the net gain/loss on hedging transactions is included under the profit and loss account of the hedged item.

(4) This item includes the revaluation of fair value hedged items, including the change in revaluation differences in portfolios hedged against interest rate risk.

Insofar as income and expenses recorded in the income statement are classified by type of instrument rather than by purpose, the net income generated by activities in financial instruments at fair value through profit or loss must be assessed as a whole. It should be noted that the income shown here does not include the refinancing cost of these financial instruments, which is shown under interest expense and interest income.

NOTE 3.2 Financial derivatives

MAKE IT SIMPLE

Derivative instruments are financial instruments for which the value changes according to that of an underlying item and can be accompanied by a leverage effect. The items underlying these instruments are various (interest rates, exchange rates, equity, indexes, commodities, credit rating…), as are their forms (forward contracts, swaps, calls and puts…).

The Group may use these derivative instruments for their market activities to provide to its customers solutions to meet their risk management or revenue optimisation needs. In that case, they are accounted for as trading derivatives.

The Group may also use derivative instruments to manage and hedge its own risks. In which case, they are qualified as hedging derivatives. Hedging transactions can concern individual items or transactions (micro-hedging relationships) or portfolios of financial assets and liabilities that can generate a structural interest-rate risk (macro-hedging relationships).

Contrary to other financial instruments, derivative instruments are always measured at fair value in the balance sheet, regardless their purpose (market activities or hedging transactions). The fair value adjustments of trading derivatives are directly recognised in the income statement. However, the accounting method used on hedging transactions aims to neutralise in the income statement the effects of the revaluation of hedging derivatives, as long as the hedge is effective.

ACCOUNTING PRINCIPLES

Derivatives are financial instruments meeting the following three criteria:

- their value changes in response to the change in a specified interest rate, foreign exchange rate, share price, index of prices, commodity price, credit rating, etc.;
- they require little to no initial investment;
- they are settled at a future date.

All financial derivatives are recognised at fair value in the balance sheet as financial assets or financial liabilities. They are considered to be trading derivatives by default, unless they are designated as hedging instruments for accounting purposes.

Special case - Financial derivatives having Societe Generale shares as their underlying instrument

Financial derivatives having Societe Generale shares as their underlying instrument or shares in Group subsidiaries and whose liquidation entails the payment of a fixed amount in cash (or another financial asset) against a fixed number of Societe Generale shares (other than derivatives) are equity instruments. These instruments, and any related premiums paid or received, are recognised directly in equity, and any changes in the fair value of these derivatives are not recorded. For sales of put options on Societe Generale shares and forward on Societe Generale shares, a debt is recognised for the value of the notional with a contra entry in equity.

Other financial derivatives having Societe Generale shares as their underlying instrument are recorded in the balance sheet at fair value in the same manner as derivatives with other underlying instruments.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host instrument.

Where the host contract is a financial asset, the entire hybrid contract is measured at fair value through profit or loss because its contractual cash flows do not pass the SPPI test.

Where the host contract is a financial liability and is not measured at fair value through profit or loss, the Embedded derivative is separated from the host contract if:

- at acquisition, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; and
- it would meet the definition of a derivative.

Once separated, the derivative is recognised at fair value in the balance sheet under *Financial assets* or *Financial liabilities at fair value through profit or loss* under the aforementioned conditions. The host contract is classified as a financial liability and measured in accordance with its accounting category.

NOTE 3.2.1 TRADING DERIVATIVES

ACCOUNTING PRINCIPLES

Trading derivatives are recorded in the balance sheet under *Financial assets or liabilities at fair value through profit or loss*. Changes in fair value are recorded in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*.

Changes in the fair value of financial derivatives involving counterparties which subsequently went into default are recorded under *Net gains and losses on financial instruments at fair value through profit or loss* until the termination date of these instruments. At this termination date, receivables and debts on these counterparties are recognised at fair value in the balance sheet. Any further impairment of these receivables is recognised under *Cost of risk* in the income statement.

BREAKDOWN OF TRADING DERIVATIVES

	31.12.2018		01.01.2018	
(In millions of euros)	Assets	Liabilities	Assets	Liabilities
Interest rate instruments	74,253	73,835	89,508	92,183
Foreign exchange instruments	19,246	19,466	16,553	17,797
Equities & index Instruments	21,450	23,675	19,959	22,732
Commodities Instruments	5,708	6,081	5,948	6,070
Credit derivatives	2,224	2,704	2,245	2,562
Other forward financial instruments	102	1,185	78	1,025
TOTAL	**122,983**	**126,946**	**134,291**	**142,369**

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. All credit derivatives, regardless of their purpose, are measured at fair value through profit or loss and cannot be qualified as hedging instruments for accounting purposes. Accordingly, they are recognised at fair value among trading derivatives.

BREAKDOWN OF TRADING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)

(In millions of euros)	31.12.2018	01.01.2018
Interest rate instruments	**11,489,020**	**12,222,014**
Firm instruments	9,476,579	10,039,177
Swaps	*7,868,534*	*7,984,206*
FRAs	*1,608,045*	*2,054,971*
Options	2,012,441	2,182,837
Foreign exchange instruments	**3,823,369**	**3,261,527**
Firm instruments	2,661,823	2,455,220
Options	1,161,546	806,307
Equity and index instruments	**1,086,822**	**913,578**
Firm instruments	154,988	135,363
Options	931,834	778,215
Commodities instruments	**190,706**	**189,203**
Firm instruments	139,558	149,532
Options	51,148	39,671
Credit derivatives	**293,463**	**312,198**
Other forward financial instruments	**38,423**	**35,303**
TOTAL	**16,921,803**	**16,933,823**

NOTE 3.2.2 HEDGING DERIVATIVES

According to the transitional provisions of IFRS 9, the Group made the choice to maintain the IAS 39 provisions related to hedge accounting. Consequently, equity instruments do not qualify for hedge accounting regardless of their accounting category.

ACCOUNTING PRINCIPLES

In order to be hedged against certain market risks, the Group sets up hedging derivatives. From an accounting standpoint, the Group designates the hedging transaction as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation, depending on the risk and on the instruments that are hedged.

To designate an instrument as a hedging derivative, the Group must document the hedging relationship in detail, from the inception of the hedge. This documentation specifies the asset, liability, or future transaction hedged, the risk to be hedged and the associated risk management strategy, the type of financial derivative used and the valuation method that will be used to measure its effectiveness.

A derivative designated as a hedging instrument must be highly effective in offsetting the change in fair value or cash flows arising from the hedged risk. This effectiveness is verified when changes in the fair value or cash flows of the hedged instrument are almost entirely offset by changes in the fair value or cash flows of the hedging instrument, with the expected ratio between the two changes ranging from 80% to 125%. Effectiveness shall be assessed both when the hedge is first set up and throughout its life. Effectiveness is measured each quarter prospectively (expected effectiveness over the future periods) and retrospectively (effectiveness measured on past periods). Where the effectiveness falls outside the range specified above hedge accounting in discontinued.

Hedging derivatives are recognised in the balance sheet under *Hedging derivatives.*

Fair value hedges

The purpose of these hedges is to protect the Group against an adverse fluctuation in the fair value of an instrument which could affect profit or loss if the instrument were derecognised from the balance sheet.

Changes in the fair value of the hedging derivative are recorded in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*; for interest rate derivatives, however, accrued interest income and expenses on the derivative are recorded in the income statement under *Interest income and expense – Hedging derivatives* at the same time as accrued interest income and expenses related to the hedged item.

In the balance sheet, the carrying value of the hedged item is adjusted for gains and losses attributable to the hedged risk, which are reported in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*. To the extent that the hedge is highly effective, changes in the fair value of the hedged item and changes in the fair value of the hedging derivative are accurately offset through profit or loss, the difference corresponding to an ineffectiveness gain or loss.

Prospective effectiveness is assessed via a sensitivity analysis based on probable market trends or via a regression analysis of the statistical relationship (correlation) between certain components of the hedged item and the hedging instrument. Retrospective effectiveness is assessed by comparing any changes in the fair value of the hedging instrument with any changes in the fair value of the hedged item.

If it becomes apparent that the derivative has ceased to meet the effectiveness criteria for hedge accounting or if it is terminated or sold, hedge accounting is discontinued prospectively. Thereafter, the carrying amount of the hedged asset or liability ceases to be adjusted for changes in fair value attributable to the hedged risk and the cumulative adjustments previously recognised under hedge accounting are amortised over its remaining life. Hedge accounting is also discontinued if the hedged item is sold prior to maturity or redeemed early.

Cash flow hedges

The purpose of interest rate cash flow hedges is to protect against changes in future cash flows associated with a financial instrument on the balance sheet (loans, securities or floating-rate notes) or with a highly probable future transaction (future fixed rates, future prices, etc.). The purpose of these hedges is to protect the Group against adverse fluctuations in the future cash-flows of an instrument or transaction that could affect profit or loss.

The effective portion of changes in the fair value of hedging derivatives is booked to *Unrealised or deferred gains and losses*, while the ineffective portion is recognised in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*. For interest rate derivatives, accrued interest income and expenses on the derivative are recorded in the income statement under *Interest income and expense – Hedging derivatives* at the same time as accrued interest income and expenses related to the hedged item.

The effectiveness of the hedge is assessed using the hypothetical derivative method, which consists in i) creating a hypothetical derivative bearing exactly the same characteristics as the instrument being hedged (in notional terms, in terms of the date on which the rates are reset, in terms of the rates themselves, etc.), but which moves in the opposite direction and whose fair value is nil when the hedge is set up, then ii) comparing the expected changes in the fair value of the hypothetical derivative with those of the hedging instrument (sensitivity analysis) or performing a regression analysis on the prospective effectiveness of the hedge. Here, only any “over-hedging” is deemed ineffective.

Amounts directly recognised in equity in respect of the revaluation of cash flow hedging derivatives are subsequently reclassified to *Interest income and expense* in the income statement at the same time as the cash flows being hedged.

Whenever the hedging derivative ceases to meet the effectiveness criteria for hedge accounting or is terminated or sold, hedge accounting is discontinued prospectively. Amounts previously recognised directly in equity are reclassified under *Interest income and expense* in the income statement over the periods during which interest income is affected by cash flows arising from the hedged item. If the hedged item is sold or redeemed earlier than expected or if the hedged forecast transaction ceases to be highly probable, unrealised gains and losses recognised in equity are immediately reclassified in the income statement.

Hedging of a net investment in a foreign operation

The purpose of a hedge of a net investment in a foreign company is to protect against exchange rate risk.

The hedged item is an investment in a country whose currency differs from the Group's functional currency. The hedge therefore serves to protect the net position of a foreign subsidiary or branch against an exchange rate risk linked to the entity's functional currency.

The effective portion of the changes in the fair value of a hedging derivative designated for accounting purposes as a hedge of a net investment is recognised in equity under *Unrealised or deferred gains and losses*, while the ineffective portion is recognised in the income statement.

Macro-fair value hedges

In this type of hedge, interest rate derivatives are used to globally hedge against structural interest rate risks usually arising from Retail Banking activities. When accounting for these transactions, the Group applies the IAS 39 "carve-out" standard as adopted by the European Union, which facilitates:

- the application of fair value hedge accounting to macro-hedges used for asset-liability management, including customer demand deposits in the fixed-rate positions being hedged;
- the performance of effectiveness tests required by IAS 39 as adopted by the European Union.

The accounting treatment of financial derivatives designated as macro-fair value hedges is similar to that of other fair value hedging instruments. Changes in the fair value of the portfolio of macro-hedged instruments are reported on a separate line in the balance sheet under *Revaluation differences on portfolios hedged against interest rate risk* through profit or loss.

BREAKDOWN OF HEDGING DERIVATIVES

	31.12.2018		01.01.2018	
(In millions of euros)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Fair value hedge	**11,666**	**5,767**	**12,456**	**5,978**
Interest rate instruments	11,650	5,765	12,403	5,974
Foreign exchange instruments	16	2	53	4
Equity and index Instruments	-	-	-	-
Cash flow hedge	**105**	**204**	**168**	**132**
Interest rate instruments	27	140	49	103
Foreign exchange instruments	78	38	110	25
Equity and index Instruments	-	26	9	4
Net investment hedge	**128**	**22**	**94**	**36**
Foreign exchange instruments	128	22	94	36
TOTAL	**11,899**	**5,993**	**12,718**	**6,146**

The Group sets up hedging relationships recognised for accounting purposes as fair value hedges in order to protect its fixed-rate financial assets and liabilities (primarily loans/borrowings, securities issued and fixed-rate securities) against changes in long-term interest rates. The hedging instruments used mainly consist of interest rate swaps.

Through some of its Corporate and Investment Banking operations, the Group is exposed to future cash flow changes in its short and medium-term funding requirements, and sets up hedging relationships recognised for accounting purposes as cash flow hedges. Highly probable funding requirements are determined using historic data established for each activity and representative of balance sheet outstandings. These data may be increased or decreased with changes in management methods.

BREAKDOWN OF HEDGING DERIVATIVES COMMITMENTS (NOTIONAL AMOUNTS)

(In millions of euros)	31.12.2018	01.01.2018
Interest rate instruments	**488,398**	**418,956**
Firm instruments	487,149	417,334
Swaps	*486,994*	*417,040*
FRAs	*155*	*294*
Options	1,249	1,622
Foreign exchange instruments	**14,747**	**12,483**
Firm instruments	14,747	12,483
Equity and index instruments	**74**	**148**
Options	74	148
TOTAL	**503,219**	**431,587**

MATURITIES OF HEDGING FINANCIAL DERIVATIVES (NOTIONAL AMOUNTS)

These items are presented according to the contractual maturity of the financial instruments.

(In millions of euros)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	31.12.2018
Interest rate instruments	53,511	27,588	178,615	228,684	488,398
Foreign exchange instruments	5,515	7,554	1,409	269	14,747
Equity and index instruments	1	14	59	-	74
Other forward financial instruments	-	-	-	-	-
TOTAL	**59,027**	**35,156**	**180,083**	**228,953**	**503,219**

BREAKDOWN OF FAIR VALUE HEDGED ITEMS

	31.12.2018		
(In millions of euros)	Carrying amount of the hedged item(1)	Cumulative change in the fair value of the hedged item(2)	Change in the fair value of the hedged item booked during the period(2)
Hedge of interest rate risk	**1,007,558**	**8,018**	**943**
Hedged assets	389,869	1,521	(230)
Due from banks, at amortised cost	*19,856*	*19*	*(6)*
Customer loans, at amortised cost	*314,759*	*336*	*(10)*
Securities at amortised cost	*594*	*25*	*11*
Financial assets at fair value through other comprehensive income	*33,190*	*642*	*124*
Customer loans (macro hedged)	*21,470*	*499*	*(349)*
Hedged liabilities	617,689	6,497	1,173
Debt securities issued	*196,883*	*745*	*232*
Due to banks	*124,633*	*114*	*(20)*
Customer deposits	*220,383*	*219*	*48*
Subordinated debts	*13,697*	*1*	*120*
Customer deposits (macro hedged)	*62,093*	*5,418*	*793*
Hedge of currency risk	**783**	**16**	**39**
Hedged assets	31	1	1
Customer loans, at amortised cost	*31*	*1*	*1*
Hedged liabilities	752	15	38
Due to banks	*752*	*15*	*38*
TOTAL	**1,008,341**	**8,034**	**982**

(1) The carrying amount of the macro-hedged items represents the sum of the hedged outstanding and the revaluation differences on portfolios hedged against interest rate risk.

(2) Changes in fair value attributable to the hedged risk only and used to determine the ineffective portion of the fair value of the hedging instrument. This change is excluding accrued interests for the items hedged against interest rate risk.

At 31 December 2018, EUR 396 million of cumulative change of fair value remain to be amortized because of the disappearance of the hedging instrument.

BREAKDOWN OF FAIR VALUE HEDGING INSTRUMENTS

	31.12.2018				
		Fair value[2]			
(In millions of euros)	Commitments (notional amounts)	Assets	Liabilities	Change in fair value recorded during the period	Ineffectiveness recognised during the period
Hedge of interest rate risk	**169,944**	**11,650**	**5,765**	**(909)**	**34**
Firm instruments – Swaps	168,695	11,645	5,765	(909)	34
For hedged assets	*37,271*	*314*	*1,380*	*(138)*	*(18)*
For hedged portfolios of assets (macro hedge)[1]	*20,986*	*955*	*1,436*	*323*	*(33)*
For hedged liabilities	*52,178*	*2,111*	*612*	*(358)*	*3*
For hedged portfolios of liabilities (macro hedge)[1]	*58,260*	*8,265*	*2,337*	*(736)*	*82*
Optional instruments	1,249	5	-	(0)	(0)
For hedged assets portfolios of assets (macro hedge)[1]	*1,249*	*5*	*-*	*(0)*	*(0)*
Hedge of currency risk	**2,055**	**16**	**30**	**(38)**	**1**
Firm instruments	2,055	16	2	(38)	(0)
For hedged liabilities	*2,055*	*16*	*2*	*(38)*	*0*
Non-derivative financial instruments		-	28	(0)	1
For hedged assets		*-*	*28*	*(0)*	*1*
TOTAL	**171,999**	**11,666**	**5,795**	**(947)**	**35**

(1) For macro fair value transactions, the commitment described above equals to the net hedging derivatives position in order to represent the economic exposure from these instruments. This position should be linked with the carrying amount of the hedged items which represents the hedged exposure.

(2) The fair value of interest rate hedging derivatives includes accrued interests.

BREAKDOWN OF CASH FLOW HEDGED ITEMS

The following table describes the change of fair value of hedged items used to book the ineffective portion of the hedge during the current period. Regarding the cash flow hedges, the change of fair value of hedged items is assessed using the hypothetical derivative method described in the accounting principles above.

	31.12.2018
(In millions of euros)	Change in the fair value
Hedge of interest rate risk	**54**
Hedged assets	16
Customer loans, at amortised cost	*2*
Financial assets at fair value through other comprehensive income	*8*
Customer loans (macro hedged)	*6*
Hedged liabilities	38
Debt securities issued	*2*
Due to banks	*(0)*
Customer deposits (macro hedged)	*36*
Hedge of currency risk	**33**
Hedged liabilities	33
Due to banks	*33*
Forecasted transactions	0
Hedge of equity risk	**46**
Forecast transactions	46
TOTAL	**133**

BREAKDOWN OF CASH FLOWS HEDGING INSTRUMENTS

(In millions of euros)	31.12.2018					
	Commitments (notional amounts)	Fair value – Asset	Fair value – Liability	Changes in value booked during the period – Portion booked in unrealized or deferred gains and losses	Changes in value booked during the period – Ineffectiveness recorded during the period	Cumulative changes in value recorded in unrealized or deferred gains and losses
Hedge of interest rate risk	**15,965**	**27**	**140**	**(54)**	**(0)**	**(100)**
Firm instruments – Swaps	15,810	27	139	(45)	(0)	(96)
For hedged assets	*2,257*	*1*	*10*	*(10)*	*-*	*(9)*
For hedged portfolios of assets (macro hedge)[1]	*4,775*	*5*	*43*	*(6)*	*(0)*	*(27)*
For hedged liabilities	*3,047*	*0*	*2*	*7*	*(0)*	*5*
For hedged portfolios of liabilities (macro hedge)[1]	*5,731*	*21*	*84*	*(36)*	*0*	*(65)*
Firm instruments – FRAs	155	-	1	(9)	(0)	(4)
For hedged liabilities	*155*	*-*	*1*	*(9)*	*(0)*	*(4)*
Hedge of currency risk	**5,599**	**89**	**39**	**(33)**	**0**	**(13)**
Firm instruments	5,599	78	38	(33)	0	(13)
For hedged assets	*674*	*8*	*31*	*0*	*-*	*0*
For hedged liabilities	*4,925*	*70*	*7*	*(33)*	*0*	*(13)*
Non-derivative financial instruments	-	11	1	(0)	-	(0)
For future hedged transactions	*-*	*11*	*1*	*(0)*	*-*	*(0)*
Hedge of equity risk	**74**	**0**	**26**	**(46)**	**(7)**	**(15)**
Optional instruments	74	0	26	(46)	(7)	(15)
For hedged future transactions	*74*	*0*	*26*	*(46)*	*(7)*	*(15)*
TOTAL	**21,638**	**116**	**205**	**(133)**	**(7)**	**(128)**

(1) *For the macro hedge transactions, the commitment described above equals to the net hedging derivatives position in order to represent the economic exposure from these instruments.*

In 2018, EUR 36 millions of unrealised or deferred gains and losses have been transferred into net income, following the accounting of the cash flow hedge effects in the profit and loss.

BREAKDOWN OF NET INVESTMENT HEDGED ITEMS

(In millions of euros)	Change in the fair value of the hedged item during the period[1]	31.12.2018 Cumulative translation differences related to the hedged items
Hedge of currency risk	**172**	**1,212**
Hedged net investment in GBP	24	297
Hedged net investment in CZK	11	(173)
Hedged net investment in RUB	161	959
Hedged net investment in RON	(14)	20
Hedged net investment in USD	(39)	(15)
Hedged net investment in KRW	(1)	(31)
Hedged net investment (other currencies)	30	155

(1) Changes in fair value attributable to the hedged risk only and used to determine the ineffective portion of the fair value of the hedged instruments.

BREAKDOWN OF NET INVESTMENT HEDGE INSTRUMENTS

	31.12.2018					
		Carrying amount[1]		Changes in value booked during the period		
(In millions of euros)	Hedging derivatives commitments(1)	Asset	Liability	Portion booked in unrealized or deferred gains and losses	Ineffective portion booked during the period	Cumulative changes in value booked in unrealized or deferred gains and losses
Hedge of currency risk	**6,992**	**128**	**2,515**	**(191)**	**18**	**(1,212)**
Firm instruments	6,992	128	22	(107)	18	(93)
Hedged net investment in GBP	*1,491*	*21*	*3*	*(10)*	*1*	*64*
Hedged net investment in CZK	*1,065*	*3*	*-*	*(1)*	*(4)*	*6*
Hedged net investment in RUB	*752*	*83*	*-*	*(136)*	*26*	*(99)*
Hedged net investment in RON	*689*	*1*	*-*	*16*	*(2)*	*(7)*
Hedged net investment in USD	*461*	*-*	*4*	*34*	*(3)*	*9*
Hedged net investment in KRW	*497*	*-*	*7*	*1*	*(0)*	*9*
Hedged net investment (other currencies)	*2,037*	*20*	*8*	*(11)*	*(0)*	*(75)*
Non derivatives instruments		-	2,493	(84)	-	(1,119)
Hedged net investment in GBP		*-*	*346*	*(15)*	*-*	*(362)*
Hedged net investment in CZK		*-*	*839*	*(6)*	*-*	*166*
Hedged net investment in RUB		*-*	*348*	*(52)*	*-*	*(860)*
Hedged net investment in RON		*-*	*45*	*(0)*	*-*	*(13)*
Hedged net investment in USD		*-*	*199*	*9*	*-*	*6*
Hedged net investment in KRW		*-*	*-*	*-*	*-*	*22*
Hedged net investment (other currencies)		*-*	*716*	*(20)*	*-*	*(78)*

(1) The net position of the derivatives hedge instruments (notional amounts) represents the economic exposure from these hedging instruments. This position should be linked with the carrying amount of the hedged items which represents the exposure to hedge.

In 2018, EUR 9 millions of unrealized or deferred gains and losses have been transferred into the net income, following the recognition of the foreign hedged net investment translation differences in net income.

NOTE 3.3 Financial assets at fair value through other comprehensive income

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 1)

(In millions of euros)	Balance at 31.12.2017 IAS 39	Reclassifications of available-for-sale financial assets	Reclassifications of held-to-maturity financial assets	Reclassifications of loans and receivables regarding the business model	Value adjustments	Balances at 01.01.2018 IFRS 9
Debt instruments	N/A	49,584	485	80	29	50,178
Bonds and other debt securities	*N/A*	*49,584*	*485*	*80*	*29*	*50,178*
Loans and receivables and securities purchased under resale agreements	*N/A*	-	-	-	-	-
Shares and other equity securities	N/A	290	-	-	-	290
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**N/A**	**49,874**	**485**	**80**	**29**	**50,468**

OVERVIEW OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(In millions of euros)	31.12.2018	01.01.2018
Debt instruments	49,736	50,178
Bonds and other debt securities	*49,696*	*50,178*
Loans and receivables and securities purchased under resale agreements	*40*	-
Shares and other equity securities	290	290
TOTAL	**50,026**	**50,468**
o/w securities lent	*483*	*27*

NOTE 3.3.1 DEBT INSTRUMENTS

ACCOUNTING PRINCIPLES

Debt instruments (loans and receivables, bonds and bond equivalents) are classified as *Financial assets at fair value through other comprehensive income* where their contractual cash flows are consistent with basic lending arrangements (SPPI) and they are managed under a Collect and Sell business model.

Accrued or earned income on debt instruments is recorded in profit or loss based on the effective interest rate, under *Interest and similar income*.

At the reporting date, these instruments are measured at fair value, and changes in fair value, excluding income, are recorded under Unrealised or deferred gains and losses, except for foreign exchange differences on money market instruments denominated in local currencies, which are recorded in profit or loss. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under Cost of risk with a corresponding entry to Unrealised or deferred gains and losses. The applicable impairment rules are described in Note 3.8.

BUSINESS MODEL “HOLD TO COLLECT AND SALE”

The objective of this business model is to realise cash flows by both collecting contractual payments and selling financial assets. In this type of business model, the sales of financial assets are not incidental or exceptional, but they are integral to achieving the business’ objectives.

Cash management

Within the Group, except for the insurance activities, the “hold to collect and sale” business model is mainly applied by cash management activities for managing HQLA securities (High Quality Liquid Assets) included in the liquidity reserve. Only a few subsidiaries apply a “hold to collect” business model for managing their HQLA securities.

CHANGES OF THE CARRYING AMOUNT

(In millions of euros)	2018
Balance on 1 January	**50,178**
Acquisitions/disbursements	32,869
Disposals/redemptions	(32,278)
Transfers further to reclassification to (or from) another accounting category	76
Change in scope and others	(1,658)
Changes in fair value during the period	(287)
Change in related receivables	32
Translation differences	804
Balance on 31 December	**49,736**

BREAKDOWN OF CUMULATED UNREALISED GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY AND THAT WILL BE RECLASSIFIED SUBSEQUENTLY INTO INCOME

(In millions of euros)	31.12.2018
Unrealised gains	416
Unrealised losses	(183)
TOTAL	**233**

NOTE 3.3.2 EQUITY INSTRUMENTS

ACCOUNTING PRINCIPLES

Equity instruments (shares and share equivalents), that are not held for trading purpose, can be initially designated by the Group to be measured at fair value through other comprehensive income. This option, made instrument by instrument, is irrevocable.

These equity instruments are then measured at fair value and changes in fair value, excluding dividends, are recognised under *Unrealised or deferred gains and losses* with no subsequent reclassification to profit or loss. If the instruments are sold, the associated unrealised or deferred gains and losses are reclassified to *Retained earnings* at the opening of the next financial year. Only dividend income, if it is considered as a return on investment, are recorded in the income statement under *Net gains or losses on financial assets at fair value through other comprehensive income*.

The Group chose only in few cases to designate equity instruments to be measured at fair value through other comprehensive income.

NOTE 3.3.3 NET GAINS AND LOSSES RECOGNISED IN NET INCOME ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(In millions of euros)	2018
Realised gains and losses on sale of debt instruments	39
Dividends incomes on financial assets at fair value through other comprehensive income	44
TOTAL	**83**

NOTE 3.4 Fair value of financial instruments measured at fair value

MAKE IT SIMPLE

The financial assets and liabilities recognised in the Group balance sheet are measured either at fair value or at amortised cost. In the latter case, the fair value of the instruments is disclosed in the notes (see Note 3.9).

If an instrument is quoted on an active market, its fair value is equal to its market price.

But many financial instruments are not listed (for example, most customer loans and deposits, interbank debts and claims, etc.), or are only negotiable on illiquid markets or over-the-counter markets (which is the case for many derivative instruments).

In such situations, the fair value of the instruments is calculated using measurement techniques or valuation models. Market parameters are included in these models and must be observable; otherwise they are determined based on internal estimates. The models and parameters used are subject to independent validations and internal controls.

ACCOUNTING PRINCIPLES

Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In the absence of observable prices for identical assets or liabilities, the fair value of financial instruments is determined using another measurement technique that maximises the use of observable market input based on assumptions that market operators would use to set the price of the instrument in question.

Fair value hierarchy

For information purposes, in the notes to the consolidated financial statements, the fair value of financial instruments is classified using a fair value hierarchy that reflects the observability level of the inputs used. The fair value hierarchy is composed of the following levels:

Level 1 (L1): instruments valued on the basis of quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 1 instruments carried at fair value on the balance sheet include in particular shares listed in an active market, government or corporate bonds priced directly by external brokers/dealers, derivatives traded on organised markets (futures, options), and units of funds (including UCITS) whose net asset value is available on the balance sheet date.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and if they reflect actual and regular market transactions on an arm's length basis.

Determining whether a market is inactive requires the use of indicators such as a sharp decline in trading volume and the level of activity in the market, a sharp disparity in prices over time and among the various above-mentioned market participants, or the fact that the latest transactions conducted on an arm's length basis did not take place recently enough.

Where a financial instrument is traded in several markets to which the Group has immediate access, its fair value is represented by the market price at which volumes and activity levels are highest for the instrument in question.

Transactions resulting from involuntary liquidations or distressed sales are usually not taken into account to determine the market price.

Level 2 (L2): instruments valued using inputs other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

These are instruments measured using a financial model based on observable market inputs. Prices published by an external source derived from the valuation of similar instruments are considered as data derived from prices.

Level 2 instruments include in particular non derivative financial instruments carried at fair value on the balance sheet that are not directly quoted or do not have a quoted price on a sufficiently active market (*e.g.* corporate bonds, repos transactions, mortgage-backed securities, units of funds), and firm derivatives and options traded over-the-counter: interest rate swaps, caps, floors, swaptions, equity options, index options, foreign exchange options, commodity options and credit derivatives. The maturities of these instruments are linked to ranges of terms commonly traded in the market, and the instruments themselves can be simple or offer a more complex remuneration profile (*e.g.* barrier options, products with multiple underlying instruments), with said complexity remaining limited however. The valuation techniques used in this category are based on common methods shared by the main market participants.

This category also includes the fair value of loans and receivables measured at amortised cost in the balance-sheet granted to counterparties whose credit risk is quoted via Credit Default Swap (see Note 3.9).

Level 3 (L3): instruments valued using inputs that are not based on observable market data (referred to as unobservable inputs).

Level 3 instruments carried at fair value on the balance sheet are valued based on financial models with unobservable market inputs or observable inputs that are not quoted on active markets. For the Group, those instruments match with the instruments for which the sales margin is not immediately recognised in profit or loss (see Note 3.4.7).

Accordingly, Level 3 financial instruments include derivatives and repo transactions with longer maturities than those usually traded and/or with specifically-tailored return profiles, structured debts including embedded derivatives valued based on a method using unobservable inputs or long-term equity investments valued based on a corporate valuation method, which is the case for unlisted companies or companies listed on an insufficiently liquid market.

The main L3 complex derivatives are:

- equity derivatives: options with long maturities and/or incorporating bespoke remuneration mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc.). In the absence of market depth and an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (*e.g.* extrapolation from observable data, historical analysis). Hybrid equity instruments (*i.e.* having at least one non-equity underlying instrument) are also classified as L3 insofar as correlations between the different underlyings are generally unobservable;
- interest rate derivatives: long-term and/or exotic options, products sensitive to correlation between different interest rates, different exchange rates, or between interest rates and exchange rates, for example for quanto products (in which the instrument is settled in a currency different from the currency of the underlying); they are liable to be classified as L3 because the valuation inputs are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (*e.g.* exchange rate correlations are deemed unobservable for the USD/JPY);
- credit derivatives: L3 credit derivatives mainly include baskets of instruments exposed to time to default correlation ("N to default" products in which the buyer of the hedge is compensated as of the Nth default, which are exposed to the credit quality of the issuers comprising the basket and to their correlation, or CDO Bespoke products, which are Collateralised Debt Obligations created specifically for a group of investors and structured according to their needs), as well as products subject to credit spread volatility;
- commodity derivatives: this category includes products involving unobservable volatility or correlation inputs (*i.e.* options on commodity swaps or instruments based on baskets of underlyings).

NOTE 3.4.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE

	31.12.2018				01.01.2018			
(In millions of euros)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading portfolio*	**69,429**	**144,430**	**1,470**	**215,329**	**97,222**	**111,414**	**910**	**209,546**
Bonds and other debt securities	26,059	3,403	270	29,732	25,225	2,612	169	28,006
Shares and other equity securities	43,370	5,926	1	49,297	71,997	8,061	1	80,059
Loans and receivables and securities purchased under resale agreements*	-	134,662	1,199	135,861	-	100,370	740	101,110
Other trading assets	-	439	-	439	-	371	-	371
Trading derivatives	**23**	**119,460**	**3,500**	**122,983**	**38**	**131,670**	**2,583**	**134,291**
Interest rate instruments	8	71,628	2,617	74,253	19	87,663	1,826	89,508
Foreign exchange instruments	8	19,038	200	19,246	16	16,411	126	16,553
Equity and index instruments	-	21,211	239	21,450	-	19,535	424	19,959
Commodity instruments	-	5,666	42	5,708	-	5,888	60	5,948
Credit derivatives	-	1,826	398	2,224	-	2,108	137	2,245
Other forward financial instruments	7	91	4	102	3	65	10	78
Financial assets measured mandatorily at fair value through profit or loss	**117**	**21,091**	**2,849**	**24,057**	**151**	**18,782**	**2,636**	**21,569**
Bonds and other debt securities	12	36	110	158	2	67	90	159
Shares and other equity securities	105	194	1,697	1,996	149	200	1,211	1,560
Loans and receivables and securities purchased under resale agreements	-	20,861	1,042	21,903	-	18,515	1,335	19,850
Financial assets measured using fair value option through profit or loss*	**1,126**	**1,702**	**353**	**3,181**	**848**	**1,914**	**944**	**3,706**
Bonds and other debt securities	1,126	184	-	1,310	848	197	-	1,045
Loans and receivables and securities purchased under resale agreements*	-	466	353	819	-	1,175	944	2,119
Other financial assets	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	1,052	-	1,052	-	542	-	542
Hedging derivatives	**-**	**11,899**	**-**	**11,899**	**-**	**12,718**	**-**	**12,718**
Interest rate instruments	-	11,677	-	11,677	-	12,452	-	12,452
Foreign exchange instruments	-	222	-	222	-	257	-	257
Equity and index instruments	-	-	-	-	-	9	-	9
Financial assets measured at fair value through other comprehensive income	**48,738**	**998**	**290**	**50,026**	**48,045**	**2,130**	**293**	**50,468**
Bonds and other debt securities	48,738	958	-	49,696	48,045	2,130	3	50,178
Shares and other equity securities	-	-	290	290	-	-	290	290
Loans and receivables	-	40	-	40	-	-	-	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE*	**119,433**	**299,580**	**8,462**	**427,475**	**146,304**	**278,628**	**7,366**	**432,298**

* *Amounts restated see Note 3.4.2.*

NOTE 3.4.2 FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

	31.12.2018				01.01.2018			
(In millions of euros)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading portfolio*	**7,787**	**149,776**	**969**	**158,532**	**6,755**	**138,911**	**499**	**146,165**
Amounts payable on borrowed securities	308	50,956	-	51,264	337	34,507	-	34,844
Bonds and other debt instruments sold short	6,231	-	-	6,231	5,416	-	-	5,416
Shares and other equity instruments sold short	1,248	-	-	1,248	1,002	-	-	1,002
Borrowings and securities sold under repurchase agreements*	-	97,330	969	98,299	-	103,591	499	104,090
Other trading liabilities	-	1,490	-	1,490	-	813	-	813
Trading derivatives	**81**	**123,075**	**3,790**	**126,946**	**16**	**137,181**	**5,172**	**142,369**
Interest rate instruments	6	70,986	2,843	73,835	-	88,366	3,817	92,183
Foreign exchange instruments	5	19,346	115	19,466	1	17,742	54	17,797
Equity and index instruments	-	23,103	572	23,675	-	21,844	888	22,732
Commodity instruments	-	6,041	40	6,081	-	6,048	22	6,070
Credit derivatives	-	2,484	220	2,704	-	2,171	391	2,562
Other forward financial instruments	70	1,115	-	1,185	15	1,010	-	1,025
Financial liabilities measured using fair value option through profit or loss*	**265**	**39,408**	**37,932**	**77,605**	**334**	**40,125**	**39,557**	**80,016**
Hedging derivatives	**-**	**5,993**	**-**	**5,993**	**-**	**6,146**	**-**	**6,146**
Interest rate instruments	-	5,905	-	5,905	-	6,077	-	6,077
Foreign exchange instruments	-	62	-	62	-	65	-	65
Equity and index instruments	-	26	-	26	-	4	-	4
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE*	**8,133**	**318,252**	**42,691**	**369,076**	**7,105**	**322,363**	**45,228**	**374,696**

* *At 1 January 2018, the allocation of repo transactions between the level 2 and the level 3 of fair value was modified comparing with 31 December 2017. The repo transactions finalized by the Group can have the settlement dates much longer than the usual ones operated on the stock market. The parameters utilized to assess the fair value were revised, a part of this operations was reclassified from the level the level 2 to the level 3 (1,416 millions of euros of securities purchased under resale agreements and 1,382 million of euros of securities sold under repurchased agreements were reclassified on level 3 at 1 January 2018).*

NOTE 3.4.3 VARIATION IN LEVEL 3 FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AT FAIR VALUE

(In millions of euros)	Balance at 01.01.2018	Acquisitions	Disposals/ redemp-tions	Transfer to Level 2	Transfer from Level 2	Gains and losses	Translation differences	Change in scope and others	Balance at 31.12.2018
Trading portfolio*	**910**	**1,276**	**(707)**	**(202)**	**-**	**116**	**77**	**-**	**1,470**
Bonds and other debt securities	169	164	(125)	(35)	-	23	74	-	270
Shares and other equity securities	1	-	-	-	-	-	-	-	1
Loans and receivables and securities purchased under resale agreements*	740	1,112	(582)	(167)	-	93	3	-	1,199
Other trading assets	-	-	-	-	-	-	-	-	-
Trading derivatives	**2,583**	**101**	**(6)**	**(89)**	**195**	**639**	**125**	**(48)**	**3,500**
Interest rate instruments	1,826	33	-	(65)	187	623	62	(49)	2,617
Foreign exchange instruments	126	16	(5)	(8)	1	22	48	-	200
Equity and index instruments	424	32	-	(16)	2	(218)	14	1	239
Commodity instruments	60	20	(1)	-	-	(37)	-	-	42
Credit derivatives	137	-	-	-	5	255	1	-	398
Other forward financial instruments	10	-	-	-	-	(6)	-	-	4
Financial assets measured mandatorily at fair value through profit or loss	**2,636**	**889**	**(295)**	**(607)**	**34**	**391**	**71**	**(270)**	**2,849**
Bonds and other debt securities	90	28	(5)	(3)	-	(1)	-	1	110
Shares and other equity securities	1,211	258	(246)	(70)	26	508	8	2	1,697
Loans and receivables and securities purchased under resale agreements	1,335	603	(44)	(534)	8	(116)	63	(273)	1,042
Financial assets measured using fair value option through profit or loss*	**944**	**-**	**(204)**	**(401)**	**-**	**10**	**4**	**-**	**353**
Bonds and other debt securities	-	-	-	-	-	-	-	-	-
Loans and receivables and securities purchased under resale agreements*	944	-	(204)	(401)	-	10	4	-	353
Other financial assets	-	-	-	-	-	-	-	-	-
Separate assets for employee benefit plans	-	-	-	-	-	-	-	-	-
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
Financial assets measured at fair value option through other comprehensive income	**293**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**(1)**	**290**
Debt instruments	3	-	(1)	-	-	-	(1)	(1)	-
Equity instruments	290	-	-	-	-	-	-	-	290
Loans and receivables	-	-	-	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE*	**7,366**	**2,266**	**(1,213)**	**(1,299)**	**229**	**1,156**	**276**	**(319)**	**8,462**

* *Amounts restated see Note 3.4.2.*

FINANCIAL LIABILITIES AT FAIR VALUE

(In millions of euros)	Balance at 01.01.2018	Issues	Redemptions	Transfer to Level 2	Transfer from Level 2	Gains and losses	Translation differences	Change in scope and others	Balance at 31.12.2018
Trading portfolio*	**499**	**868**	**(476)**	**(92)**	**-**	**170**	**-**	**-**	**969**
Debt securities issued	-	-	-	-	-	-	-	-	-
Amounts payable on borrowed securities	-	-	-	-	-	-	-	-	-
Bonds and other debt instruments sold short	-	-	-	-	-	-	-	-	-
Shares and other equity instruments sold short	-	-	-	-	-	-	-	-	-
Borrowings and securities sold under repurchase agreements*	499	868	(476)	(92)	-	170	-	-	969
Other trading liabilities	-	-	-	-	-	-	-	-	-
Trading derivatives	**5,172**	**684**	**(230)**	**(325)**	**654**	**(1,551)**	**156**	**(770)**	**3,790**
Interest rate instruments	3,817	17	(53)	(233)	653	(716)	128	(770)	2,843
Foreign exchange instruments	54	13	-	(7)	1	54	-	-	115
Equity and index instruments	888	644	(177)	(83)	-	(727)	27	-	572
Commodity instruments	22	10	-	-	-	8	-	-	40
Credit derivatives	391	-	-	(2)	-	(170)	1	-	220
Other forward financial instruments	-	-	-	-	-	-	-	-	-
Financial liabilities measured using fair value option through profit or loss*	**39,557**	**17,734**	**(13,528)**	**(1,883)**	**198**	**(5,219)**	**1,111**	**(38)**	**37,932**
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate instruments	-	-	-	-	-	-	-	-	-
Foreign exchange instruments	-	-	-	-	-	-	-	-	-
Equity and index instruments	-	-	-	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE*	**45,228**	**19,286**	**(14,234)**	**(2,300)**	**852**	**(6,600)**	**1,267**	**(808)**	**42,691**

* *Amounts restated see Note 3.4.2(.*

NOTE 3.4.4 VALUATION METHODS OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE ON THE BALANCE SHEET

For financial instruments recognised at fair value on the balance sheet, fair value is determined primarily on the basis of the prices quoted in an active market. These prices can be adjusted if none are available on the balance sheet date or if the clearing value does not reflect transaction prices.

However, due notably to the varied characteristics of financial instruments traded over-the-counter on the financial markets, a large number of financial products traded by the Group does not have quoted prices in the markets.

For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for swaps or the Black & Scholes formula for certain options, and using valuation parameters that reflect current market conditions at the balance sheet date. These valuation models are validated independently by the experts from the Market Risk Department of the Group's Risk Division.

Furthermore, the inputs used in the valuation models, whether derived from observable market data or not, are checked by the Finance Division of Market Activities, in accordance with the methodologies defined by the Market Risk Department.

If necessary, these valuations are supplemented by additional reserves (such as bid-ask spreads and liquidity) determined reasonably and appropriately after an analysis of available information.

Derivatives and security financing transactions are subject to a Credit Valuation Adjustment (CVA) or Debt Valuation Adjustment (DVA). The Group includes all clients and clearing houses in this adjustment, which also reflects the netting agreements existing for each counterparty.

The CVA is determined on the basis of the Group entity's expected positive exposure to the counterparty, the counterparty's probability of default and the amount of the loss given default. The DVA is determined symmetrically based on the negative expected exposure. These calculations are carried out over the life of the potential exposure, with a focus on the use of relevant and observable market data.

Similarly, an adjustment to take into account the costs or profits linked to the financing of these transactions (FVA, Funding Value Adjustment) is also performed.

Observable data must be: independent, available, publicly distributed, based on a narrow consensus and/or backed up by transaction prices.

For example, consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For long maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of equity options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable inputs.

In the event of unusual tensions on the markets, leading to a lack of the usual reference data used to measure a financial instrument, the Risk Division may implement a new model in accordance with pertinent available data, similar to methods used by other market players.

SHARES AND OTHER EQUITY SECURITIES

For listed shares, fair value is taken to be the quoted price on the balance sheet date. For unlisted shares, fair value is determined depending on the type of financial instrument and according to one of the following methods:

- valuation based on a recent transaction involving the issuing company (third party buying into the issuing company's capital, appraisal by a professional valuation agent, etc.);
- valuation based on a recent transaction in the same sector as the issuing company (income multiple, asset multiple, etc.);
- proportion of net asset value held.

For unlisted securities in which the Group has significant holdings, valuations based on the above methods are supplemented by a discounted future cash flow valuation based on business plans or on valuation multiples of similar companies.

DEBT INSTRUMENTS HELD IN PORTFOLIO, ISSUES OF STRUCTURED SECURITIES MEASURED AT FAIR VALUE AND FINANCIAL DERIVATIVES

The fair value of these financial instruments is determined based on the quoted price on the balance sheet date or prices provided by brokers on the same date, when available. For unlisted financial instruments, fair value is determined using valuation techniques. Concerning liabilities measured at fair value, the on-balance sheet amounts include changes in the Group's issuer credit risk.

OTHER DEBTS

For listed financial instruments, fair value is taken as their closing quoted price on the balance sheet date. For unlisted financial instruments, fair value is determined by discounting future cash flows to present value at market rates (including counterparty risks, non-performance and liquidity risks).

CUSTOMER LOANS

The fair value of loans and receivables is calculated, in the absence of an actively traded market for these loans, by discounting the expected cash flows to present value at a discount rate based on interest rates prevailing on the market at the reporting date for loans with broadly similar terms and maturities. These discount rates are adjusted for borrower credit risk.

NOTE 3.4.5 ESTIMATES OF MAIN UNOBSERVABLE INPUTS

The following table provides the valuation of Level 3 instruments on the balance sheet and the range of values of the most significant unobservable inputs by main product type.

(In millions of euros)	Value in balance sheet					
Cash instruments and derivatives[1]	**Assets**	**Liabilities**	**Main products**	**Valuation techniques used**	**Significant unobservable inputs**	**Range of inputs min & max**
Equities/funds	542	26,919	derivatives on funds, equities or baskets of stocks derivatives on funds, equities or baskets of stocks	Various option models on funds, equities or baskets of stocks	Equity volatilities	6.7%; 48.1%
					Equity dividends	0.0%; 20.9%
					Correlations	-77.5%; 98%
					Hedge fund volatilities	8.5%; 20.0%
					Mutual fund volatilities	1.5%; 42.2%
Rates and Forex	5,794	15,512	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	-41.1%; 85%
			Forex derivatives	Forex option pricing models	Forex volatilities	1.0%; 32.0%
			Interest rate derivatives whose notional is indexed to prepayment behaviour in European collateral pools	Prepayment modelling	Constant prepayment rates	0.0%; 45%
			Inflation instruments and derivatives	Inflation pricing models	Correlations	64.4%; 88.9%
Credit	398	220	Collateralised Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations	0%; 100%
					Recovery rate variance for single name underlyings	0%; 100%
			Other credit derivatives	Credit default models	Time to default correlations	0%; 100%
					Quanto correlations	-50%; 40%
					Credit spreads	0 bps; 1 000 bps
Commodities	42	40	Derivatives on commodities baskets	Option models on commodities	Commodities correlations	10.6%; 95.8%
Long term equity investments	1,686	-	Securities held for strategic purposes	Net Book Value / Recent transactions	Non applicable	-
TOTAL	8,462	42,691				

(1) Hybrid instruments are broken down by main unobservable inputs.

NOTE 3.4.6 SENSITIVITY OF FAIR VALUE FOR LEVEL 3 INSTRUMENTS

Unobservable inputs are assessed carefully, particularly in this persistently uncertain economic environment and market. However, by their very nature, unobservable inputs inject a degree of uncertainty into the valuation of Level 3 instruments.

To quantify this, fair value sensitivity was estimated at 31 December 2018 on instruments whose valuation requires certain unobservable inputs. This estimate was based either on a “standardised” variation in unobservable inputs, calculated for each input on a net position, or on assumptions in line with the additional valuation adjustment policies for the financial instruments in question.

The “standardised” variation is:

- either the standard deviation of consensus prices (TOTEM, etc.) used to measure an input nevertheless considered as unobservable; or
- the standard deviation of historic data used to measure the input.

SENSITIVITY OF LEVEL 3 FAIR VALUE TO A REASONABLE VARIATION IN UNOBSERVABLE INPUTS

	31.12.2018		31.12.2017	
(In millions of euros)	Negative impact	Positive impact	Negative impact	Positive impact
Shares and other equity instruments and derivatives	**(13)**	**96**	**(5)**	**88**
Equity volatilities	0	19	0	18
Dividends	(3)	9	0	6
Correlations	(9)	62	(5)	59
Hedge Fund volatility	0	0	0	0
Mutual Fund volatility	(1)	6	0	6
Rates or Forex instruments and derivatives	**(6)**	**58**	**(6)**	**50**
Correlations between exchange rates and/or interest rates	(4)	55	(4)	45
Forex volatilities	(1)	2	(1)	2
Constant prepayment rates	0	0	0	0
Inflation/inflation correlations	(1)	1	(1)	2
Credit instruments and derivatives	**(4)**	**14**	**(2)**	**6**
Time to default correlations	(2)	4	(1)	1
Recovery rate variance for single name underlyings	0	0	0	0
Quanto correlations	(2)	10	0	4
Credit spreads	0	0	(1)	1
Commodity derivatives	**0**	**1**	**0**	**1**
Commodities correlations	0	1	0	1
Long term securities valued using internal models	**NA**	**NA**	**NA**	**NA**

It should be noted that, given the already conservative valuation levels, this sensitivity is higher for a favourable impact on results than for an unfavourable impact. Moreover, the amounts shown above illustrate the uncertainty of the valuation as of the computation date on the basis of a reasonable variation in inputs. Future variations in fair value or consequences of extreme market conditions cannot be deduced or forecast from these estimates.

NOTE 3.4.7 DEFERRED MARGIN RELATED TO MAIN UNOBSERVABLE INPUTS

The remaining amount to be recorded in the income statement, resulting from the difference between the transaction price and the amount determined at this date using valuation techniques, minus the amounts recorded in the income statement after initial recognition, is shown in the table below. This amount is recorded in the income statement spread over the period during which the inputs are expected to be unobservable, or as the inputs become observable.

(In millions of euros)	2018	2017
Deferred margin at 1 January	**1,281**	**1,142**
Deferred margin on new transactions during the period	744	880
Margin recorded in the income statement during the period	(788)	(741)
o/w amortisation	*(479)*	*(317)*
o/w switch to observable inputs	*(45)*	*(49)*
o/w disposed, expired or terminated	*(264)*	*(375)*
Deferred margin at 31 December	**1,237**	**1,281**

NOTE 3.5 Loans, receivables and securities at amortised cost

OVERVIEW OF IFRS 9 TRANSITION (SEE COMMENTS ON NOTE 1)

(In millions of euros)	Balance at 31.12.2017 IAS 39	Reclassifications: of insurance activities investments	of available-for-sale financial assets	of held-to-maturity financial assets	of non-SPPI loans and receivables	of loans and receivables regarding the business model	Others	Value adjustment: Reclassification effects	Recognition of credit risk impairment based on IFRS 9	Balance at 01.01.2018 IFRS 9
Securities at amortised cost	N/A	-	2,971	3,078	-	-	5,650	(100)	(7)	11,592
Due from banks at amortised cost	60,866	(7,103)	-	-	(5)	(80)	(18)	-	(4)	53,656
Customer loans and receivables at amortised cost	425,231	(141)	-	-	(638)	(644)	(5,580)	50	(887)	417,391
TOTAL	**486,097**	**(7,244)**	**2,971**	**3,078**	**(643)**	**(724)**	**52**	**(50)**	**(898)**	**482,639**

OVERVIEW OF FINANCIAL ASSETS AT AMORTISED COST

(In millions of euros)	31.12.2018 Carrying amount	31.12.2018 *o/w impairment*	01.12.2018 Carrying amount	01.12.2018 *o/w impairment*
Due from banks	60,588	*(32)*	53,656	*(29)*
Customer loans	447,229	*(11,435)*	417,391	*(13,361)*
Securities	12,026	*(10)*	11,592	*(11)*
TOTAL	**519,843**	***(11,477)***	**482,639**	***(13,401)***

ACCOUNTING PRINCIPLES

Loans, receivables and debt securities are measured at amortised cost where their contractual cash flows are consistent with basic lending arrangements (SPPI) and they are managed under a “Hold to Collect” business model.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, and their accrued or earned income is recorded in the income statement under *Interest and similar income*. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under *Cost of risk* with a corresponding impairment of amortised cost under balance sheet assets. The applicable impairment rules are described in Note 3.8.

Loans issued by the Group may be subject to renegotiations for commercial reasons, where the borrowing customer is not experiencing financial difficulties or insolvency. Such efforts are undertaken for customers for which the Group agrees to renegotiate their debt in the interest of preserving or developing a business relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans are derecognised at the renegotiation date, and the new loans contractualised under the renegotiated terms and conditions replace the previous loans in the balance sheet at this same date. The new loans are subject to the SPPI test to determine how they are classified in the balance sheet. If a loan qualifies as SPPI, renegotiation fees received are included in the effective interest rate of the new instrument.

Customer loans at amortised cost include lease receivables where they are classified as finance leases. Leases granted by the Group are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Otherwise, they are classified as operating leases (see Note 4.2).

These finance lease receivables represent the Group’s net investment in the lease, calculated as the present value of the minimum payments to be received from the lessee, plus any unguaranteed residual value, discounted at the interest rate implicit in the lease. In the event of a subsequent reduction in the estimated unguaranteed residual value used to calculate the lessor’s investment in the finance lease, the present value of this reduction is recognised as a loss under *Expenses from other activities* in the income statement and as a reduction of finance lease receivables on the asset side of the balance sheet.

BUSINESS MODEL "HOLD TO COLLECT"

Under this model, financial assets are managed to realise cash flows by collecting contractual payments over the life of the instrument.

To achieve the objective of this business model, it is not necessary for the entity to hold all the instruments until maturity. Selling assets remains consistent with a business model whose objective is to collect contractual cash flows in the following cases:

- the financial asset is sold following an increase in the asset's credit risk; or
- the sale of the financial asset occurs close to its maturity and the proceeds from the sale are similar to the amount to be collected from the remaining contractual cash flows.

Other sales can be consistent with the objective of collecting contractual cash flows, as well, provided they are infrequent (even if significant in value) or insignificant in value, both individually and in aggregate terms (even if frequent). Such other sales include sales made to manage credit concentration risk (without an increase in the asset's credit risk). The Group has set up procedures for reporting and analysing all significant projected sales of financial assets held for collecting contractual cash flows, as well as a periodic review of sales that have occurred.

Financing activities

Within the Group, the "hold to collect" business model is mainly applied by financing activities managed by French Retail Banking, International Retail Banking and Financial Services and by Global Banking and Investor Solutions, except for the part of syndicated loans that is expected to be sold.

NOTE 3.5.1 DUE FROM BANKS

(In millions of euros)	31.12.2018	01.01.2018
Current accounts	23,958	21,066
Deposits and loans(1)	18,453	15,842
Securities purchased under resale agreements	18,000	16,523
Subordinated and participating loans	91	133
Related receivables	99	94
Due from banks before impairment	**60,601**	**53,658**
Credit loss impairment	(32)	(29)
Revaluation of hedged items	19	27
Net due from banks	**60,588**	**53,656**

(1) At 31 December 2018, the amount of due from banks with level 3 of impairment was EUR 51 million compared to EUR 100 million at 1 January 2018.

NOTE 3.5.2 CUSTOMER LOANS

(In millions of euros)	31.12.2018	01.01.2018
Overdrafts(1)	21,230	20,239
Other customer loans(1)	375,982	356,662
Lease financing agreements(1)	32,345	30,310
Securities purchased under resale agreements	26,078	21,004
Related receivables	2,692	2,183
Customer loans before impairment	**458,327**	**430,398**
Credit loss impairment	(11,435)	(13,361)
Revaluation of hedged items	337	354
Customer loans	**447,229**	**417,391**

(1) At 31 December 2018, the amount of due from banks with level 3 of impairment was EUR 17,818 million compared to EUR 20,569 million at 1 January 2018.

BREAKDOWN OF OTHER CUSTOMER LOANS

(In millions of euros)	31.12.2018	01.01.2018
Trade notes	10,056	10,173
Short-term loans	118,978	108,005
Export loans	11,485	10,395
Equipment loans	57,253	53,983
Housing loans	126,160	124,324
Loans secured by notes and securities	92	89
Other loans	51,958	49,693
Other customer loans	**375,982**	**356,662**

ADDITIONAL INFORMATION ON LEASE FINANCING AND SIMILAR AGREEMENTS

(In millions of euros)	31.12.2018	01.01.2018
Gross investments	**34,562**	**32,714**
less than one year	*8,243*	*8,525*
1-5 years	*20,847*	*18,784*
more than five years	*5,472*	*5,405*
Present value of minimum payments receivable	**30,233**	**28,827**
less than one year	*7,576*	*7,942*
1-5 years	*18,291*	*16,852*
more than five years	*4,366*	*4,033*
Unearned financial income	**2,217**	**2,403**
Unguaranteed residual values receivable by the lessor	**2,112**	**1,484**

NOTE 3.5.3 SECURITIES

(In millions of euros)	31.12.2018	01.01.2018
Government securities	5,826	5,623
Negotiable certificates, bonds and other debt securities	6,106	5,851
Related receivables	79	109
Securities before impairment	**12,011**	**11,583**
Impairment	(10)	(11)
Revaluation of hedged items	25	20
Securities	**12,026**	**11,592**

NOTE 3.6 Debts

Note: The balance sheet value of financial liabilities at amortised cost was not impacted by the first-time application of IFRS 9.

ACCOUNTING PRINCIPLES

Debts include non-derivative financial liabilities that are not measured at fair value through profit or loss.

They are recognised in the balance sheet according to the type of instrument and counterparty, under *Due to banks*, *Customer deposits*, *Debt securities issued or Subordinated debt*.

Subordinated debts are all dated or undated borrowings, whether or not in the form of debt securities, which in the event of the liquidation of the borrowing company may only be redeemed after all other creditors have been paid.

Debts are initially recognised at cost, measured as the fair value of the amount borrowed net of transaction fees. These liabilities are measured at period-end at amortised cost using the effective interest rate method. As a result, issue or redemption premiums on bonds are amortised over the lifetime of the instruments concerned. Accrued or paid expenses are recorded in profit or loss under *Interest and similar expense*.

Mortgage savings accounts and plans are recorded under *Customer deposits – Regulated savings accounts*. A provision may be recorded in respect of CEL mortgage savings accounts and PEL mortgage savings plans (see Note 8.3).

NOTE 3.6.1 DUE TO BANKS

(In millions of euros)	31.12.2018	31.12.2017
Demand deposits and current accounts	13,875	11,686
Overnight deposits and borrowings and others	2,248	2,145
Term deposits	72,965	68,265
Related payables	130	127
Revaluation of hedged items	129	147
Securities sold under repurchase agreements	5,359	6,251
TOTAL	**94,706**	**88,621**

NOTE 3.6.2 CUSTOMER DEPOSITS

(In millions of euros)	31.12.2018	31.12.2017
Regulated savings accounts	93,230	92,023
Demand	*68,082*	*66,515*
Term	*25,148*	*25,508*
Other demand deposits(1)	222,642	216,102
Other term deposits(1)	82,932	85,454
Related payables	387	381
Revaluation of hedged items	219	268
TOTAL CUSTOMER DEPOSITS	**399,410**	**394,228**
Securities sold to customers under repurchase agreements	17,408	16,405
TOTAL	**416,818**	**410,633**

(1) Including deposits linked to governments and central administrations.

BREAKDOWN OF OTHER DEMAND DEPOSITS BY CUSTOMER TYPE

(In millions of euros)	31.12.2018	31.12.2017
Professionals and corporates	98,459	97,930
Individual customers	72,372	69,591
Financial customers	38,413	36,261
Others[1]	13,398	12,320
TOTAL	**222,642**	**216,102**

(1) Including deposits linked to governments and central administrations.

NOTE 3.6.3 DEBT SECURITIES ISSUED

(In millions of euros)	31.12.2018	31.12.2017
Term savings certificates	474	515
Bond borrowings	24,381	22,470
Interbank certificates and negotiable debt instruments	89,913	78,485
Related payables	804	770
Revaluation of hedged items	767	995
TOTAL	**116,339**	**103,235**
o/w floating-rate securities	*39,121*	*30,762*

NOTE 3.7 Interest income and expense

MAKE IT SIMPLE

Interest is compensation for a financial service, consisting in a lender making a certain amount of cash available to a borrower for an agreed period of time. Such compensated financing arrangements can be loans, deposits or securities (bonds, negotiable debt securities…).

This compensation is a consideration for the time value of money, and additionally for credit risk, liquidity risk and administrative costs, all borne by the lender for the duration of the financing agreement. The interest can also include a margin used by the lending bank to remunerate equity instruments (such as ordinary shares) that are required by prudential regulation to be issued in relation to the amount of financing granted, so as to guarantee its own solvency.

Interest is recognised as expense or income over the life of the financing service granted or received, proportionally to the principal amount outstanding.

ACCOUNTING PRINCIPLES

Interest income and expense are recorded in the income statement under *Interest and similar income* and *Interest and similar expense* for all financial instruments measured using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income) and for all financial instruments mandatorily measured at fair value through profit and loss and interest rate risk hedging derivatives for the portion of income or expenses representative of the effective interest rate.

The effective interest rate is taken to be the rate used to net discount future cash inflows and outflows over the expected life of the instrument in order to establish the net book value of the financial asset or liability. The calculation of this rate considers the future cash flows estimated on the basis of the contractual provisions of the financial instrument without taking account of possible future credit losses and also includes commissions paid or received between the parties where these may be assimilated to interest, directly linked transaction costs, and all types of premiums and discounts.

Where a financial asset is classified in Stage 3 for impairment, subsequent interest income is recognised in profit or loss by applying the effective interest rate to the net carrying amount of the financial asset with an offsetting entry equal to the outstanding financial asset before impairment.

Moreover, except for those related to employee benefits, provisions recognised as balance sheet liabilities generate interest expenses that are calculated using the same risk-free interest rate as that used to discount the expected outflow of resources.

	2018(1)			2017		
(In millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Financial instruments at amortised cost	14,030	(7,021)	7,009	13,830	(8,829)	5,001
Central banks	*575*	*(151)*	*424*	*389*	*(217)*	*172*
Bonds and other debt securities	257	(1,931)	(1,674)		(1,902)	(1,902)
Due from/to banks(2)	*1,077*	*(1,354)*	*(277)*	*1,219*	*(1,158)*	*61*
Customer loans and deposits(3)	*11,435*	*(2,889)*	*8,546*	*11,698*	*(4,847)*	*6,851*
Subordinated debt	*-*	*(542)*	*(542)*	*-*	*(581)*	*(581)*
Securities lending/borrowing	*7*	*(5)*	*2*	*14*	*(20)*	*(6)*
Repo transactions	*679*	*(149)*	*530*	*510*	*(104)*	*406*
Hedging derivatives	6,358	(4,638)	1,720	6,164	(4,434)	1,730
Financial instruments at fair value through other comprehensive income	622	-	622			
Available-for-sale financial assets				2,424	-	2,424
Held-to-maturity financial assets				141	-	141
Lease financing agreements	1,126	-	1,126	1,120	-	1,120
Real estate lease financing agreements	*194*	*-*	*194*	*199*	*-*	*199*
Non-real estate lease financing agreements	*932*	*-*	*932*	*921*	*-*	*921*
Subtotal interest income/expense on financial instruments using the effective interest method	**22,136**	**(11,659)**	**10,477**			
Financial instruments mandatorily at fair value through profit or loss	542	-	542			
TOTAL INTEREST INCOME AND EXPENSE	**22,678**	**(11,659)**	**11,019**	**23,679**	**(13,263)**	**10,416**
o/w interest income from impaired financial assets	*357*	*-*	*-*	*519*	*-*	*-*

(1) As from 2018, income and expense for the Group's insurance business are presented on a separate line of the income statement entitled "Net income of insurance companies" (see Note 1, paragraph 4).

(2) In 2016, the European Central Bank (ECB) initiated a programme of Targeted Longer-Term Refinancing Operations (TLTRO) whereby participating banks' interest rates are linked to their lending performance. Banks whose stock of loans increased by at least 2.5% over the benchmark period (January 2016 – January 2018) will enjoy lower interest rates over the entire term of the operation, the rate in question being equal to the Eurosystem's deposit facility rate. During the second quarter of 2018, having ascertained that the lending targets were met, the ECB notified the eligible banks that the reduced interest rate would apply. For Societe Generale Group, this rate reduction has led to an adjustment of the accounting value of its debt to the ECB and to the recognition of a profit equal to the difference between the discounted value (computed at the initial interest rate) of the updated contractual cash-flows following the rate reduction and the accounting value of the debt prior to the rate change. This profit amounts to EUR 60 million and is recorded under Interest income in the income statement.

(3) In 2017, Interests expenses on customer loans and deposit included EUR -2,496 million for profit-sharing for insurance policy holders.

These interest expenses include the refinancing cost of financial instruments at fair value through profit or loss, which results are classified in net gains or losses on these instruments. Given that income and expenses booked in the income statement are classified by type of instrument rather than by purpose, the net income generated by activities in financial instruments at fair value through profit or loss must be assessed as a whole.

BREAKDOWN OF OTHER CUSTOMER LOANS INCOME

(In millions of euros)	**2018**	**2017**
Trade notes	479	410
Other customer loans	9,773	10,037
Short-term loans	*4,153*	*3,996*
Export loans	*321*	*267*
Equipment loans	*1,396*	*1,740*
Housing loans	*3,182*	*3,278*
Other customer loans	*721*	*756*
Overdrafts	835	744
Doubtful outstandings (stage 3)	348	507
TOTAL	**11,435**	**11,698**

NOTE 3.8 Impairment and provisions

MAKE IT SIMPLE

Some financial assets (loans, debt securities) involve credit risk which exposes the Group to a potential loss if the counterparty or the securities issuer were to be unable to respect their financial commitments. To bear this risk, a portion of the contractual interest received by the bank on those assets, called credit margin, compensate it.

This potential loss, or expected credit loss, is recognised in profit or loss without waiting the occurrence of a default event on a specific counterparty.

For loans, receivables and debt securities measured at amortised cost or fair value through other comprehensive income, the expected credit loss, as assessed by the Group, is recognised in profit or loss together with interest income. On balance sheet, this potential loss is recognised as an impairment that reduces the carrying amount of assets measured at amortised cost. Impairment are written-back in case of a subsequent decrease of credit risk.

Potential losses recognised in profit or loss represent initially the credit losses expected by the Group over the year to come. Subsequently, the amount is increased by the expected loss at maturity of the instrument in case of significant increase of risk. The losses are then reassessed if the counterparty or issuer of the security is in default.

For financial assets measured at fair value through profit or loss (including instruments hold by global markets activities), their fair value includes already the expected credit loss, as assessed by the market participant, on the residual lifetime of the instrument.

ACCOUNTING PRINCIPLES

Recognition of expected credit losses

Debt instruments classified as financial assets at amortised cost or as financial assets at fair value through other comprehensive income, operating lease receivables, customer receivables and income to be received included amongst *Other assets*, as well as loan commitments gr anted and guarantee commitments issued, are systematically subject to impairment or provisions for expected credit losses. These impairments and provisions are recognised as the loans are granted, the commitments undertaken, or the debt securities purchased, without waiting for the occurrence of an objective evidence of impairment.

To determine the amount of impairment or provision to be recorded at each reporting date, these exposures are split among three categories based on the increase in credit risk observed since initial recognition. An impairment or provision shall be recognised for the exposures in each category as follows:

Observed deterioration in credit risk
since initial recognition of the financial asset

Credit risk category	**Stage 1** **Performing assets**	**Stage 2** **Under-performing or downgraded assets**	**Stage 3** **Credit-impaired or defaulted assets**
Transfer criteria	Initial recognition of the instrument in stage 1 ▸ *Maintained if the credit risk has not increased significantly*	Credit risk on the instrument has increased significantly since initial recognition / 30 days past due	Evidence that the instrument has become credit-impaired / 90 days past due
Measurement of credit risk	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest income recognition basis	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

Exposures classified in Stage 1

At the initial recognition date, the exposures are systematically classified in Stage 1, unless they are purchased or originated credit-impaired instruments.

Exposures classified in Stage 2

To identify Stage 2 exposures, the significant increase in credit risk is assessed by the Group using all available past and forward-looking data (behavioral scores, loan to value indicators, macroeconomic forecast scenarios, etc.). This assessment of changes in credit risk takes account of the following three criteria's:

- **The counterparty's credit rating**

The Group analyses changes in the counterparty's credit rating, as well as any changes in its operating sector, in macroeconomic conditions and in the behaviors of the counterparty that may, above and beyond the review of the credit rating, be a sign of deteriorating credit risk.

If, after a review, a counterparty is deemed "sensitive" (notion of watch list), all contracts between the Group and this counterparty are transferred into Stage 2 and the related impairment and provisions are increased up to the lifetime expected credit losses. Once a counterparty has been placed on a watch list, all new transactions originated with that counterparty are recorded in Stage 1.

- **The magnitude of the change in a counterparty's credit rating**

This magnitude is assessed from contract to contract, from the date of their initial recognition to the balance sheet date.

To determine whether a deterioration or improvement in the credit rating between the date of initial recognition and the balance sheet date is significant enough to prompt a change in the impairment Stage, thresholds are set once a year by the Risk Division. These transfer thresholds between Stage 1 and Stage 2 are determined for each homogenous portfolio of contracts (notion of risk segment) and are calculated based on the probability-of-default curves for each (thus, the threshold is different depending on whether it is a Sovereign portfolio or a Large Corporates portfolio, for instance). The thresholds are therefore differentiated based on the one-year probability of default curves; this assumes there is no distortion with respect to any comparison made with the lifetime probability-of-default curves.

- **The existence of payments more than 30 days past due**

There is a rebuttable presumption of a significant deterioration in credit risk when a payment on an asset is more than 30 days past due.

Once any one of these three criteria is met, the instrument is transferred from Stage 1 to Stage 2, and the related impairments or provisions are adjusted accordingly.

The first two criteria are symmetrical: a sufficient improvement in the credit rating, or removal from the watch list of sensitive counterparties, results in a return to Stage 1.

Exposures classified in stage 3

To identify Stage 3 exposures (doubtful exposures), the Group determines whether there is an objective evidence of impairment (default event):

- a significant deterioration in the counterparty's financial situation creates a strong probability that it will not be able to meet all of its commitments and thus represents a risk of loss for the Group;
- concessions are granted to the clauses of the loan agreement, in light of the borrower's financial difficulties, that would not have been granted in other circumstances;
- payments more than 90 days past due (with the exception of restructured loans during the probation period, which are deemed subject to impairment as of the first missed payment), whether or not a collection procedure is instigated;
- or, even in the absence of missed payments, the existence of probable credit risk or litigious proceedings (bankruptcy, court-ordered settlement or compulsory liquidation).

The Group applies the impairment contagion principle to all of the defaulting counterparty's exposures. When a debtor belongs to a group, the impairment contagion principle may also be applied to all of the group's exposures.

In the case of a return in Stage 2, the exposures are kept in Stage 2 during a probation period before assessing whether they could be transferred in Stage 1. This probation period in Stage 2 is from six months to two years according to the nature of the risk portfolio to which the exposures belong.

Purchased or originated credit-impaired exposures

Purchased or originated credit-impaired assets are subject to a specific accounting treatment. This treatment leads to recognize into the income statement any subsequent improvement or deterioration in the expected cash flows of the instrument, discounted at the effective interest rate of the instrument after adjustment for credit risk.

Measurement of depreciation and provision

Stage 1 exposures are impaired for the amount of credit losses that the Group expects to incur within 12 months (12-month expected credit losses), based on past data and the current situation. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring within the next 12 months.

Stage 2 and 3 exposures are impaired for the amount of credit losses that the Group expects to incur over the life of the exposures (lifetime expected credit losses), taking into consideration past data, the present situation and reasonable forecast changes in economic conditions, and relevant macroeconomic factors through to maturity. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring through to the instrument's maturity.

Calculation methods used to a measure credit losses are disclosed in Chapter 4 of the present Registration Document (Risk factors and capital adequacy), Part 4.5.

Irrespective of the Stage in which the exposures are classified, cash flows are discounted using the initial effective interest rate of the financial asset. The amount of impairment is included in the net carrying amount of the credit impaired financial asset. Impairment allocations/reversals are recorded in profit or loss under *Cost of risk*.

For operating leases and trade receivables, the Group uses the "simplified" approach, under which impairments are calculated as lifetime expected credit losses since their initial recognition, regardless of any subsequent changes in the counterparty's credit risk.

Restructured loans

Loans issued or acquired by the Group may be restructured due to financial difficulties. This takes the shape of a contractual modification of the initial terms of the loan (*e.g.* lower interest rates, rescheduled loan payments, partial debt forgiveness, or additional collateral). This adjustment of the contractual terms is strictly linked to the borrower's financial difficulties and/or insolvency (whether they have already become insolvent or are certain to do so if the loan is not restructured).

Where they still pass the SPPI test, restructured loans are still recognized in the balance sheet and their amortised cost before credit risk allowance is adjusted for a discount representing the restructuration loss. This discount is equal to the negative difference between the present value of the new contractual cash flows resulting from the restructuring of the loan and the amortised cost before credit risk allowance less any partial debt forgiveness; it is booked to *Cost of risk* in the income statement. As a result, the amount of interest income subsequently recognised into income are still computed using the initial effective interest rate of the loan.

Post-restructuring, these financial assets are systematically classified in Stage 3 for impairment (credit-impaired exposures), as the borrowers are deemed to be in default. Stage 3 classification is maintained for at least one year, or longer if the Group is uncertain that the borrowers will be able to meet their commitments. Once the loan is no longer classified in Stage 3, the assessment of the significant increase of credit risk will be performed by comparing the credit risk level at the closing date and the level at the initial recognition date of the loan before restructuring.

Where they no longer pass the SPPI test, restructured loans are derecognised and replaced by new loans recognized according to the restructured terms and conditions. These new loans are then classified as *Financial assets measured mandatorily at fair value through profit or loss*.

Restructured loans do not include loans and receivables subject to commercial renegotiations that are loans to customers for which the Group has agreed to renegotiate the debt with the aim of maintaining or developing a commercial relationship, in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

RECONCILIATION OF IMPAIRMENT AND PROVISIONS BETWEEN IAS 39 AND IFRS 9

The impacts of the IFRS 9 transition on impairments and loss provisions for credit risk are presented in Note 1.

OVERVIEW OF IMPAIRMENT AND PROVISIONS

(In millions of euros)	31.12.2018	01.01.2018
Impairment of financial assets at fair value through other comprehensive income	11	15
Impairment of financial assets at amortised cost	11,673	13,649
Loans and receivables at amortized costs	*11,477*	*13,401*
Other assets at amortized costs[1]	196	248
TOTAL IMPAIRMENT OF FINANCIAL ASSETS	**11,684**	**13,664**
Provisions on financing commitments	252	281
Provisions on guarantee commitments	386	402
TOTAL CREDIT RISK PROVISIONS	**638**	**683**

(1) o/w EUR 131 million of impairments on operating lease receivables as at 31 December 2018, measured using the simplified approach (vs. EUR 132 million as at 1 January 2018); those receivables are presented among miscellaneous receivables (see Note 4.4).

NOTE 3.8.1 IMPAIRMENT OF FINANCIAL ASSETS

BREAKDOWN OF FINANCIAL ASSETS IMPAIRMENT

(In millions of euros)	Amounts at 01.01.2018	Allocations	Write-backs available	Net allocations	Write-backs used	Currency and scope effects	Amounts at 31.12.2018
Financial assets at fair value through other comprehensive income							
Impairment on performing outstandings (Stage 1)	5	3	(3)	-		(2)	3
Impairment on under-performing outstandings (Stage 2)	-	-	-	-		-	-
Impairment on doubtful outstandings (Stage 3)	10	-	-	-	(1)	(1)	8
TOTAL	**15**	**3**	**(3)**	**-**	**(1)**	**(3)**	**11**
Financial assets at amortised cost							
Impairment on performing outstandings (Stage 1)	992	662	(672)	(10)		(95)	887
Impairment on under-performing outstandings (Stage 2)	1,244	898	(1,034)	(136)		(70)	1,038
Impairment on doubtful outstandings (Stage 3)	11,413	4,269	(3,153)	1,116	(2,130)	(651)	9,748
TOTAL	**13,649**	**5,829**	**(4,859)**	**970**	**(2,130)**	**(816)**	**11,673**
o/w Lease financing and similar agreements	***842***	***352***	***(299)***	***53***	***(116)***	***(12)***	***767***
Impairment on performing outstandings (Stage 1)	*80*	*40*	*(37)*	*3*		*-*	*83*
Impairment of under-performing outstandings (Stage 2)	*101*	*61*	*(64)*	*(3)*		*-*	*98*
Impairment of doubtful outstandings (Stage 3)	*661*	*251*	*(198)*	*53*	*(116)*	*(12)*	*586*

VARIATION OF IMPAIRMENT ACCORDING TO CHANGES IN THE CARRYING AMOUNT OF FINANCIAL ASSETS

(In millions of euros)	Amounts at 01.01.2018	Production & Acquisition	Derecognition (among which write-offs) and repayments	Transfer between stages of impairment	Other variations	Amounts at 31.12.2018
Financial assets at fair value through other comprehensive income						
Impairment on performing outstandings (Stage 1)	5	2			(4)	3
Impairment on under-performing outstandings (Stage 2)						-
Impairment on doubtful outstandings (Stage 3)	10				(2)	8
TOTAL	**15**	**2**	**-**	**-**	**(6)**	**11**
Financial assets at amortised cost						
Impairment on performing outstandings (Stage 1)	992	408	(420)	(142)	49	887
Impairment of under-performing outstandings (Stage 2)	1,244	277	(442)	126	(167)	1,038
Impairment on doubtful outstandings (Stage 3)	11,413	207	(2,182)	368	(58)	9,748
TOTAL	**13,649**	**892**	**(3,044)**	**352**	**176**	**11,673**
o/w Lease financing and similar agreements	***842***	***53***	***(315)***	***17***	***171***	***767***
Impairment on performing outstandings (Stage 1)	*80*	*28*	*(20)*	*(10)*	*5*	*83*
Impairment on under-performing outstandings (Stage 2)	*101*	*15*	*(32)*	*13*	*1*	*98*
Impairment on doubtful outstandings (Stage 3)	*661*	*9*	*(263)*	*14*	*165*	*586*

Impairment decreased by EUR 2 billion in 2018 mainly on corporate and retail customers doubtful outstandings (stage 3). This decrease is linked to the Group strategy to reduce its defaulted exposures highly covered by impairment.

NOTE 3.8.2 PROVISIONS

BREAKDOWN OF PROVISIONS

(In millions of euros)	Amounts at 01.01.2018	Allocations	Write-backs available	Net impairment losses	Currency and scope effects	Amounts at 31.12.2018
Financing commitments						
Provisions on performing outstandings (Stage 1)	117	83	(100)	(17)	(2)	98
Provisions on under-performing outstandings (Stage 2)	107	93	(82)	11	1	119
Provisions on doubtful outstandings (Stage 3)	57	76	(152)	(76)	54	35
TOTAL	**281**	**252**	**(334)**	**(82)**	**53**	**252**
Guarantee commitments						
Provisions on performing outstandings (Stage 1)	52	37	(38)	(1)	(4)	47
Provisions on under-performing outstandings (Stage 2)	61	68	(79)	(11)	18	68
Provisions on doubtful outstandings (Stage 3)	289	131	(96)	35	(53)	271
TOTAL	**402**	**236**	**(213)**	**23**	**(39)**	**386**

VARIATIONS OF PROVISIONS ACCORDING TO CHANGES IN THE AMOUNT OF FINANCING AND GUARANTEE COMMITMENTS

(In millions of euros)	Amounts at 01.01.2018	Production	Derecognition	Transfer between stages of impairment	Other variations	Amounts at 31.12.2018
Financing commitments						
Provisions on performing outstandings (Stage 1)	117	43	(55)	(10)	3	98
Provisions on under-performing outstandings (Stage 2)	107	28	(35)	20	(1)	119
Provisions on doubtful outstandings (Stage 3)	57	1	(19)	(2)	(2)	35
TOTAL	**281**	**72**	**(109)**	**8**	**0**	**252**
Guarantee commitments						
Provisions on performing outstandings (Stage 1)	52	14	(15)	(5)	1	47
Provisions on under-performing outstandings (Stage 2)	61	11	(6)	6	(4)	68
Provisions on doubtful outstandings (Stage 3)	289	4	(38)	15	1	271
TOTAL	**402**	**29**	**(59)**	**16**	**(2)**	**386**

NOTE 3.8.3 COST OF RISK

ACCOUNTING PRINCIPLES

Cost of risk only includes net allocations to impairments losses allowances for credit risk, losses on irrecoverable loans and amounts recovered on amortised receivables.

The Group proceeds to a write off of irrecoverable loans and a reversal of impairment in *Cost of risk* when a debt is waived or when there are no longer any hopes of future recovery. The lack of future hopes of recovery is documented when a relevant authority issues a certificate as proof that the debt is uncollectible or when strong circumstantial evidences are identified (years in default, provisions at 100%, lack of recent recoveries, specificities of the case). According to this policy, the Group doesn't proceed to partial write off of its bad loans.

However, a write-off in accounting terms does not imply debt forgiveness in the legal sense as recovery actions on cash due by the counterparty are pursued particularly if the latter's fortune improve. In case of recoveries on an exposure previously written-off, such recoveries are recognised as Amounts recovered on bad loans on the year of collection.

(In millions of euros)	2018	2017
Credit risk	**-1,005**	**-918**
Net allocation to impairment losses	-970	-1,034
On financial assets at fair value through other comprehensive income	-	
On financial assets at amortised cost	-970	
Net allocations to provisions	59	9
On financing commitments	82	
On guarantee commitments	-23	
Losses not covered on irrecoverable loans	-263	-151
Amounts recovered on irrecoverable loans	169	258
Other risks		-431
TOTAL	**-1,005**	**-1,349**

(1) As from 2018, Cost of risk only includes profit or loss items related to the recognition of credit risk, within the meaning of IFRS 9, including the share related to investments of insurance companies (changes in loss allowances and impairments covering credit losses, losses on irrecoverable loans and amounts recovered on previously impaired loans). As a result, changes in provisions for disputes that were previously recorded under Cost of risk now impact, depending on the type of dispute, Personnel expenses, Other administrative expenses, Interest and similar income, Interest and similar expense or Income tax.

NOTE 3.9 Fair value of financial instruments measured at amortised cost

ACCOUNTING PRINCIPLES

Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In the absence of observable prices for identical assets or liabilities, the fair value of financial instruments is determined using another measurement technique that maximises the use of observable market inputs based on assumptions that market operators would use to set the price of the instrument in question.

For financial instruments that are not recognised at fair value on the balance sheet, the figures disclosed in this note and broken down according to the fair value hierarchy as described in Note 3.4, should not be taken as an estimate of the amount that would be realised if all such financial instruments were to be settled immediately.

The fair value of financial instruments includes accrued interest as applicable.

NOTE 3.9.1 FINANCIAL ASSETS MEASURED AT AMORTISED COST

	31.12.2018				
(In millions of euros)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Due from banks	60,588	60,674	-	43,844	16,830
Customer loans	447,229	451,366	-	187,421	263,945
Securities	12,026	12,113	4,007	7,312	794
TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST	**519,843**	**524,153**	**4,007**	**238,577**	**281,569**

NOTE 3.9.2 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31.12.2018				
(In millions of euros)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Due to banks	94,706	94,564	244	90,037	4,283
Customer deposits	416,818	417,019	-	406,699	10,320
Debt securities issued	116,339	116,336	22,028	93,564	744
Subordinated debt	13,314	13,316	-	13,316	-
TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**641,177**	**641,235**	**22,272**	**603,616**	**15,347**

NOTE 3.9.3 VALUATION METHODS OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

LOANS, RECEIVABLES AND LEASE FINANCING AGREEMENTS

The fair value of loans, receivables and lease financing transactions for large corporates and banks is calculated, in the absence of an actively traded market for these loans, by discounting expected cash flows to present value based on the market rates (the benchmark maturity yield published by the Banque de France and the zero-coupon yield) prevailing on the balance sheet date for loans with broadly similar terms and maturities. These discount rates are adjusted for borrower credit risk.

The fair value of loans, receivables and lease financing transactions for retail banking customers, essentially comprised of individuals and small or medium-sized companies, is determined, in the absence of an actively traded market for these loans, by discounting the associated expected cash flows to present value at the market rates prevailing on the balance sheet date for similar types of loans and similar maturities.

For all floating-rate loans, receivables and lease financing transactions and fixed-rate loans with an initial maturity of less than or equal to one year, fair value is taken to be the same as book value net of impairment, assuming there has been no significant change in credit spreads on the counterparties in question since they were recognised in the balance sheet.

DEBTS

The fair value of debts, in the absence of an actively traded market for these liabilities, is taken to be the same as the value of future cash flows discounted to present value at the market rates prevailing on the balance sheet date. When the debt is a listed instrument, its fair value is its market value.

When the debt is a listed instrument, its fair value is its market value.

For floating-rate deposits, demand deposits and borrowings with an initial maturity of less than or equal to one year, fair value is taken to be the same as book value. Similarly, the individual fair value of demand deposit accounts is equal to their book value.

SECURITIES

Provided that the security is an instrument traded on an active market, its fair value is equal to the market price.

If no active market exists, the fair value of the securities is calculated by discounting estimated future cash flows from the asset at the market rate on the balance sheet date. For variable-rate securities, and fixed-rate securities with an agreed duration of up to one year, the fair value is assumed to be the carrying amount minus impairments provided there have been no significant fluctuations in credit spreads involving the counterparties concerned since they were recorded on the balance sheet.

NOTE 3.10 Commitments and assets pledged and received as securities

ACCOUNTING PRINCIPLES

Loan commitments

Loan commitments that are not considered as financial derivatives or that are not measured at fair value through profit and loss for trading purpose are initially recognised at fair value. Thereafter, they are provisioned as necessary in accordance with the accounting principles for *Impairment and provisions* (see Note 3.8).

Guarantee commitments

When considered as non-derivative financial instruments, financial guarantees issued by the Group are initially recognised in the balance sheet at fair value. Thereafter, they are measured at either the amount of the obligation or the amount initially recognised (whichever is higher) less, when appropriate, the cumulative amortisation of a guarantee commission. Where there is objective evidence of impairment, a provision for financial guarantees given is recognised on the liabilities side of the balance sheet (see Note 3.8).

Securities commitments

Securities bought and sold, which are booked to *Financial assets at fair value through profit or loss, Financial assets at fair value through other comprehensive income* and *Financial assets at amortised cost* are recognised on the balance sheet at the settlement-delivery date. Between the trade date and the settlement-delivery date, securities receivable or deliverable are not recognized on the balance sheet. Changes in the fair value of securities measured at fair value through profit or loss and securities measured at fair value through other comprehensive income between the trade date and the settlement-delivery date are booked to profit or loss or equity, depending on the accounting classification of the securities in question.

The amounts of commitments and assets pledged and received as securities was not impacted by the first application of IFRS 9.

NOTE 3.10.1 COMMITMENTS

COMMITMENTS GRANTED

(In millions of euros)	31.12.2018	31.12.2017
Loan commitments		
To banks	19,174	21,983
To customers	199,663	180,004
Issuance facilities	-	-
Confirmed credit lines	*181,015*	*168,874*
Others	*18,648*	*11,130*
Guarantee commitments		
On behalf of banks	5,020	6,641
On behalf of customers(1)	57,251	61,024
Securities commitments		
Securities to be delivered	38,066	25,711

(1) Including capital and performance guarantees given to the holders of UCITS managed by entities of the Group.

COMMITMENTS RECEIVED

(In millions of euros)	31.12.2018	31.12.2017
Loan commitments		
From banks	62,447	52,222
Guarantee commitments		
From banks	104,845	91,742
Other commitments(1)	136,702	126,409
Securities commitments		
Securities to be received	41,857	26,958

(1) Including guarantees granted by government and official agencies and other guarantees granted by customers for EUR 72,768 million at 31 December 2018 versus EUR 62,394 million at 31 December 2017.

NOTE 3.10.2 FINANCIAL ASSETS PLEDGED AND RECEIVED AS SECURITY

FINANCIAL ASSETS PLEDGED

(In millions of euros)	31.12.2018	31.12.2017
Book value of assets pledged as security for liabilities(1)	348,262	316,565
Book value of assets pledged as security for transactions in financial instruments(2)	55,957	45,291
Book value of assets pledged as security for off-balance sheet commitments	2,117	2,515
TOTAL	**406,336**	**364,371**

(1) Assets pledged as security for liabilities mainly include loans given as guarantees for liabilities (guarantees notably provided to the central banks).
(2) Assets pledged as security for transactions in financial instruments mainly include security deposit.

FINANCIAL ASSETS RECEIVED AS SECURITY AND AVAILABLE FOR THE ENTITY

(In millions of euros)	31.12.2018	31.12.2017
Fair value of securities purchased under resale agreements	**129,628**	**138,956**

The Group generally purchases securities under resale agreements under normal market terms and conditions. It may re-use the securities received under resale agreement by selling them outright, selling them under repurchase agreements or pledging them as security, provided that it returns these or equivalent securities to the counterparty to the resale agreement at its term. Securities purchased under resale agreements are not recognised on the balance sheet. Their fair value, as shown above, includes securities sold or pledged as collateral.

NOTE 3.11 Transferred financial assets

ACCOUNTING PRINCIPLES

Transferred financial assets that are not derecognised include securities lending transactions and repurchase agreements as well as certain loans transferred to consolidated securitisation vehicles.

The tables below show securities lending and repurchase agreements that only concern securities recognised on the asset side of the balance sheet.

Securities involved in a repurchase agreement or securities lending transaction are held in their original position on the asset side of the Group's balance sheet. For repurchase agreements, the obligation to return the amounts deposited is recorded under *Liabilities* on the liabilities side of the balance sheet, with the exception of transactions initiated under trading activities, which are recorded under *Financial liabilities at fair value through profit or loss*.

Securities involved in a reverse repurchase agreement or securities borrowing transaction are not recorded in the Group's balance sheet. For securities received under a reverse repurchase agreement, the right to recover the amounts delivered by the Group is recorded under *Customer Loans and receivables* or *Due from banks* on the asset side of the balance sheet, with the exception of transactions initiated under trading activities, which are recorded under *Financial assets at fair value through profit or loss*. In the case of a subsequent sale of the borrowed securities, a debt due to the lender of those securities is recognised on the Group balance sheet amongst *Financial liabilities at fair value through profit or loss*.

Securities lending and securities borrowing transactions that are fully matched by cash are assimilated to repurchase and reverse repurchase agreements and are recorded and recognised as such in the balance sheet.

With securities lending and repurchase agreements, the Group remains exposed to issuer default (credit risk) and to increases or decreases of securities value (market risk). The underlying securities cannot simultaneously be used as collateral in other transactions.

NOTE 3.11.1 TRANSFERRED FINANCIAL ASSETS NOT DERECOGNISED

REPURCHASE AGREEMENTS

	31.12.2018	
(In millions of euros)	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**
Securities at fair value through profit or loss	19,515	15,371
Securities at fair value through other comprehensive income	11,903	9,743
TOTAL	**31,418**	**25,114**

SECURITIES LENDING

	31.12.2018	
(In millions of euros)	**Carrying amount of transferred assets**	**Carrying amount of ssociated liabilities**
Securities at fair value through profit or loss	11,347	51
Securities at fair value through other comprehensive income	368	-
TOTAL	**11,715**	**51**

SECURITISATION ASSETS FOR WHICH THE COUNTERPARTIES TO THE ASSOCIATED LIABILITIES HAVE RECOURSE ONLY TO THE TRANSFERRED ASSETS

Customers loans (In millions of euros)	31.12.2018	31.12.2017
Carrying amount of transferred assets	1,249	904
Carrying amount of associated liabilities	1,086	798
Fair value of transferred assets (A)	1,253	908
Fair value of associated liabilities (B)	1,090	801
NET POSITION (A)-(B)	**163**	**107**

The Group remains exposed to the majority of the risks and rewards associated with these receivables; furthermore, these receivables may not be used as collateral or sold outright as part of another transaction.

NOTE 3.11.2 TRANSFERRED FINANCIAL ASSETS PARTIALLY OR FULLY DERECOGNISED

At 31 December 2018, the Group carried out no material transactions resulting in the partial or full derecognition of financial assets leaving the Group with a continuous involvement in said assets.

NOTE 3.12 Offsetting financial assets and financial liabilities

ACCOUNTING PRINCIPLES

A financial asset and a financial liability are offset and the net amount presented on the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The legal right to set off the recognised amounts must be enforceable in all circumstances, in both the normal course of business and in the event of default of one of the counterparties. In this respect, the Group recognises in its balance sheet the net amount of derivative financial instruments traded with certain clearing houses where they achieve net settlement through a daily cash margining process, or where their gross settlement system has features that eliminate or result in insignificant credit and liquidity risk, and that process receivables and payables in a single settlement process or cycle.

The following tables present the amounts of financial assets and financial liabilities set off on the Group's consolidated balance sheet. The gross outstanding amounts of these financial assets and financial liabilities are matched with the consolidated outstanding amounts presented in the balance sheet (net balance sheet amounts), after indicating the amounts set off on the balance sheet for these various instruments (amounts offset) and aggregating them with the outstanding amounts of other financial assets and financial liabilities not subject to a Master Netting Agreement or similar agreement (amounts of assets and liabilities not eligible for offsetting).

These tables also indicate the amounts which may be offset, as they are subject to a Master Netting Agreement or similar agreement, but whose characteristics make them ineligible for offsetting in the consolidated financial statements under IFRS. This information is provided in comparison with the accounting treatment applied under US GAAP. This affects in particular financial instruments that may only be offset in the event of the default, insolvency or bankruptcy of one of the counterparties, as well as instruments pledged by cash or securities collateral. These mainly include over-the-counter interest rate options, interest rate swaps and securities purchased/sold under resale/repurchase agreements.

Net positions resulting from these various offsettings are not intended to represent the Group's actual exposure to counterparty risk through these financial instruments, insofar as counterparty risk management uses other risk mitigation strategies in addition to netting and collateral agreements.

ASSETS		Impact of offsetting on the balance sheet		At 31 December 2018	Impact of Master Netting Agreements (MNA) and similar agreements[1]			
(In millions of euros)	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral received	Financial instruments received as collateral	Net amount
Derivative financial instruments (see Notes 3.1 and 3.2)	25,601	166,618	(57,337)	134,882	(81,559)	(13,720)	(31)	39,572
Securities lent (see Notes 3.1 and 3.3)	9,367	3,527	-	12,894	(1,745)	(2)	(732)	10,415
Securities purchased under resale agreements (see Notes 3.1 and 3.5)	46,526	224,992	(97,812)	173,706	(21,581)	(304)	(51,925)	99,896
Guarantee deposits pledged (see Note 4.4)	33,099	13,595	-	46,694	-	(13,595)	-	33,099
Other assets not subject to offsetting	941,252	-	-	941,252	-	-	-	941,252
TOTAL ASSETS	**1,055,845**	**408,732**	**(155,149)**	**1,309,428**	**(104,885)**	**(27,621)**	**(52,688)**	**1,124,234**

LIABILITIES		Impact of offsetting on the balance sheet		At 31 December 2018	Impact of Master Netting Agreements (MNA) and similar agreements[1]			
(In millions of euros)	Amount of liabilities not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral pledged	Financial instruments pledged as collateral	Net amount
Derivative financial instruments (see Notes 3.1 and 3.2)	27,918	162,357	(57,337)	132,938	(81,559)	(13,595)	-	37,784
Amount payable on borrowed securities (see Note 3.1)	33,731	17,533	-	51,264	(1,745)	-	-	49,519
Securities sold under repurchase agreements (see Notes 3.1 and 3.6)	45,391	174,062	(97,812)	121,641	(21,581)	-	(22,956)	77,104
Guarantee deposits received (See Note 4.4)	29,417	14,026	-	43,443	-	(14,026)	-	29,417
Other liabilities not subject to offsetting	894,333	-	-	894,333	-	-	-	894,333
TOTAL LIABILITIES	**1,030,790**	**367,978**	**(155,149)**	**1,243,619**	**(104,885)**	**(27,621)**	**(22,956)**	**1,088,157**

(1) Fair value of financial instruments and collateral, capped at the net book value of the balance sheet exposure, so as to avoid any over-collateralisation effect.

ASSETS		Impact of offsetting on the balance sheet		At 31 December 2017	Impact of Master Netting Agreements (MNA) and similar agreements[1]			
(In millions of euros)	Amount of assets not subject to offsetting	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral received	Financial instruments received as collateral	Net amount
Derivative financial instruments (see Notes 3.1 and 3.2)	30,291	182,376	(64,576)	148,091	(93,223)	(13,429)	(1)	41,438
Securities lent (see Notes 3.1 and 3.3)	2,534	13,782	-	16,316	(12,028)	-	-	4,288
Securities purchased under resale agreements (see Notes 3.1 and 3.5)	41,458	168,163	(70,659)	138,962	(34,145)	(204)	(51,164)	53,449
Guarantee deposits pledged (see Note 4.4)	28,650	12,334	-	40,984	-	(12,334)	-	28,650
Other assets not subject to offsetting	930,775	-	-	930,775	-	-	-	930,775
TOTAL ASSETS	**1,033,708**	**376,655**	**(135,235)**	**1,275,128**	**(139,396)**	**(25,967)**	**(51,165)**	**1,058,600**

Liabilities

LIABILITIES		Impact of offsetting on the balance sheet		At 31 December 2017	Impact of Master Netting Agreements (MNA) and similar agreements[1]			
(In millions of euros)	Amount of liabilities not subject to offsetting*	Gross amount	Amount offset	Net amount presented on the balance sheet	Financial instruments recognised in the balance sheet	Cash collateral pledged	Financial instruments pledged as collateral	Net amount
Derivative financial instruments (see Notes 3.1 and 3.2)	31,915	181,935	(64,576)	149,274	(93,223)	(12,334)	-	43,717
Amount payable on borrowed securities (see Note 3.1)	17,486	17,358	-	34,844	(12,028)	-	-	22,816
Securities sold under repurchase agreements (see Notes 3.1 and 3.6)	50,646	148,406	(70,659)	128,393	(34,145)	-	(17,620)	76,628
Guarantee deposits received (See Note 4.4)	25,484	13,633	-	39,117	-	(13,633)	-	25,484
Other liabilities not subject to offsetting	859,463	-	-	859,463	-	-	-	859,463
TOTAL LIABILITIES	**984,994**	**361,332**	**(135,235)**	**1,211,091**	**(139,396)**	**(25,967)**	**(17,620)**	**1,028,108**

(1) Fair value of financial instruments and collateral, capped at the net book value of the balance sheet exposure, so as to avoid any over-collateralisation effect.

NOTE 3.13 Contractual maturities of financial liabilities

(In millions of euros)	Up to 3 months	3 months to 1 year	1 to 5 Years	More than 5 years	31.12.2018
Due to central banks	5,721	-	-	-	5,721
Financial liabilities at fair value through profit or loss	310,193	22,209	13,699	16,982	363,083
Due to banks	26,897	26,560	20,135	21,114	94,706
Customer deposits	337,374	36,027	22,013	21,404	416,818
Debt securities issued	26,034	25,017	37,348	27,940	116,339
Subordinated debt	355	2	52	12,905	13,314
Other liabilities	66,231	2,087	5,281	3,03	76,629
TOTAL LIABILITIES	**772,805**	**111,902**	**98,528**	**103,375**	**1,086,610**
Loan commitments granted	84,953	19,941	74,835	39,108	218,837
Guarantee commitments granted	24,164	10,472	9,496	18,139	62,271
TOTAL COMMITMENTS GRANTED	**109,117**	**30,413**	**84,331**	**57,247**	**281,108**

The flows presented in this note are based on contractual maturities. However, for certain elements of the balance sheet, assumptions could be applied.

For lack of contractual terms and for trading financial instruments (e.g: derivatives), maturities are presented in the first column (up to 3 months).

The guarantee commitments given are scheduled on the basis of the best possible estimate of disposal, if not available they are presented in the first column (up to 3 months).

NOTE 4 OTHER ACTIVITIES

NOTE 4.1 Fee income and expense

ACCOUNTING PRINCIPLES

Fee income and *Fee expense* combine fees on services rendered and received, as well as fees on commitments, that cannot be assimilated to interest. Fees that can be assimilated to interest are integrated into the effective interest rate on the associated financial instrument and are recorded under *Interest and similar income* and *Interest and similar expense* (see Note 3.7).

Transactions with customers includes the fees from retail customers from the Group banking activities (in particular credit card fees, account management fees or application fees outside the effective interest rate).

Sundry services provided includes the fees from customers from the other Group activities (in particular, interchange fees, funds management fees or fees on insurance products sold within the network).

The Group recognises fee income or expense for an amount equivalent to the remuneration for the service provided and depending on the progress transferring control of these services:

- fees for ongoing services, such as some payment services, custody fees, or digital service subscriptions are recognised as income over the life of the service;
- fees for one-off services, such as fund activity, finder's fees received, arbitrage fees, or penalties on payment incidents are recognised as income when the service is provided.

The amount equivalent to the remuneration for the service provided is composed of fixed and variable contractual compensation whether they are paid in kind or in cash, less any payments due to customers (for example, in case of promotional offers). The variable compensation (for example, discounts based on the provided services volume over a period of time or fees payable subject to the achievement of a performance target, etc.) are included in the amount equivalent to the remuneration for the service provided if and only if this compensation is highly probable not to be subsequently reduced significantly.

The possible mismatch between the payment date of the service provided and the date of execution of the service gives assets and liabilities depending on the type of contract and mismatch which are recognized under *Other Assets* and *Other Liabilities* (see Note 4.4):

- customer contracts generate trade receivables, accrued income or prepaid income;
- supplier contracts generate trade payables, accrued expenses or prepaid expenses.

In syndication deals, the effective interest rate for the share of the issuance retained on the Group's balance sheet is comparable to that applied to the other members of the syndicate including, when needed, a share of the underwriting fees and participation fees; the balance of these fees for services rendered is then recorded under *Fee income* at the end of the syndication period. Arrangement fees are recorded as income when the placement is legally complete.

	2018			2017		
(In millions of euros)	Income	Expense	Net	Income	Expense	Net
Transactions with banks	**148**	**(182)**	**(34)**	**133**	**(168)**	**(35)**
Transactions with customers	**3,187**	**-**	**3,187**	**2,971**	**-**	**2,971**
Financial instruments operations	**2,308**	**(2,334)**	**(26)**	**2,416**	**(2,240)**	**176**
Securities transactions	539	(1,030)	(491)	596	(959)	(363)
Primary market transactions	136		136	208		208
Foreign exchange transactions and financial derivatives	1,633	(1,304)	329	1,612	(1,281)	331
Loan and guarantee commitments	**711**	**(78)**	**633**	**748**	**(62)**	**686**
Sundry services[1]	**2,770**	**(1,006)**	**1,764**	**4,236**	**(1,211)**	**3,025**
Asset management fees	634		634	1,427		1,427
Means of payment fees	847		847	813		813
Insurance products fees	228		228	820		820
Underwriting fees of UCITS	85		85	176		176
Other fees	976	(1,006)	(30)	1,000	(1,210)	(211)
TOTAL	**9,124**	**(3,600)**	**5,524**	**10,504**	**(3,681)**	**6,823**

(1) *As from 2018, income and expense for the Group's insurance business are presented on a separate line of the income statement entitled "Net income from insurance activities" (see Note 1.4).*

NOTE 4.2 Income and expense from other activities

ACCOUNTING PRINCIPLES

Leasing activities

Leases granted by the Group which do not transfer to the lessee virtually all the risks and benefits associated with ownership of the leased asset are classified as operating leases.

Assets held under operating leases, including investment property, are recorded on the balance sheet under *Tangible and intangible fixed assets* at their acquisition cost, less depreciation and impairment (see Note 8.4).

Leased assets are depreciated, excluding residual value, over the life of the lease. Lease payments are recognised as income according to the straight-line method over the term of the lease. Meanwhile, the purpose of the accounting treatment of income invoiced in respect of maintenance services related to operating lease activities is to reflect a constant margin between this income and the expenses incurred in providing the service over the term of the service agreement.

Income and expenses, and capital gains or losses on investment properties and leased assets, are recorded under *Income and expenses from other activities* on the Real estate leasing and Equipment leasing lines, as well as income and expense on maintenance services related to operating lease activities.

These lines also include losses incurred in the event of a decline in the unguaranteed residual value of finance-lease transactions, and capital gains or losses on disposal related to unleased assets once the lease finance agreements are terminated.

Leases granted by the Group entities may include maintenance service for the leased equipment. In this case, the portion of rentals corresponding to this maintenance service is spread over the duration of the service (generally the lease contract duration) and, when necessary, considers the progress of the service provided when it is not linear.

Real estate development activities

As the sale of real estate off plan (housing, office property, retail areas, etc.) is an ongoing service, the margin of this activity is progressively recognised over the construction programme's duration until the delivery date to the customer. It is recognised under income when this margin is positive and under expenses when this margin is negative.

The margin recognised at each closing period reflects the programme's estimated margin forecast and its stage of completion at the end of the period which depends on the progress in terms of marketing and the project.

	2018			2017		
(In millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Real estate development	76	(2)	74	93	(4)	89
Real estate leasing	34	(40)	(6)	67	(68)	(1)
Equipment leasing	10,102	(7,156)	2,946	9,158	(6,447)	2,711
Other activities[(1)(2)]	549	(1,814)	(1,265)	12,727	(14,637)	(1,910)
o/w insurance activities				*12,346*	*(12,052)*	*294*
TOTAL	**10,761**	**(9,012)**	**1,749**	**22,045**	**(21,156)**	**889**

(1) As from 2018, income and expense for the Group's insurance business are presented on a separate line of the income statement entitled "Net income from insurance activities" (see Note 1.4).

(2) For 2017, the Expenses from other activities include EUR 963 million, the exchange value of GBP 813.26 million, in compensation for the settlement agreement between Societe Generale and the Libyan Investment Authority.

NOTE 4.3 Insurance activities

MAKE IT SIMPLE

Insurance activities (life insurance, personal protection and non-life insurance) add to the range of products included in the banking services offered to Group customers.

These activities are carried out by dedicated subsidiaries, subject to regulations specific to the insurance sector.

The rules for measuring and accounting for risks associated with insurance contracts are specific to the Insurance sector.

DEFERRED APPLICATION OF IFRS 9 BY INSURANCE SUBSIDIARIES

The amendments to IFRS 4 (Applying IFRS 9, "Financial Instruments", with IFRS 4, Insurance Contracts) allow entities having insurance as their primary activity to delay the application of IFRS 9 until 1 January 2021, meaning they may continue applying IAS 39. The European Commission also extended the deferral option to allow financial conglomerates falling within the scope of Directive 2002/87/EC to elect that all their entities operating in the insurance sector within the meaning of that directive will defer the effective date of IFRS 9 until 1 January 2021.

The Group has elected that all its insurance subsidiaries will defer the effective date of IFRS 9 and will continue to apply IAS 39 as adopted by the European Union. The Group has made the necessary arrangements to forbid all transfers of financial instruments between its insurance sector and any other sector in the Group that would lead to a derecognition of the instrument by the seller, except for transfers of financial instruments measured at fair value through profit or loss by both sectors involved in such transfers.

Starting in financial year 2018, insurance activities are presented on separate lines in the consolidated financial statements for clarification purposes: *Investments of insurance activities* under balance sheet assets, *Insurance contracts related liabilities* under balance sheet liabilities, and *Net income from insurance activities* under *Net banking income* in the income statement.

The main subsidiaries concerned are Sogécap, Antarius, Sogelife, Oradea Vie, Komercni Pojistovna A.S. and Sogessur.

NOTE 4.3.1 INSURANCE CONTRACTS RELATED LIABILITIES

ACCOUNTING PRINCIPLES

Underwriting reserves of insurance companies

Underwriting reserves correspond to the commitments of insurance companies with respect to policyholders and the beneficiaries of policies.

In accordance with IFRS 4 on insurance policies, life and non-life underwriting reserves continue to be measured under the same local regulations, with the exception of certain prudential provisions that are cancelled (liquidity risk provision) or recalculated economically (overall management reserve).

Risks covered by non-life insurance policies are principally linked to home, car and accident protection guarantees. Underwriting reserves comprise reserves for unearned premiums (share of premium income relating to subsequent financial years) and for outstanding claims.

Risks covered by life insurance policies are principally death, invalidity and incapacity for work. Life insurance underwriting reserves mainly comprise actuarial reserves, which correspond to the difference between the present value of commitments falling to the insurer and those falling to the policyholder, and the reserve for claims incurred but not settled.

In life insurance products:

- underwriting reserves of life insurance contracts invested in EUR-denominated vehicles with profit-sharing clauses consist primarily of mathematical provisions and provisions for profit-sharing;
- underwriting reserves of life insurance contracts invested in unit-linked vehicles or with a significant insurance clause (mortality, invalidity, etc.) are measured at the inventory date according to the realisation value of the assets underlying these contracts.
- Under the principles defined in IFRS 4, and in compliance with local regulations applicable with respect thereto, life insurance policies with discretionary profit-sharing features are subject to "mirror accounting", whereby any changes in the value of financial assets liable to affect policyholders are recorded in Deferred profit-sharing. This reserve is calculated to reflect the potential rights of policyholders to unrealised gains on financial instruments measured at fair value or their potential share of unrealised losses.

To demonstrate the recoverability of the deferred profit-sharing asset in the event of an unrealised net loss, two approaches are verified by the Group in order to show that the liquidity requirements caused by an unfavourable economic environment would not require assets to be sold in the event of unrealised losses:

- the first approach consists in simulating deterministic ("standardised" or extreme) stress scenarios. This is used to show that in these scenarios no significant losses would be realised on the assets existing at the balance sheet date for the scenarios tested;
- the aim of the second approach is to ensure that in the long or medium term, the sale of assets to meet liquidity needs would not generate any significant losses. The approach is verified considering projections based on extreme scenarios

A liability adequacy test (LAT) is also carried out quarterly using a stochastic model based on parameters assumption consistent with those used for the MCEV (Market Consistent Embedded Value). This test takes into account all of the future cash flows from policies, including benefits, management charges, fees and policy options and guarantees. It does not include future premiums.

Classification of financial liabilities

At initial recognition, financial liabilities resulting from the Group's insurance activities are classified in the following accounting categories:

- financial liabilities measured at fair value through profit or loss: financial liabilities held for trading, including by default derivative liabilities that do not qualify as hedging instruments, as well as non-derivative financial liabilities initially designated by the Group at fair value through profit or loss (fair value option). These financial liabilities mainly comprise investment contracts without discretionary profit-sharing clauses and with no insurance component, that do not meet the definition of an insurance contract under IFRS 4 (unit-linked insurance contracts only) and are thus governed by IAS 39;
- financial liabilities measured at amortised cost: other non-derivative financial liabilities, which are measured at amortised cost.

These financial liabilities are recorded in the balance sheet under *Debts* and *Financial liabilities measured at fair value through profit or loss*, except for derivative liabilities which are recorded under *Insurance contracts related liabilities*.

BREAKDOWN OF INSURANCE CONTRACTS RELATED LIABILITIES

(In millions of euros)	31.12.2018	01.01.2018
Underwriting reserves of insurance companies	128,769	130,958
Financial liabilities of insurance companies	774	759
TOTAL	**129,543**	**131,717**

UNDERWRITING RESERVES OF INSURANCE COMPANIES

(In millions of euros)	31.12.2018	01.01.2018
Underwriting reserves for unit-linked policies	28,850	29,643
Life insurance underwriting reserves	90,992	89,563
Non-life insurance underwriting reserves	1,418	1,332
Deferred profit-sharing booked in liabilities	7,509	10,420
Total	**128,769**	**130,958**
Attributable to reinsurers	(703)	(731)
UNDERWRITING RESERVES OF INSURANCE COMPANIES (INCLUDING PROVISIONS FOR DEFERRED PROFIT-SHARING) NET OF THE SHARE ATTRIBUTABLE TO REINSURERS	**128,066**	**130,227**

STATEMENT OF CHANGES IN UNDERWRITING RESERVES

(In millions of euros)	Underwriting reserves for unit-linked policies	Life insurance underwriting reserves	Non-life insurance underwriting reserves
Reserves at 1 January 2018 (except provisions for deferred profit-sharing)	**29,643**	**89,563**	**1,332**
Allocation to insurance reserves	469	1,233	81
Revaluation of unit-linked policies	(1,895)		
Charges deducted from unit-linked policies	(157)		
Transfers and allocation adjustments	647	(655)	
New customers	21	86	11
Profit-sharing	124	1,351	
Others	(2)	(586)	(6)
Reserves at 31 December 2018 (except provisions for deferred profit-sharing)	**28,850**	**90,992**	**1,418**

In accordance with IFRS 4 and Group accounting standards, the Liability Adequacy Test (LAT) was performed at 31 December 2018. This test assesses whether recognised insurance liabilities are adequate, using current estimates of future cash flows under insurance policies. The result of the test at 31 December 2018 does not show any insufficiency of technical liabilities.

UNDERWRITING RESERVES BY REMAINING MATURITY

(In millions of euros)	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31.12.2018
Underwriting reserves of insurance companies	**11,542**	**8,891**	**35,102**	**73,234**	**128,769**

NOTE 4.3.2 INVESTMENTS OF INSURANCE ACTIVITIES

As of 1 January 2018, derivative and non-derivative financial assets and investment property held by insurance entities are isolated on the balance sheet under Investments of insurance companies.

The accounting principles applicable to financial assets are detailed in Note 8.8.

OVERVIEW OF INVESTMENTS OF INSURANCE ACTIVITIES

(In millions of euros)	31.12.2018	01.01.2018
Financial assets at fair value through profit or loss (trading portfolio)	1,876	1,765
Bonds and other debt instruments	*200*	*200*
Shares and other equity instruments	*29*	*38*
Trading derivatives	*1,647*	*1,527*
Financial assets at fair value through profit or loss (fair value option)	56,240	55,414
Bonds and other debt instruments	*27,881*	*27,174*
Shares and other equity instruments	*28,085*	*27,986*
Loans, receivables and repo transactions	*274*	*254*
Hedging derivatives	409	438
Available-for-sale financial assets	86,299	86,509
Debt instruments	*72,613*	*72,973*
Equity instruments	*13,686*	*13,536*
Due from banks	7,983	9,195
Customer loans	119	141
Real estate investments	609	618
Total investments of insurance activities before elimination of intercompany transactions	**153,535**	**154,080**
Elimination of intercompany transactions	(6,767)	(6,469)
TOTAL INVESTMENTS OF INSURANCE ACTIVITIES AFTER ELIMINATION OF INTERCOMPANY TRANSACTIONS[(1)(2)]	**146,768**	**147,611**

(1) Investments in other Group companies that are made in representation of unit-linked liabilities are kept in the Group's consolidated balance sheet without any significant impact thereon.

(2) o/w EUR 710 million of current accounts at 31 December 2018 (after elimination of intercompany transactions) vs. EUR 1,093 million at 1 January 2018.

The following tables show the carrying amounts and fair value after eliminating intercompany transactions.

ANALYSIS OF FINANCIAL ASSETS DEPENDING ON THEIR CONTRACTUAL CHARACTERISTICS

The following table shows the carrying amount of the financial assets included in *Investments from insurance activities*, whereby those assets whose contractual conditions give rise to cash-flows on set dates that are solely payments of principal and interest (basic instruments) are presented separately from trading assets and assets measured using the fair value option through profit or loss.

	31.12.2018				01.01.2018
(In millions of euros)	Basic instruments	Other instruments	Total carrying amount	Fair value	Total carrying amount
Financial assets at fair value through profit or loss	-	55,177	55,177	55,177	53,899
Hedging derivatives		401	401	401	420
Available-for-sale financial assets	68,261	16,407	84,668	84,668	84,731
Due from banks	2,122	3,672	5,794	6,139	7,103
Customer loans	119	-	119	117	141
TOTAL FINANCIAL INVESTMENTS	**70,502**	**75,657**	**146,159**	**146,502**	**146,294**

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	31.12.2018			
(In millions of euros)	Level 1	Level 2	Level 3	Total
Trading portfolio	29	384	49	462
Financial assets at fair value through profit or loss using the fair value option	48,821	5,516	378	54,715
Hedging derivatives	-	401	-	401
Available-for-sale financial assets	79,104	5,466	98	84,668
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**127,954**	**11,767**	**525**	**140,246**

	31.12.2017			
(In millions of euros)	Level 1	Level 2	Level 3	Total
Trading portfolio	38	661	-	699
Financial assets at fair value through profit or loss using the fair value option	49,805	3,764	331	53,900
Hedging derivatives	-	420	-	420
Available-for-sale financial assets	79,841	4,814	76	84,731
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**129,684**	**9,659**	**407**	**139,750**

CHANGES IN AVAILABLE FOR SALE FINANCIAL ASSETS

(In millions of euros)	2018
Balance as of 1 January	**84,731**
Acquisitions	9,834
Disposals/redemptions	(7,232)
Transfers to held-to-maturity financial assets	-
Change in scope and others	(427)
Gains and losses on changes in fair value recognised directly in equity during the period	(2,153)
Impairment losses on equity instruments recognised in profit and loss	(107)
Translation differences	22
Balance as of 31 December	**84,668**

UNREALISED GAINS AND LOSSES ON AVAILABLE FOR SALE FINANCIAL ASSETS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	31.12.2018		
(In millions of euros)	Capital gains	Capital losses	Net revaluation
Unrealised gains and losses of insurance companies	**384**	**(47)**	**337**
On equity instruments available-for-sale	*1,114*	*(391)*	*723*
On debt instruments available-for-sale and assets reclassified as loans and receivables	*6,338*	*(477)*	*5,861*
Deferred profit-sharing	*(7,068)*	*821*	*(6,247)*

	31.12.2017		
(In millions of euros)	**Capital gains**	**Capital losses**	**Net revaluation**
Unrealised gains and losses of insurance companies	**438**	**(27)**	**411**
On available-for-sale equity instruments	*1,537*	*(38)*	*1,499*
On available-for-sale debt instruments and assets reclassified as loans and receivables	*7,748*	*(327)*	*7,421*
Deferred profit-sharing	*(8,847)*	*338*	*(8,509)*

FINANCIAL ASSETS RECEIVED AS SECURITY AND AVAILABLE FOR THE ENTITY

(In millions of euros)	**31.12.2018**	**31.12.2017**
Fair value of securities purchased under resale agreements	**8**	**38**

The Group generally purchases securities under resale agreements under normal market terms and conditions. It may re-use the securities received under resale agreement by selling them outright, selling them under repurchase agreements or pledging them as security, provided that it returns these or equivalent securities to the counterparty to the resale agreement at its term.

Securities purchased under resale agreements are not recognised on the balance sheet. Their fair value, as shown above, includes securities sold or pledged as collateral.

NOTE 4.3.3 NET INCOME FROM INSURANCE ACTIVITIES

ACCOUNTING PRINCIPLES

Income and expense related to insurance contracts

Income and expense related to insurance contracts issued by Group insurance companies, associated fee income and expense, and income and expense related to investments of insurance companies are recorded under *Net income from insurance activities* in the income statement.

Other income and expense are recorded under the appropriate headings.

Changes in the provision for deferred profit-sharing are recorded under *Net income from insurance activities* in the income statement or under *Unrealised or deferred gains and losses* under the appropriate headings for the underlying assets in question.

The following table shows the breakdown of income and expense from insurance activities and associated investments presented on a separate line under Ne*t Banking Income: Net income from insurance activities* (after eliminating intercompany transactions).

(In millions of euros)	**2018**	**2017**
Net premiums	12,568	11,480
Net income from investments	1,928	3,368
Cost of benefits (including changes in reserves)(1)	(12,541)	(12,771)
Other net technical income (expense)	(231)	2
Net income of insurance activities	**1,724**	**2,079**
Funding costs	(7)	(4)
Net banking income of insurance companies	**1,717**	**2,075**

(1) o/w: EUR -2,001 million in respect of profit-sharing at 31 December 2018.

NET INCOME FROM INVESTMENTS

(In millions of euros)	2018	2017
Dividend income on equity instruments	617	393
Interest income	2,011	2,047
On available-for-sale financial assets	*1,706*	*1,711*
On loans and receivables	*293*	*273*
Other net interest income	*12*	*63*
Net gains or losses on financial instruments at fair value through profit or loss	(776)	864
Net gains or losses on available-for-sale financial instruments	62	61
Capital gain or loss on sale of debt instruments	*(5)*	*(51)*
Capital gain or loss on sale of equity instruments	*174*	*167*
Impairment losses on equity instruments	*(107)*	*(55)*
Net gains or losses on real estate investments	14	3
TOTAL NET INCOME FROM INVESTMENTS	**1,928**	**3,368**

NOTE 4.3.4 MANAGEMENT OF INSURANCE RISKS

There are two main types of insurance risks:

- underwriting risks, particularly risk through life insurance, individual personal protection and non-life insurance. This risk can be biometrical: disability, longevity, mortality, or related to policyholders' behaviour (risk of lapses). To a lesser extent, the Insurance business line is also exposed to non-life and health risks. Such risks can come from pricing, selection, claims management or catastrophic risk;
- risks related to financial markets and ALM: the Insurance business line, mainly through life insurance, is exposed to instabilities on the financial markets (changes in interest rates and stock market fluctuations) which can be made worse by policyholder behaviour.

Managing these risks is key to the Insurance business line's activity. It is carried out by qualified and experienced teams, with major bespoke IT resources. Risks are monitored and regularly reported, they are guaranted by risk policies validated by the Board of Directors of each entity.

Risk management techniques are based on the following:

- heightened security for the risk acceptance process, with the aim of guaranteeing that the price schedule matches the policyholder's risk profile and the guarantees provided;
- regular monitoring of indicators on product claims rates in order to adjust certain product parameters, such as pricing or the level of guarantee, if necessary;
- implementation of a reinsurance plan to protect the business line from major/serial claims;
- application of policies on risk, provisioning and reinsurance.

Management of risks linked to the financial markets and to ALM is an integral part of the investment strategy as long-term performance objectives. The optimization of these two factors is highly influenced by the asset/liability balance. Liability commitments (guarantees offered to customers, maturity of policies), as well as the amounts booked under the major items on the balance sheet (shareholders' equity, income, provisions, reserves, etc.) are analyzed by the Finance and Risk Department of the insurance business line.

Risk management related to financial markets (interest rates, credit and shares) and to ALM is based on the following:

- monitoring short- and long-term cash flows (match between the term of a liability and the term of an asset, liquidity risk management);
- particular monitoring of policyholder behaviour (redemption);
- close monitoring of financial markets;
- hedging against exchange rate risks (both rising and falling);
- defining thresholds and limits per counterparty, per issuer rating and assets class;
- stress tests, the results of which are presented annually at entities' Board of Directors' meetings, as part of the ORSA report (Own Risk and Solvency Assessment), transferred to the ACPR after approval by the Board;
- application of policies related to ALM and investment risks.

BREAKDOWN BY RATING OF BASIC FINANCIAL INSTRUMENTS

The following tables show the carrying amounts after eliminating intercompany transactions.

	31.12.2018			
(In millions of euros)	Available-for-sale financial assets	Due from banks	Customer loans	Total
AAA	4,146	214	-	4,36
AA+ / AA / AA-	37,692	562	-	38,254
A+ / A/A-	12,809	867	-	13,676
BBB+ / BBB/BBB-	12,769	377	-	13,146
BB+ / BB/BB-	353	102	-	455
B+ / B/B-	5	-	-	5
CCC+ / CCC/CCC-	-	-	-	-
CC+ / CC/CC-	-	-	-	-
Lower than CC-	-	-	-	-
Without rating	487	-	119	606
TOTAL BEFORE IMPAIRMENT	**68,261**	**2,122**	**119**	**70,502**
Impairment	-	-	-	-
CARRYING AMOUNT	**68,261**	**2,122**	**119**	**70,502**

The rating scale is the scale used for Solvency 2 purposes, which calls for the second highest rating determined by the rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings) to be used. The ratings in question apply to issues or, where these are not available, to issuers.

NOTE 4.4 Other assets and liabilities

NOTE 4.4.1 OTHER ASSETS

Other assets are impacted by the transition to IFRS 9 due to the implementation of the simplified impairment model for operating leases (see Note 3.8).

(In millions of euros)	31.12.2018	01.01.2018	31.12.2017
Guarantee deposits paid[1]	46,694	40,978	40,984
Settlement accounts on securities transactions	6,645	7,436	7,436
Prepaid expenses	1,057	989	989
Miscellaneous receivables[2]	11,817	9,920	10,378
Miscellaneous receivables - insurance	1,511	1,411	1,033
GROSS AMOUNT	**67,724**	**60,734**	**60,820**
Impairment[3]	(278)	(285)	(258)
NET AMOUNT	**67,446**	**60,449**	**60,562**

(1) Mainly relates to guarantee deposits paid on financial instruments, the fair value of which is taken to be the same as their book value net of impairment for credit risk.

(2) Miscellaneous receivables primarily include trade receivables, fee income and income from other activities to be received. The operating leases receivables equal to EUR 902 million as of 31 December 2018.

(3) Impairments on other assets are related to:
- credit risk on operating lease receivables for an amount of EUR 131 million as of 31 December 2018 and EUR 132 million as of 1 January 2018;
- credit risk on assets acquired by adjudication and sundry debtors for an amount of EUR 110 million as of 31 December 2018 and EUR 116 million as of 1 January 2018;
- other risks for an amount of EUR 37 million as of 31 December 2018 and EUR 37 million as of 1 January 2018.

NOTE 4.4.2 OTHER LIABILITIES

The balance sheet value of other liabilities was not impacted by the first-time application of IFRS 9.

(In millions of euros)	31.12.2018	31.12.2017
Guarantee deposits received[1]	43,443	39,117
Settlement accounts on securities transactions	6,904	6,816
Expenses payable on employee benefits	2,396	2,542
Deferred income	1,620	1,633
Miscellaneous payables[2]	15,609	13,314
Miscellaneous payables - insurance	6,657	5,717
TOTAL	**76,629**	**69,139**

(1) Mainly relates to guarantee deposits received on financial instruments, their fair value is taken to be the same as their book value.

(2) Miscellaneous payables primarily include trade payables, fee expense and expense from other activities to be paid.

NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

MAKE IT SIMPLE

Employee benefits correspond to the compensation granted by the Group to its employees in exchange for work carried out during the annual reporting period.

All forms of compensation for work rendered are recorded in the expenses:

- whether it be paid to employees or to outside social security agencies;
- whether it be paid during the annual reporting period or to be paid by the Group in the future as entitlements to employees (pension plans, retirement benefits…);
- whether it be paid in cash or in Societe Generale shares (free share plans, stock options).

ACCOUNTING PRINCIPLES

Employee benefits are divided into four categories:

- Short-term employee benefits which are employee benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, such as fixed and variable compensation, annual leave, taxes and social security contributions, mandatory employer contributions and profit-sharing;
- Post-employment benefits, including defined contributions plans and defined benefit plans such as pension plans and retirement benefits;
- Long-term employee benefits which are employee benefits not expected to be settled wholly before twelve months, such as defined variable compensation paid in cash and not indexed to the Societe Generale share, long service awards and time saving accounts;
- Termination benefits.

Information related to the Group headcount is presented in the Chapter 5 of the Registration Document (Corporate Social Responsibility), part 5.

NOTE 5.1 Personnel expenses and related party transactions

ACCOUNTING PRINCIPLES

Personnel expenses include all expenses related to personnel, including employee benefits and expenses related to payments based on Societe Generale shares.

Short-term employee benefits are recorded under *Personnel expenses* during the period according to the services provided by the employee.

The accounting principles relating to post-employment benefits and long-term benefits are described in Note 5.2. Those related to share-based payments are described in Note 5.3.1.

NOTE 5.1.1 PERSONNEL EXPENSES

(In millions of euros)	2018	2017
Employee compensation	(6,925)	(7,018)
Social security charges and payroll taxes	(1,648)	(1,605)
Net pension expenses - defined contribution plans	(724)	(713)
Net pension expenses - defined benefit plans	78	(112)
Employee profit-sharing and incentives	(342)	(301)
TOTAL	**(9,561)**	**(9,749)**
Including net expenses from share-based payments	*(227)*	*(129)*

NOTE 5.1.2 RELATED-PARTY TRANSACTIONS

ACCOUNTING PRINCIPLES

Personnel expenses include related party transactions, within the meaning of IAS 24.

The Group's related parties include the members of the Board of Directors, corporate officers (the Chairman, the Chief Executive Officer and the three Deputy Chief Executive Officers), their respective spouses and any children residing in the family home, subsidiaries which are either controlled exclusively or jointly by the Group, and companies over which Societe Generale exercises significant influence.

Remuneration of the group's managers

This includes amounts effectively paid by the Group to Directors and corporate officers as remuneration (including employer contributions) and other benefits as indicated below.

(In millions of euros)	2018	2017
Short-term benefits	17.9	20.7
Post-employment benefits	0.7	1.5
Long-term benefits	-	-
Termination benefits	1.6	-
Share-based payments	2.8	2.4
TOTAL	**23.0**	**24.6**

Related-party transactions

The transactions with members of the Board of Directors, Chief Executive Officers and members of their families included in this note only comprise loans and guarantees outstanding at 31 December 2018 for a total amount of EUR 4.9 million. All other transactions with these individuals are insignificant.

Total amounts provisioned or booked by the Societe Generale Group for the payment of pensions and other benefits

The total amount provisioned or booked by the Societe Generale Group at 31 December 2018 under IAS 19 for the payment of pensions and other benefits to Societe Generale's Chief Executive Officers (Ms Lebot and Mr. Aymerich, Mr. Cabannes and Mr. Heim and the two staff-elected Directors) is EUR 9.5 million.

NOTE 5.2 Employee benefits

Group entities in France and abroad, may award their employees:

- post-employment benefits, such as pension plans or retirement benefits;
- long-term benefits such as deferred variable remuneration, long-service awards or the *Compte Epargne Temps* (CET) flexible working provisions;
- termination benefits.

DETAIL OF PROVISIONS FOR EMPLOYEE BENEFITS

(In millions of euros)	Provisions at 31.12.2017	Allocations[1]	Write-backs available	Net allocation	Write-backs used	Actuarial gains and losses	Currency and scope effects	Provisions at 31.12.2018
Provisions for employee benefits	**2,100**	889	(571)	**318**	(6)	(6)	(65)	**2,341**

(1) *This amount includes an allocation of EUR 554 million related to the change of hedging strategies for French benefits plans in November 2018 (see Note 5.2.1).*

NOTE 5.2.1 POST-EMPLOYMENT BENEFITS

ACCOUNTING PRINCIPLES

Post-employment benefits can be broken down into two categories: defined contribution pension plans or defined benefit pension plans.

Defined contribution plans

Defined contribution plans limit the Group's liability to the subscriptions paid into the plan but do not commit the Group to a specific level of future benefits. Contributions paid are recorded as an expense for the current year.

Defined benefit plans

Defined benefit plans commit the Group, either formally or constructively, to pay a certain amount or level of future benefits and therefore bare the associated medium or long-term risk.

Provisions are recognised on the liabilities side of the balance sheet under *Provisions*, to cover the whole of these retirement obligations. These provisions are assessed regularly by independent actuaries using the projected unit credit method. This valuation technique incorporates assumptions about demographics, early retirement, salary rises and discount and inflation rates.

Group can choose to finance defined benefit plans by assets held by a long-term employee benefit fund or by qualifying insurance policies.

Funding assets, made by funds or insurance policies, are classified as plan assets if assets are held by an entity (a fund) that is legally separate from the reporting entity and are available to be used only to pay employee benefits

When these plans are financed from external funds classified as plan assets, the fair value of these funds is subtracted from the provision to cover the obligations.

When these plans are financed from funds not classified as plan assets, these funds, classified as separate assets, are displayed separately in the assets of the balance sheet under *Financial assets at fair value through profit or loss.*

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) and differences between actuarial assumptions and real performance are recognised as actuarial gains and losses. Actuarial gains and losses, as well as the return on plan assets excluding amounts expensed as net interest on the net defined benefit liability (or asset) and any change in the effect of the asset ceiling are components used to re-measure the net defined benefit liability (or asset). These components are immediately and fully recognised in shareholder's equity among *Unrealised or deferred gains and losses* and they cannot be subsequently reclassified as income.

In the Group consolidated financial statements, these items that cannot be subsequently reclassified as income are displayed separately in the Statement of net income and unrealised or deferred gain and losses, but are transferred immediately to retained earnings in the Statement of changes in shareholder's equity so that they are presented directly under *Retained earnings* on the liabilities side of the balance sheet.

Where a new or amended plan comes into force, past service cost is immediately recognised in profit or loss.

An annual charge is recorded under *Personnel expenses* for defined benefit plans consisting of:

- the additional entitlements vested by each employee (current service cost);
- past service cost resulting from a plan amendment or a curtailment;

- the financial expense resulting from the discount rate and the interest income on plan assets (net interest on the net defined benefit liability or asset);
- plan settlements.

DEFINED CONTRIBUTION PLANS

The main defined contribution plans provided to employees of the Group are located in France, in the United Kingdom and in the United States.

In France, they include state pension plans and other national pension plan such as AGIRC-ARRCO, as well as pension schemes put in place by certain Group entities whose only commitment is to pay annual contributions (PERCO).

In the United Kingdom, the employer pays contributions according to the age of the employees (from 2.5 to 10% of the salary) and can make extra contributions up to 4.5% for the voluntary additional employee contributions.

In the United States, employers fully match the first 8% of employee contributions, within the limit of USD 10,000.

POST-EMPLOYMENT DEFINED BENEFIT PLANS

Post-employment pension plans include schemes offering annuities, plans offering retirement bonuses and mixed plans (cash balance). Benefits paid out in annuities supplement the pensions paid by the mandatory basic plans.

The main defined benefit plans are located in France, Switzerland, the United Kingdom and the United States.

In France, the supplementary pension plan for executive managers, set up in 1991, allocates an annual allowance to beneficiaries covered by Societe Generale as described in the Chapter 3 “Corporate Governance” of the Registration Document. This allowance depends in particular on the beneficiary’s seniority within Societe Generale.

In Switzerland, the plan is managed by a personal protection insurance institution (the Foundation), comprised of employer and employee representatives. The employer and its employees pay contributions to the Foundation. Pension benefits are revalued at a guaranteed rate of return and converted to annuities (or lump-sum payment) also at a guaranteed conversion rate (cash balance scheme). Because of this minimum guaranteed return, the plan is considered similar to a defined benefit plan.

In recent years, the Societe Generale Group has actively implemented a policy of converting defined benefit plans to defined contribution plans.

In the United Kingdom, the defined benefit plan has been closed to new employees for nearly 20 years, and the benefits of the last beneficiaries were frozen in 2015. The plan is managed by an independent institution (Trustee).

Similarly, in the United States, defined benefit plans were closed to new employees in 2015 and the vesting of new benefits was frozen.

RECONCILIATION OF ASSETS AND LIABILITIES RECORDED IN THE BALANCE SHEET

(In millions of euros)	31.12.2018	31.12.2017
A - Present value of funded defined benefit obligations	2,617	2,953
B - Fair value of plan assets and separate assets	(2,436)	(2,610)
C = A + B Deficit (surplus)	**181**	**343**
D - Present value of unfunded defined benefit obligations	412	428
E - Change in asset ceiling	-	8
C + D + E = NET BALANCE RECORDED IN THE BALANCE SHEET	**593**	**779**

COMPONENTS OF THE COST OF DEFINED BENEFITS

(In millions of euros)	2018	2017
Current service cost including social security contributions	106	104
Employee contributions	(5)	(5)
Past service cost/curtailments(1)	(212)	(5)
Settlements	(3)	-
Net interest	17	16
A - Components recognised in income statement	**(97)**	**110**
Actuarial gains and losses on assets	119	(70)
Actuarial gains and losses due to changes in demographic assumptions	1	(38)
Actuarial gains and losses due to changes in economic and financial assumptions	(148)	57
Actuarial gains and losses due to experience	(3)	12
Change in asset ceiling	-	-
B - Components recognised in unrealised or deferred gains and losses	(31)	(39)
C = A + B TOTAL COMPONENTS OF THE COST OF DEFINED BENEFITS	**(128)**	**71**

(1) Some French defined benefit plans have been reviewed in December 2018 implying a decrease of the liabilities.

CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

(In millions of euros)	2018	2017
Balance at 1 January	**3,381**	**3,468**
Current service cost including social security contributions	106	104
Past service cost/curtailments[1]	(212)	(5)
Settlements	(3)	(23)
Net interest	60	63
Actuarial gains and losses due to changes in demographic assumptions	1	(38)
Actuarial gains and losses due to changes in economic and financial assumptions	(148)	57
Actuarial gains and losses due to experience	(3)	12
Foreign exchange adjustment	12	(92)
Benefit payments	(165)	(167)
Change in consolidation scope	-	1
Transfers and others	-	1
Balance at 31 December	**3,029**	**3,381**

(1) Some French defined benefit plans have been reviewed in December 2018 implying a decrease of the liabilities.

CHANGES IN THE FAIRE VALUE OF PLAN ASSETS AND SEPARATE ASSETS

(In millions of euros)	2018	2017
Balance at 1 January	**2,610**	**2,695**
Expected return on plan assets	44	47
Expected return on separate assets	6	6
Actuarial gains and losses due to assets	(119)	70
Foreign exchange adjustment	11	(81)
Employee contributions	5	5
Employer contributions to plan assets	22	26
Benefit payments	(135)	(141)
Change in consolidation scope	-	-
Transfers and others	(8)	(17)
Balance at 31 December[1]	**2,436**	**2,610**

(1) Including EUR 902 million in separate assets at 31 December 2018 (EUR 398 million at 31 December 2017).

INFORMATION REGARDING FUNDING ASSETS

General information regarding funding assets (for all benefits and future contributions)

Funding assets include plan assets and separate assets.

Funding assets represent around 78% of Group obligations, with different rates depending on the country.

Accordingly defined benefit plan obligations in the United Kingdom are fully hedged, those in the United States hedged 89%, while they are only 85% hedged in France and are not funded in Germany.

The breakdown of the fair value of plan assets is as follows: 63% bonds, 25% equities and 12% others investments. Directly held Societe Generale shares are not significant.

Funding assets excess is EUR 150 million.

Employer contributions to be paid to post-employment defined benefit plans for 2019 are estimated at EUR 17 million.

Plan hedging strategies are defined locally in connection with the Finance and Human Resources Departments of the entities, by ad hoc structures (Trustees, Foundations, Joint structures etc.) if necessary. Besides, liability investment or financing strategies are monitored at Group level through a global governance system. Committee meetings, with the participation of representatives of the Human Resources Department, the Finance Department and the Risk Division, are organised in order to define Group guidelines for employee benefits investment and management, to validate decisions and to follow up the associated risks for the Group.

In France, plan hedging strategies of some defined benefit plans has been modified in November 2018, implying a requalification of some plan assets into separate assets. The result is an increase of the liabilities of EUR 554 million and the recognition of a separate assets for the same amount (see Note 3.1.3). At the transfer date, the impact of this change is nil in profit or loss.

Depending on the duration of each plan and local regulations, funding assets are invested in equities and/or in fixed income products, whether guaranteed or not.

ACTUAL RETURNS ON FUNDING ASSETS

The actual returns on plan and separate assets can be broken down as follows:

(In millions of euros)	2018	2017
Plan assets	(42)	112
Separate assets	(27)	11

MAIN ASSUMPTIONS DETAILED BY GEOGRAPHICAL AREA

	31.12.2018	31.12.2017
Discount rate		
Europe	1.80%	1.66%
Americas	4.29%	3.50%
Asia-Oceania-Africa	2.22%	2.11%
Long-term inflation		
Europe	1.93%	2.07%
Asia-Oceania-Africa	1.66%	1.77%
Future salary increase		
Europe	0.60%	0.68%
Asia-Oceania-Africa	2.50%	2.49%
Average remaining working lifetime of employees (in years)		
Europe	8.33	9.46
Americas	7.85	8.25
Asia-Oceania-Africa	14.21	14.39
Duration (in years)		
Europe	14.75	15.76
Americas	15.59	17.53
Asia-Oceania-Africa	11.82	11.09

Assumptions by geographical area are weighted average by the defined benefit obligations (DBO).

The discount yield curves used are AA corporate bonds yield curves (source: Merrill Lynch) observed at the end of October for USD, GBP and EUR, and corrected at the end of December if the change in discount rates had a significant impact.

Inflation rates used for EUR and GBP monetary areas are market rates observed at the end of October, and corrected at the end of December if the change had a significant impact. Inflation rates used for the other monetary areas are the long-term targets of the central banks.

The average remaining working lifetime of employees is calculated taking into account turnover assumptions.

The assumptions described above have been applied to post-employment benefit plans.

SENSITIVITIES OF DEFINED BENEFIT OBLIGATIONS TO MAIN ASSUMPTION RANGES

(Percentage of item measured)	31.12.2018	31.12.2017
Variation in discount rate	*+0.5%*	*+0.5%*
Impact on the present value of defined benefit obligations at 31 December N	-7%	-7%
Variation in long-term inflation	*+0.5%*	*+0.5%*
Impact on the present value of defined benefit obligations at 31 December N	5%	5%
Variation in future salary increase	*+0.5%*	*+0.5%*
Impact on the present value of defined benefit obligations at 31 December N	2%	2%

Disclosed sensitivities are averages of the variations weighted by the present value of the defined benefit obligations

5.2.2. LONG-TERM BENEFITS

ACCOUNTING PRINCIPLES

Long-term employee benefits are benefits other than post-employment and termination benefits, that are paid to employees more than twelve months after the end of the annual period in which they provided the related services.

Long-term benefits are measured and recognised in the same way as post-employment benefits, with the exception of actuarial gains and losses, which are immediately recognised as profit or loss.

These benefits include deferred compensation settlet in cash and not indexed to the Societe Generale share, such as long-term deferred variable remuneration, CET (*Comptes Epargne Temps*) flexible woking provisions, or longservice awards.

At 31 December 2018, the net balance of long-term benefits was EUR 428 million. The total cost of long-term benefits was EUR 56 million for 2018.

NOTE 5.3 Share-based payment plans

ACCOUNTING PRINCIPLES

Societe Generale, and its subsidiaries, share-based payments include:

- payments in equity instruments;
- cash payments whose amount depends on the performance of equity instruments.

Share-based payments systematically give rise to an operating expense recognised as *Personnel expenses* in the amount of the fair value of the share-based payments granted to employees and according to their terms of settlement.

For equity-settled share-based payments (free shares, stock purchase or subscription options), the fair value of these instruments, measured at the vesting date, is spread over the vesting period and recorded in shareholders' equity under *Issuing premium and capital reserves*. At each accounting date, the number of these instruments is revised in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under *Personnel expenses* from the start of the plan are then adjusted accordingly.

For cash-settled share-based payments (stock-options granted by unlisted companies or compensation indexed on Societe Generale, or one of its subsidiary, shares), the fair value of the amounts payable is recorded under *Personnel expenses* as an expense over the vesting period against a corresponding liabilities entry recognised in the balance sheet under *Other liabilities – Expenses payable on employee benefits*. This payables item is then remeasured to take into account performance and presence conditions as well as changes in the value of the underlying shares. When the expense is hedged by an equity derivative instrument, the effective portion of the change in the fair value of the hedging derivative is recorded in profit or loss under *Personnel expense* as well.

The Group may award some of its employees stock purchase or subscription options, free shares or rights to a future cash payment indexed to the Societe Generale, or one of its subsidiary, share price.

The options are measured at their fair value when the employees are first notified, without waiting for the conditions that trigger the award to be met, or for the beneficiaries to exercise their options.

Group stock-option plans are measured using a binomial formula when the Group has adequate statistics to take into account the behaviour of the option beneficiaries. When such data are not available, the Black & Scholes model or Monte Carlo model is used. Valuations are performed by independent actuaries.

EXPENSES RECORDED IN THE INCOME STATEMENT

	31.12.2018			31.12.2017		
(in millions of euros)	Cash settled plans	Equity settled plans	Total plans	Cash settled plans	Equity settled plans	Total plans
Net expenses from purchase plans, stock option and free share plans	112	59	**171**	127	58	**185**

* *Amounts restated compared to the 31 December 2018 consolidated financial statements.*

The description of Societe Generale stock-options plans and free share plans, which supplements this note, is presented in Chapter 3 of the present Registration Document (Corporate Governance).

NOTE 6 INCOME TAX

MAKE IT SIMPLE

Income tax expenses are presented separately from other taxes which are classified among *Other operating expenses*. They are calculated according to the rates and tax regulations applicable in the countries where each consolidated entity is located.

Income tax presented in the income statement includes current taxes and deferred taxes:

- current taxes correspond to the amount of taxes due (or refundable) as calculated according to the taxable profit base for the reporting period;
- deferred taxes correspond to the amount of taxes resulting from past transactions and that will be payable (or refundable) in a future reporting period.

ACCOUNTING PRINCIPLES

Current taxes

Current tax is based on the taxable profits of each consolidated taxable entity and determined in accordance with the rules established by the local taxation authorities, upon which income taxes are payable. This tax expense also includes net allowances for tax adjustments pertaining to income tax.

Tax credits arising in respect of interest from loans and income from securities are recorded in the relevant interest account as they are applied in settlement of income taxes for the year. The related tax charge is included under *Income tax* in the consolidated income statement.

Deferred taxes

Deferred taxes are recognised whenever the Group identifies a temporary difference between the book value and tax value of balance sheet assets and liabilities that will affect future tax payments.

Deferred tax assets and liabilities are measured in each consolidated taxable entity and in accordance with the rules established by the local taxation authorities, upon which their income taxes are payable. This amount is based on the tax rate enacted or substantively enacted which is expected to apply when the asset is realised or the liability settled. These deferred taxes are adjusted in the event of changes to tax rates. This amount is not discounted to present value.

Deferred tax assets can result from deductible temporary differences or from tax loss carry forwards. These deferred tax assets are recorded only if the entity concerned is likely to recover these assets within a set time. These temporary differences or tax loss carry forwards can also be used against future taxable profit.

Tax loss carry forwards are subject to an annual review taking into account the tax system applicable to each relevant tax entity and a realistic projection of their tax income or expense: any previously unrecognised deferred tax assets are recorded in the balance sheet to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered; however, the carrying value of deferred tax assets already recognised in the balance sheet is reduced where a risk of total or partial non-recovery occurs.

Current and deferred taxes are recognised in the consolidated income statement under *Income tax*. However, deferred taxes related to gains and losses recorded under *Unrealised or deferred gains and losses* are also recognised under the same heading in shareholders' equity.

NOTE 6.1 Income tax

(In millions of euros)	2018	2017
Current taxes	(1,204)	(1,035)
Deferred taxes	(357)	(673)
TOTAL	**(1,561)**	**(1,708)**

RECONCILIATION OF THE DIFFERENCE BETWEEN THE GROUP'S STANDARD TAX RATE AND ITS EFFECTIVE TAX RATE

(In millions of euros)	2018	2017
Income before tax, excluding net income from companies accounted for using the equity method and impairment losses on goodwill	**6,061**	**5,045**
Normal tax rate applicable to French companies (including 3.3% national contribution)	34.43%	34.43%
Permanent differences[1]	1.58%	12.87%
Differential on securities with tax exemption or taxed at reduced rate	-0.10%	-2.23%
Tax rate differential on profits taxed outside France	-10.11%	-10.48%
Impact of non-deductible losses and use of tax losses carried forward	-0.04%	-0.69%
GROUP EFFECTIVE TAX RATE	**25.76%**	**33.90%**

(1) At 31 December 2017, the main impact was related to the change in the US tax rate and the appreciation of deferred tax assets of the US tax group for +5.01%, and the change in the French tax rate for +3.23%.

In France, the standard corporate income tax rate is 33.33%. A national contribution payment based on pre-tax earnings (contribution sociale) was introduced in 2000 equal to 3.3% (after a deduction of EUR 0.76 million from basic taxable income).

Long-term capital gains on equity investments are exempt, subject to taxation of a portion of fees and expenses at the full statutory tax rate. This portion of fees and expenses is 12% of gross capital gains and is applicable only if the company realizes a net long-term capital gain.

Furthermore, under the parent-subsidiary regime, dividends from companies in which Societe Generale's equity interest is at least 5% are tax exempt, subject to taxation of a portion of fees and expenses at the full statutory tax rate.

The 2018 French Finance Act, adopted on 21 December 2017, includes a gradual reduction in French tax rate. Until 2022, the standard Corporate Income Tax of 33.33% will be brought down to 25%, plus the existing national contribution of 3.3%.

Deferred taxes on French companies are determined by applying the tax rate in effect at the reversal of the temporary difference. Regarding the gradual reduction in French tax rate until 2022:

- for income taxed at the ordinary tax rate, the rate is between 34.43% in 2018 and 25.83% from 2022 (including the national contribution payment);
- for income taxed at reduced rate, the rate is between 4.13% in 2018 and 3.10% from 2022 (including the national contribution payment).

NOTE 6.2 Provisions for tax adjustments

ACCOUNTING PRINCIPLES

Provisions represent liabilities whose timing or amount cannot be precisely determined.

- Provisions may be recorded:
- where, by virtue of a commitment to a third-party, the Group will probably or certainly incur an outflow of resources to this third-party without receiving at least the equivalent value in exchange;

and when the amount of probable outflow of resources can be reliably estimated.

The expected outflows are then discounted to present value to determine the amount of the provision, where this discounting has a significant impact. Allocations to and reversals of provisions for tax adjustments are booked to *Current taxes* in the income statement under *Income tax*.

Information on the nature and the amount of the associated risks is not disclosed when the Group considers that such disclosure could seriously undermine its position in a dispute with other parties on the object of the provision.

(In millions of euros)	Provisions at 31.12.2017	Allowances	Available write-backs	Net	Used write-backs	Changes in translation and consolidation scope	Provisions at 31.12.2018
Tax adjustments	**162**	100	(51)	**49**	(75)	(1)	**135**

NOTE 6.3 Tax assets and liabilities

TAX ASSETS

(In millions of euros)	31.12.2018	01.01.2018	31.12.2017
Current tax assets	1,066	1,236	1,236
Deferred tax assets	4,753	5,056	4,765
o/w deferred tax assets on tax loss carryforwards	*2,895*	*2,970*	*2,970*
o/w deferred tax assets on temporary differences	*1,858*	*2,086*	*1,795*
TOTAL	**5,819**	**6,292**	**6,001**

TAX LIABILITIES

(In millions of euros)	31.12.2018	01.01.2018	31.12.2017
Current tax liabilities	552	995	995
Deferred tax liabilities	605	613	667
TOTAL	**1,157**	**1,608**	**1,662**

Each year, the Group performs a review of tax loss carryforwards, according to the tax system applicable for each relevant tax entity and a realistic forecast of its tax results. For this purpose, tax results are determined based on the forecast of the performance of each business line entering in the Group budgetary path and/or on the strategic review of countries, after being approved by empowered management bodies. In addition, they include accounting and tax adjustments (of which the reversal of deferred tax assets and liabilities bases on temporary differences) applicable to concerned entities and jurisdictions. These adjustments are determined based on historical tax results and on the Group's tax expertise. Beyond the Group budgetary path and/or the strategic review, extrapolations are performed particularly from macro-economic assumptions (for example, the evolution of interest rates).

By nature, the appreciation of macro-economic factors chosen and the internal estimations used to determine the tax results contain risks and uncertainties on their realisation over the estimated horizon of the losses absorption. These risks and uncertainties concern the possibilities of change of tax rules applicable (tax result computation as well as rules of imputation of tax losses carried forward) or the achievement of the strategic assumptions.

To ensure the robustness of the tax result projections, the Group realises sensitivity analysis on the achievement of budgetary and strategic assumptions.

At 31 December 2018, these analyses confirm the probability for the Group to use tax loss carryforwards subject to deferred tax assets against future taxable profit.

NOTE 6.4 Deferred tax assets recognised on tax loss carryforwards

At 31 December 2018, based on the tax system of each entity and a realistic projection of their tax income, the projected period for deferred tax asset recovery is indicated in the table below:

(In millions of euros)	31.12.2018	Statutory time limit on carryforwards	Expected recovery period
Total deferred tax assets relating to tax loss carryforwards	**2,895**	**-**	**-**
o/w French tax group	*2,327*	*unlimited*[(1)]	*10 years*
o/w US tax group	*463*	*20 years*[(2)]	*7 years*
Others	*105*	*-*	*-*

(1) In accordance with the 2013 French Finance Act, the deduction of previous losses is limited to EUR 1 million plus 50% of the fraction of the taxable income for the fiscal year exceeding this limit. The non-deductible portion of losses may be carried forward to the following fiscal years with no time limit and under the same conditions.

(2) Tax losses generated before 31 December 2017.

At 31 December 2018, the main unrecognised deferred tax assets represent a total of EUR 558 million (compared to EUR 687* million at 31 December 2017). They are mostly related to the US tax group, with EUR 500 million (compared to EUR 629* million at 31 December 2017), SG Kleinwort Hambros Ltd. with EUR 29 million (compared to EUR 30 million at 31 December 2017) and SG Singapour with EUR 29 million (compared to EUR 27 million at 31 December 2017).

With regard to the tax treatment of the loss caused by the actions of Jérôme Kerviel (see Note 9), Societe Generale considers that the judgment of the Versailles Court of Appeal of 23 September 2016 is not likely to call into question its validity in light of the 2011 opinion of the French Supreme Administrative Court (*Conseil d'État*) and its established case law which was recently confirmed again in this regard. Consequently, Societe Generale considers there is no need to provision the corresponding deferred tax assets.

However, as indicated by the Minister of the Economy and Finance in September 2016, the tax authorities have examined the tax consequences of this book loss and confirmed that they intended to call into question the deductibility of the loss caused by the actions of Jérôme Kerviel, amounting to EUR 4.9 billion. This proposed tax rectification has no immediate effect and will possibly have to be confirmed by a tax adjustment notice sent by the tax authorities when Societe Generale is in a position to deduct the tax loss carryforwards arising from the loss from its taxable income. Such a situation will not occur for several years according to the bank's forecasts. In the event that the authorities decide, in due course, to confirm their current position, the Societe Generale Group will not fail to assert its rights before the competent courts.

** Amounts restated compared to the 31 December 2017 published financial statements, including City and State income taxes in addition to Federal income tax in United States of America.*

NOTE 7 SHAREHOLDERS' EQUITY

MAKE IT SIMPLE

Equity are the resources contributed to the Group by external shareholders as capital, as well as the cumulative and undistributed results (retained earnings). It also includes resources received when financial instruments are issued and for which the issuer has no contractual obligation to deliver cash to the holders of these instruments (such as certain perpetual subordinated notes).

Equity has no contractual maturity, and when compensation is awarded to shareholders or holders of other equity instruments, it does not affect the income statement but directly reduces the retained earnings in the equity.

The statement "Changes in shareholders' equity" presents the various changes that affect the components of equity over the reporting period.

NOTE 7.1 Treasury shares and Shareholders' Equity issued by the Group

ACCOUNTING PRINCIPLES

Treasury shares

Societe Generale shares held by the Group are deducted from consolidated equity irrespective of the purpose for which they are held. Income on these shares is eliminated from the consolidated income statement.

Recognition of shares issued by Group subsidiaries, which are bought and sold by the Group, is described in Note 2.

Shareholders' Equity issued by the Group

Financial instruments issued by the Group are booked in whole or in part to debt or to equity depending on whether or not they contractually oblige the issuer to deliver cash to the holders of the securities.

When they are classified as equity, securities issued by Societe Generale are recorded under *Other equity instruments*. If they are issued by Group subsidiaries, these securities are recognised under *Non-controlling interests*. External costs associated with issuing equity instruments are deducted directly from equity at their after-tax amount.

When they are classified as debt instruments, securities issued by the Group are recorded under *Debt securities issued* or *Subordinated debt* depending on their characteristics. They are accounted for in the same way as other financial liabilities measured at amortised cost (see Note 3.6).

NOTE 7.1.1 ORDINARY SHARES ISSUED BY SOCIETE GENERALE S.A.

(Number of shares)	31.12.2018	31.12.2017
Ordinary shares	807,917,739	807,917,739
Including treasury stock with voting rights[(1)]	*5,975,497*	*6,850,304*
Including shares held by employees	*51,668,863*	*49,830,060*

(1) Excluding Societe Generale shares held for trading purposes or in respect of the liquidity contract.

At 31 December 2018, Societe Generale S.A.'s fully paid up capital amounted to EUR 1,009,897,173.75 and was made up of 807,917,739 shares with a nominal value of EUR 1.25.

NOTE 7.1.2 TREASURY STOCK

At 31 December 2018, the Group held 19,037,552 of its own shares as treasury stock, for trading purposes or for the active management of shareholders' equity, representing 2.36% of the capital of Societe Generale S.A.

The amount deducted by the Group from its equity for treasury shares (and related derivatives) came to EUR 667 million, including EUR 423 million in shares held for trading purposes.

THE CHANGE IN TREASURY STOCK OVER THE 1ST SEMESTER 2018 BREAKS DOWN AS FOLLOWS:

(In millions of euros)	Liquidity contract	Trading activities	Treasury stock and active management of shareholders' equity	Total
Disposals net of purchases	(4)	(202)	32	(174)
Capital gains net of tax on treasury stock and treasury share derivatives, booked under shareholders' equity	(1)	16	(27)	12

NOTE 7.1.3 EQUITY INSTRUMENTS ISSUED

PERPETUAL SUBORDINATED NOTES

Perpetual subordinated notes issued by the Group, with some discretionary features governing the payment of interest, are classified as equity.

At 31 December 2018, perpetual subordinated notes issued by the Group and recognised under Group shareholders' equity in *Other equity instruments* totalled EUR 244 million, valued at historical rate.

Issuance Date	Amount in local currency at 31 December 2017	Repurchases and redemptions in 2018	Amount in local currency at 31 December 2018	Amount in millions of euros at historical rate	Remuneration
1 July 1985	EUR 62 m	-	EUR 62 m	62	BAR (Bond Average Rate) of -0.25% for the period from 1 June to 31 May before each due date
24 November 1986	USD 248 m	-	USD 248 m	182	Average 6-month Euro/Dollar deposit rates communicated by reference banks +0.075%

PERPETUAL DEEPLY SUBORDINATED NOTES

Given the discretionary nature of the decision to pay dividends to shareholders, perpetual deeply subordinated notes have been classified as equity and recognised under *Other equity instruments*.

At 31 December 2018, perpetual deeply subordinated notes issued by the Group and recognised under Group shareholders' equity in *Other equity instruments* totalled EUR 8,866 million, valued at historical rate.

The variation of the amount of perpetual deeply subordinated notes reflects the redemptions of three notes during the year.

Issuance Date	Amount in local currency at 31 December 2017	Repurchases and redemptions in 2018	Amount in local currency at 31 December 2018	Amount in millions of euros at historical rate	Remuneration
16 June 2008	GBP 506 m	GBP 506 m	-	-	8.875%, from 2018 3-month GBP Libor +3.4% annually
4 September 2009	EUR 905 m		EUR 905 m	905	9.375%, from 2019 3-month Euribor +8.901% annually
6 September 2013	USD 1,250 m	USD 1,250 m	-	-	8.25%, from 29 November 2018 USD 5-year Mid Swap Rate +6.394%
18 December 2013	USD 1,750 m		USD 1,750 m	1,273	7.875%, from 18 December 2023, USD 5-year Mid Swap Rate +4.979%
25 June 2014	USD 1,500 m		USD 1,500 m	1,102	6%, from 27 January 2020, USD 5-year Mid Swap Rate +4.067%
7 April 2014	EUR 1,000 m		EUR 1,000 m	1,000	6.75%, from 7 April 2021, EUR 5-year Mid Swap Rate +5.538%
29 September 2015	USD 1,250 m		USD 1,250 m	1,111	8.00% from 29 September 2025, USD 5-year Mid Swap rate +5.873%
13 September 2016	USD 1,500 m		USD 1,500 m	1,335	7.375% from 13 September 2021, USD 5-year Mid Swap rate +6.238%
6 April 2018			USD 1,250 m	1,035	6.750% from 6 April 2028, 5-year Mid Swap rate +3.929%
4 October 2018			USD 1,250 m	1,105	7.375% from 4 October 2023, 5-year Mid Swap rate +4.302%

OTHER EQUITY INSTRUMENTS ISSUED BY SUBSIDIARIES

Given the discretionary nature of the decision to pay dividends to shareholders, perpetual subordinated notes issued by the Group's subsidiaries are classified as equity.

At 31 December 2018, other equity instruments issued by the Group's subsidiaries and recognised under *Non-controlling interests* totalled EUR 800 million.

Issuance Date	Amount	Remuneration
18 December 2014 (step-up clause after 12 years)	EUR 800 m	4.125%, from 2026 5-year Mid-Swap rate + 4.150% annually

SUMMARY OF CHANGES IN EQUITY INSTRUMENTS ISSUED

Changes related to the perpetual subordinated notes and deeply subordinated notes included in *Shareholder's equity, Group share* are detailed below:

	2018			2017(1)		
(In millions of euros)	Deeply subordinated notes	Perpetual subordinated notes	Total	Deeply subordinated notes	Perpetual subordinated notes	Total
Remuneration paid booked under reserves	(700)	(5)	**(705)**	(735)	(3)	**(738)**
Changes in nominal values	544	-	**544**	(1,114)	-	**(1,114)**
Tax savings on remuneration payable to shareholders and recorded under reserves	255	2	**257**	186	1	**187**
Issuance fees relating to subordinated notes	(10)	-	**(10)**	-	-	**-**

(1) Remuneration paid to shareholders of others equity instruments (deeply subordinated notes and perpetual subordinated notes) are now disclosed on the line "Issuance/Redemption/remuneration of equity instruments".

NOTE 7.2 Earnings per share and dividends

ACCOUNTING PRINCIPLES

Earnings per share are measured by dividing net income attributable to ordinary shareholders by the weighted average number of shares outstanding over the period, excluding treasury shares. Net income attributable to ordinary shareholders takes account of remuneration rights of preferred shareholders, such as holders of preferred shares, subordinated securities or deeply subordinated notes classified in equity. Diluted earnings per share take into account the potential dilution of shareholders' interests in the event dilutive instruments (stock options or free share plans) are converted into ordinary shares. This dilutive effect is determined using the share buyback method.

NOTE 7.2.1 EARNINGS PER SHARE

(In millions of euros)	2018	2017
Net income, Group share	3,864	2,806
Net attributable remuneration to deeply subordinated notes	(452)	(466)
Issuance fees relating to subordinated notes	(10)	-
Net income attributable to ordinary shareholders	**3,402**	**2,340**
Weighted average number of ordinary shares outstanding(1)	801,909,473	800,596,132
Earnings per ordinary share (in euros)	**4.24**	**2.92**
Average number of ordinary shares used in the dilution calculation	-	50
Weighted average number of ordinary shares used in the calculation of diluted net earnings per share	801,909,473	800,596,182
Diluted earnings per ordinary share (in euros)	**4.24**	**2.92**

(1) Excluding treasury shares.

NOTE 7.2.2 DIVIDENDS PAID

Dividends paid by the Group to ordinary shareholder's in 2018 amounted to EUR 2,132 million and are detailed in the following table:

	2018			2017*		
(In millions of euros)	Group Share	Non-controlling interests	Total	Group Share	Non-controlling interests	Total
Paid in shares	-	-	-	-	-	-
Paid in cash	(1,764)	(368)	**(2,132)**	(1,762)	(243)	**(2,005)**

* *Remuneration paid to shareholders of other equity instruments (perpetual subordinated notes and deeply subordinated notes) is now presented in Note 7.1.3 relative to equity instruments issued.*

NOTE 7.3 Gains and losses recognised in other comprehensive income

BREAKDOWN OF CHANGES OF UNREALISED OR DEFERRED GAINS AND LOSSES

	01.01.2018				Variation				31.12.2018			
(In millions of euros)	**Gross value**	**Tax**	**Net value**	**Net Group share**	**Gross value**	**Tax**	**Net value**	**Net Group share**	**Gross value**	**Tax**	**Net value**	**Net Group share**
Translation differences	(1,744)	-	(1,744)	(1,682)	370	(1)	369	384	(1,374)	(1)	(1,375)	(1,298)
Revaluation of debt instruments at fair value through other comprehensive income	466	(109)	357	339	(233)	52	(181)	(170)	233	(57)	176	169
Revaluation of available-for-sale financial assets(1)	411	(114)	297	296	(74)	18	(56)	(53)	337	(96)	241	243
Revaluation of hedging derivatives	(3)	7	4	4	(120)	11	(109)	(104)	(123)	18	(105)	(100)
Unrealised gains and losses of entities accounted for using the equity method	(2)	-	(2)	(1)	1	-	1	1	(1)	-	(1)	-
Subtotal of unrealised gains and losses with subsequent recycling in the income statement	***(872)***	***(216)***	***(1,088)***	***(1,044)***	***(56)***	***80***	***24***	***58***	***(928)***	***(136)***	***(1,064)***	***(986)***
Actuarial gains and losses on defined benefit plans(2)	-	-	-	-	30	(4)	26	24	30	(4)	26	24
Revaluation of own credit risk on financial liabilities at fair value through profit or loss(3)	(725)	187	(538)	(536)	529	(138)	391	380	(196)	49	(147)	(156)
Revaluation of equity instruments at fair value through other comprehensive income(2)	80	(2)	78	77	1	(4)	(3)	8	81	(6)	75	85
Unrealised gains and losses of entities accounted for using the equity method(2)	-	-	-	-	(3)	-	(3)	(3)	(3)	-	(3)	(3)
Subtotal of unrealised gains and losses without subsequent recycling in the income statement	***(645)***	***185***	***(460)***	***(459)***	***557***	***(146)***	***411***	***409***	***(88)***	***39***	***(49)***	***(50)***
TOTAL OF UNREALISED GAINS AND LOSSES	**(1,517)**	**(31)**	**(1,548)**	**(1,503)**	**501**	**(66)**	**435**	**467**	**(1,016)**	**(97)**	**(1,113)**	**(1,036)**

(1) Unrealised gains and losses on available-for-sale financial assets are related exclusively to insurance activities from the 2018 financial year.

(2) Gains and losses presented in these items are transferred into Retained earnings at the opening of the next financial year;

(3) In case of derecognition of a financial liability, potential realized gains and losses attributable to Group own credit risk are transfered into Retained earnings at the opening of the next financial year (see Note 3.1).

NOTE 8 ADDITIONAL DISCLOSURES

NOTE 8.1 Segment reporting

NOTE 8.1.1 DEFINITION OF SEGMENT REPORTING

The Group is managed on a matrix basis that takes into account its different business lines and the geographical breakdown of its activities. Segment reporting information is therefore presented under both criteria.

The Group includes in the results of each sub-division all operating income and expenses directly related to its activity. Income for each sub-division, except for the Corporate Centre, also includes the return on equity allocated to it, based on the estimated rate of return on Group equity. The return on the sub-division's book equity is then reallocated to the Corporate Centre. Transactions between sub-divisions are carried out under the same terms and conditions as those applying to non-Group customers.

The Group's core businesses are managed through three strategic pillars:

- French Retail Banking, which includes the domestic networks Societe Generale, Crédit du Nord and Boursorama;
- International Retail Banking & Financial Services, which consists of:
  - International Retail Banking, including consumer finance activities,
  - Financial Services to Corporates (operational vehicle leasing and fleet management, equipment and vendor finance),
  - Insurance activities;
- Global Banking and Investor Solutions which comprises:
  - Global Markets and Investors Services,
  - Financing and Advisory,
  - Asset and Wealth Management.

In addition to the strategic pillars, the Corporate Centre acts as the Group's central funding department. As such, it recognises the carrying cost of equity investments in subsidiaries and related dividend payments, as well as income and expenses stemming from the Group's Asset and Liability Management (ALM) and income from the Group's management of its assets (management of its industrial and bank equity portfolio and of its real estate assets). Income or expenses that do not relate directly to the activity of the core businesses are also allocated to the Corporate Centre.

Segment income take intra-group transactions into account, while these transactions are eliminated from segment assets and liabilities. The tax rate levied on each business line is based on the standard tax rate applicable in each country where the division makes profits. Any difference with respect to the Group's tax rate is allocated to the Corporate Centre.

For the purpose of segment reporting by geographical region, segment profit or loss and assets and liabilities are presented based on the location of the booking entities.

NOTE 8.1.2 SEGMENT REPORTING BY DIVISION AND SUB-DIVISION

	Societe Generale Group		French Retail Banking		Corporate Centre[1]	
(In millions of euros)	2018	2017	2018	2017*	2018	2017*
Net banking income	25,205	23,954	7,860	8,014	182	(1,147)
Operating Expenses[2]	(17,931)	(17,838)	(5,629)	(5,939)	(535)	(374)
Gross operating income	**7,274**	**6,116**	**2,231**	**2,075**	**(353)**	**(1,521)**
Cost of risk	(1,005)	(1,349)	(489)	(547)	(19)	(400)
Operating income	**6,269**	**4,767**	**1,742**	**1,528**	**(372)**	**(1,921)**
Net income from companies accounted for by the equity method	56	92	28	33	7	17
Net income/expense from other assets	(208)	278	74	9	(274)	237
Value adjustments on goodwill	-	1	-	-	-	-
Earnings before tax	**6,117**	**5,138**	**1,844**	**1,570**	**(639)**	**(1,667)**
Income tax	(1,561)	(1,708)	(607)	(511)	168	52
Net income before non-controlling interests	**4,556**	**3,430**	**1,237**	**1,059**	**(471)**	**(1,615)**
Non-controlling interests	692	624	-	-	164	170
Net income, Group share	**3,864**	**2,806**	**1,237**	**1,059**	**(635)**	**(1,785)**

	International Retail Banking & Financial Services							
	International Retail Banking		Financial Services to Corporates		Insurance		Total	
(In millions of euros)	2018	2017*	2018	2017*	2018	2017*	2018	2017*
Net banking income	5,608	5,278	1,822	1,804	887	832	8,317	7,914
Operating Expenses(2)	(3,238)	(3,171)	(955)	(925)	(333)	(308)	(4,526)	(4,404)
Gross operating income	**2,370**	**2,107**	**867**	**879**	**554**	**524**	**3,791**	**3,510**
Cost of risk	(335)	(349)	(69)	(51)	-	-	(404)	(400)
Operating income	**2,035**	**1,758**	**798**	**828**	**554**	**524**	**3,387**	**3,110**
Net income from companies accounted for by the equity method	14	26	1	16	-	(1)	15	41
Net income/expense from other assets	7	36	1	-	-	-	8	36
Value adjustments on goodwill	-	1	-	-	-	-	-	1
Earnings before tax	**2,056**	**1,821**	**800**	**844**	**554**	**523**	**3,410**	**3,188**
Income tax	(474)	(418)	(184)	(224)	(183)	(178)	(841)	(820)
Net income before non-controlling interests	**1,582**	**1,403**	**616**	**620**	**371**	**345**	**2,569**	**2,368**
Non-controlling interests	395	361	106	66	3	2	504	429
Net income, Group share	**1,187**	**1,042**	**510**	**554**	**368**	**343**	**2,065**	**1,939**

	Global Banking and Investor Solutions							
	Global Markets and Investors Services		Financing and Advisory		Asset and Wealth Management		Total	
(In millions of euros)	2018	2017*	2018	2017*	2018	2017*	2018	2017*
Net banking income	5,207	5,678	2,673	2,495	966	1,000	8,846	9,173
Operating Expenses(2)	(4,521)	(4,434)	(1,815)	(1,767)	(905)	(920)	(7,241)	(7,121)
Gross operating income	**686**	**1,244**	**858**	**728**	**61**	**80**	**1,605**	**2,052**
Cost of risk	(21)	(34)	(53)	30	(19)	2	(93)	(2)
Operating income	**665**	**1,210**	**805**	**758**	**42**	**82**	**1,512**	**2,050**
Net income from companies accounted for by the equity method	8	5	(1)	(4)	(1)	-	6	1
Net income/expense from other assets	(1)	-	(1)	(4)	(14)	-	(16)	(4)
Value adjustments on goodwill	-	-	-	-	-	-	-	-
Earnings before tax	**672**	**1,215**	**803**	**750**	**27**	**82**	**1,502**	**2,047**
Income tax	(172)	(322)	(101)	(84)	(8)	(23)	(281)	(429)
Net income before non-controlling interests	**500**	**893**	**702**	**666**	**19**	**59**	**1,221**	**1,618**
Non-controlling interests	19	21	2	2	3	2	24	25
Net income, Group share	**481**	**872**	**700**	**664**	**16**	**57**	**1,197**	**1,593**

** The amounts have been restated compared to 2017 consolidated financial statements considering the new organization of the Group put in place as from 1 September 2017. The restatements are due to the transfer of Global Transaction and Payment Services business from French Retail Banking to Global Banking and Investor Solutions, to the modification of analytical split of results of the Insurance business distributed through French Retail Banking and Private Banking, and to a change in the allocation of overhead costs.*

(1) Income and expenses not directly related to business line activities are recorded in the Corporate Centre income. The Net banking income included in 2017 the revaluation differences for debts related to own credit risk of EUR -53 million and compensation of EUR -963 million for the transaction agreement between Societe Generale and the Libyan Investment Authority.

(2) These amounts include Personnel expenses, Other operating expenses and Amortisation, depreciation and impairment of tangible and intangible fixed assets.

(In millions of euros)	Societe Generale Group			French Retail Banking			Corporate Centre[2]		
	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017
Segment assets	1,309,428	1,274,216	1,275,128	222,086	213,708	226,346	106,392	117,011	116,737
Segment liabilities[1]	1,243,619	1,211,265	1,211,091	216,934	211,709	230,110	91,819	91,854	92,515

(In millions of euros)	International retail Banking & Financial Services											
	International Retail Banking			Financial Services to Corporates			Insurance			Total		
	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017
Segment assets	128,303	115,992	116,749	42,868	39,542	39,645	148,999	149,784	149,785	320,170	305,318	306,179
Segment liabilities[1]	94,454	91,854	91,853	13,641	12,055	12,106	138,959	141,721	141,676	247,054	245,630	245,635

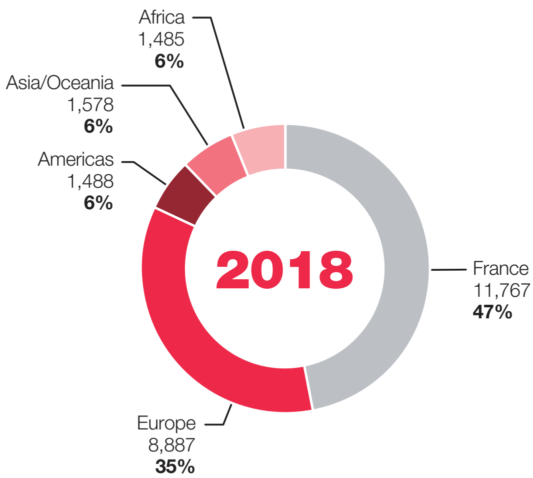
(In millions of euros)	Global Banking and Investor Solutions											
	Global Markets and Investors Services			Financing and Advisory			Asset and Wealth Management			Total		
	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017	31.12.2018	01.01.2018*	31.12.2017
Segment assets	489,757	492,804	494,111	137,064	110,810	97,179	33,959	34,564	34,576	660,780	638,178	625,866
Segment liabilities[1]	616,282	594,024	593,419	47,502	42,699	24,063	24,028	25,350	25,349	687,812	662,072	642,831

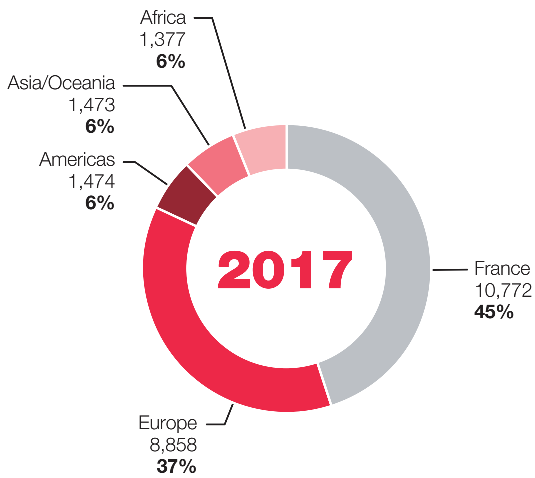
* *Amounts restated compared to the 31 December 2017 consolidated financial statements, following:*
- *the first time of application of IFRS 9;*
- *the relocation of Global Transaction and Payment Services from French Retail Banking to Financing and Advisory.*

(1) *Segment liabilities correspond to debts (i.e. total liabilities excluding equity).*
(2) *Assets and liabilities not directly related to the business line activities are recorded on the Corporate Centre's balance sheet. Thus the debt revaluation differences linked to own credit risk and the revaluation differences of the credit derivative instruments hedging the loans and receivables portfolios are allocated to the Corporate Centre.*

NOTE 8.1.3 SEGMENT REPORTING BY GEOGRAPHICAL REGION

GEOGRAPHICAL BREAKDOWN OF NET BANKING INCOME (IN EUR M)

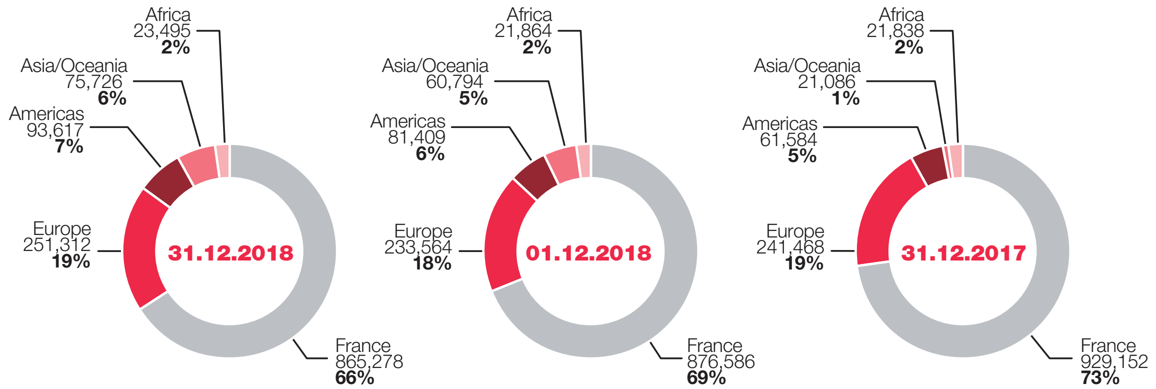




At 31 December 2018, the amount of net banking income was EUR 25,205 million compared to EUR 23,954 million at 31 December 2017.

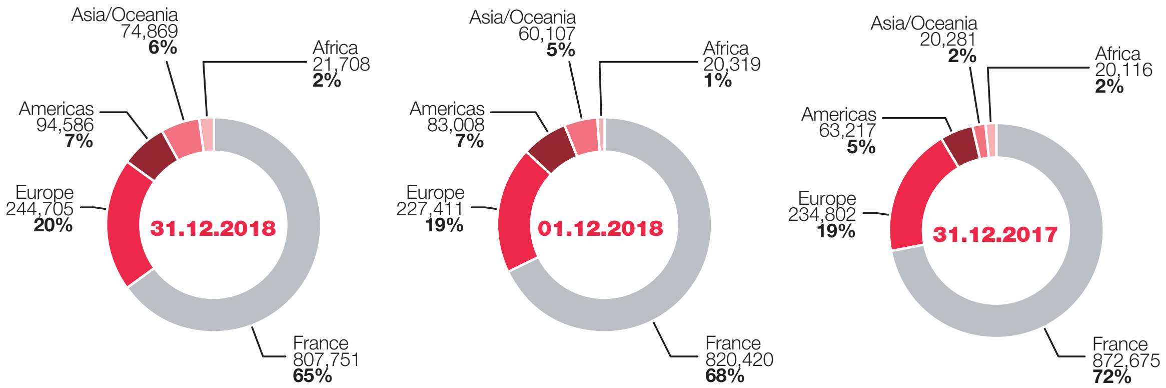
GEOGRAPHICAL BREAKDOWN OF BALANCE SHEET ITEMS (IN EUR M)

ASSETS



At 31 December 2018, the amount of total assets was EUR 1,309,428 million compared to EUR 1,274,216 million at 1 January 2018* and EUR 1,275,128 million at 31 December 2017.

LIABILITIES



At 31 December 2018, the amount of total liabilities (except shareholder equity) was EUR 1,243,619 million compared to EUR 1,211,265 million at 1 January 2018* and EUR 1,211,091 million at 31 December 2017.

Segment liabilities correspond to debts (*i.e.* total liabilities excluding equity).

** The amounts have been restated following the first time application of IFRS 9 “Financial Instruments” (see Note 1).*

NOTE 8.2 Other operating expenses

ACCOUNTING PRINCIPLES

The Group records operating expenses under expenses, according to the type of services to which they refer and the rate of use of said services.

Lease payments include real estate and equipment leasing expenses (mainly computer-related), which are booked over the lease period using the straight-line method.

Taxes and levies are only booked when the triggering event provided for by law occurs. If the obligation to pay the tax arises from the gradual operation of an activity, the expense must be spread out over the same period. Finally, if the obligation to pay is generated when a threshold is reached, the expense is only recorded once the threshold is reached.

Taxes and levies cover all contributions levied by a public authority and include the contributions paid to the Single Resolution Fund and the Deposit Insurance and Resolution Fund, the systemic risk tax, and contributions for ACPR control costs, which are recognised on the income statement at the start of the financial year. The company social solidarity contribution (C3S), based on income generated in previous financial year, is fully recognised on the income statement at 1 January of the current financial year.

Other mainly includes building maintenance and other costs, travel and business expenses, and advertising expenses.

(In millions of euros)	2018	2017
Rentals	(752)	(839)
Taxes and levies	(901)	(919)
Data & telecom (excluding rentals)	(2 400)	(2 265)
Consulting fees (excluding data & telecom)	(1 338)	(1 340)
Other	(1 975)	(1 720)
TOTAL	**(7 366)**	**(7 083)**

BREAKDOWN OF TOTAL MINIMUM OPERATING LEASE PAYMENTS

The table below shows the breakdown by time bucket of minimum payments related to operating lease contracts on tangible assets used by the Group. The amounts exclude the actuarial effect.

(In millions of euros)	31.12.2018
in less than one year	423
in one to five years	1,157
in more than five years	808
TOTAL FUTURE MINIMUM OPERATING LEASE PAYMENTS	**2,388**

CONTRIBUTION TO BANK RESOLUTION MECHANISMS

The European regulatory framework aimed to enhance the financial stability has been updated by the Directive 2014/49/UE of 16 April 2014 on deposit guarantee schemes and the Directive 2014/59/UE of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive).

The European Regulation UE No. 806/2014 of 15 July 2014 has then determined the financing means of resolution mechanisms within the European Banking Union through the establishment of a Single Resolution Fund (SRF).

The Single Resolution Fund (SRF), established in January 2016, shall receive annual contributions from the participating European financial institutions. By the end of 2023, the available financial means of the Fund shall reach at least 1% of the amount of covered deposits of all these participating financial institutions. A share of the annual contributions can be provided through irrevocable payment commitments.

For the year 2018, the Group's contributions to the SRF and the National Resolution Fund (NRF) were as follows:

- Cash contributions (85%) for a total of EUR 425 million, of which EUR 387 million related to the SRF and EUR 38 million related to the NRF, which is non tax-deductible in France and has been recorded in the income statement in *Other administrative expenses*, among *Taxes and Levies*;
- Irrevocable payment commitments (15%) backed by a cash collateral for EUR 70 million related to the SRF, recorded as an asset in the balance sheet, among *Other assets*.

NOTE 8.3 Provisions

ACCOUNTING PRINCIPLES

Under balance sheet liabilities, *Provisions* are comprised of provisions for financial instruments, disputes, employee benefits and income tax adjustments.

As from 1 January 2018, the balance of provisions for credit risk on off balance sheet commitments has been modified due to the first application of IFRS 9. This impact is described in Note 1.

BREAKDOWN OF PROVISIONS

(In millions of euros)	Provisions at 01.01.2018	Allocations	Write-backs available	Net allocation	Write-backs used	Currency and others	Provisions at 31.12.2018
Provisions for credit of risk on off balance sheet commitments (see Note 3.8)	**683**	488	(547)	**(59)**	-	14	**638**
Provisions for employee benefits (see Note 5.2)	**2,100**	889	(571)	**318**	(6)	(71)	**2,341**
Provisions for tax adjustments (see Note 6)	**162**	100	(51)	**49**	(75)	(1)	**135**
Provisions for mortgage savings plans and accounts commitments	**193**	9	(26)	**(17)**	(5)	-	**171**
Other provisions[1]	**3,207**	626	(195)	**431**	(2,462)	144	**1,320**
TOTAL	**6,345**	**2,112**	**(1,390)**	**722**	**(2,548)**	**86**	**4,605**

(1) see Note 8.3.2

NOTE 8.3.1 COMMITMENTS UNDER MORTGAGE SAVINGS AGREEMENTS

ACCOUNTING PRINCIPLES

In France, *Comptes d'épargne-logement* (CEL or mortgage savings accounts) and *Plans d'épargne-logement* (PEL or mortgage savings plans) are special savings schemes for individual customers which are governed by Law 65-554 of 10 July 1965. These products combine an initial deposit phase in the form of an interest-earning savings account, followed by a lending phase where the deposits are used to provide mortgage loans. The lending phase is subject to the prior existence of the savings phase and is therefore inseparable from it. The savings deposits collected and loans granted are measured at amortised cost.

These instruments create two types of commitments for the Group: the obligation to pay interest on customer savings for an indeterminate future period at an interest rate established at the inception of the mortgage savings agreement, and the obligation to subsequently lend to the customer at an interest rate also established at the inception of the savings agreement.

If it is clear that commitments under the PEL/CEL agreements will have negative consequences for the Group, a provision is recorded on the liabilities side of the balance sheet. Any changes in these provisions are recognised as *Net banking income* under net interest income. These provisions only relate to commitments arising from PEL/CEL that are outstanding at the date of calculation.

Provisions are calculated for each generation of mortgage savings plans (PEL), with no netting between different PEL generations, and for all mortgage saving accounts (CEL) making up a single generation.

During the deposit phase, the underlying commitment used to determine the amount to be provisioned is calculated as the difference between the average expected amount of deposits and the minimum expected amount. These two amounts are determined statistically on the basis of the historical observations of past customer behaviour.

During the lending phase, the underlying commitment to be provisioned includes loans already granted but not yet drawn at the date of calculation, and future loans that are considered statistically probable on the basis of deposits that are currently recognised in the balance sheet at the date of calculation and on the basis of historical observations of past customer behaviour.

A provision is recognised if the discounted value of expected future earnings for a given generation of PEL/CEL is negative. Earnings are estimated on the basis of interest rates available to individual customers for equivalent savings and loan products, with a similar estimated life and date of inception.

OUTSTANDING DEPOSITS IN PEL/CEL ACCOUNTS

(In millions of euros)	31.12.2018	31.12.2017
PEL accounts	19,186	19,291
less than 4 years old	3,466	5,847
between 4 and 10 years old	10,555	8,344
more than 10 years old	5,165	5,100
CEL accounts	1,346	1,394
TOTAL	**20,532**	**20,685**

OUTSTANDING HOUSING LOANS GRANTED WITH RESPECT TO PEL/CEL ACCOUNTS

(In millions of euros)	31.12.2018	31.12.2017
less than 4 years old	1	4
between 4 and 10 years old	26	128
more than 10 years old	11	6
TOTAL	**38**	**138**

PROVISIONS FOR COMMITMENTS LINKED TO PEL/CEL ACCOUNTS

(In millions of euros)	31.12.2017	Allocations	Write-backs	31.12.2018
PEL accounts	189	-	(31)	158
less than 4 years old	19	-	(16)	3
between 4 and 10 years old	31	-	(11)	20
more than 10 years old	139	-	(4)	135
CEL accounts	4	9	-	13
TOTAL	**193**	**9**	**(31)**	**171**

The level of provisions is sensitive to long-term interest rates. Since long-term rates were low during 2018, the provisions for PEL and CEL mortgage savings accounts were mainly linked to the risks attached to the commitment to pay interest on the deposits. Provisioning for PEL/CEL savings amounted to 0.83% of total outstandings at 31 December 2018.

METHODS USED TO ESTABLISH PROVISION VALUATION INPUTS

The inputs used to estimate future customer behaviour are derived from historical observations of customer behaviour patterns over a long period (more than 10 years). The values of these inputs can be adjusted whenever changes are made to regulations that may undermine the effectiveness of past data as an indicator of future customer behaviour.

The values of the different market inputs used, notably interest rates and margins, are calculated on the basis of observable data and constitute a best estimate, at the date of valuation, of the future value of these items for the period in question, in line with the Retail Banking Division's policy of interest rate risk management.

The discount rates used are derived from the zero coupon swaps vs. Euribor yield curve at the valuation date, averaged over a 12-month period.

NOTE 8.3.2 OTHER PROVISIONS

Other provisions include provisions for restructuring, provisions for commercial litigation and provisions for future repayment of funds in connection with customer financing transactions.

The Group is subject to an extensive legal and regulatory framework in the countries where it operates. In this complex legal context, the Group and some of its former and current representatives may be involved in various legal actions, including civil, administrative and criminal proceedings. The vast majority of these proceedings are part of the Group's current business. In recent years, litigation with investors and the number of disputes involving financial intermediaries such as banks and investment advisors has increased, partly due to a difficult financial environment.

It is by nature difficult to foresee the outcome of disputes, regulatory proceedings and acts involving Group entities, particularly if they are initiated by various categories of complainants, if the amount of claims for damages is not specified or is indeterminate or if the proceedings have no precedent.

In preparing its financial statements, the Group assesses the consequences of the legal, regulatory or arbitration proceedings in which it is involved. A provision is booked when losses from these proceedings become probable and the amount can be estimated reliably.

To assess the probability of losses and the amount of these losses, and thus to determine the amount of provisions to book, estimations are important. Management makes these estimates by exercising its judgment and taking into account all information available when financial statements are prepared. In particular, the Group takes into account the nature of the dispute, the underlying facts, ongoing proceedings and court decisions already taken, as well as its experience and the experiences of other companies dealing with similar cases (assuming that the Group has knowledge thereof) and, where appropriate, the opinion and reports of experts and independent legal advisers.

Each quarter the Group carries out a detailed examination of outstanding disputes that present a significant risk. The description of those disputes is presented in Note 9 "Information on risks and litigation".

During the financial year 2018, the Group concluded settlement agreements with US and European authorities to end investigations related to IBOR and to some transactions with Libyan counterparties, and with some US authorities to end investigations related to economic sanctions and anti-money laundering. In the context of those agreements, the Group agreed to pay penalties to those authorities for a total amount of USD 2.7 billion; at the same time, the provision for public right disputes recognised in the Group financial statements has been reversed partially and its outstanding balance amounts to EUR 340 million as at 31 December 2018.

NOTE 8.4 Tangible and intangible fixed assets

ACCOUNTING PRINCIPLES

Tangible and intangible fixed assets include operating and investment fixed assets. Equipment assets held for operating leases purpose are included in operating tangible assets, while buildings held for leasing purposes are included in investment property.

Tangible and intangible fixed assets are carried at their purchase price on the asset side of the balance sheet, less depreciation, amortisation and impairment.

The purchase price of fixed assets includes borrowing costs incurred to fund a lengthy construction period for the fixed assets, along with all other directly attributable expenses. Investment subsidies received are deducted from the cost of the relevant assets. Software developed internally is recorded on the asset side of the balance sheet in the amount of the direct cost of development.

As soon as they are fit for use, fixed assets are depreciated or amortised using the component-based approach. Each component is depreciated or amortised over its own useful life. The Group has applied this approach to its operating properties, breaking down its assets into components with depreciation periods of 10 to 50 years. Depreciation periods for fixed assets other than buildings depend on their useful life, which is usually estimated at 3 to 20 years.

Any residual value of the asset is deducted from its depreciable amount. If there is a subsequent decrease or increase in this initial residual value, the depreciable amount of the asset is adjusted, leading to a prospective modification of the depreciation schedule.

Depreciation and amortisation are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Fixed assets grouped into Cash Generating Units are tested for impairment whenever there is any indication that their value may have diminished. Allocations and reversals of provisions for impairment are recorded in the income statement under *Amortisation, depreciation and impairment of tangible and intangible fixed assets*.

Realised capital gains and losses on operating fixed assets are recognised under *Net income from other assets*.

Investment properties are depreciated using the component based-method. Each component is depreciated over its own useful life, ranging from 10 to 50 years.

Profits or losses on operating lease assets and on investment property, including amortisation and depreciation, are recognised under *Income from other activities* and *Expense from other activities* (see Note 4.2).

CHANGES IN TANGIBLE AND INTANGIBLE FIXED ASSETS

(In millions of euros)	Gross book value at 31.12.2017	Acqui-sitions	Disposals	Changes in translation, consoli-dation scope and reclassifi-cations	Gross value at 31.12.2018	Depreci-ation and amorti-sation of assets at 31.12.2017	Allocations to amorti-sation and depreci-ation in 2018	Impair-ment of assets in 2018	Write-backs from amorti-sation and depreci-ation in 2018	Changes in trans-lation, consoli-dation scope and reclassifi-cations	Net book value at 31.12.2018	Net book value at 31.12.2017
Intangible assets	6,237	801	(119)	(156)	6,763	(4,297)	(435)	(1)	73	95	2,198	1,940
Operating tangible assets	11,016	728	(379)	(314)	11,051	(5,964)	(561)	(5)	207	210	4,938	5,052
Lease assets of specialised financing companies	23,699	10,496	(7,503)	89	26,781	(6,511)	(3,573)	(95)	2,946	50	19,598	17,188
Investment property	777	-	-	(737)	40	(139)	(1)	-	-	117	17	638
TOTAL TANGIBLE AND INTANGIBLE FIXED ASSETS	**41,729**	**12,025**	**(8,001)**	**(1,118)**	**44,635**	**(16,911)**	**(4,570)**	**(101)**	**3,226**	**472**	**26,751**	**24,818**

BREAKDOWN OF MINIMUM PAYMENTS RECEIVABLE ON OPERATING LEASE ASSETS

(In millions of euros)	31.12.2018	31.12.2017
payments due in less than one year	3,625	3,400
payments due in 1-5 years	17,077	12,392
payments due in more than five years	787	328
TOTAL MINIMUM FUTURE PAYMENTS RECEIVABLE	**21,489**	**16,120**

NOTE 8.5 Foreign exchange transactions

ACCOUNTING PRINCIPLES

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into the entity's functional currency at the prevailing spot exchange rate. Realised or unrealised foreign exchange losses or gains are recognised in the income statement under *Net gains and losses on financial transactions*.

Forward foreign exchange transactions are recognised at fair value based on the forward exchange rate for the remaining maturity. Spot foreign exchange positions are valued using the official spot rates prevailing at the end of the period. Unrealised gains and losses are recognised in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss* (see Note 3.1), except when hedge accounting is applied to a cash-flow hedge transaction or to a hedge of a net investment in a foreign operation (see Note 3.2).

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currencies measured at fair value (in particular, shares and other equity instruments) are translated into the entity's functional currency at the prevailing spot exchange rate. Foreign exchanges losses or gains are recognised either in the income statement under *Net gains and losses on financial instruments at fair value through profit or loss*, or under other comprehensive income *(Unrealised and deferred gains and losses*), depending on the accounting of the gains or losses relative to these assets/liabilities.

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currencies measured at historical cost are translated into the entity's functional currency at the historical exchange rate on initial recognition.

	31.12.2018				31.12.2017			
(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	767,029	831,415	28,393	32,198	739,218	790,479	27,723	31,949
USD	257,257	213,653	40,461	41,579	263,408	229,177	51,273	41,661
GBP	44,372	44,012	28,709	10,159	42,140	37,804	15,021	10,321
JPY	68,895	62,273	24,519	33,531	57,884	54,176	17,753	24,588
AUD	5,244	6,663	7,798	6,707	6,284	7,035	4,830	5,910
CZK	35,612	35,102	208	783	34,562	36,175	572	766
RUB	12,286	7,406	113	90	13,938	10,590	37	88
RON	8,166	7,886	56	49	8,011	7,967	168	132
Other currencies	110,567	96,018	24,195	18,514	109,683	101,725	32,740	27,191
TOTAL	**1,309,428**	**1,309,428**	**154,452**	**143,610**	**1,275,128**	**1,275,128**	**150,117**	**142,606**

** Amounts restated compared to consolidated financial statements issued in 2018, following the change of allocation of intercompany transactions by currency.*

NOTE 8.6 Companies included in the consolidation scope

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
South Africa								
	(1)	SG JOHANNESBURG	Bank	FULL	100	100	100	100
Albania								
		BANKA SOCIETE GENERALE ALBANIA SH.A.	Bank	FULL	88.89	88.89	88.89	88.89
Algeria								
		ALD AUTOMOTIVE ALGERIE SPA	Specialist Financing	FULL	79.81	79.81	99.99	99.99
		SOCIETE GENERALE ALGERIE	Bank	FULL	100	100	100	100
Germany								
		AKRUN EINS GRUNDSTUCKS-VERMIETUNGSGESELLSCHAFT MBH & CO. OBJEKT SEREN 1 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
		ALD AUTOLEASING D GMBH	Specialist Financing	FULL	79.82	79.82	100	100
		ALD INTERNATIONAL GROUP HOLDINGS GMBH	Specialist Financing	FULL	79.82	79.82	100	100
		ALD INTERNATIONAL SAS & CO. KG	Specialist Financing	FULL	79.82	79.82	100	100
		ALD LEASE FINANZ GMBH	Specialist Financing	FULL	100	100	100	100
		BANK DEUTSCHES KRAFTFAHRZEUGGEWERBE GMBH	Specialist Financing	FULL	99.93	99.91	51	51
		BDK LEASING UND SERVICE GMBH	Specialist Financing	FULL	100	100	100	100
		CAR PROFESSIONAL FUHRPARKMANAGEMENT UND BERATUNGSGESELLSCHAFT MBH & CO. KG	Specialist Financing	FULL	79.82	79.82	100	100
		CARPOOL GMBH	Broker	FULL	79.82	79.82	100	100
		EUROPARC DREILINDEN GMBH	Group Real Estate Management Company	FULL	100	100	100	100
		EUROPARC GMBH	Real Estate and Real Estate Financing	FULL	100	100	100	100
		EUROPARC KERPEN GMBH	Group Real Estate Management Company	FULL	100	100	100	100
		GEFA BANK GMBH	Specialist Financing	FULL	100	100	100	100
		GEFA VERSICHERUNGSDIENST GMBH	Specialist Financing	EFS	100	100	100	100
		HANSEATIC BANK GMBH & CO KG	Specialist Financing	FULL	75	75	75	75
		HANSEATIC GESELLSCHAFT FUR BANKBETEILIGUNGEN MBH	Portfolio Management	FULL	75	75	100	100
		HSCE HANSEATIC SERVICE CENTER GMBH	Services	FULL	75	75	100	100
		INTERLEASING DELLO HAMBURG GMBH	Specialist Financing	FULL	79.82	79.82	100	100
		PEMA GMBH	Specialist Financing	FULL	100	100	100	100
		PODES DREI GRUNDSTUCKS-VERMIETUNGSGESELLSCHAFT MBH &CO OBJEKTE WEL 4 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
		PODES GRUNDSTUCKS - VERMIETUNGSGESELLSCHAFT MBH & CO OBJEKTE WEL 3 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
		PODES ZWEI GRUNDSTUCKS-VERMIETUNGSGESELLSCHAFT MBH &CO OBJEKTE WEL 3 KG	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(2)	RED & BLACK AUTO GERMANY 2 UG (HAFTUNGSBESCHRANKT)	Financial Company	FULL	0	99.91	0	100
		RED & BLACK AUTO GERMANY 3 UG (HAFTUNGSBESCHRANKT)	Financial Company	FULL	99.93	99.91	100	100
		RED & BLACK AUTO GERMANY 4 UG (HAFTUNGSBESCHRANKT)	Financial Company	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest		Group voting interest	
					At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	(6)	RED & BLACK AUTO GERMANY 5 UG (HAFTUNGSBESCHRANKT)	Specialist Financing	FULL	100	0	100	0
	(2)	RED & BLACK CAR SALES 1UG	Financial Company	FULL	0	79.82	0	100
		SG EQUIPMENT FINANCE GMBH	Specialist Financing	FULL	100	100	100	100
		SG EQUIPMENT FINANCE INTERNATIONAL GMBH	Specialist Financing	FULL	100	100	100	100
	(1)	SG FRANCFORT	Bank	FULL	100	100	100	100
		SOCIETE GENERALE EFFEKTEN GMBH	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE SECURITIES SERVICES GMBH	Specialist Financing	FULL	100	100	100	100
	(1)	SOGECAP DEUTSCHE NIEDERLASSUNG	Insurance	FULL	100	100	100	100
	(1)(5)	SOGECAP RISQUES DIVERS DEUTSCHE NIEDERLASSUNG	Insurance	FULL	0	100	0	100
	(1)(6)	SOGESSUR DEUTSCHE NIEDERLASSUNG	Insurance	FULL	100	0	100	0
Australia								
		SOCIETE GENERALE SECURITIES AUSTRALIA PTY LTD	Broker	FULL	100	100	100	100
Austria								
		ALD AUTOMOTIVE FUHRPARKMANAGEMENT UND LEASING GMBH	Specialist Financing	FULL	79.82	79.82	100	100
	(3)	SG EQUIPMENT LEASING AUSTRIA GMBH	Specialist Financing	EFS	0	100	0	100
	(1)	SG VIENNE	Bank	FULL	100	100	100	100
Belgium								
		AXUS FINANCE SPRL	Specialist Financing	FULL	79.82	79.82	100	100
		AXUS SA/NV	Specialist Financing	FULL	79.82	79.82	100	100
		BASTION EUROPEAN INVESTMENTS S.A.	Financial Company	FULL	60.74	60.74	100	100
		PARCOURS BELGIUM	Specialist Financing	FULL	79.82	79.82	100	100
		PEMA TRUCK TRAILER VERHUUR	Specialist Financing	FULL	100	100	100	100
	(1)	SG BRUXELLES	Bank	FULL	100	100	100	100
	(1)	SG EQUIPMENT FINANCE BENELUX B.V. BELGIAN BRANCH	Specialist Financing	FULL	100	100	100	100
		SOCIETE GENERALE DE FINANCEMENT	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE IMMOBEL	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE PRIVATE BANKING NV/SA	Bank	FULL	100	100	100	100
Benin								
		SOCIETE GENERALE BENIN	Bank	FULL	90.98	89.64	91.65	90.3
Bermuda								
		CATALYST RE INTERNATIONAL LTD.	Insurance	FULL	100	100	100	100
Brazil								
		ALD AUTOMOTIVE S.A.	Specialist Financing	FULL	79.82	79.82	100	100
		BANCO SOCIETE GENERALE BRASIL S.A.	Bank	FULL	100	100	100	100
		MORDENO SOCIEDADES ANONIMAS	Financial Company	FULL	100	100	100	100
		SG EQUIPMENT FINANCE S.A. ARRENDAMENTO MERCANTIL	Specialist Financing	FULL	100	100	100	100
	(2)	SOCIETE GENERALE S.A. CORRETORA DE CAMBIO. TITULOS E VALORES MOBILIARIOS	Broker	FULL	0	100	0	100
British Virgin Islands								
		TSG HOLDINGS LTD	Services	FULL	100	100	100	100
		TSG MANAGEMENT LTD	Services	FULL	100	100	100	100
		TSG SERVICES LTD	Services	FULL	100	100	100	100
Bulgaria								
		REGIONAL URBAN DEVELOPMENT FUND	Specialist Financing	FULL	51.86	51.86	52	52
		SG EXPRESS BANK	Bank	FULL	99.74	99.74	99.74	99.74
		SOCIETE GENERALE FACTORING EOOD	Specialist Financing	FULL	99.74	99.74	100	100
		SOGELEASE BULGARIA	Specialist Financing	FULL	99.74	99.74	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
Burkina Faso								
		SOCIETE GENERALE BURKINA FASO	Bank	FULL	51.27	51.27	52.61	52.61
Cameroon								
		SOCIETE GENERALE CAMEROUN	Bank	FULL	58.08	58.08	58.08	58.08
Canada								
		KLEINWORT BENSON INTERNATIONAL TRUSTEES LIMITED	Bank	FULL	100	100	100	100
		SG CONSTELLATION CANADA LTD.	Specialist Financing	FULL	100	100	100	100
	(2)	SG HAMBROS TRUST COMPANY (CANADA) INC	Financial Company	FULL	0	100	0	100
	(1)	SOCIETE GENERALE (CANADA BRANCH)	Bank	FULL	100	100	100	100
		SOCIETE GENERALE (CANADA)	Bank	FULL	100	100	100	100
		SOCIETE GENERALE CAPITAL CANADA INC	Broker	FULL	100	100	100	100
Cayman Islands								
		AEGIS HOLDINGS (OFFSHORE) LTD.	Financial Company	FULL	100	100	100	100
	(2)	BRIDGEVIEW II LIMITED	Specialist Financing	FULL	0	100	0	100
		SOCIETE GENERALE (NORTH PACIFIC) LTD	Bank	FULL	100	100	100	100
China								
		ALD FORTUNE AUTO LEASING & RENTING SHANGHAI CO. LTD	Specialist Financing	ESI	39.91	39.91	50	50
		SOCIETE GENERALE (CHINA) LIMITED	Bank	FULL	100	100	100	100
		SOCIETE GENERALE LEASING AND RENTING CO. LTD	Specialist Financing	FULL	100	100	100	100
South Korea								
		SG SECURITIES KOREA CO. LTD	Broker	FULL	100	100	100	100
	(1)	SG SEOUL	Bank	FULL	100	100	100	100
Côte d'Ivoire								
		SOCIETE GENERALE COTE D'IVOIRE	Bank	FULL	73.25	73.25	73.25	73.25
		SOGEBOURSE EN COTE D'IVOIRE	Portfolio Management	FULL	71.25	71.27	99.98	100
Croatia								
		ALD AUTOMOTIVE D.O.O. ZA. OPERATIVNI I FINANCIJSKI LEASING	Specialist Financing	FULL	79.82	79.82	100	100
	(6)	ALD FLEET SERVICES D.O.O ZA TRGOVINU I USLUGE	Specialist Financing	FULL	79.82	0	100	0
Curaçao								
		SGA SOCIETE GENERALE ACCEPTANCE N.V	Financial Company	FULL	100	100	100	100
Denmark								
		ALD AUTOMOTIVE A/S	Specialist Financing	FULL	79.82	79.82	100	100
		NF FLEET A/S	Specialist Financing	FULL	63.85	63.85	80	80
		PEMA LAST OG- TRAILERUDLEJNING A/S	Specialist Financing	FULL	100	100	100	100
	(1)	SG FINANS AS DANISH BRANCH	Specialist Financing	FULL	100	100	100	100
United Arab Emirates								
	(1)	SOCIETE GENERALE DUBAI	Bank	FULL	100	100	100	100
Spain								
		ALD AUTOMOTIVE S.A.U	Specialist Financing	FULL	79.82	79.82	100	100
	(5)	ALD AUTORENTING S.A.U.	Specialist Financing	FULL	0	79.82	0	100
		ALTURA MARKETS. SOCIEDAD DE VALORES. SA	Broker	EJV	50	50	50	50
	(1)	GENEFIM SUCURSAL EN ESPANA	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(5)	PARCOURS IBERIA SA	Specialist Financing	FULL	0	79.82	0	100
	(6)	REFLEX ALQUILER FLEXIBLE DE VEHICULOS	Specialist Financing	FULL	79.82	0	100	0
		SELF TRADE BANK SA	Broker	FULL	100	100	100	100
		SG EQUIPMENT FINANCE IBERIA. E.F.C. S.A.	Specialist Financing	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		SOCGEN INVERSIONES FINANCIERAS SA	Financial Company	FULL	100	100	100	100
	(1)	SOCIETE GENERALE SUCCURSAL EN ESPANA	Bank	FULL	100	100	100	100
		SODEPROM	Real Estate and Real Estate Financing	FULL	100	100	100	100
Estonia								
		ALD AUTOMOTIVE EESTI AS	Specialist Financing	FULL	59.87	59.87	75.01	75.01
United States of America								
		AEGIS HOLDINGS (ONSHORE) INC.	Financial Company	FULL	100	100	100	100
	(8)	CGI FINANCE INC	Financial Company	FULL	99.89	99.89	100	100
	(8)	CGI NORTH AMERICA INC.	Specialist Financing	FULL	99.89	99.89	100	100
	(8)	CLASSIC YACHT DOCUMENTATION. INC.	Services	FULL	99.89	99.89	100	100
		LYXOR ASSET MANAGEMENT HOLDING CORP.	Portfolio Management	FULL	100	100	100	100
		LYXOR ASSET MANAGEMENT INC.	Financial Company	FULL	100	100	100	100
		SG AMERICAS EQUITIES CORP.	Financial Company	FULL	100	100	100	100
		SG AMERICAS OPERATIONAL SERVICES. INC.	Services	FULL	100	100	100	100
		SG AMERICAS SECURITIES HOLDINGS. LLC	Bank	FULL	100	100	100	100
		SG AMERICAS SECURITIES. LLC	Broker	FULL	100	100	100	100
		SG AMERICAS. INC.	Financial Company	FULL	100	100	100	100
		SG CONSTELLATION. INC.	Financial Company	FULL	100	100	100	100
		SG EQUIPMENT FINANCE USA CORP.	Specialist Financing	FULL	100	100	100	100
		SG MORTGAGE FINANCE CORP.	Financial Company	FULL	100	100	100	100
		SG MORTGAGE SECURITIES. LLC	Portfolio Management	FULL	100	100	100	100
		SG REINSURANCE INTERMEDIARY BROKERAGE. LLC	Insurance	FULL	100	100	100	100
		SG STRUCTURED PRODUCTS. INC.	Specialist Financing	FULL	100	100	100	100
		SGAIF. LLC	Financial Company	FULL	100	100	100	100
		SGAIH. INC.	Financial Company	FULL	100	100	100	100
	(8)	SGB FINANCE NORTH AMERICA INC.	Specialist Financing	FULL	50.94	50.94	100	100
	(1)	SOCIETE GENERALE (NEW YORK)	Bank	FULL	100	100	100	100
		SOCIETE GENERALE ENERGY LLC	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE FINANCIAL CORPORATION	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE INVESTMENT CORPORATION	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE LIQUIDITY FUNDING. LLC	Financial Company	FULL	100	100	100	100
		TENDER OPTION BOND PROGRAM (TAXABLE AND TAX-EXEMPT)	Financial Company	FULL	100	100	100	100
Finland								
		AXUS FINLAND OY	Specialist Financing	FULL	79.82	79.82	100	100
		NF FLEET OY	Specialist Financing	FULL	63.85	63.85	80	80

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
France								
		29 HAUSSMANN EQUILIBRE	Portfolio Management	FULL	87.1	87.1	87.1	87.1
		29 HAUSSMANN EURO RDT	Portfolio Management	FULL	58.1	58.1	58.1	58.1
		29 HAUSSMANN SELECTION MONDE	Portfolio Management	FULL	68.7	68.7	68.7	68.7
		9 RUE DES BIENVENUS	Real Estate and Real Estate Financing	FULL	95.5	95.5	100	100
		AIR BAIL	Specialist Financing	FULL	100	100	100	100
		AIX - BORD DU LAC - 3	Real Estate and Real Estate Financing	EJV	50	50	50	50
		AIX - BORD DU LAC - 4	Real Estate and Real Estate Financing	EJV	50	50	50	50
		ALD	Specialist Financing	FULL	79.82	79.82	79.82	79.82
		ALD AUTOMOTIVE RUSSIE SAS	Specialist Financing	FULL	79.82	79.82	100	100
		ALPRIM	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(6)	AMPERIM	Real Estate and Real Estate Financing	EJV	50	0	50	0
		ANTALIS SA	Financial Company	FULL	100	100	100	100
		ANTARES	Real Estate and Real Estate Financing	ESI	45	45	45	45
		ANTARIUS	Insurance	FULL	100	100	100	100
	(6)	ARTISTIK	Real Estate and Real Estate Financing	ESI	30	0	30	0
		AVIVA INVESTORS RESERVE EUROPE	Financial Company	FULL	69.35	69.35	69.35	69.35
	(3)	AXA SOGECAP LOAN	Portfolio Management	FULL	0	100	0	100
		BANQUE COURTOIS. SUCCESSEUR DE L'ANCIENNE MAISON COURTOIS ET CIE DEPUIS 1760	Bank	FULL	100	100	100	100
		BANQUE FRANCAISE COMMERCIALE OCEAN INDIEN	Bank	FULL	50	50	50	50
		BANQUE KOLB	Bank	FULL	99.97	99.97	99.97	99.97
		BANQUE LAYDERNIER	Bank	FULL	100	100	100	100
		BANQUE NUGER	Bank	FULL	100	100	100	100
		BANQUE POUYANNE	Bank	ESI	35	35	35	35
		BANQUE RHONE ALPES	Bank	FULL	99.99	99.99	99.99	99.99
		BANQUE TARNEAUD	Bank	FULL	100	100	100	100
		BOURSORAMA INVESTISSEMENT	Services	FULL	100	100	100	100
		BOURSORAMA SA	Broker	FULL	100	100	100	100
		BREMANY LEASE SAS	Specialist Financing	FULL	79.82	79.82	100	100
	(2)	CAEN - RUE BASSE	Real Estate and Real Estate Financing	FULL	0	100	0	100
	(2)	CAEN - RUE DU GENERAL MOULIN	Real Estate and Real Estate Financing	FULL	0	100	0	100
		CARBURAUTO	Group Real Estate Management Company	EJV	50	50	50	50
		CARRERA	Group Real Estate Management Company	EJV	50	50	50	50
		CENTRE IMMO PROMOTION	Real Estate and Real Estate Financing	FULL	60	60	60	60

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		CHARTREUX LOT A1	Real Estate and Real Estate Financing	FULL	100	100	100	100
		CHEMIN DES COMBES	Real Estate and Real Estate Financing	FULL	95.5	95.5	100	100
		COMPAGNIE FINANCIERE DE BOURBON	Specialist Financing	FULL	99.99	99.99	100	100
		COMPAGNIE FONCIERE DE LA MEDITERRANEE (CFM)	Group Real Estate Management Company	FULL	100	100	100	100
		COMPAGNIE GENERALE DE LOCATION D'EQUIPEMENTS	Specialist Financing	FULL	99.89	99.89	99.89	99.89
		CONTE	Group Real Estate Management Company	EJV	50	50	50	50
	(5)	CREDINORD CIDIZE	Financial Company	FULL	0	100	0	100
		CREDIT DU NORD	Bank	FULL	100	100	100	100
		DARWIN DIVERSIFIE 0-20	Portfolio Management	FULL	89.94	88.67	89.94	88.67
		DARWIN DIVERSIFIE 40-60	Portfolio Management	FULL	79.78	79.98	79.78	79.98
		DARWIN DIVERSIFIE 80-100	Portfolio Management	FULL	78.34	78.1	78.34	78.1
		DESCARTES TRADING	Financial Company	FULL	100	100	100	100
		DESSUARD	Real Estate and Real Estate Financing	ESI	40	40	40	40
	(5)	DEVILLE AVENUE LECLERC	Real Estate and Real Estate Financing	FULL	0	100	0	100
		DISPONIS	Specialist Financing	FULL	99.99	99.99	100	100
		ESNI - COMPARTIMENT SG-CREDIT CLAIMS -1	Financial Company	FULL	100	100	100	100
		ETOILE CLIQUET 90	Financial Company	FULL	73.52	73.52	73.52	73.52
		ETOILE ID	Financial Company	FULL	100	100	100	100
	(6)	ETOILE MULTI GESTION EUROPE-C	Insurance	FULL	51.59	0	51.59	0
	(6)	ETOILE VALEURS MOYENNES-C	Insurance	FULL	61.09	0	61.09	0
		F.E.P. INVESTISSEMENTS	Real Estate and Real Estate Financing	FULL	80	80	100	100
		FCC ALBATROS	Portfolio Management	FULL	100	100	51	51
	(2)	FCT CODA	Financial Company	FULL	0	100	0	100
		FEEDER LYX E ST50 D5	Portfolio Management	FULL	100	100	100	100
		FEEDER LYX E ST50 D6	Portfolio Management	FULL	100	100	100	100
		FEEDER LYXOR CAC 40	Financial Company	FULL	99.77	99.77	99.77	99.77
		FEEDER LYXOR CAC40 D2-EUR	Portfolio Management	FULL	100	100	100	100
		FEEDER LYXOR STOXX 50	Financial Company	FULL	100	99.56	100	99.56
		FENWICK LEASE	Specialist Financing	FULL	99.99	99.99	100	100
	(5)	FIDUCEO	Services	FULL	0	100	0	100
		FINANCIERE PARCOURS	Specialist Financing	FULL	79.82	79.82	100	100
		FINANCIERE UC	Real Estate and Real Estate Financing	FULL	100	100	100	100
		FINASSURANCE SNC	Broker	FULL	98.89	98.89	99	99
		FRANFINANCE	Specialist Financing	FULL	99.99	99.99	99.99	99.99
		FRANFINANCE LOCATION	Specialist Financing	FULL	99.99	99.99	100	100
		GALYBET	Real Estate and Real Estate Financing	FULL	100	100	100	100
		GENEBANQUE	Bank	FULL	100	100	100	100
		GENECAL FRANCE	Specialist Financing	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest		Group voting interest	
					At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
		GENECAR - SOCIETE GENERALE DE COURTAGE D'ASSURANCE ET DE REASSURANCE	Insurance	FULL	100	100	100	100
		GENECOMI	Specialist Financing	FULL	99.64	99.64	99.64	99.64
		GENEFIM	Real Estate and Real Estate Financing	FULL	100	100	100	100
		GENEFINANCE	Portfolio Management	FULL	100	100	100	100
		GENEGIS I	Group Real Estate Management Company	FULL	100	100	100	100
		GENEGIS II	Group Real Estate Management Company	FULL	100	100	100	100
		GENEVALMY	Group Real Estate Management Company	FULL	100	100	100	100
		IMAPRIM AMENAGEMENT	Real Estate and Real Estate Financing	FULL	70	70	70	70
		IMMOBILIERE PROMEX	Real Estate and Real Estate Financing	ESI	35	35	35	35
	(1)	INORA LIFE FRANCE	Insurance	FULL	100	100	100	100
		INTER EUROPE CONSEIL	Financial Company	FULL	100	100	100	100
	(5)	INVESTIR IMMOBILIER MAROMME	Real Estate and Real Estate Financing	FULL	0	100	0	100
		INVESTIR IMMOBILIER NORMANDIE	Real Estate and Real Estate Financing	FULL	100	100	100	100
		INVESTISSEMENT 81	Financial Company	FULL	100	100	100	100
		KOLB INVESTISSEMENT	Financial Company	FULL	100	100	100	100
		LA BANQUE POSTALE FINANCEMENT	Specialist Financing	ESI	35	35	35	35
		LA CORBEILLERIE	Real Estate and Real Estate Financing	ESI	24	24	40	40
	(3)	LA COURTINE	Real Estate and Real Estate Financing	ESI	0	30	0	30
		LA CROIX BOISEE	Real Estate and Real Estate Financing	FULL	100	100	100	100
		LA FONCIERE DE LA DEFENSE	Real Estate and Real Estate Financing	FULL	99.99	99.99	100	100
		LES ALLEES DE L'EUROPE	Real Estate and Real Estate Financing	ESI	34	34	34	34
		LES CEDRES BLEUS	Real Estate and Real Estate Financing	ESI	40	40	40	40
		LES JARDINS D'ALHAMBRA	Real Estate and Real Estate Financing	ESI	35	35	35	35
		LES JARDINS DE L'ALCAZAR	Real Estate and Real Estate Financing	ESI	30	30	30	30
		LES MESANGES	Real Estate and Real Estate Financing	FULL	55	55	55	55
		LES VILLAS VINCENTI	Real Estate and Real Estate Financing	ESI	30	30	30	30
		L'HESPEL	Real Estate and Real Estate Financing	ESI	30	30	30	30
		LOTISSEMENT DES FLEURS	Real Estate and Real Estate Financing	ESI	30	30	30	30

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		LYON LA FABRIC	Real Estate and Real Estate Financing	EJV	48.87	48.87	50	50
		LYXOR ASSET MANAGEMENT	Financial Company	FULL	100	100	100	100
		LYXOR GL OVERLAY F	Portfolio Management	FULL	87.27	87.27	87.27	87.27
		LYXOR INTERMEDIATION	Broker	FULL	100	100	100	100
		LYXOR INTERNATIONAL ASSET MANAGEMENT	Financial Company	FULL	100	100	100	100
		MEDITERRANEE GRAND ARC	Real Estate and Real Estate Financing	EJV	43	43	50	50
		NOAHO	Real Estate and Real Estate Financing	FULL	85	85	85	85
		NORBAIL IMMOBILIER	Real Estate and Real Estate Financing	FULL	100	100	100	100
		NORBAIL SOFERGIE	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(5)	NORIMMO	Real Estate and Real Estate Financing	FULL	0	100	0	100
		NORMANDIE REALISATIONS	Real Estate and Real Estate Financing	FULL	100	100	100	100
		ONYX	Group Real Estate Management Company	EJV	50	50	50	50
		OPCI SOGECAPIMMO	Real Estate and Real Estate Financing	FULL	100	100	100	100
		OPERA 72	Group Real Estate Management Company	FULL	99.99	99.99	100	100
		ORADEA VIE	Insurance	FULL	100	100	100	100
		ORPAVIMOB	Specialist Financing	FULL	100	100	100	100
		PACTIMO	Real Estate and Real Estate Financing	FULL	86	86	86	86
		PARCOURS	Specialist Financing	FULL	79.82	79.82	100	100
		PARCOURS ANNECY	Specialist Financing	FULL	79.82	79.82	100	100
		PARCOURS BORDEAUX	Specialist Financing	FULL	79.82	79.82	100	100
		PARCOURS IMMOBILIER	Specialist Financing	FULL	79.82	79.82	100	100
		PARCOURS NANTES	Specialist Financing	FULL	79.82	79.82	100	100
		PARCOURS STRASBOURG	Specialist Financing	FULL	79.82	79.82	100	100
		PARCOURS TOURS	Specialist Financing	FULL	79.82	79.82	100	100
		PAREL	Services	FULL	100	100	100	100
		PHILIPS MEDICAL CAPITAL FRANCE	Specialist Financing	FULL	60	60	60	60
		PRAGMA	Real Estate and Real Estate Financing	FULL	86	86	100	100
	(3)	PRIMAXIA	Real Estate and Real Estate Financing	FULL	0	93.74	0	95
		PRIORIS	Specialist Financing	FULL	94.89	94.89	95	95
		PROGEREAL SA	Real Estate and Real Estate Financing	ESI	25.01	25.01	25.01	25.01
		PROJECTIM	Real Estate and Real Estate Financing	FULL	60	60	60	60
		RED & BLACK CONSUMER FRANCE 2013	Financial Company	FULL	100	100	100	100
		RED & BLACK HOME LOANS FRANCE 1	Financial Company	FULL	100	100	100	100
		RIVAPRIM	Real Estate and Real Estate Financing	FULL	100	80	100	80

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
	(6)	RIVAPRIM REALISATIONS	Real Estate and Real Estate Financing	FULL	100	0	100	0
		S.C.I. DU DOMAINE DE STONEHAM	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SAGEMCOM LEASE	Specialist Financing	FULL	99.99	99.99	100	100
		SAINT CLAIR	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SAINT-MARTIN 3	Real Estate and Real Estate Financing	EJV	50	50	50	50
	(8)	SARL CS 72 - KERIADENN	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SARL D'AMENAGEMENT DU MARTINET	Real Estate and Real Estate Financing	EJV	43	43	50	50
		SARL DE LA COTE D'OPALE	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SARL DE LA VECQUERIE	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SARL EKO BOUAYE	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SARL SEINE CLICHY	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SAS AMIENS - AVENUE DU GENERAL FOY	Real Estate and Real Estate Financing	FULL	80	80	100	100
		SAS COPRIM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SAS ECULLY SO'IN	Real Estate and Real Estate Financing	FULL	71.62	71.62	75	75
	(6)	SAS FOCH SULLY	Real Estate and Real Estate Financing	FULL	87.97	0	90	0
		SAS LOIRE ATLANTIQUE TERTIAIRE	Real Estate and Real Estate Financing	EJV	50	50	50	50
	(6)	SAS MERIGNAC OASIS URBAINE	Real Estate and Real Estate Financing	FULL	90	0	90	0
		SAS MS FRANCE	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SAS NOAHO AMENAGEMENT	Real Estate and Real Estate Financing	FULL	95.5	95.5	100	100
		SAS NORMANDIE HABITAT	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SAS NORMANDIE RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SAS NOYALIS	Real Estate and Real Estate Financing	ESI	28	28	28	28
		SAS PARNASSE	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SAS PROJECTIM IMMOBILIER	Real Estate and Real Estate Financing	FULL	80	80	100	100
		SAS RESIDENCIAL	Real Estate and Real Estate Financing	FULL	68.4	68.4	68.4	68.4

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
	(6)	SAS ROANNE LA TRILOGIE	Real Estate and Real Estate Financing	ESI	40.08	0	41	0
		SAS SOGEBROWN POISSY	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SAS SOGEMYSJ	Real Estate and Real Estate Financing	FULL	51	51	51	51
		SAS SOGEPROM TERTIAIRE	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(6)	SAS SOJEPRIM	Real Estate and Real Estate Financing	FULL	80	0	100	0
	(6)	SAS TIR A L'ARC AMENAGEMENT	Real Estate and Real Estate Financing	EJV	40	0	50	0
		SAS TOUR D2	Real Estate and Real Estate Financing	JO	50	50	50	50
		SAS ZAC DU TRIANGLE	Real Estate and Real Estate Financing	FULL	48.7	48.7	51	51
		SC ALICANTE 2000	Group Real Estate Management Company	FULL	100	100	100	100
		SC CHASSAGNE 2000	Group Real Estate Management Company	FULL	100	100	100	100
		SCCV 282 MONTOLIVET 12	Real Estate and Real Estate Financing	FULL	51.6	51.6	60	60
		SCCV 29 ET 31 AVENUE CHARLES DE GAULLE A LA TESTE DE BUCH	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCCV 3 CHATEAUX	Real Estate and Real Estate Financing	EJV	43	43	50	50
	(3)	SCCV ADIVO	Real Estate and Real Estate Financing	ESI	0	26	0	26
		SCCV ALFORTVILLE MANDELA	Real Estate and Real Estate Financing	ESI	49	49	49	49
		SCCV BAHIA	Real Estate and Real Estate Financing	FULL	48.7	48.7	51	51
	(3)	SCCV BALMA ENTREPRISE	Real Estate and Real Estate Financing	EJV	0	50	0	50
	(3)	SCCV BASSENS LES MONTS	Real Estate and Real Estate Financing	FULL	0	70	0	70
		SCCV BLAINVILLE LEMARCHAND	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCCV BOIS-GUILLAUME PARC DE HALLEY	Real Estate and Real Estate Financing	EJV	50	50	50	50
	(6)	SCCV BOURGOIN 140 ROUTE DE LYON	Real Estate and Real Estate Financing	FULL	78.2	0	80	0
		SCCV BRON CARAVELLE	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
	(5)	SCCV CAEN - CHARITE ILOT 3	Real Estate and Real Estate Financing	FULL	0	100	0	100
		SCCV CAEN CASERNE MARTIN	Real Estate and Real Estate Financing	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest		Group voting interest	
					At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
		SCCV CAEN PANORAMIK	Real Estate and Real Estate Financing	ESI	40	50	40	50
	(5)	SCCV CHARITE - REHABILITATION	Real Estate and Real Estate Financing	FULL	0	100	0	100
		SCCV CHARTREUX LOT C	Real Estate and Real Estate Financing	EJV	100	100	100	100
		SCCV CHARTREUX LOT E	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCCV CHARTREUX LOTS B-D	Real Estate and Real Estate Financing	FULL	35	35	35	35
		SCCV CITY SQUARE	Real Estate and Real Estate Financing	ESI	50	50	50	50
		SCCV CLICHY BRC	Real Estate and Real Estate Financing	EJV	28	28	28	28
		SCCV COURS CLEMENCEAU	Real Estate and Real Estate Financing	ESI	43	43	50	50
		SCCV CUGNAUX-LEO LAGRANGE	Real Estate and Real Estate Financing	EJV	35	35	35	35
		SCCV EKO GREEN CITY	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SCCV EKO PARK OCEAN	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SCCV ESPACES DE DEMAIN	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCCV EURONANTES 1E	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCCV GAO	Real Estate and Real Estate Financing	ESI	32.5	32.5	32.5	32.5
		SCCV GIGNAC MOUSSELINE	Real Estate and Real Estate Financing	FULL	60.2	60.2	70	70
		SCCV GIVORS ROBICHON	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
		SCCV HALLUARD	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV HEROUVILLE ILOT A2	Real Estate and Real Estate Financing	ESI	33.33	33.33	33.33	33.33
		SCCV HOUSE PARK	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV JA LE HAVRE 22 COTY	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCCV JDA OUISTREHAM	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCCV KYMA MERIGNAC	Real Estate and Real Estate Financing	ESI	30	30	30	30
	(6)	SCCV LA MADELEINE SAINT-CHARLES	Real Estate and Real Estate Financing	EJV	40	0	50	0
		SCCV LA PORTE DU CANAL	Real Estate and Real Estate Financing	EJV	50	50	50	50

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		SCCV LACASSAGNE BRICKS	Real Estate and Real Estate Financing	ESI	49	49	49	49
		SCCV LE BOUSCAT CARRÉ SOLARIS	Real Estate and Real Estate Financing	ESI	25	0	25	0
		SCCV LE COURTIL	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV LE SIX	Real Estate and Real Estate Financing	ESI	24.5	24.5	24.5	24.5
		SCCV LE TEICH COEUR DE VILLE	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SCCV LES ECRIVAINS	Real Estate and Real Estate Financing	FULL	70	70	70	70
		SCCV LES PATIOS D'OR DE FLEURY LES AUBRAIS	Real Estate and Real Estate Financing	FULL	64	64	80	80
		SCCV LES SUCRES	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
	(6)	SCCV LESQUIN PARC	Real Estate and Real Estate Financing	EJV	40	0	50	0
	(6)	SCCV LILLE - JEAN MACE	Real Estate and Real Estate Financing	ESI	26.72	0	33.4	0
		SCCV MARCQ PROJECTIM	Real Estate and Real Estate Financing	FULL	64	64	80	80
	(3)	SCCV MASSON BEAU	Real Estate and Real Estate Financing	ESI	0	30	0	30
	(6)	SCCV MEHUL	Real Estate and Real Estate Financing	FULL	60.2	0	70	0
	(6)	SCCV MERIGNAC 53-55 AVENUE LEON BLUM	Real Estate and Real Estate Financing	ESI	30	0	30	0
		SCCV MONROC - LOT 3	Real Estate and Real Estate Financing	EJV	43	43	50	50
		SCCV MONTREUIL ACACIA	Real Estate and Real Estate Financing	FULL	80	80	80	80
		SCCV NATUREO	Real Estate and Real Estate Financing	ESI	30	30	30	30
	(6)	SCCV NICE ARENAS	Real Estate and Real Estate Financing	FULL	100	0	100	0
		SCCV NOAHO HABITAT	Real Estate and Real Estate Financing	FULL	97.75	97.75	100	100
	(6)	SCCV NOISY BOISSIERE	Real Estate and Real Estate Financing	FULL	51	0	51	0
		SCCV PARIS ALBERT	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCCV PARK OCEAN II	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV PRADES BLEU HORIZON	Real Estate and Real Estate Financing	EJV	43	43	50	50
		SCCV QUAI DE SEINE A ALFORTVILLE	Real Estate and Real Estate Financing	FULL	51	51	51	51

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
	(6)	SCCV ROMAINVILLE DUMAS	Real Estate and Real Estate Financing	FULL	70	0	70	0
		SCCV ROUEN 27 ANGLAIS	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCCV ROUSSET - LOT 03	Real Estate and Real Estate Financing	FULL	60.2	60.2	70	70
		SCCV SAY	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV SENGHOR	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCCV SOGAB ROMAINVILLE	Real Estate and Real Estate Financing	FULL	80	80	80	80
		SCCV SWING RIVE GAUCHE	Real Estate and Real Estate Financing	EJV	43	43	50	50
		SCCV TALENCE PUR	Real Estate and Real Estate Financing	FULL	95	95	95	95
	(6)	SCCV TASSIN - 190 CDG	Real Estate and Real Estate Financing	ESI	35	0	35	0
	(3)	SCCV VAULX PABLO PICASSO	Real Estate and Real Estate Financing	EJV	0	47.75	0	50
		SCCV VERNAISON - RAZAT	Real Estate and Real Estate Financing	EJV	47.75	47.75	50	50
		SCCV VILLA CHANZY	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCCV VILLENAVE D'ORNON GARDEN VO	Real Estate and Real Estate Financing	ESI	25	0	25	0
	(6)	SCCV VILLEURBANNE TEMPO	Real Estate and Real Estate Financing	FULL	92.8	0	100	0
		SCI 1134. AVENUE DE L'EUROPE A CASTELNAU LE LEZ	Real Estate and Real Estate Financing	EJV	43	43	50	50
		SCI 637 ROUTE DE FRANS	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SCI ABARITZ	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI AGIAN	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI ANGLET PROMOTION	Real Estate and Real Estate Financing	ESI	38.5	38.5	38.5	38.5
		SCI AQPRIM PROMOTION	Real Estate and Real Estate Financing	FULL	79.8	79.8	50	50
		SCI ASC LA BERGEONNERIE	Real Estate and Real Estate Financing	EJV	42	42	50	50
	(3)	SCI AUBERVILLIERS CREVECOEUR	Real Estate and Real Estate Financing	ESI	0	35	0	35
		SCI AVARICUM	Real Estate and Real Estate Financing	FULL	99	99	99	99
		SCI BOBIGNY HOTEL DE VILLE	Real Estate and Real Estate Financing	ESI	35	35	35	35

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		SCI BORDEAUX-20-26 RUE DU COMMERCE	Real Estate and Real Estate Financing	ESI	30	0	30	0
		SCI CENTRE IMMO PROMOTION RESIDENCES	Real Estate and Real Estate Financing	FULL	80	80	100	100
		SCI CHARITE - GIRANDIERE	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI CHELLES AULNOY MENDES FRANCE	Real Estate and Real Estate Financing	EJV	50	50	50	50
	(2)	SCI D.S.N.	Real Estate and Real Estate Financing	ESI	0	32.5	0	32.5
		SCI DIAGONALE	Real Estate and Real Estate Financing	FULL	68	68	75	75
		SCI DREUX LA ROTULE NORD	Real Estate and Real Estate Financing	FULL	80	80	100	100
		SCI DU 84 RUE DU BAC	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI DU PARC SAINT ETIENNE	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI ETAMPES NOTRE-DAME	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI ETRECHY SAINT NICOLAS	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI EUROPARC HAUTE BORNE 1	Real Estate and Real Estate Financing	FULL	51	51	51	51
		SCI EUROPARC ST MARTIN DU TOUCH 2002	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(3)	SCI HAUSQUETTE I	Real Estate and Real Estate Financing	ESI	0	40	0	40
		SCI HEGEL PROJECTIM	Real Estate and Real Estate Financing	FULL	68	68	85	85
		SCI LA MANTILLA COMMERCES	Real Estate and Real Estate Financing	FULL	93	93	100	100
		SCI LA MARQUEILLE	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI L'ACTUEL	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SCI LAVOISIER	Real Estate and Real Estate Financing	FULL	80	80	80	80
		SCI LE CERCLE DES ARTS	Real Estate and Real Estate Financing	ESI	37.5	37.5	37.5	37.5
		SCI LE DOMAINE DU PLESSIS	Real Estate and Real Estate Financing	ESI	20	20	20	20
		SCI LE HAMEAU DES GRANDS PRES	Real Estate and Real Estate Financing	EJV	40	40	40	40
		SCI LE MANOIR DE JEREMY	Real Estate and Real Estate Financing	ESI	40	40	40	40
	(8)	SCI LE PARC DE BORDEROUGE	Real Estate and Real Estate Financing	FULL	60	60	60	60

Country			Activity	Method*	Group ownership interest At 31.12.201830	Group ownership interest At 31.12.201730	Group voting interest At 31.12.201830	Group voting interest At 31.12.201730
		SCI LES BAIGNOTS	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI LES JARDINS DE LA BOURBRE	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI LES JARDINS D'IRIS	Real Estate and Real Estate Financing	FULL	60	60	60	60
		SCI LES JARDINS DU BLAVET	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI LES PORTES DU LEMAN	Real Estate and Real Estate Financing	FULL	70	70	70	70
		SCI LES RESIDENCES GENEVOISES	Real Estate and Real Estate Financing	FULL	90	90	90	90
	(3)	SCI LES TERRASSES DE BEL AIR	Real Estate and Real Estate Financing	ESI	0	40	0	40
		SCI LIEUSAINT RUE DE PARIS	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI LINAS COEUR DE VILLE 1	Real Estate and Real Estate Financing	FULL	70	70	70	70
		SCI LOCMINE- LAMENNAIS	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SCI L'OREE DES LACS	Real Estate and Real Estate Financing	FULL	70	70	70	70
		SCI LYON BON LAIT	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCI LYON JOANNES	Real Estate and Real Estate Financing	EJV	47.8	47.8	50	50
		SCI MARSEILLE LE ZEPHYR	Real Estate and Real Estate Financing	FULL	55.9	55.9	65	65
		SCI MONTPELLIER JACQUES COEUR	Real Estate and Real Estate Financing	EJV	43	43	50	50
		SCI NOAHO RESIDENCES	Real Estate and Real Estate Financing	FULL	95.5	95.5	100	100
	(8)	SCI PATRIS	Real Estate and Real Estate Financing	EJV	25.8	25.8	30	30
		SCI PORTU ONDOAN	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI PROJECTIM HABITAT	Real Estate and Real Estate Financing	FULL	80	80	100	100
		SCI PROJECTIM MARCQ COEUR DE VILLE	Real Estate and Real Estate Financing	FULL	48	48	60	60
		SCI PRONY	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI QUINTEFEUILLE	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SCI QUINTESSENCE-VALESCURE	Real Estate and Real Estate Financing	EJV	50	48	50	50
		SCI REIMS GARE	Real Estate and Real Estate Financing	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		SCI RESIDENCE DU DONJON	Real Estate and Real Estate Financing	EJV	40	40	40	40
		SCI RHIN ET MOSELLE 1	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCI RHIN ET MOSELLE 2	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCI RIVAPRIM HABITAT	Real Estate and Real Estate Financing	FULL	100	92	100	100
		SCI RIVAPRIM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	96	100	100
	(3)	SCI ROUBAIX FOCH-LECLERC	Real Estate and Real Estate Financing	ESI	0	30	0	30
		SCI RSS INVESTIMMO COTE BASQUE	Real Estate and Real Estate Financing	ESI	20	20	20	20
	(8)	SCI SAINT JEAN	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCI SAINT OUEN L'AUMONE - L'OISE	Real Estate and Real Estate Financing	EJV	38	38	38	38
		SCI SAINT-DENIS WILSON	Real Estate and Real Estate Financing	FULL	60	60	60	60
		SCI SCS IMMOBILIER D'ENTREPRISES	Real Estate and Real Estate Financing	FULL	52.8	52.8	66	66
		SCI SOGECIP	Real Estate and Real Estate Financing	FULL	80	80	100	100
		SCI SOGECTIM	Real Estate and Real Estate Financing	FULL	80	80	100	100
	(3)	SCI SOGEPROM ATLANTIQUE	Real Estate and Real Estate Financing	FULL	0	80	0	80
		SCI STRASBOURG ETOILE THUMENAU	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCI STRASBOURG ROUTE DE WASSELONNE	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCI TERRES NOUVELLES FRANCILIENNES	Real Estate and Real Estate Financing	FULL	80	80	80	80
		SCI TOULOUSE CENTREDA 3	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SCI VAILLANT COUTURIER	Real Estate and Real Estate Financing	ESI	25	25	25	25
		SCI VALENCE-CHAMPS DE MARS	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SCI VELRI	Group Real Estate Management Company	EJV	50	50	50	50
		SCI VILLA EMILIE	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SCI VITAL BOUHOT 16-22 NEUILLY SUR SEINE	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SCPI GENEPIERRE	Real Estate and Real Estate Financing	FULL	45.08	45.08	45.08	45.08

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		SEFIA	Specialist Financing	FULL	99.89	99.89	100	100
		SERVIPAR	Specialist Financing	FULL	79.82	79.82	100	100
		SG 29 HAUSSMANN	Financial Company	FULL	100	100	100	100
	(6)	SG ACTIONS EURO SELECTION	Financial Company	FULL	40.05	0	40.05	0
	(6)	SG ACTIONS EURO VALUE-C	Insurance	FULL	64.94	0	64.94	0
		SG ACTIONS FRANCE	Portfolio Management	FULL	38.14	38.14	38.14	38.14
	(6)	SG ACTIONS LUXE-C	Insurance	FULL	84.25	0	84.25	0
	(6)	SG ACTIONS MONDE EMERGENT	Insurance	FULL	60.05	0	60.05	0
		SG ACTIONS US	Portfolio Management	FULL	65.06	100	65.06	100
		SG CAPITAL DEVELOPPEMENT	Portfolio Management	FULL	100	100	100	100
		SG EUROPEAN MORTGAGE INVESTMENTS	Financial Company	FULL	100	100	100	100
		SG FINANCIAL SERVICES HOLDING	Portfolio Management	FULL	100	100	100	100
		SG FLEXIBLE	Portfolio Management	FULL	92.48	100	92.48	100
		SG LYXOR GOVERNMENT BOND FUND	Portfolio Management	FULL	100	100	100	100
		SG LYXOR LCR FUND	Portfolio Management	FULL	100	100	100	100
	(6)	SG MONE TRESO-E	Insurance	FULL	98.62	0	98.62	0
		SG MONETAIRE PLUS E	Financial Company	FULL	58.93	38.45	58.93	38.45
	(6)	SG OBLIG ETAT EURO-R	Insurance	FULL	79.94	0	79.94	0
		SG OPCIMMO	Real Estate and Real Estate Financing	FULL	97.95	97.95	97.95	97.95
		SG OPTION EUROPE	Broker	FULL	100	100	100	100
	(5)	SG SERVICES	Specialist Financing	FULL	0	100	0	100
		SG VALOR ALPHA ACTIONS FRANCE	Financial Company	FULL	72.77	75.34	72.77	75.34
		SGB FINANCE S.A.	Specialist Financing	FULL	50.94	50.94	51	51
		SGEF SA	Specialist Financing	FULL	100	100	100	100
	(6)	SGI 10-16 VILLE L'EVEQUE	Insurance	FULL	100	0	100	0
	(6)	SGI 1-5 ASTORG	Insurance	FULL	100	0	100	0
		SGI HOLDING SIS	Group Real Estate Management Company	FULL	100	100	100	100
	(6)	SGI PACIFIC	Insurance	FULL	86.17	0	89.53	0
		SNC COEUR 8EME MONPLAISIR	Real Estate and Real Estate Financing	ESI	25.5	25.5	30	30
		SNC COPRIM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SNC D'AMENAGEMENT FORUM SEINE ISSY LES MOULINEAUX	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
	(5)	SNC DU 10 RUE MICHELET	Real Estate and Real Estate Financing	FULL	0	100	0	100
		SNC ISSY FORUM 10	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
		SNC ISSY FORUM 11	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
		SNC NEUILLY ILE DE LA JATTE	Real Estate and Real Estate Financing	ESI	40	40	40	40
		SNC PROMOSEINE	Real Estate and Real Estate Financing	EJV	33.33	33.33	33.33	33.33
		SOCIETE ANONYME DE CREDIT A L'INDUSTRIE FRANCAISE (CALIF)	Bank	FULL	100	100	100	100
	(2)	SOCIETE CIVILE IMMOBILIERE 110 RUE DE RICHELIEU	Real Estate and Real Estate Financing	ESI	0	35	0	35

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		SOCIETE CIVILE IMMOBILIERE CAP THALASSA	Real Estate and Real Estate Financing	ESI	45	45	45	45
		SOCIETE CIVILE IMMOBILIERE CAP VEYRE	Real Estate and Real Estate Financing	ESI	50	50	50	50
		SOCIETE CIVILE IMMOBILIERE DE DIANE	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SOCIETE CIVILE IMMOBILIERE DE PIERLAS	Real Estate and Real Estate Financing	ESI	28	28	28	28
		SOCIETE CIVILE IMMOBILIERE DES COMBEAUX DE TIGERY	Real Estate and Real Estate Financing	FULL	99.99	99.99	100	100
		SOCIETE CIVILE IMMOBILIERE DOMAINE DURANDY	Real Estate and Real Estate Financing	ESI	25	25	25	25
		SOCIETE CIVILE IMMOBILIERE ERICA	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SOCIETE CIVILE IMMOBILIERE ESTEREL TANNERON	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SOCIETE CIVILE IMMOBILIERE FONTENAY - ESTIENNES D'ORVES	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SOCIETE CIVILE IMMOBILIERE GAMBETTA DEFENSE V	Real Estate and Real Estate Financing	ESI	20	20	20	20
		SOCIETE CIVILE IMMOBILIERE LE BOTERO	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SOCIETE CIVILE IMMOBILIERE LES HAUTS DE L'ESTAQUE	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SOCIETE CIVILE IMMOBILIERE LES HAUTS DE SEPTEMES	Real Estate and Real Estate Financing	ESI	25	25	25	25
		SOCIETE CIVILE IMMOBILIERE MIRECRAU	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SOCIETE CIVILE IMMOBILIERE NAXOU	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOCIETE CIVILE IMMOBILIERE TOULDI	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOCIETE CIVILE IMMOBILIERE VERT COTEAU	Real Estate and Real Estate Financing	ESI	35	35	35	35
		SOCIETE DE BOURSE GILBERT DUPONT	Financial Company	FULL	100	100	100	100
		SOCIETE DE LA RUE EDOUARD VII	Portfolio Management	FULL	99.91	99.91	99.91	99.91
	(5)	SOCIETE DE REALISATION DU PARC D'ACTIVITES DE TOULOUSE S O P A T	Real Estate and Real Estate Financing	ESI	0	100	0	100
		SOCIETE DES TERRAINS ET IMMEUBLES PARISIENS (STIP)	Group Real Estate Management Company	FULL	99.98	99.98	100	100
		SOCIETE DU PARC D ACTIVITE DE LA VALENTINE	Real Estate and Real Estate Financing	ESI	30	30	30	30
		SOCIETE EN NOM COLLECTIF PARNASSE	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOCIETE FINANCIERE D' ANALYSE ET DE GESTION	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE	Bank	FULL	100	100	100	100
		SOCIETE GENERALE CAPITAL FINANCE	Portfolio Management	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
		SOCIETE GENERALE CAPITAL PARTENAIRES	Portfolio Management	FULL	100	100	100	100
		SOCIETE GENERALE DE BANQUE AUX ANTILLES	Bank	FULL	100	100	100	100
		SOCIETE GENERALE FACTORING	Specialist Financing	FULL	100	100	100	100
		SOCIETE GENERALE PARTICIPATIONS INDUSTRIELLES	Portfolio Management	FULL	100	100	100	100
		SOCIETE GENERALE POUR LE DEVELOPPEMENT DES OPERATIONS DE CREDIT-BAIL IMMOBILIER SOGEBAIL	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOCIETE GENERALE REAL ESTATE	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOCIETE GENERALE SCF	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE SECURITIES SERVICES HOLDING	Portfolio Management	FULL	100	100	100	100
		SOCIETE GENERALE SFH	Specialist Financing	FULL	100	100	100	100
		SOCIETE IMMOBILIERE DU 29 BOULEVARD HAUSSMANN	Group Real Estate Management Company	FULL	100	100	100	100
		SOCIETE IMMOBILIERE URBI ET ORBI	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOCIETE LES PINSONS	Real Estate and Real Estate Financing	EJV	50	50	50	50
		SOCIETE MARSEILLAISE DE CREDIT	Bank	FULL	100	100	100	100
		SOGE BEAUJOIRE	Group Real Estate Management Company	FULL	99.99	99.99	100	100
		SOGE PERIVAL I	Group Real Estate Management Company	FULL	100	100	100	100
		SOGE PERIVAL II	Group Real Estate Management Company	FULL	100	100	100	100
		SOGE PERIVAL III	Group Real Estate Management Company	FULL	100	100	100	100
		SOGE PERIVAL IV	Group Real Estate Management Company	FULL	100	100	100	100
		SOGEACT.SELEC.MON.	Portfolio Management	FULL	99.78	99.78	99.78	99.78
		SOGECAMPUS	Group Real Estate Management Company	FULL	100	100	100	100
		SOGECAP	Insurance	FULL	100	100	100	100
		SOGECAP - DIVERSIFIED LOANS FUND	Specialist Financing	FULL	100	100	100	100
		SOGECAP DIVERSIFIE 1	Portfolio Management	FULL	100	100	100	100
		SOGECAP LONG TERME N°1	Financial Company	FULL	100	100	100	100
	(6)	SOGECAPIMMO 2	Insurance	FULL	89.39	0	90.84	0
		SOGEFIM HOLDING	Portfolio Management	FULL	100	100	100	100
		SOGEFIMUR	Specialist Financing	FULL	100	100	100	100
		SOGEFINANCEMENT	Specialist Financing	FULL	100	100	100	100
		SOGEFINERG SG POUR LE FINANCEMENT DES INVESTISSEMENTS ECONOMISANT L'ENERGIE	Specialist Financing	FULL	100	100	100	100
		SOGEFONTENAY	Group Real Estate Management Company	FULL	100	100	100	100
		SOGELEASE FRANCE	Specialist Financing	FULL	100	100	100	100
		SOGEMARCHE	Group Real Estate Management Company	FULL	100	100	100	100
		SOGEPARTICIPATIONS	Portfolio Management	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest		Group voting interest	
					At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
		SOGEPROM	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM ALPES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM ALPES HABITAT	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM CENTRE-VAL DE LOIRE	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM CVL SERVICES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM ENTREPRISES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM ENTREPRISES REGIONS	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM HABITAT	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM PARTENAIRES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM RESIDENCES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM SERVICES	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM SUD REALISATIONS	Real Estate and Real Estate Financing	FULL	90.9	90.9	100	100
		SOGESSUR	Insurance	FULL	100	100	100	100
		SOGEVIMMO	Group Real Estate Management Company	FULL	85.55	100	85.55	100
	(5)	SOGINFO - SOCIETE DE GESTION ET D'INVESTISSEMENTS FONCIERS	Group Real Estate Management Company	FULL	0	100	0	100
		ST BARNABE 13004	Real Estate and Real Estate Financing	EJV	43	43	50	50
		STAR LEASE	Specialist Financing	FULL	100	100	100	100
	(8)	STRACE	Real Estate and Real Estate Financing	ESI	20	20	20	20
		TEMSYS	Specialist Financing	FULL	79.82	79.82	100	100
	(8)	URBANISME ET COMMERCE	Real Estate and Real Estate Financing	FULL	99.88	99.88	99.88	99.88
		URBANISME ET COMMERCE PROMOTION	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(2)	UTEI FEYZIN	Real Estate and Real Estate Financing	ESI	0	30	0	30
		VALMINVEST	Group Real Estate Management Company	FULL	100	100	100	100
		VILLA D'ARMONT	Real Estate and Real Estate Financing	ESI	40	40	40	40

Country			Activity	Method*	Group ownership interest		Group voting interest	
					At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
Ghana								
		SOCIETE GENERALE GHANA LIMITED	Bank	FULL	60.22	56.67	60.22	56.67
Gibraltar								
		HAMBROS (GIBRALTAR NOMINEES) LIMITED	Services	FULL	100	100	100	100
		SG KLEINWORT HAMBROS BANK (GIBRALTAR) LIMITED	Bank	FULL	100	100	100	100
Greece								
		ALD AUTOMOTIVE S.A. LEASE OF CARS	Specialist Financing	FULL	79.82	79.82	100	100
Guinea								
		SG DE BANQUES EN GUINEE	Bank	FULL	57.94	57.94	57.94	57.94
Equatorial Guinea								
		SOCIETE GENERALE DE BANQUES EN GUINEE EQUATORIALE	Bank	FULL	52.44	52.44	57.23	57.23
Hong Kong								
	(1)	DESCARTES TRADING HONG KONG BRANCH	Financial Company	FULL	100	100	100	100
		SG ASSET FINANCE (HONG KONG) LIMITED	Broker	FULL	100	100	100	100
	(6)	SG CORPORATE FINANCE (HONG KONG) LIMITED	Financial Company	FULL	100	0	100	0
		SG FINANCE (ASIA PACIFIC) LIMITED	Financial Company	FULL	100	100	100	100
		SG FINANCE (HONG KONG) LIMITED	Financial Company	FULL	100	100	100	100
	(1)	SG HONG KONG	Bank	FULL	100	100	100	100
		SG SECURITIES (HK) NOMINEES LTD	Broker	FULL	100	100	100	100
		SG SECURITIES (HONG-KONG) LTD	Broker	FULL	100	100	100	100
		SG SECURITIES ASIA INTERNATIONAL HOLDINGS LTD (HONG-KONG)	Broker	FULL	100	100	100	100
		SOCIETE GENERALE ASIA LTD	Financial Company	FULL	100	100	100	100
		TH INVESTMENTS (HONG KONG) 1 LIMITED	Financial Company	FULL	100	100	100	100
		TH INVESTMENTS (HONG KONG) 2 LIMITED	Financial Company	FULL	100	100	100	100
		TH INVESTMENTS (HONG KONG) 5 LIMITED	Financial Company	FULL	100	100	100	100
Hungary								
		ALD AUTOMOTIVE MAGYARORSZAG KFT	Specialist Financing	FULL	79.82	79.82	100	100
	(5)	MKB-EUROLEASING AUTOPARK KERESKEDELMI ES SZOLGALTATO ZARTKORUEN MUKODO RESZVENYTARSASAG	Specialist Financing	FULL	0	79.82	0	100
	(3)	SG EQUIPMENT FINANCE HUNGARY ZRT	Specialist Financing	EFS	0	100	0	100
	(3)	SG EQUIPMENT LEASING HUNGARY LTD	Specialist Financing	EFS	0	100	0	100
Jersey Island								
		ELMFORD LIMITED	Services	FULL	100	100	100	100
		HANOM I LIMITED	Financial Company	FULL	100	100	100	100
		HANOM II LIMITED	Financial Company	FULL	100	100	100	100
		HANOM III LIMITED	Financial Company	FULL	100	100	100	100
		JD CORPORATE SERVICES LIMITED	Services	FULL	100	100	100	100
		KLEINWORT BENSON CUSTODIAN SERVICES LIMITED	Bank	FULL	100	100	100	100
	(7)	LYXOR MASTER FUND	Financial Company	FULL	100	100	100	100
		NEWMEAD TRUSTEES LIMITED	Financial Company	FULL	100	100	100	100
		SG HAMBROS (FOUNDATIONS) LTD	Financial Company	FULL	100	100	100	100
		SG HAMBROS NOMINEES (JERSEY) LTD	Financial Company	FULL	100	100	100	100
		SG KLEINWORT HAMBROS BANK (CI) LIMITED	Bank	FULL	100	100	100	100
		SG KLEINWORT HAMBROS CORPORATE SERVICES (CI) LIMITED	Portfolio Management	FULL	100	100	100	100
		SG KLEINWORT HAMBROS TRUST COMPANY (CI) LIMITED	Financial Company	FULL	100	100	100	100
		SGKH TRUSTEES (CI) LIMITED	Services	FULL	100	100	100	100
		SOLENTIS INVESTMENT SOLUTIONS PCC	Financial Company	FULL	100	100	100	100
Isle of Man								
		KBBIOM LIMITED	Bank	FULL	50	50	50	50
		KBTIOM LIMITED	Bank	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
Guernsey Island								
		ARAMIS II SECURITIES CO. LTD	Financial Company	FULL	100	100	100	100
		CDS INTERNATIONAL LIMITED	Services	FULL	100	100	100	100
		GRANGE NOMINEES LIMITED	Bank	FULL	100	100	100	100
		GUERNSEY FINANCIAL ADVISORY SERVICES LIMITED	Bank	FULL	100	100	100	100
		GUERNSEY NOMINEES LIMITED	Bank	FULL	100	100	100	100
		HAMBROS (GUERNSEY NOMINEES) LTD	Services	FULL	100	100	100	100
		HTG LIMITED	Services	FULL	100	100	100	100
		K.B. (C.I.) NOMINEES LIMITED	Bank	FULL	100	100	100	100
	(2)	KBII PCC LIMITED	Bank	FULL	0	100	0	100
		MISON NOMINEES LIMITED	Bank	FULL	100	100	100	100
	(1)	SG HAMBROS BANK (CHANNEL ISLANDS) LTD GUERNSEY BRANCH	Bank	FULL	100	100	100	100
Cayman Islands								
		AEGIS HOLDINGS (OFFSHORE) LTD.	Financial Company	FULL	100	100	100	100
	(2)	BRIDGEVIEW II LIMITED	Specialist Financing	FULL	0	100	0	100
		SOCIETE GENERALE (NORTH PACIFIC) LTD	Bank	FULL	100	100	100	100
British Virgin Islands								
		TSG HOLDINGS LTD	Services	FULL	100	100	100	100
		TSG MANAGEMENT LTD	Services	FULL	100	100	100	100
		TSG SERVICES LTD	Services	FULL	100	100	100	100
India								
		ALD AUTOMOTIVE PRIVATE LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
	(1)	SG MUMBAI	Bank	FULL	100	100	100	100
		SOCIETE GENERALE GLOBAL SOLUTION CENTRE PRIVATE	Services	FULL	100	100	100	100
		SOCIETE GENERALE SECURITIES INDIA PRIVATE LIMITED	Broker	FULL	100	100	100	100
Ireland								
		ALD RE DESIGNATED ACTIVITY COMPANY	Insurance	FULL	79.82	79.82	100	100
		INORA LIFE LTD	Insurance	FULL	100	100	100	100
		IRIS II SPV DESIGNATED ACTIVITY COMPANY	Financial Company	FULL	100	100	100	100
		MERRION FLEET FINANCE LIMITED	Financial Company	FULL	79.82	79.82	100	100
		MERRION FLEET MANAGEMENT LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
	(1)	SG DUBLIN	Bank	FULL	100	100	100	100
		SG KLEINWORT HAMBROS PRIVATE INVESTMENT OFFICE SERVICES LIMITED	Bank	FULL	100	100	100	100
		SGBT FINANCE IRELAND DESIGNATED ACTIVITY COMPANY	Specialist Financing	FULL	100	100	100	100
		SGSS (IRELAND) LIMITED	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE HEDGING DESIGNATED ACTIVITY COMPANY	Financial Company	FULL	100	100	100	100
Italy								
		ALD AUTOMOTIVE ITALIA S.R.L	Specialist Financing	FULL	79.82	79.82	100	100
		FIDITALIA S.P.A	Specialist Financing	FULL	100	100	100	100
		FRAER LEASING SPA	Specialist Financing	FULL	73.85	73.85	73.85	73.85
		SG EQUIPMENT FINANCE ITALY S.P.A.	Specialist Financing	FULL	100	100	100	100
		SG FACTORING SPA	Specialist Financing	FULL	100	100	100	100
		SG LEASING SPA	Specialist Financing	FULL	100	100	100	100
	(1)	SG MILAN	Bank	FULL	100	100	100	100
	(1)	SOCECAP SA RAPPRESENTANZA GENERALE PER L'ITALIA	Insurance	FULL	100	100	100	100
		SOCIETE GENERALE SECURITIES SERVICES S.P.A.	Bank	FULL	100	100	100	100
	(1)	SOGESSUR SA	Insurance	FULL	100	100	100	100
Japan								
		LYXOR ASSET MANAGEMENT JAPAN CO LTD	Portfolio Management	FULL	100	100	100	100
	(1)	SG TOKYO	Bank	FULL	100	100	100	100
	(1)	SOCIETE GENERALE (NORTH PACIFIC) LTD. TOKYO BRANCH	Bank	FULL	100	100	100	100
		SOCIETE GENERALE SECURITIES JAPAN LIMITED	Broker	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
Latvia								
		ALD AUTOMOTIVE SIA	Specialist Financing	FULL	59.86	59.86	75	75
Lebanon								
		SG DE BANQUE AU LIBAN	Bank	ESI	16.79	16.79	16.85	16.85
Lithuania								
		UAB ALD AUTOMOTIVE	Specialist Financing	FULL	59.86	59.86	75	75
Luxembourg								
		ALD INTERNATIONAL SERVICES S.A.	Specialist Financing	FULL	79.82	79.82	100	100
		AXA IM FIIS US SH.DUR.HIGH YIELD A DIS H	Specialist Financing	FULL	50.58	38	50.58	38
		AXUS LUXEMBOURG SA	Specialist Financing	FULL	79.82	79.82	100	100
		BARTON CAPITAL SA	Financial Company	FULL	100	100	100	100
	(2)	CHABON SA	Financial Company	FULL	0	100	0	100
		CODEIS COMPARTIMENT A0076	Financial Company	FULL	100	100	100	100
		CODEIS SECURITIES S.A.	Financial Company	FULL	100	100	100	100
		COVALBA	Financial Company	FULL	100	100	100	100
		G FINANCE LUXEMBOURG SA	Financial Company	FULL	100	100	100	100
		IVEFI S.A.	Financial Company	FULL	100	100	100	100
		LX FINANZ S.A.R.L.	Financial Company	FULL	100	100	100	100
		PIONEER INVESTMENTS DIVERSIFIED LOANS FUND	Specialist Financing	FULL	100	100	100	100
		RED & BLACK AUTO LEASE GERMANY 2 S.A.	Financial Company	FULL	79.82	79.82	100	100
		SG ISSUER	Financial Company	FULL	100	100	100	100
		SGBT ASSET BASED FUNDING SA	Financial Company	FULL	100	100	100	100
		SGBTCI	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE BANK & TRUST	Bank	FULL	100	100	100	100
		SOCIETE GENERALE CAPITAL MARKET FINANCE	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE FINANCING AND DISTRIBUTION	Financial Company	FULL	100	100	100	100
	(2)	SOCIETE GENERALE LDG	Bank	FULL	0	100	0	100
		SOCIETE GENERALE LIFE INSURANCE BROKER SA	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE PRIVATE WEALTH MANAGEMENT S.A.	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE RE SA	Insurance	FULL	100	100	100	100
		SOCIETE IMMOBILIERE DE L'ARSENAL	Group Real Estate Management Company	FULL	100	100	100	100
		SOGELIFE	Insurance	FULL	100	100	100	100
Macedonia								
		OHRIDSKA BANKA AD SKOPJE	Bank	FULL	74.53	70.02	75.38	70.96
Madagascar								
		BANKY FAMPANDROSOANA VAROTRA SG	Bank	FULL	70	70	70	70
Malta								
		LNG MALTA INVESTMENT 1 LIMITED	Financial Company	FULL	100	100	100	100
		LNG MALTA INVESTMENT 2 LIMITED	Financial Company	FULL	100	100	100	100
Morocco								
		ALD AUTOMOTIVE SA MAROC	Specialist Financing	FULL	36.57	36.56	50	50
		ATHENA COURTAGE	Insurance	FULL	58.45	58.41	99.93	99.93
		FONCIMMO	Group Real Estate Management Company	FULL	57.57	57.53	100	100
		LA MAROCAINE VIE	Insurance	FULL	89.03	89.02	99.98	99.98
		SG MAROCAINE DE BANQUES	Bank	FULL	57.57	57.53	57.57	57.53
		SOCIETE D' EQUIPEMENT DOMESTIQUE ET MENAGER EQDOM	Specialist Financing	FULL	30.93	45.75	53.72	53.72
		SOCIETE GENERALE DE LEASING AU MAROC	Specialist Financing	FULL	57.57	57.53	100	100
		SOCIETE GENERALE OFFSHORE	Financial Company	FULL	57.5	57.46	99.88	99.88
		SOGECAPITAL GESTION	Financial Company	FULL	57.53	57.49	99.94	99.94
		SOGECAPITAL PLACEMENT	Portfolio Management	FULL	57.55	57.5	99.96	99.96
		SOGEFINANCEMENT MAROC	Specialist Financing	FULL	57.57	57.53	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
Mauritius								
		SG SECURITIES BROKING (M) LIMITED	Broker	FULL	100	100	100	100
Mexico								
		ALD AUTOMOTIVE S.A. DE C.V.	Specialist Financing	FULL	79.82	79.82	100	100
		ALD FLEET SA DE CV SOFOM ENR	Specialist Financing	FULL	79.82	79.82	100	100
		SGFP MEXICO. S.A. DE C.V.	Financial Company	FULL	99.98	100	100	100
Moldavia								
		MOBIASBANCA GROUPE SOCIETE GENERALE	Bank	FULL	79.93	79.93	87.9	87.9
Monaco								
	(1)	CREDIT DU NORD - MONACO	Bank	FULL	100	100	100	100
	(1)	SMC MONACO	Bank	FULL	100	100	100	100
	(1)	SOCIÉTÉ GÉNÉRALE (SUCCURSALE MONACO)	Bank	FULL	100	100	100	100
		SOCIETE GENERALE PRIVATE BANKING (MONACO)	Bank	FULL	100	100	100	100
Montenegro								
		SOCIETE GENERALE BANKA MONTENEGRO A.D.	Bank	FULL	90.56	90.56	90.56	90.56
Norway								
		ALD AUTOMOTIVE AS	Specialist Financing	FULL	79.82	79.82	100	100
		NF FLEET AS	Specialist Financing	FULL	63.85	63.85	80	80
		SG FINANS AS	Specialist Financing	FULL	100	100	100	100
New Caledonia								
		CREDICAL	Specialist Financing	FULL	87.07	87.07	96.64	96.64
		SOCIETE GENERALE CALEDONIENNE DE BANQUE	Bank	FULL	90.1	90.1	90.1	90.1
Netherlands								
		ALVARENGA INVESTMENTS B.V.	Specialist Financing	FULL	100	100	100	100
		ASTEROLD B.V.	Financial Company	FULL	100	100	100	100
		AXUS FINANCE NL B.V.	Specialist Financing	FULL	79.82	79.82	100	100
		AXUS NEDERLAND BV	Specialist Financing	FULL	79.82	79.82	100	100
		BRIGANTIA INVESTMENTS B.V.	Financial Company	FULL	100	100	100	100
		COPARER HOLDING	Group Real Estate Management Company	FULL	100	100	100	100
		HERFSTTAFEL INVESTMENTS B.V.	Specialist Financing	FULL	100	100	100	100
		HORDLE FINANCE B.V.	Financial Company	FULL	100	100	100	100
		MONTALIS INVESTMENT BV	Specialist Financing	FULL	100	100	100	100
	(1)	SG AMSTERDAM	Bank	FULL	100	100	100	100
		SG EQUIPMENT FINANCE BENELUX BV	Specialist Financing	FULL	100	100	100	100
		SOGELEASE B.V.	Specialist Financing	FULL	100	100	100	100
		SOGELEASE FILMS	Specialist Financing	FULL	100	100	100	100
		TYNEVOR B.V.	Financial Company	FULL	100	100	100	100
The Philippines								
	(1)(2)	SOCIETE GENERALE MANILA OFFSHORE BRANCH	Bank	FULL	0	100	0	100
Poland								
		ALD AUTOMOTIVE POLSKA SP Z O.O.	Specialist Financing	FULL	79.82	79.82	100	100
		EURO BANK S.A.	Bank	FULL	99.99	99.99	99.99	99.99
		PEMA POLSKA SP.Z O.O.	Services	FULL	100	100	100	100
		SG EQUIPMENT LEASING POLSKA SP Z.O.O.	Specialist Financing	FULL	100	100	100	100
	(1)	SOCIETE GENERALE S.A. ODDZIAL W POLSCE	Bank	FULL	100	100	100	100
	(1)(5)	SOGECAP RISQUES DIVERS SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	FULL	0	100	0	100
	(1)	SOGECAP SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	FULL	100	100	100	100
	(1)(6)	SOGESSUR SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	FULL	100	0	100	0
		BANQUE DE POLYNESIE	Bank	FULL	72.1	72.1	72.1	72.1
		SOGELEASE BDP SAS	Specialist Financing	FULL	72.1	72.1	100	100

Country			Activity	Method*	Group ownership interest		Group voting interest	
					At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
Portugal								
		SGALD AUTOMOTIVE SOCIEDADE GERAL DE COMERCIO E ALUGUER DE BENZ SA	Specialist Financing	FULL	79.82	79.82	100	100
Czech Republic								
		ALD AUTOMOTIVE SRO	Specialist Financing	FULL	79.82	79.82	100	100
		CATAPS	Services	ESI	0.61	12.15	40	20
		ESSOX SRO	Specialist Financing	FULL	80	80	100	100
		FACTORING KB	Financial Company	FULL	60.73	60.73	100	100
		KB PENZIJNI SPOLECNOST. A.S.	Financial Company	FULL	60.73	60.73	100	100
		KB REAL ESTATE	Real Estate and Real Estate Financing	FULL	60.73	60.73	100	100
		KOMERCNI BANKA A.S	Bank	FULL	60.73	60.73	60.73	60.73
		KOMERCNI POJISTOVNA A.S	Insurance	FULL	80.76	80.76	100	100
		MODRA PYRAMIDA STAVEBNI SPORITELNA AS	Financial Company	FULL	60.73	60.73	100	100
		PEMA PRAHA SPOL. S.R.O.	Specialist Financing	FULL	100	100	100	100
		PROTOS	Financial Company	FULL	60.73	60.73	100	100
	(5)	PSA FINANCE CESKA REPUBLIKA SRO	Specialist Financing	FULL	0	80	0	100
		SG EQUIPMENT FINANCE CZECH REPUBLIC S.R.O.	Specialist Financing	FULL	80.33	80.33	100	100
		SOGEPROM CESKA REPUBLIKA S.R.O.	Real Estate and Real Estate Financing	FULL	100	100	100	100
		SOGEPROM MICHLE S.R.O.	Real Estate and Real Estate Financing	FULL	100	100	100	100
		STD2. A.S.	Group Real Estate Management Company	FULL	60.73	60.73	100	100
		VN 42	Real Estate and Real Estate Financing	FULL	60.73	60.73	100	100
Romania								
		ALD AUTOMOTIVE SRL	Specialist Financing	FULL	75.89	75.89	100	100
		BRD - GROUPE SOCIETE GENERALE SA	Bank	FULL	60.17	60.17	60.17	60.17
		BRD ASSET MANAGEMENT SAI SA	Portfolio Management	FULL	60.15	60.15	99.97	99.97
		BRD FINANCE IFN S.A.	Financial Company	FULL	80.48	80.48	100	100
		S.C. BRD SOGELEASE IFN S.A.	Specialist Financing	FULL	60.17	60.17	100	100
		S.C. ROGARIU IMOBILIARE S.R.L.	Real Estate and Real Estate Financing	FULL	75	75	75	75
		SOCIETE GENERALE EUROPEAN BUSINESS SERVICES S.A.	Services	FULL	100	100	100	100
		SOGEPROM ROMANIA SRL	Real Estate and Real Estate Financing	FULL	100	100	100	100
	(1)(6)	SOGESSUR S.A PARIS - SUCURSALA BUCURESTI	Insurance	FULL	100	0	100	0
United Kingdom								
		ACR	Financial Company	FULL	100	100	100	100
		ALD AUTOMOTIVE GROUP LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
		ALD AUTOMOTIVE LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
		ALD FUNDING LIMITED	Specialist Financing	FULL	79.82	79.82	100	100
	(1)(2)	BRIDGEVIEW II LIMITED (UK BRANCH)	Specialist Financing	FULL	0	100	0	100
	(1)	BRIGANTIA INVESTMENTS B.V. (UK BRANCH)	Financial Company	FULL	100	100	100	100
	(1)	DESCARTES TRADING LONDON BRANCH	Financial Company	FULL	100	100	100	100
		FENCHURCH NOMINEES LIMITED	Bank	FULL	100	100	100	100
		FRANK NOMINEES LIMITED	Bank	FULL	100	100	100	100
	(1)	HORDLE FINANCE B.V. (UK BRANCH)	Financial Company	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest		Group voting interest	
					At 31.12.2018	At 31.12.2017	At 31.12.2018	At 31.12.2017
	(8)	JWB LEASE HOLDINGS LIMITED	Specialist Financing	FULL	100	100	100	100
		JWB LEASING LIMITED PARTNERSHIP	Specialist Financing	FULL	100	100	100	100
		KBIM STANDBY NOMINEES LIMITED	Bank	FULL	100	100	100	100
		KBPB NOMINEES LIMITED	Bank	FULL	100	100	100	100
		KH COMPANY SECRETARIES LIMITED	Bank	FULL	100	100	100	100
		KLEINWORT BENSON FARMLAND TRUST (MANAGERS) LIMITED	Bank	FULL	75	75	75	75
		LANGBOURN NOMINEES LIMITED	Bank	FULL	100	100	100	100
		LYXOR ASSET MANAGEMENT UK LLP	Financial Company	FULL	100	100	100	100
		MAGPIE ROSE LIMITED	Bank	FULL	100	100	100	100
		PICO WESTWOOD LIMITED	Bank	FULL	100	100	100	100
		ROBERT BENSON. LONSDALE & CO (CANADA) LIMITED	Bank	FULL	100	100	100	100
		SAINT MELROSE LIMITED	Bank	FULL	100	100	100	100
		SG (MARITIME) LEASING LIMITED	Specialist Financing	FULL	100	100	100	100
		SG EQUIPMENT FINANCE (DECEMBER) LIMITED	Specialist Financing	FULL	100	100	100	100
	(8)	SG EQUIPMENT FINANCE LEASING LIMITED	Specialist Financing	FULL	100	100	100	100
	(8)	SG EQUIPMENT FINANCE OPERATING LEASING LIMITED	Specialist Financing	FULL	100	100	100	100
	(8)	SG EQUIPMENT FINANCE RENTAL LIMITED	Specialist Financing	FULL	100	100	100	100
		SG FINANCIAL SERVICES LIMITED	Financial Company	FULL	100	100	100	100
		SG HAMBROS (LONDON) NOMINEES LIMITED	Financial Company	FULL	100	100	100	100
		SG HAMBROS TRUST COMPANY LTD	Financial Company	FULL	100	100	100	100
		SG HEALTHCARE BENEFITS TRUSTEE COMPANY LIMITED	Financial Company	FULL	100	100	100	100
		SG INVESTMENT LIMITED	Financial Company	FULL	100	100	100	100
		SG KLEINWORT HAMBROS BANK LIMITED	Bank	FULL	100	100	100	100
		SG KLEINWORT HAMBROS LIMITED	Bank	FULL	100	100	100	100
		SG KLEINWORT HAMBROS TRUST COMPANY (UK) LIMITED	Bank	FULL	100	100	100	100
		SG LEASING (ASSETS) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (CENTRAL 1) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (CENTRAL 3) LIMITED	Specialist Financing	FULL	100	100	100	100
	(8	SG LEASING (DECEMBER) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (GEMS) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (JUNE) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (MARCH) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (USD) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING (UTILITIES) LIMITED	Specialist Financing	FULL	100	100	100	100
		SG LEASING IX	Specialist Financing	FULL	100	100	100	100
	(2)	SG LEASING XII	Specialist Financing	FULL	0	100	0	100
	(1)	SG LONDRES	Bank	FULL	100	100	100	100
		SGFLD LIMITED	Financial Company	FULL	100	100	100	100
		SOCGEN NOMINEES (UK) LIMITED	Financial Company	FULL	100	100	100	100
		SOCIETE GENERALE EQUIPMENT FINANCE LIMITED	Specialist Financing	FULL	100	100	100	100
		SOCIETE GENERALE INTERNATIONAL LIMITED	Broker	FULL	100	100	100	100
		SOCIETE GENERALE INVESTMENTS (U.K.) LIMITED	Financial Company	FULL	100	100	100	100
	-2	SOCIETE GENERALE SECURITIES SERVICES UK LIMITED	Broker	FULL	0	100	0	100
		STRABUL NOMINEES LIMITED	Financial Company	FULL	100	100	100	100
	(8)	TALOS HOLDING LTD	Financial Company	FULL	100	100	100	100
	(8)	TALOS SECURITIES LTD	Broker	FULL	100	100	100	100
		TH INVESTMENTS (HONG KONG) 2 LIMITED	Financial Company	FULL	100	100	100	100
	(2)	THE EIFFEL LIMITED PARTNERSHIP	Specialist Financing	FULL	0	100	0	100
	(2)	THE FENCHURCH PARTNERSHIP (EFFECTIVE 11.08.2003)	Financial Company	FULL	0	100	0	100
	(1)	TYNEVOR B.V. (UK BRANCH)	Financial Company	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
Russian Federation								
		ALD AUTOMOTIVE OOO	Specialist Financing	FULL	79.82	79.82	100	100
		CLOSED JOINT STOCK COMPANY SG FINANCE	Specialist Financing	FULL	99.95	99.95	100	100
		COMMERCIAL BANK DELTACREDIT JOINT STOCK COMPANY	Bank	FULL	99.95	99.95	100	100
		CREDIT INSTITUTION OBYEDINYONNAYA RASCHOTNAYA SISTEMA	Financial Company	FULL	99.95	99.95	100	100
		JSC TELSICOM	Services	FULL	99.95	99.95	100	100
		LLC RUSFINANCE	Bank	FULL	99.95	99.95	100	100
		LLC RUSFINANCE BANK	Bank	FULL	99.95	99.95	100	100
		PJSC ROSBANK	Bank	FULL	99.95	99.95	99.95	99.95
		RB FACTORING LLC	Specialist Financing	FULL	99.95	99.95	100	100
		RB LEASING LLC	Specialist Financing	FULL	99.95	99.95	100	100
		RB SERVICE LLC	Group Real Estate Management Company	FULL	99.95	99.95	100	100
		RB SPECIALIZED DEPOSITARY LLC	Financial Company	FULL	99.95	99.95	100	100
		SG STRAKHOVANIE LLC	Insurance	FULL	99.99	99.99	100	100
		SOCIETE GENERALE STRAKHOVANIE ZHIZNI LLC	Insurance	FULL	99.99	99.99	100	100
	(2)	SOSNOVKA LLC	Group Real Estate Management Company	FULL	0	99.95	0	100
Senegal								
		SOCIETE GENERALE DE BANQUES AU SENEGAL	Bank	FULL	64.45	64.45	64.87	64.87
Serbia								
		ALD AUTOMOTIVE D.O.O BEOGRAD	Specialist Financing	FULL	79.82	79.82	100	100
		SOCIETE GENERALE BANKA SRBIJA A.D. BEOGRAD	Bank	FULL	100	100	100	100
		SOGELEASE SRBIJA D.O.O.	Specialist Financing	FULL	100	100	100	100
Singapore								
		SG MARKETS (SEA) PTE. LTD.	Broker	FULL	100	100	100	100
		SG SECURITIES (SINGAPORE) PTE. LTD.	Broker	FULL	100	100	100	100
	(1)	SG SINGAPOUR	Bank	FULL	100	100	100	100
		SG TRUST (ASIA) LTD	Financial Company	FULL	100	100	100	100
Slovakia								
		ALD AUTOMOTIVE SLOVAKIA S.R.O.	Specialist Financing	FULL	79.82	79.82	100	100
		ESSOX FINANCE S.R.O	Specialist Financing	FULL	80	80	100	100
	(1)	KOMERCNI BANKA BRATISLAVA	Bank	FULL	60.73	60.73	100	100
		PEMA SLOVAKIA SPOL.S.R.O.	Specialist Financing	FULL	100	100	100	100
	(1)	SG EQUIPMENT FINANCE CZECH REPUBLIC S.R.O. ORGANIZACNA ZLOZKA (SLOVAK RUPUBLIC BRANCH)	Specialist Financing	FULL	80.33	80.33	100	100
Slovenia								
		ALD AUTOMOTIVE OPERATIONAL LEASING DOO	Specialist Financing	FULL	79.82	79.82	100	100
		SKB LEASING D.O.O.	Specialist Financing	FULL	99.73	99.73	100	100
		SKB BANKA D.D. LJUBLJANA	Bank	FULL	99.73	99.73	99.73	99.73
		SKB LEASING SELECT D.O.O.	Specialist Financing	FULL	99.73	99.73	100	100
Sweden								
		ALD AUTOMOTIVE AB	Specialist Financing	FULL	79.82	79.82	100	100
		NF FLEET AB	Specialist Financing	FULL	63.85	63.85	80	80
		PEMA TRUCK- OCH TRAILERUTHYRNING AB	Specialist Financing	FULL	100	100	100	100
	(1)	SG FINANS AS SWEDISH BRANCH	Specialist Financing	FULL	100	100	100	100
	(1)	SOCIETE GENERALE SA BANKFILIAL SVERIGE	Bank	FULL	100	100	100	100

Country			Activity	Method*	Group ownership interest At 31.12.2018	Group ownership interest At 31.12.2017	Group voting interest At 31.12.2018	Group voting interest At 31.12.2017
Switzerland								
		ALD AUTOMOTIVE AG	Specialist Financing	FULL	79.82	79.82	100	100
		PEMA TRUCK- UND TRAILERVERMIETUNG GMBH	Specialist Financing	FULL	100	100	100	100
	(8)	ROSBANK (SWITZERLAND)	Bank	FULL	99.95	99.95	100	100
		SG EQUIPMENT FINANCE SCHWEIZ AG	Specialist Financing	FULL	100	100	100	100
	(1)	SG ZURICH	Bank	FULL	100	100	100	100
		SOCIETE GENERALE PRIVATE BANKING (SUISSE) S.A.	Bank	FULL	100	100	100	100
Taiwan								
	(1)	SG SECURITIES (HONG KONG) LIMITED TAIPEI BRANCH	Broker	FULL	100	100	100	100
	(1)	SG TAIPEI	Bank	FULL	100	100	100	100
Chad								
		SOCIETE GENERALE TCHAD	Bank	FULL	56.86	56.86	67.83	67.83
Thailand								
		SOCIETE GENERALE SECURITIES (THAILAND) LTD.	Broker	FULL	100	100	100	100
Togo								
	(1)	SOCIETE GENERALE TOGO	Bank	FULL	89.64	89.64	100	100
Tunisia								
		UNION INTERNATIONALE DE BANQUES	Bank	FULL	55.1	55.1	52.34	52.34
Turkey								
		ALD AUTOMOTIVE TURIZM TICARET ANONIM SIRKETI	Specialist Financing	FULL	79.82	79.82	100	100
	(1)	SG ISTANBUL	Bank	FULL	100	100	100	100
Ukraine								
		ALD AUTOMOTIVE UKRAINE LIMITED LIABILITY COMPANY	Specialist Financing	FULL	79.82	79.82	100	100

* *FULL: Full consolidation - JO: Joint Operation - EJV: Equity (Joint Venture) - ESI: Equity (significant influence) – EFS: Equity For Simplification (Entities controlled by the Group that are consolidated using the equity method for simplification due to their limited materiality).*

(1) *Branches.*

(2) *Entities wound up in 2018.*

(3) *Removal from the scope in 2018.*

(4) *Entities sold in 2018.*

(5) *Merged in 2018.*

(6) *Newly consolidated in 2018.*

(7) *Including 48 funds.*

(8) *Wind up in process.*

Additional information related to the consolidation scope and equity investments as required by the regulation 2016-09 of the “Autorité des Normes Comptables” (ANC, the French Accounting standard setter), dated 2 December 2016 is available on the Societe Generale Group website at:

https://www.societegenerale.com/en/investors/

NOTE 8.7 FEES PAID TO STATUTORY AUDITORS

The consolidated financial statements of Societe Generale Group are certified jointly by Ernst & Young et Autres represented by Mr. Micha Missakian, on the one hand; and Deloitte et Associés represented by Mr. Jean-Marc Mickeler, on the other hand.

On the proposal of the Board of Directors and following the recommendation of the Audit and Internal Control Committee of Societe Generale (CACI), the Annual General Meeting held on 23 May 2018 renewed the mandates of Ernst & Young et Autres and Deloitte et Associés for six years.

Further to the publication of the European regulation on the audit reform, a new approval policy of the non-audit services of statutory auditors ("SACC") and their network was set up by the CACI to verify its compliance in relation to the new regulation before to the launch of the mission.

A synthesis of the SACC (approved or refused) is presented to every session of the CACI.

In addition, a report on the fees according to type of mission (audit or non-audit) is submitted each year to the CACI.

Lastly, the Finance Departments of the entities and business units annually appraise the quality of the audits performed by Deloitte et Associés and Ernst & Young et Autres. The conclusions of this survey are presented to the CACI.

AMOUNTS OF STATUTORY AUDITORS' FEES PRESENTED IN THE INCOME STATEMENT

		Ernst & Young et Autres		Deloitte et Associés		TOTAL	
(In millions of euros excl. VAT)		2018[1]	2017	2018[2]	2017	2018	2017
Statutory audit. certification. examination of parent company and consolidated accounts	Issuer	4	7	7	9	11	16
	Fully consolidated subsidiaries	16	17	12	14	28	31
SUB-TOTAL AUDIT		**20**	**24**	**19**	**23**	**39**	**47**
Non-audit services (SACC)	Issuer	2	1	1	1	3	2
	Fully consolidated subsidiaries	1	1	2	1	3	2
TOTAL		**23**	**26**	**22**	**25**	**45**	**51**

(1) Including Ernst and Young network: EUR 14 million
(2) Including Deloitte network: EUR 11 million

The non-audit services provided by statutory auditors this year mainly consisted of missions of compliance review with regard to the regulatory requirements, missions of internal control within the framework of respect of ISAE standards (International Standard on Assurance Engagement), agreed upon procedures or complementary audits within the scope of issuing of certificates or RSE report (RSE: environmental and social responsibility) and then audit assignments within the framework of project of acquisitions. They include also non-audit services expressly and exclusively entrusted to the statutory auditors for EUR 1.5 million.

NOTE 8.8 Accounting principles applied up to 31 december 2017 to financial instruments

ACCOUNTING PRINCIPLES

The accounting principles presented hereafter are those applied to financial instruments up to 31 December 2017 in accordance with IAS 39 provisions.

Classification of financial instruments

When initially recognised, financial instruments are presented in the balance sheet under categories that determine their accounting treatment and their subsequent valuation method. This classification depends on the type of financial instrument and the purpose of the transaction.

Financial assets are classified into one of the following four categories:

- *Financial assets at fair value through profit or loss*: these are financial assets held for trading purposes which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;
- *Loans and receivables*: these include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes, not held for sale from the time they are originated or acquired and not designated upon initial recognition to be carried at fair value through profit or loss (in accordance with the fair value option). They are measured at amortised cost and impairment determined on an individual or a collective basis may be recorded if appropriate;
- *Held-to-maturity financial assets*: these are non-derivative financial assets with fixed or determinable payments and a fixed maturity that are quoted in an active market and which the Group has the intention and ability to hold to maturity. They are measured at their amortised cost and may be subject to impairment as appropriate. Amortised cost includes premiums and discounts as well as transaction costs;
- *Available-for-sale financial assets*: these are non-derivative financial assets held for an indeterminate period which the Group may sell at any time. By default, they are any assets that do not fall into one of the above three categories. These instruments are measured at fair value against *Unrealised or deferred gains and losses*. Interest accrued or paid on debt securities is recognised in the income statement using the effective interest rate method while dividend income earned on equity securities is recorded in the income statement under *Net gains and losses on available-for-sale financial assets*.

Financial liabilities are classified into one of the following two categories:

- *Financial liabilities at fair value through profit or loss*: these are financial liabilities held for trading purposes which by default include derivative financial liabilities not qualifying as hedging instruments and non-derivative financial liabilities designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;
- *Debts*: these include the other non-derivative financial liabilities and are measured at amortised cost.

Derivative financial assets and liabilities qualifying as hedging instruments are carried on separate lines of the balance sheet (see Note 3.2).

Reclassification of financial assets

After their initial recognition, financial assets may not be later reclassified as *Financial assets at fair value through profit or loss*.

A non-derivative financial asset initially recognised as an asset held for trading purposes under *Financial assets at fair value through profit or loss* may be reclassified out of this category when it meets the following conditions:

- if a financial asset with fixed or determinable payments initially held for trading purposes can no longer, after acquisition, be quoted in an active market and the Group has the intention and ability to hold it for the foreseeable future or until maturity then this financial asset may be reclassified as *Loans and receivables,* provided that the eligibility criteria for this category are met at the date of transfer;
- if rare circumstances generate a change in the holding purpose of non-derivative financial assets initially held for trading, then these assets may be reclassified as *Available-for-sale financial assets* or as *Held-to-maturity financial assets* provided that the eligibility criteria for the category in question are met at the date of transfer.

In any case financial derivatives and financial assets measured using the fair value option may not be reclassified out of *Financial assets at fair value through profit or loss*. A financial asset initially recognised under *Available-for-sale financial assets* may be reclassified to *Held-to-maturity financial assets* provided that the eligibility criteria for this category are met. Furthermore, if a financial asset with fixed or determinable payments initially recognised under *Available-for-sale financial assets* can subsequently no longer be quoted in an active market and if the Group has the intention and ability to hold it for the foreseeable future or until maturity then this financial asset may be reclassified to *Loans and receivables* provided that the eligibility criteria for this category are met at the date of transfer.

These reclassified financial assets are transferred to their new category at their fair value at the date of reclassification and are subsequently measured according to the rules that apply to the new category. The amortised cost of financial assets reclassified out of *Financial assets at fair value through profit or loss* or *Available-for-sale financial assets* to *Loans and receivables* and the amortised cost of financial assets reclassified out of *Financial assets at fair value through profit or loss* to *Available-for-sale financial assets* are determined on the basis of estimated future cash flows measured at the date of reclassification. The estimated future cash flows must be reviewed at each closing date. In the event of an increase in estimated future cash flows resulting from an increase in their recoverabilit the effective interest rate is adjusted prospectively. However, if there is objective evidence that the financial asset has been impaired as a result of an event occurring after reclassification and the loss event in question has a negative impact on the estimated future cash flows of the financial asset, the impairment of this financial asset is recognised under *Cost of risk* in the income statement.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation methods used by the Group to establish the fair value of financial instruments are detailed in Note 3.4.

Initial recognition

Purchases and sales of financial assets recorded under *Financial assets at fair value through profit or loss*. *Held-to-maturity financial assets* and *Available-for-sale financial assets* are recognised in the balance sheet at the delivery-settlement date. Changes in fair value between the trade and settlement dates are recorded in the income statement or booked to shareholders' equity depending on the accounting category of the relevant financial assets. *Loans and receivables* are recorded in the balance sheet on the date they are paid or at the maturity date for invoiced services.

When initially recognised financial assets and liabilities are measured at fair value including transaction costs directly attributable to their acquisition or their issuance except for financial instruments recognised at fair value through profit or loss for which these costs are booked directly to the income statement.

If the initial fair value is based on observable market data, any difference between the fair value and the transaction price. i.e. the sales margin is immediately recognised in the income statement. However, if valuation inputs are not observable or if the valuation models are not recognised by the market the initial fair value of the financial instrument is deemed to be the transaction price and the sales margin is then generally recognised in the income statement over the life of the instrument. For some instruments, due to their complexity, this margin is recognised at their maturity or in the event of early sale. When valuation inputs become observable. any portion of the sales margin that has not yet been recorded is recognised in the income statement at that time (see Note 3.4.7).

Derecognition of financial assets and liabilities

The Group derecognises all or part of a financial asset (or group of similar assets) 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 ownership of the asset.

The Group also derecognises financial assets over which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party ("pass-through agreement") and for which it has transferred substantially all the risks and rewards.

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 and for the value of any servicing asset or servicing liability. Indemnities billed to borrowers following the prepayment of their loan are recorded in the income statement on the prepayment date among *Interest and similar income*.

The Group only derecognises all or part of a financial liability when it is extinguished. i.e. when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability may also be derecognised in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

Derivative financial instruments

First time application of IFRS 9 did not change the accounting principles applicable to derivative financial instruments. Those principles are presented in Note 3.2.

Financial assets and liabilities at fair value through profit or loss

These are financial assets held for trading purposes which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option.

The trading portfolio contains financial assets and liabilities which upon initial recognition are:

- acquired or incurred with the intention of selling or repurchasing them in the short term; or

- held for market making purposes; or
- acquired or incurred for the purposes of the specialised management of a trading portfolio including derivative financial instruments. securities or other financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

This portfolio also includes among *Other trading assets* physical commodities that are held by the Group as part of its market-maker activity on commodity derivative instruments.

The financial instruments recorded in the trading portfolio are measured at fair value at the balance sheet date and recognised in the balance sheet under *Financial assets or liabilities at fair value through profit or loss*. Changes in their fair value are recorded in the income statement as *Net gains and losses on financial instruments at fair value through profit or loss.*

In addition to financial assets and liabilities held for trading purposes the item *Financial assets and liabilities at fair value through profit or loss* also include non-derivative financial assets and liabilities designated by the Group upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option. Changes in the fair value of these items are recognised through profit or loss under *Net gains and losses on financial instruments at fair value through profit or loss*.

This option is only applied in the following cases:

- when it eliminates or significantly reduces discrepancies in the accounting treatment of certain financial assets and liabilities;
- when it applies to a hybrid instrument containing one or more embedded derivatives that would otherwise be subject to a separate recognition;
- when a group of financial assets and/or liabilities is managed and its performance is measured on a fair value basis.

The Group thus recognises some structured bonds issued by Societe Generale Corporate and Investment Banking at fair value through profit or loss. These issues are purely commercial and the associated risks are hedged on the market using financial instruments managed in trading portfolios. By using the fair value option the Group can ensure consistency between the accounting treatment of these bonds and that of the derivatives hedging the associated market risks which have to be carried at fair value.

The Group also recognises the financial assets held to guarantee the unit-linked policies of its life insurance subsidiaries at fair value through profit or loss to ensure that their accounting treatment matches that of the corresponding insurance liabilities. Under IFRS 4, insurance liabilities must be recognised according to local accounting principles. Revaluations of underwriting reserves on unit-linked policies. which are directly linked to revaluations of the financial assets underlying their policies are therefore recognised in the income statement. The fair value option thus allows the Group to record changes in the fair value of the financial assets through profit or loss so that they match fluctuations in value of the insurance liabilities associated with these unit-linked policies.

Furthermore, in order to simplify their accounting treatment by avoiding the separate recognition of embedded derivatives, the Group applies the fair value option to convertible bonds that are not held for trading purposes.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets held for an indeterminate period which the Group may sell at any time. By default, they are any financial assets that are not classified under *Loans and receivables, Financial assets at fair value through profit or loss* or *Held-to-maturity financial assets*.

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*. Dividend income earned on these securities is recorded in the income statement under *Net gains and losses on available-for-sale financial assets*.

At the balance sheet date, available-for-sale financial assets are measured at fair value and any changes in fair value excluding income are booked to *Unrealised or deferred capital gains and losses*. except for foreign exchange losses or gains on foreign-currency monetary assets which are taken to the income statement.

If these financial assets are sold, the unrealised gains and losses booked to equity are reclassified as *Net gains and losses on available-for-sale financial assets*.

If, at the balance sheet date, there is objective evidence of impairment of an available-for-sale financial asset arising from one or more events subsequent to its initial recognition, the unrealised loss previously accumulated in equity is reclassified under *Cost of risk* for debt instruments and under *Net gains and losses on available-for-sale financial assets* for equity instruments. The impairment rules applied by the Group are described hereafter.

Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes, not held for sale from the time they are originated or acquired and not designated by the Group upon initial recognition to be measured at fair value through profit or loss in accordance with the fair value option.

Loans and receivables are recognised in the balance sheet under *Due from banks* or *Customer loans* depending on the type of counterparty. After their initial recognition. they are measured at amortised cost using the effective interest rate method and impairment determined on an individual or a collective basis may be recorded if appropriate (see of the impairment rules hereafter).

Loans and receivables may be subject to commercial renegotiations provided that the borrowing customer is not experiencing financial difficulties and is not insolvent. Such transactions involve customers whose debt the Group is willing to renegotiate in the interest of maintaining or developing a commercial relationship in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest. Renegotiated loans and receivables are derecognised at the renegotiation date and replaced with the new loans taken out under renegotiated conditions which are recorded on the balance sheet at the same date. These new loans are subsequently measured at amortised cost based on the effective interest rate arising from the new contractual conditions and taking into account the renegotiation fees billed to the customer.

Customer loans include lease receivables where they are classified as finance leases. Leases granted by the Group are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Otherwise, they are classified as operating leases (see Notes 4.2 and 8.4).

These finance lease receivables represent the Group's net investment in the lease calculated as the present value of the minimum payments to be received from the lessee discounted at the interest rate implicit in the lease plus any unguaranteed residual value. In the event of a subsequent reduction in the estimated unguaranteed residual value used to calculate the lessor's investment in the finance lease, the present value of this reduction is recognised as a loss under *Expenses from other activities* in the income statement and as a reduction of finance lease receivables on the asset side of the balance sheet.

Debts

The first-time application of IFRS 9 did not change the accounting principles applicable to financial liabilities at amortised cost. Those principles are presented in Note 3.6.

Recognition of interest income and expense

Interest income and expense are recognised in the income statement under *Interest and similar income* and *Interest and similar expense* for all financial instruments measured at amortised cost using the effective interest rate method (loans and receivables, debts, held-to-maturity financial assets) and for debt securities classified as *Available-for-sale financial assets*.

The effective interest rate is taken to be the rate used to net discount future cash inflows and outflows over the expected life of the instrument in order to establish the net book value of the financial asset or liability. The calculation of this rate considers the future cash flows estimated on the basis of the contractual provisions of the financial instrument without taking account of possible future credit losses and also includes commissions paid or received between the parties where these may be assimilated to interest directly linked transaction costs and all types of premiums and discounts.

When a financial asset or group of similar financial assets has been impaired following an impairment of value, subsequent interest income is recorded on the basis of the effective interest rate used to discount the future cash flows when measuring the loss of value.

Moreover, except for those related to employee benefits, provisions recognised as balance sheet liabilities generate interest expenses that are calculated using the same interest rate as that used to discount the expected outflow of resources.

Impairment of financial assets measured at amortised cost

At each balance sheet date, the Group assesses whether there is objective evidence that any financial asset or group of financial assets has been impaired as a result of one or more events occurring since they were initially recognised (a "loss event") and whether that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Notwithstanding the existence of a guarantee, the criteria used to assess objective evidence of credit risk include the following conditions:

- a significant decline in the counterparty's financial situation leads to a high probability of said counterparty being unable to fulfill its overall commitments (credit obligations); hence a risk of loss to the bank;
- concessions are granted to the clauses of the loan agreement in light of the borrower's financial difficulties that would not have been granted in other circumstances;
- one or more over 90-day past-due payments are recorded (with the exception of restructured loans on probation which are considered in default at the first missed payment) and/or a collection procedure is initiated;
- or, regardless of whether or not any past-due payments are recorded, there is objective evidence of impairment or legal proceedings have been initiated (bankruptcy, legal settlement, compulsory liquidation).

The Group applies the impairment contagion principle to all of the defaulting counterparty's outstanding loans. When a debtor belongs to a group all of the group's outstanding loans are generally impaired as well.

If there is objective evidence that loans or other receivables or financial assets classified as *Held-to-maturity financial assets* are impaired, an impairment is recognised for the difference between the carrying amount and the present value of estimated future recoverable cash flows taking into account any guarantees. This discount is calculated using the financial assets' original effective interest rate. The impairment is deducted from the carrying value of the impaired financial asset. Allocations to and reversals of impairments are recorded in the income statement under *Cost of risk*. The impaired loans or receivables are remunerated for accounting purposes by the reversal over time of the discounting to present value which is recorded under *Interest and similar income* in the income statement.

Where there is no objective evidence that an impairment loss has been incurred on a financial asset considered individually, be it significant or not, the Group includes that financial asset in a group of financial assets having similar characteristics in terms of credit risk and tests the whole group for impairment. In a homogenous portfolio as soon as a credit risk is incurred on a group of financial instruments, impairment is recognised without waiting for the risk to individually affect one or more receivables.

Homogeneous portfolios thus impaired can include:

- receivables on counterparties which have encountered financial difficulties since these receivables were initially recognised without any objective evidence of impairment having yet been identified at the individual level (sensitive receivables); or
- receivables on counterparties linked to economic sectors considered as being in crisis further to the occurrence of loss events; or
- receivables on geographical sectors or countries in which a deterioration of credit risk has been assessed.

The amount of impairment on a group of homogeneous assets is calculated on the basis of assumptions on default rates and loss given default or, if necessary, on the basis of *ad hoc* studies. These assumptions are calibrated for each homogeneous group based on its specific characteristics, sensitivity to the economic environment and historical data. They are reviewed periodically by the Risk Division and then adjusted to reflect any relevant current economic conditions. Allocations to and reversals of such impairment are recorded under *Cost of risk*.

Restructuring of loans and receivables

When an asset recorded under *Loans and receivables* is restructured, contractual changes are made to the amount, term or financial conditions of the initial transaction approved by the Group due to the financial difficulties or insolvency of the borrower (whether insolvency has already occurred or will definitely occur unless the debt is restructured) and these changes would not have been considered in other circumstances.

Restructured financial assets are classified as impaired and the borrowers are considered to be in default. These classifications are maintained for at least one year and for as long as any uncertainty remains for the Group as to whether or not the borrowers can meet their commitments.

At the restructuring date, the carrying amout of the restructured financial asset is decreased to the present amount of the estimated new future recoverable cash flows discounted using the initiale effective interest rate. This loss is booked to profit or loss under *Cost of risk*.

Restructured financial assets do not include loans and receivables subject to commercial renegotiations and involving customers whose debt the Group has agreed to renegotiate in the interest of maintaining or developing a commercial relationship in accordance with the credit approval procedures in force and without relinquishing any principal or accrued interest.

Impairment of Available-for-sale financial assets

An available-for-sale financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of this asset.

For listed equity instruments, a significant or prolonged decline in their price below their acquisition cost constitutes objective evidence of impairment. For this purpose, the Group considers as impaired listed shares showing an unrealised loss greater than 50% of their acquisition price on the balance sheet date as well as listed shares for which the quoted prices have been below their acquisition price on every trading day for at least the last 24 months before the balance sheet date. Further factors, such as the financial situation of the issuer or its development outlook can lead the Group to consider that the cost of its investment may not be recovered even if the above-mentioned criteria are not met. An impairment loss is then recorded through profit or loss equal to the difference between the last quoted price of the security on the balance sheet date and its acquisition price.

For unlisted equity instruments, the criteria used to assess the evidence of impairment are identical to those mentioned above. The value of these instruments at the balance sheet date is determined using the valuation methods described in Note 3.4.

The criteria for the impairment of debt instruments are similar to those for the impairment of financial assets measured at amortised cost.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in shareholders' equity under *Unrealised or deferred gains and losses* and subsequent objective evidence of impairment emerges, the Group recognises the total accumulated unrealised loss previously recorded in 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 the acquisition cost (net of any repayments of principal and amortisation) and the present fair value less any impairment of the financial asset that has already been recorded through profit or loss.

Impairment losses recognised through profit or loss on an equity instrument classified as available-for-sale are only reversed through profit or loss when the instrument is sold. Once an equity instrument has been recognised as impaired, any further loss of value is recorded as an additional impairment loss. For debt instruments, however, an impairment loss is reversed through profit or loss if they subsequently recover in value following an improvement in the issuer's credit risk.

Provision on loan and guarantee commitments

Provisions for credit risk on loan and guarantee commitments granted by the Group to a third-party may be recorded:

- where, by virtue of a commitment to a third-party, the Group will probably or certainly incur an outflow of resources to this third-party without receiving at least the equivalent value in exchange;
- and when the amount of probable outflow of resources can be reliably estimated.

The expected outflows are then discounted to present value to determine the amount of the provision where this discounting has a significant impact. Probable losses incurred by the Group in identifying objective evidence of credit risk related to off-balance sheet loan and guarantee commitments are recorded in the income statement under *Cost of risk* against a provision booked to liabilities.

NOTE 9 INFORMATION ON RISKS AND LITIGATION

Every quarter, the Group reviews in detail the disputes presenting a significant risk. These disputes may lead to the recording of a provision if it becomes probable or certain that the Group will incur an outflow of resources for the benefit of a third party without receiving at least the equivalent value in exchange. These provisions for litigations are classified among the "Others provisions" included in the "Provisions" item in the liabilities of the balance-sheet.

No detailed information can be disclosed on either the recording or the amount of a specific provision given that such disclosure would likely seriously prejudice the outcome of the disputes in question.

- Beginning in 2006, Societe Generale, along with numerous other banks, financial institutions, and brokers, received requests for information from the US Internal Revenue Service, the Securities and Exchange Commission ("SEC") and the Antitrust Division of the U.S. Department of Justice ("DOJ"), focused on alleged noncompliance with various laws and regulations relating to 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 has cooperated with the US authorities. In light of the dormancy of these matters over several years, Societe Generale has determined that they no longer present a material loss contingency risk.
- On 24 October 2012, the Court of Appeal of Paris confirmed the first judgment delivered on 5 October 2010, finding J. Kerviel guilty of breach of trust, fraudulent insertion of data into a computer system, forgery and use of forged documents. J. 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 damages to the bank. On 19 March 2014, the Supreme Court confirmed the criminal liability of J. Kerviel. This decision puts an end to the criminal proceedings. On the civil front, the Versailles Court of Appeal rejected on 23 September 2016 J. Kerviel's request for an expert determination of the damage suffered by Societe Generale, and therefore confirmed that the net accounting losses suffered by the Bank as a result of his criminal conduct amount to EUR 4.9 billion. It also declared J. Kerviel partially responsible for the damage caused to Societe Generale and sentenced him to pay to Societe Generale EUR 1 million. Societe Generale and J. Kerviel did not appeal before the Supreme Court. Societe Generale considers that this decision has no impact on its tax situation. However, as indicated by the Minister of the Economy and Finance in September 2016, the tax authorities have examined the tax consequences of this book loss and indicated that they intended to call into question the deductibility of the loss caused by the actions of J. Kerviel, amounting to EUR 4.9 billion. This proposed tax rectification has no immediate effect and will possibly have to be confirmed by an adjustment notice sent by the tax authorities when Societe Generale is in a position to deduct the tax loss carryforwards arising from the loss from its taxable income. Such a situation will not occur for several years according to the bank's forecasts. In view of the 2011 opinion of the French Supreme Administrative Court (Conseil d'état) and its established case law which was recently confirmed again in this regard, Societe Generale considers that there is no need to provision the corresponding deferred tax assets. In the event that the authorities decide, in due course, to confirm their current position, Societe Generale group will not fail to assert its rights before the competent courts. By a decision handed down on the 20 September 2018, the Investigation Committee of the reviewing and reassessment Criminal Court has furthermore declared inadmissible the request filed in May 2015 by J. Kerviel against his criminal sentence, confirming the absence of any new element or fact that could justify the reopening of the criminal file.
- Between 2003 and 2008, Societe Generale 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 stocks held by Goldas. These suspicions were rapidly confirmed following the failure by Goldas to pay or refund gold worth EUR 466.4 million. Societe Generale brought civil proceedings against its insurers and various Goldas Group entities. Goldas launched various proceedings in Turkey and in the UK against Societe Generale. In the action brought by Societe Generale against Goldas in the UK, Goldas applied to have the action of SG struck-out and applied to the UK court for damages. On 3 April 2017, the UK court granted both applications and will, after an inquiry into damages, rule on the amount due to Goldas, if any. On 15 May 2018, the Court of Appeal discharged entirely the inquiry into damages granted by the High Court to Goldas but rejected Societe Generale's arguments relating to service of the claims issued against Goldas, which are therefore time barred. On 18 December 2018, the Supreme Court refused permission to appeal to both Société Générale and Goldas. On 16 February 2017, the Paris Commercial Court dismissed Societe Generale's claims against its insurers. Societe Generale filed an appeal against this decision.

- Societe Generale Algeria ("SGA") and several of its branch managers are being prosecuted for breach of Algerian laws on exchange rates and capital transfers with other countries and on money laundering and the financing of terrorism. The defendants are accused of having failed to make complete or accurate statements to the Algerian authorities on capital transfers in connection with exports or imports made by clients of SGA and on cash payment transactions made at SGA counters. The events were discovered during investigations by the Algerian authorities, which subsequently filed civil claims before the criminal court. Sentences were delivered by the court of appeal against SGA and its employees in some proceedings, while charges were dropped in other ones. To date, fourteen cases have ended in favour of SGA and eleven remain pending, nine of which before the Supreme Court.
- In the early 2000s, the French banking industry decided to transition to a new digital system in order to streamline cheque clearing. 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 ruled that the joint implementation and the setting of the amount of the CEIC and of two additional fees for related services were in breach of competition law. The authority fined all the participants to the agreement (including the Banque de France) a total of approximately EUR 385 million. Societe Generale was ordered to pay a fine of EUR 53.5 million and Crédit du Nord, its subsidiary, a fine of EUR 7 million. However, in its 23 February 2012 order, the French Court of Appeal, to which the matter was referred by all the banks involved except Banque de France, held that there was no competition law infringement, allowing the banks to recoup the fines paid. On 14 April 2015, the Supreme Court quashed and annulled the Court of Appeal decision on the grounds that the latter did not examine the arguments of two third parties who voluntarily intervened in the proceedings. The case was heard again on 3 and 4 November 2016 by the Paris Court of Appeal before which the case was remanded. On 21 December 2017, the Court of Appeal confirmed the fines imposed on Societe Generale and Crédit du Nord by the French competition authority. On 22 January 2018, Societe Generale and Crédit du Nord filed an appeal before the Supreme court against this decision.
- Societe Generale Private Banking (Suisse), 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. The 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. The 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 are responsible for those alleged losses. The 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. The Official Stanford Investors Committee ("OSIC") was permitted to intervene and filed a complaint against Societe Generale Private Banking (Suisse) and the other defendants seeking similar relief.

  The motion by Societe Generale Private Banking (Suisse) to dismiss these claims on grounds of lack of jurisdiction was denied by the court by order filed 5 June 2014. Societe Generale Private Banking (Suisse) sought reconsideration of the Court's jurisdictional ruling, which the Court ultimately denied. On 21 April 2015, the Court permitted the substantial majority of the claims brought by the plaintiffs and the OSIC to proceed.

  On 7 November 2017, the District Court denied the plaintiffs' motion for class certification. The plaintiffs sought leave to appeal this decision, which the court of appeal denied on 20 April 2018.

  On 22 December 2015, the OSIC filed a motion for partial summary judgment seeking return of a transfer of USD 95 million to Societe Generale Private Banking (Suisse) made in December 2008 (prior to the Stanford insolvency) on the grounds that it is voidable under Texas state law as a fraudulent transfer. Societe Generale Private Banking (Suisse) has opposed this motion.
- On 4 June 2018, Societe Generale announced that it had reached agreements with (i) the U.S. Department of Justice ("DOJ") and the U.S. Commodity Futures Trading Commission ("CFTC") in connection with investigations regarding submissions to the British Bankers Association for setting certain London Interbank Offered Rates and the Euro Interbank Offered Rate (the "IBOR matter"), and (ii) the DOJ and the French *Parquet National Financier* ("PNF") in connection with investigations regarding certain transactions involving Libyan counterparties, including the Libyan Investment Authority ("LIA") and the bank's third-party intermediary (the "Libyan matter").

  On 24 May 2018, Societe Generale entered into a "*Convention Judiciaire d'Intérêt Public*" ("CJIP") with the PNF, approved by the French court on 4 June 2018, to end its preliminary investigation in respect of the Libyan matter. On 5 June 2018, Societe Generale entered into a three-year deferred prosecution agreement ("DPA") with the DOJ in respect of the IBOR and Libyan matters. Societe Generale Acceptance N.V. ("SGA"), a subsidiary of Societe Generale dedicated to the issuance of investment products, entered a guilty plea in connection with the resolution of the Libyan matter. Also, on 4 June 2018, Societe Generale consented to an order from the CFTC in respect of the IBOR matter.

  As part of the settlements, Societe Generale paid penalties totalling approximately USD 1.3 billion to the DOJ, CFTC, and PNF. These penalties include (i) USD 275 million to the DOJ and USD 475 million to the CFTC in respect of the IBOR matter, and (ii) USD 292.8 million to the DOJ and EUR 250.15 million (USD 292.8 million) to the PNF in relation to the Libyan matter.

  In connection with the CJIP, which does not involve a recognition of criminal liability, Societe Generale agreed to have the French Anti-Corruption Agency (Agence Française Anticorruption) assess its anti-corruption programme for two years.

  In connection with the DPA, Societe Generale agreed to implement a compliance and ethics program designed to prevent and detect violations of the Foreign Corrupt Practices Act and other applicable anti-corruption laws, anti-fraud and commodities laws throughout the Bank's operations. These actions are in addition to extensive steps undertaken at Societe Generale's own initiative to strengthen its global compliance and control framework in order to meet the highest standards of compliance and ethics. No independent compliance monitor has been imposed in connection with the DPA. The charges against Societe Generale will be dismissed if the Bank abides by the terms of the agreement, to which the Bank is fully committed.

  Societe Generale received credit from the DOJ, CFTC and PNF for its cooperation with their investigations and the Bank has agreed to continue to cooperate with them pursuant to the settlement agreements.

In connection with the IBOR matter, the Bank continues to defend civil proceedings in the United States (as described below) and to respond to information requests received from other authorities, including the Attorneys General of various States of the United States and the New York Department of Financial Services ("NYDFS").

In the United States, Societe Generale, along with other financial institutions, has been named as a defendant in putative class actions involving the setting of US Dollar Libor, Japanese Yen Libor, and Euribor rates and trading in instruments indexed to those rates. Societe Generale has also been named in several individual (non-class) actions concerning the US Dollar Libor rate. All of these actions are pending in the US District Court in Manhattan (the "District Court").

As to US Dollar Libor, all claims against Societe Generale have been dismissed by the District Court or voluntarily dismissed by the plaintiffs, except in two putative class actions and one individual action that are effectively stayed, and in one individual action in which Societe Generale's motion to dismiss is pending. Certain individual plaintiffs whose claims were dismissed have filed motions for leave to amend their complaints, which Societe Generale has opposed. The class plaintiffs and a number of individual plaintiffs have appealed the dismissal of their antitrust claims to the United States Court of Appeals for the Second Circuit.

As to Japanese Yen Libor, the District Court dismissed the complaint brought by purchasers of Euroyen over-the-counter derivative products and the plaintiffs have appealed that ruling to the United States Court of Appeals for the Second Circuit. In the other action, brought by purchasers or sellers of Euroyen derivative contracts on the Chicago Mercantile Exchange, the District Court has allowed certain Commodity Exchange ("CEA") Act claims to proceed to discovery. The plaintiff's deadline to move for class certification in that action is now 21 August 2019.

As to Euribor, the District Court dismissed all claims against Societe Generale in the putative class action and denied the plaintiffs' motion to file a proposed amended complaint.

In Argentina, Societe Generale, along with other financial institutions, has been named as a defendant in litigation brought by a consumer association on behalf of Argentine consumers who held government bonds or other specified instruments that paid interest tied to US Dollar Libor. The allegations concern violations of Argentine consumer protection law in connection with alleged manipulation of the US Dollar Libor rate. Societe Generale has not yet been served with the complaint in this matter.

- On 10 December 2012, the French Supreme Administrative Court (Conseil d'État) rendered two decisions confirming that the "précompte tax" which used to be levied on corporations in France does not comply with EU law and defined a methodology for the reimbursement of the amounts levied by the tax authorities. However, such methodology considerably reduces the amount to be reimbursed. Societe Generale purchased in 2005 the "précompte tax" claims of two companies (Rhodia and Suez, now ENGIE) with a limited recourse on the selling companies. One of the above decisions of the French Supreme Administrative Court relates to Rhodia. Societe Generale has brought proceedings before the French administrative courts. The latest court decision rendered is a rejection, on 1 February 2016 by the French Administrative Supreme Court, of an appeal lodged by ENGIE and Societe Generale. Several French companies applied to the European Commission, who considered that the decisions handed down by the French Supreme Administrative Court on 10 December 2012, which was supposed to implement the decision rendered by the Court of Justice of the European Union C-310/09 on 15 September 2011, infringed a number of principles of European law. The European Commission subsequently brought infringement proceedings against the French Republic in November 2014, and since then confirmed its position by publishing a reasoned opinion on 29 April 2016 and by referring the matter to the Court of Justice of the European Union on 8 December 2016. The Court of Justice of European Union rendered its judgement on 4 October 2018 and sentenced France for failure by the the French Supreme Administrative Court to disregard the tax on EU sub-subsidiaries in order to secure the withholding tax paid in error as well as on the absence of any preliminary question. With regard to the practical implementation of the decision, Societe Generale will assert its rights before the competent courts and the French tax authority, from which it expects diligent treatment and in accordance with the law.
- On 19 November 2018, Societe Generale reached settlement agreements with the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"), the U.S. Attorney's Office of the Southern District of New York ("SDNY"), the New York County District Attorney's Office ("DANY"), the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (together , the "Federal Reserve"), and the NYDFS (collectively, the "U.S. Authorities"), resolving their investigations relating to certain U.S. dollar transactions processed by Societe Generale involving countries, persons, or entities that are the subject of U.S. economic sanctions and implicating New York State laws. The vast majority by value of the sanctions violations involved in the settlements related to Cuba, and stem from a single revolving credit facility extended in 2000. The remaining transactions involved other countries that are the target of U.S. economic sanctions, including Iran. Under the terms of these agreements, Société Generale agreed to pay penalties totaling approximately USD 1.3 billion (EUR 1.2 billion) to the U.S. Authorities, including EUR 53.9 million to OFAC, USD 717.2 million to SDNY, USD 162.8 million to DANY, USD 81.3 million to the Federal Reserve, and USD 325 million to NYDFS.

  The Bank signed deferred prosecution agreements with SDNY and DANY, which provide that, following a three-year probation period, the Bank will not be prosecuted if it abides by the terms of the agreements, to which Societe Generale is fully committed.

  The Bank will continue to cooperate with the U.S. Authorities in the future, pursuant to the agreements. The Bank has also committed to continue to enhance its compliance program to prevent and detect potential violations of U.S. economic sanctions laws and New York state laws. The Bank also agreed to enhance its oversight of its sanctions compliance program. The Bank has also agreed with the Federal Reserve to retain an independent consultant that will evaluate the Bank's progress on the implementation of enhancements to its sanctions compliance program.
- Also, on 19 November 2018, Societe Generale agreed to a Consent Order with NYDFS relating to components of the Bank's anti-money-laundering ("AML") compliance program in the New York Branch. The Consent Order requires the Bank paid a civil money penalty of USD 95 million (EUR 82 million) in light of deficiencies noted by NYDFS. The Consent Order requires the Bank to continue a series of enhancements to its New York branch's AML compliance program. After a period of 18 months, an independent consultant will conduct an assessment of the Branch's progress on the implementation of its AML compliance program.

- Societe Generale, along with other financial institutions, has been named as a defendant in a putative class action alleging violations of US antitrust laws and the CEA in connection with its involvement in the London Gold Market Fixing. The action is brought on behalf of persons or entities that sold physical gold, sold gold futures contracts traded on the CME, sold shares in gold ETFs, sold gold call options traded on CME, bought gold put options traded on CME, sold over-the-counter gold spot or forward contracts or gold call options, or bought over-the-counter gold put options. The action is pending in the US District Court in Manhattan. Motions to dismiss the action were denied by an order dated 4 October 2016, and discovery is now proceeding. Societe Generale and certain subsidiaries, along with other financial institutions, have also been named as defendants in two putative class actions in Canada (in the Ontario Superior Court in Toronto and Quebec Superior Court in Quebec City) involving similar claims.
- On 30 January 2015, the CFTC served Societe Generale with a subpoena requesting the production of information and documents concerning trading in precious metals done since 1 January 2009. Societe Generale cooperated with the authorities and produced documents in 2015. There has been no contact with the CFTC since that time.
- SG Americas Securities, LLC ("SGAS"), along with other financial institutions, was named as a defendant in several putative class actions alleging violations of US antitrust laws and the CEA in connection with its activities as a US Primary Dealer, buying and selling US Treasury securities. The cases were consolidated in the US District Court in Manhattan, and lead plaintiffs' counsel appointed. An amended consolidated complaint was filed on 15 November 2017, and SGAS was not named as a defendant. By order dated 15 February 2018, SGAS was dropped as a defendant in an individual "opt out" action alleging similar causes of action. There are no actions pending against SGAS in this matter.
- Societe Generale, along with several other financial institutions, was named as a defendant in a putative class action alleging violations of US antitrust laws and the CEA in connection with foreign exchange spot and derivatives trading. The action was brought by persons or entities that transacted in certain over-the-counter and exchange-traded foreign exchange instruments. Societe Generale has reached a settlement of USD 18 million, which was preliminarily approved by the Court. A final approval hearing was held on 23 May 2018, and a decision is pending. A separate putative class action behalf of putative classes of indirect purchasers is also pending. An amended complaint was filed on 21 November 2018, and a motion to dismiss was filed on 20 December 2018. On 7 November 2018, a group of individual entities that elected to opt out of the main class action settlement filed a lawsuit against SG, SG Americas Securities, LLC, and several other financial institutions.
- Since August 2015, various former and current employees of the Societe Generale group have been under investigation by German criminal prosecution and tax authorities for their alleged participation in the so called "CumEx" patterns in connection with withholding tax on dividends on German shares. These investigations relate to the administration of a fund, proprietary trading activities and transactions carried out on behalf of clients. The Group entities respond to the requests of the German authorities.

RECORD OF PERFORMANCE SHARES AWARDED INFORMATION ON PERFORMANCE SHARES AWARDED

Date of General Meeting	**18.05.2016**	**18.05.2016**	**18.05.2016**	**20.05.2014**	**22.05.2012**
Date of Board meeting	14.03.2018	15.03.2017	18.05.2016	12.03.2015	13.03.2014
Total number of shares granted	1,677,279	1,796,759	2,478,926	1,233,505	1,010,775
o.w. number granted to Chief Executive Officers[1]	105,543	121,506	140,769		
Mr. BINI SMAGHI	N/A	N/A	N/A	N/A	N/A
Mr. OUDÉA	46,472	45,871	62,900	-	-
Mr. AYMERICH[2]	2,815	2,857	3,626	-	-
Mr. CABANNES	29,408	28,694	38,644	-	-
Mr. HEIM[2]	4,990	5,224	7,290	-	-
Ms. LEBOT[2]	7,277	5,986	4,860	-	-
Mr. SANCHEZ INCERA[3]	29,663	28,846	39,225	-	-
Mr. VALET[4]	0	18,095	24,942	-	-
Total number of beneficiaries	6,016	6,710	6,495	6,733	6,082
				31.03.2017[5]	31.03.2016[5]
Vesting date	see table below	see table below	see table below	31.03.2019[6]	31.03.2018[6]
Holding period end date	see table below	see table below	see table below	31.03.2019[5]	31.03.2018[5]
Performance conditions[5]	yes	yes	yes	yes	yes
				36.4[5]	37.8[5]
Fair value (In EUR)[6]	see table below	see table below	see table below	34.9[6]	38.1[6]
Number of shares vested at 31.12.2018	64	452	488,812	780,198	941,961
Total number of cancelled or lapsed shares	76,454	103,760	180,279	91,502	68,814
Performance shares outstanding at year-end	1,600,761	1,692,547	1,809,835	361,805	0

(1) *For the Chief Executive Officers, see also Tables 6 and 7 of the 2019 Registration Document.*

(2) *The terms of office of Ms. Lebot, Mr. Aymerich and Mr. Heim as Deputy Chief Executive Officers began on 14th May 2018. The reported amounts equate to the deferred annual variable remuneration paid in 2018 for their previous functions.*

(3) *The term of office of Mr. Sanchez Incera as Deputy Chief Executive Officer ended on 14th May 2018. The Board of Directors noted the breach of term of office, considered that this breach was justified by strategic divergence on the conditions of supervision of the retail bank in the Group and to disagreement on change to his scope of supervision and decided to lift the presence condition applicable to the acquisition of the deferred variable remuneration for 2017 and prior years, the other conditions remaining applicable. Moreover, the Board of Directors considering that the departure from the Group was motivated by reasons linked to a shift in the organisation of top management decided to lift the condition of presence for the acquisition of the long term incentives for 2017 and prior years, the other conditions remaining applicable. The shares in the table equate to awards maintained in this framework.*

(4) *Mr. Valet's term of office as Deputy Chief Executive Officer began on 16th January 2017 and ended on 14th March 2018. The awards by virtue of the Board's decision of 15.03.2017 and 18.05.2016 equate to the awards for his previous functions.*

(5) *French tax residents.*

(6) *French tax non-residents.*

(7) *The applicable performance conditions are described in Chapter 5, "Employee share plans".*

(8) *Perfomance shares are valued at their market value, taking into account a discount of non-transferability.* ▲

SUMMARY OF THE 2016 PERFORMANCE SHARES PLAN(1)

Date of General Meeting				**18.05.2016**
Date of Board meeting				18.05.2016
Total number of shares granted				2,478,926
Vesting date	29.03.2018 (1st tranche) 29.03.2019 (2nd tranche)	29.03.2019	31.03.2020 (1st tranche) 31.03.2022 (2nd tranche)	31.03.2021
Holding period end date	30.09.2018 30.09.2019	N/A	01.04.2021 01.04.2023	02.10.2021
Fair value (In EUR)(2)	30.18 (1st tranche) 28.92 (2nd tranche)	29.55	22.07 (1st tranche) 21.17 (2nd tranche)	32.76

(1) Under the annual employee LTI plan and awards in the context of the specific loyalty and remuneration policy applicable to regulated persons as defined in banking regulations (including Chief Executive Officers and Executive Committee members).

(2) The performance shares are valued at their market value, taking into account a discount of non-transferability.

SUMMARY OF THE 2017 PERFORMANCE SHARES PLAN(1)

Date of General Meeting				**18.05.2016**
Date of Board meeting				15.03.2017
Total number of shares granted				1,796,759
Vesting date	29.03.2019 (1st tranche) 31.03.2020 (2nd tranche)	31.03.2020	31.03.2021 (1st tranche) 31.03.2023 (2nd tranche)	31.03.2022
Holding period end date	30.09.2019 02.10.2020	N/A	01.04.2022 01.04.2024	02.10.2022
Fair value (In EUR)(2)	42.17 (1st tranche) 40.33 (2nd tranche)	41.05	27.22 (1st tranche) 26.34 (2nd tranche)	43.75

(1) Under the annual employee LTI plan and awards in the context of the specific loyalty and remuneration policy applicable to regulated persons as defined in banking regulations (including Chief Executive Officers and Executive Committee members).

(2) The performance shares are valued at their market value, taking into account a discount of non-transferability.

SUMMARY OF THE 2018 PERFORMANCE SHARES PLAN(1)

Date of General Meeting				**18.05.2016**
Date of Board meeting				14.03.2018
Total number of shares granted				1,677,279
Vesting date	31.03.2020 (1st tranche) 31.03.2021 (2nd tranche)	31.03.2021	31.03.2022 (1st tranche) 29.03.2024 (2nd tranche)	31.03.2023
Holding period end date	01.10.2020 01.10.2021	N/A	01.04.2023 31.03.2025	01.10.2023
Fair value (In EUR)(2)	40.39 (1st tranche) 38.59 (2nd tranche)	39.18	26.40 (1st tranche) 24.43 (2nd tranche)	39.17

(1) Under the annual employee LTI plan and awards in the context of the specific loyalty and remuneration policy applicable to regulated persons as defined in banking regulations (including Chief Executive Officers and Executive Committee members).

(2) The performance shares are valued at their market value, taking into account a discount of non-transferability.

6.3 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG et Autres
Tour First
TSA 14444
92037 Paris-La Défense cedex
S.A.S. à capital variable
438 476 913 R.C.S. Nanterre

DELOITTE & ASSOCIÉS
6, place de la Pyramide
92908 Paris-La Défense Cedex
S.A. au capital de € 1.723.040
572 028 041 R.C.S. Nanterre

SOCIÉTÉ GÉNÉRALE
Société anonyme
17, cours Valmy
92972 Paris-La Défense

For the year ended 31st December 2018

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report.This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Societe Generale,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Société Générale for the year ended 31st December 2018.

In our opinion, the consolidated financial statements give a true and fair view of the results of operations of the Group for the year then ended and of its financial position and of its assets and liabilities as at 31st December 2018 in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit and Internal Control Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2018 to the issue date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) no. 537/2014 or in the French Code of Ethics (Code de déontologie) for statutory auditors.

Emphasis of Matter

Without qualifying the opinion expressed above, we draw your attention to Note 1 on "Significant accounting principles" to the consolidated financial statements which describes the impacts of the first-time application of IFRS 9 "Financial Instruments".

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed to those risks.

These matters were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed above. We do not express an opinion on any components of the consolidated financial statements taken individually.

Measurement of the provision for disputes

Risk identified

A provision for disputes in the amount of €340 million (hereafter "the provision for disputes") is recognized under liabilities in the balance sheet as at 31 December 2018 to cover the risks of future outflows of resources relating to several disputes in which the Société Générale Group is involved, as stated in Note 8.3.2 "Other provisions" to the consolidated financial statements. Société Générale is subject to investigations and requests for information of a regulatory nature from various authorities presented in Note 9 "Information on risks and litigation" to the consolidated financial statements.

During financial year 2018, Société Générale Group paid penalties of 2.7 billion US dollar following settlement agreements with authorities relating to the following matters:

- the investigation of American authorities relating to certain US dollar transactions involving countries, persons, or entities that are the subject of US economic sanctions;
- Investigations regarding certain transactions with Libyan counterparties;
- Investigations regarding IBOR submissions.

We consider that the measurement of the provision for disputes, which is based on the exercise of Management's judgement, is a key audit matter.

Our response

Our works notably consisted in:

- Monitoring the main legal proceedings and the ongoing investigations undertaken by the judicial authorities and the regulators with the Société Générale Group's legal department;
- Obtaining an understanding of the process for the measurement of the provision for disputes, notably through quarterly discussions with the Société Générale Group's Management;
- Assessing the assumptions used to determine the provision for disputes on the basis of the information that we obtained, in particular from the Société Générale Group's external legal advisers, specialized in these cases;
- Assessing the disclosures on these disputes in the notes to the consolidated financial statements.

Recoverability of deferred tax assets in France and in the United States

Risk identified

As at December 31, 2018, an amount of MEUR 4,753 was recorded under deferred tax assets.

As stated in Note 6 "Income tax" to the consolidated financial statements, Société Générale Group calculates deferred taxes at the level of each tax entity and recognizes deferred tax assets at the closing date when it is considered probable that future taxable profits will be available against which the tax entity concerned will be able to charge timing differences and tax loss carryforwards, over a determined period of time.

Furthermore, as stated in Notes 6 "Income tax" and 9 "Information on risks and litigation" to the consolidated financial statements, certain tax loss carryforwards are challenged by the French tax authorities and consequently may be called into question.

Given the assumptions used to assess the recoverability of the deferred tax assets in France and in the United States (which represent the most significant part of these assets) and the judgement exercised by Management in this respect, we identified this issue as a key audit matter.

Our response

Our audit approach consisted in assessing the probability that the Société Générale Group will be able to make future use of the tax loss carryforwards generated to date, notably based on the ability to make future taxable profits in France and the United States.

With the support of our tax specialists who are part of the audit team, we:

- Compared the projected of the past fiscal years with the actual results of the concerned fiscal years;
- Obtained an understanding of the three-year business plan drawn up by Management and approved by the Board of Directors, and of the assumptions used by Management beyond the three-year period to establish projected results;
- Assessed the sensitivity of these assumptions in the event of unfavourable scenarios defined by Société Générale Group;
- Analyzed Société Générale's situation, and obtained an understanding of the opinion from its external tax advisers regarding its tax loss carryforwards in France, partially challenged by the tax authorities;
- Analyzed the disclosures on deferred tax assets in Notes 6 and 9 to the consolidated financial statements.

Valuation of complex financial instruments

Risk identified

Within the scope of its market activities, Société Générale holds complex financial instruments for trading purposes.

To calculate the fair value of complex instruments, the Group uses techniques or in-house valuation models based on parameters and data that are not all observable in the market, as stated in Note 3.4 "Fair value of financial instruments measured at fair value" to the consolidated financial statements. The models and data used to value these instruments are based on Management's estimates.

Due to the use of judgment to determine the instruments' fair value, the complexity of the modelling of the latter and the multiplicity of models used, we consider the valuation of complex financial instruments to be a key audit matter.

Our response

Our audit approach is focused on the key internal control processes related to the valuation of complex financial instruments.

With the support of our specialists in the valuation of financial instruments, we designed an approach including the following main stages:

- We familiarized ourselves with the procedure for the authorization and validation of new products and their valuation models, including the process for the entry of these models into the information systems;
- We assessed the governance relating to the Risk Department's control of the valuation models used;
- More specifically, based on tests, we considered the valuation formulae for certain categories of complex instruments;
- We analyzed certain market parameters used to provide input for the valuation models;
- As regards the profit and loss explanation process, we familiarized ourselves with the analysis principles used by the bank and performed tests of controls. We also performed "analytical" IT procedures on the database for the controls performed on the daily profit and loss explanation process;
- At each quarterly closing, we obtained the results of the process for the independent price verification, and we analyzed the differences in parameters compared to the market data in the event of a significant impact, as well as the accounting treatment of such differences;
- We performed counter-valuations on a selection of complex derivative financial instruments using our tools;
- We considered the compliance of the documented methods underlying the estimates with the principles described in Note 3.4 "Fair value of financial instruments measured at fair value" to the consolidated financial statements, and we analyzed the criteria, particularly the observability of transactions, used to determine the fair value hierarchy.

Information technology risk on derivative financial instruments and structured bonds issued

Risk identified

Société Générale's derivative financial instruments and structured bonds issued constitute an important activity within its market activities, as illustrated by the significance of the net positions of derivative financial instruments in the transaction portfolio in Note 3.2 "Financial derivatives" to the consolidated financial statements.

This activity is highly complex given the nature of the financial instruments processed, the volume of transactions, and the use of numerous information systems interfacing with each other.

The risk of an IT incident could entail the risk of an anomaly in the accounts resulting from an incident in the data processing chains used, or the recording of transactions until they are transferred into the accounting system. Such a risk may notably take the form of:

- Changes made to management and financial information by unauthorized personnel via the information systems or underlying databases;
- A failure in processing or in the transfer of data between systems;
- A service interruption or operating incident, possibly associated with internal or external fraud.

In this context, the monitoring by the Société Générale Group of controls linked to information systems management relating to the above-mentioned activity is essential for the reliability of the accounts and is a key audit matter.

Our response

Our audit approach for this activity is based on the controls related to the information systems management set up by the Société Générale Group. With the support of our experts in information systems, we tested the IT general controls of the applications that we considered to be significant for this activity.

Our works in particular concerned:

- The controls set up by the Société Générale Group on access rights, notably at sensitive periods of a professional career (recruitment, transfer, resignation, end of contract) with, when necessary, extended audit procedures in the event of ineffective control identified during the year ended December 31, 2018;
- Potential privileged access to applications and infrastructure;
- Change management and, more specifically, the separation between development and business environments;
- Security policies in general and their deployment in IT applications (for example, those related to passwords);
- Handling of IT incidents during the audit period;
- Governance and the control environment on a sample of "end user" applications.

For these same applications, and in order to assess the transfer of information flows, we tested the application controls related to the automated interfaces between the systems.

Our tests of the IT general controls and application controls were supplemented by data analytics work on certain IT applications.

First-time application of IFRS 9 "Financial Instruments"

Risk identified

As of 1 January 2018, the Group has applied IFRS 9 "Financial Instruments" (phases 1 and 2) to its financial assets and liabilities except for those related to its insurance activities. This standard introduces new classification and measurement rules for these assets and liabilities, as well as significant changes to rules relating to impairment of financial assets.

As a result of the first-time application of IFRS 9 "Financial Instruments," Société Générale recognised an impact of €-1.1 billion in equity after tax (mainly with respect to the impairment of loans and receivables classified in stages 1 and 2), published an opening balance sheet as of 1 January 2018, and provided detailed disclosures on the transition of the balance sheet as at 31 December 2017 under IAS 39 to the opening balance sheet under IFRS 9 as of 1 January 2018 (excluding insurance assets and liabilities). The qualitative and quantitative disclosures are mainly described in Notes 1.4 "First-time application of IFRS 9: "Financial Instruments"" and 3 "Financial Instruments". The determination of that impact including the nature of the disclosures in the notes to the consolidated financial instruments required numerous assumptions and the use of judgement, in particular the significant increase in credit risk criteria, the integration of macro-economic projections and the measurement of expected credit losses.

Furthermore, the Société Générale Group uses its judgement and makes accounting estimates to measure the impairment of the doubtful loans (classified in stage 3).

Given the complexity related to the first-time application of IFRS 9 and the quantity of disclosures to be provided in this respect by the Société Générale Group in the notes to the consolidated financial statements, we considered the first-time application of IFRS 9 "Financial Instruments" to be a key audit matter.

Our response

We have, with the support of our specialists who are part of the audit team, familiarized ourselves with the measures deployed and the analyses performed by the Société Générale Group to implement IFRS 9.

Concerning classification and measurement, our audit procedures notably consisted in reviewing the analyses made by the Group and their breakdown at activity level and testing, based on a sample of contracts, the compliance of the classification of assets determined in Société Générale analyses with regard to the accounting policies described in the notes to consolidated financial statements.

Concerning impairment, our audit procedures notably consisted in:

- Examining the compliance of policies implemented by the Group and methodologies applied at activity level with IFRS 9;
- Familiarizing ourselves with the governance measures and testing key controls implemented at Group level;
- Performing tests on a selection of models set up in the information systems which are used to prepare financial information;
- Performing counter-valuations of expected credit losses on a selection of portfolios as at 1 January 2018;
- Examining (i) the main parameters used by the Société Générale Group to classify outstandings and assess impairment of stages 1 and 2 as at 1 January 2018, and (ii) the consistency of methods applied as at 31 December 2018;
- Testing as at 31 December 2018, the key assumptions used for estimating impairment on loans classified in stage 3, especially on a selection of the most significant corporate loans in France.

Furthermore, we have examined the qualitative and quantitative disclosures published in the notes to the consolidated financial statements with regard to the first-time application of this standard.

Specific verifications

As required by French law, we have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial performance statement provided for in Article L. 225-102-1 of the French Commercial Code is included in the disclosures relating to the Group presented in the management report, it being specified that, in accordance with Article L. 823-10 of the Code, we have not verified the fairness of the information contained in this statement or its consistency with the consolidated financial statements that must be verified in a report by an independent third party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Société Générale by your Annual General Meeting held on 18 April 2003 for DELOITTE & ASSOCIES and on 22 May 2012 for ERNST & YOUNG et Autres.

As at 31 December 2018, DELOITTE & ASSOCIES was in the sixteenth year of total uninterrupted engagement and ERNST & YOUNG et Autres in the seventh year.

Previously, ERNST & YOUNG Audit was the statutory auditor of Société Générale from 2000 to 2011.

Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit and Internal Control Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit and Internal Control Committee

We submit to the Audit and Internal Control Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Internal Control Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Internal Control Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics (Code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit and Internal Control Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, 8 March 2019

The Statutory Auditors

French original signed by

Ernst & Young et Autres	Deloitte & Associés
Micha MISSAKIAN	Jean-Marc MICKELER

APPENDIX 5 – A BRIEF GUIDE TO CREDIT RATINGS

Information set out in this Appendix 5 is based on, extracted or reproduced from the website of S&P at https://www.spratings.com/en_US/home and the website of Moody's at https://www.moodys.com, as at the day immediately preceding the date of this base listing document. Information appearing on those websites does not form part of this base listing document, and we accept no responsibility for the accuracy or completeness of the information appearing on those websites, except that we have accurately extracted and reproduced such information in this Appendix 5 and take responsibility for such extraction and reproduction. We have not separately verified such information. There can be no assurance that such information will not be revised by the relevant rating agency in the future and we have no responsibility to notify you of such change. If you are unsure about any information provided in this Appendix 5 and/or what a credit rating means, you should seek independent professional advice.

What is a credit rating?

A credit rating is a forward looking opinion by a credit rating agency of a company's overall ability to meet its financial obligations. The focus is on the company's capacity to pay its debts as they become due. The rating does not necessarily apply to any specific obligation.

What do the credit ratings mean?

Below are guidelines issued by Moody's and S&P on what each of their investment-grade ratings means as at the day immediately preceding the date of this base listing document.

Moody's long-term ratings definitions

Aaa
Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa
Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A
Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

Baa
Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Modifiers "1", "2" and "3"
Moody's appends numerical modifiers 1, 2 and 3 to each of the above generic rating classifications (except for Aaa). The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Please refer to https://www.moodys.com/Pages/amr002002.aspx for further details.

S&P long-term issuer credit ratings

AAA
An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P.

AA
An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A
An obligor rated ‘A’ has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB
An obligor rated ‘BBB’ has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor’s capacity to meet its financial commitments.

Plus (+) or minus (-)
The above ratings (except for ‘AAA’) may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Please refer to http://www.spratings.com/en_US/understanding-ratings?rd=understandingratings.com for further details.

Rating Outlooks

A rating outlook indicates the potential direction of a long-term credit rating over the intermediate term (for example, this is typically six months to two years for S&P). A rating outlook issued by Moody’s or S&P will usually indicate whether the potential direction is likely to be “positive”, “negative”, “stable” or “developing”. Please refer to the abovementioned websites of the relevant credit rating agencies for further details regarding rating outlooks published by the relevant credit rating agencies.

PARTIES

REGISTERED OFFICE OF THE ISSUER
SG Issuer
33, Boulevard Prince Henri
L-1724 Luxembourg
Luxembourg

REGISTERED OFFICE OF THE GUARANTOR
Société Générale
29, boulevard Haussmann
75009 Paris
France

THE HONG KONG BRANCH OF THE GUARANTOR'S PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

ISSUER'S AUDITORS
Ernst & Young Société Anonyme
35E, avenue John F. Kennedy
L-1855 Luxembourg
Luxembourg

GUARANTOR'S AUDITORS
Ernst & Young et Autres
Tour First
TSA 14444
92037 Paris-La Défense Cedex
France

Deloitte & Associés
6, place de la Pyramide
92908 Paris-La Défense Cedex
France

SPONSOR, LIQUIDITY PROVIDER & PLACING AGENT
SG Securities (HK) Limited
Level 38
Three Pacific Place
1 Queen's Road East
Hong Kong

LEGAL ADVISER
As to Hong Kong law
King & Wood Mallesons
13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong